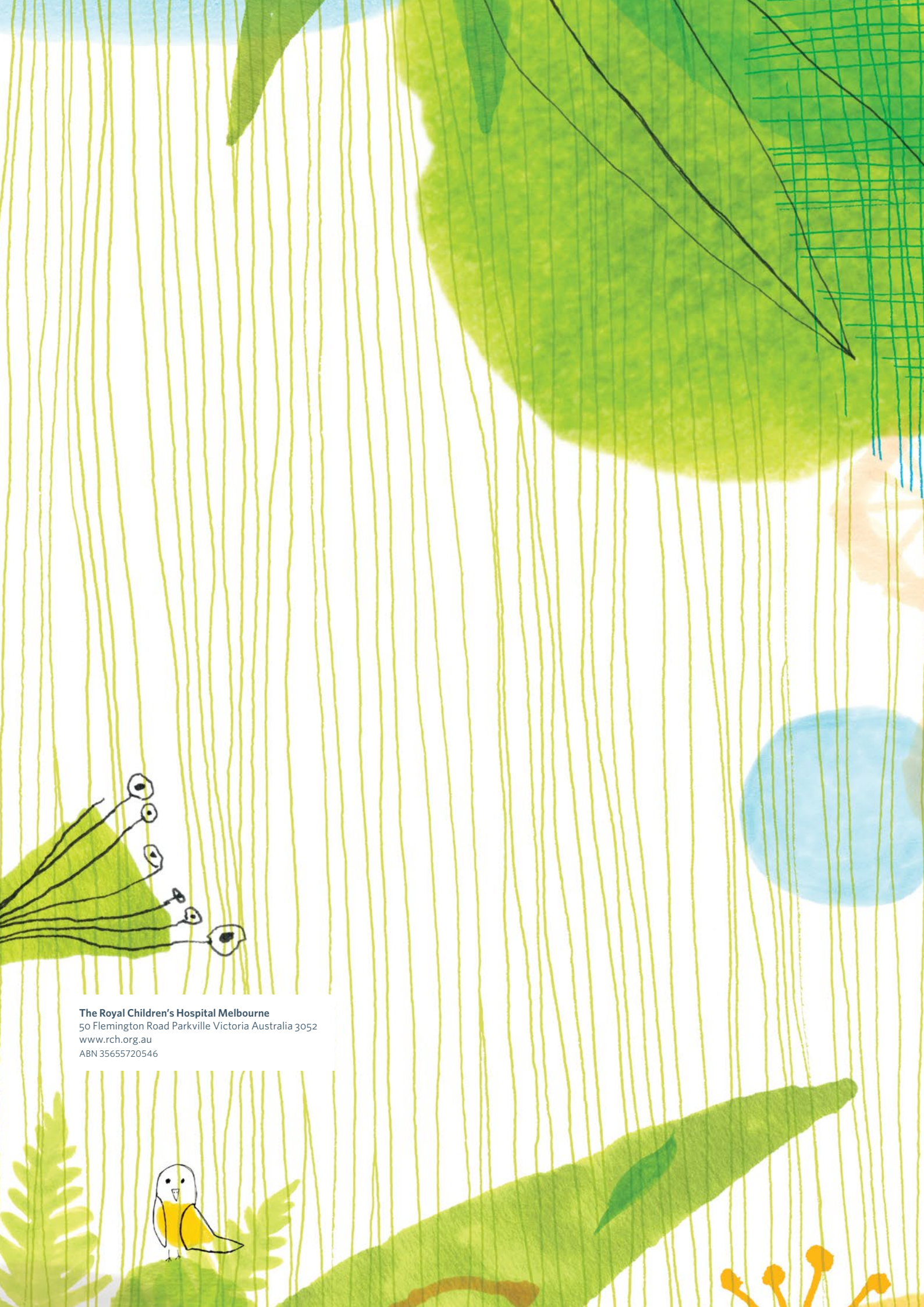




The Royal
Children's
Hospital
Melbourne

Annual Financial Report 2015-16



The Royal Children's Hospital Melbourne
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ABN 35655720546

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Our vision and values

VISION

The Royal Children's Hospital, a GREAT children's hospital, leading the way

VALUES

Unity

We work as a team and in partnership with our communities

Respect

We respect the rights of all and treat people the way we would like them to treat us

Integrity

We believe that how we work is as important as the work we do

Excellence

We are committed to achieving our goals and improving outcomes



Chairman's report



The Royal Children's Hospital (RCH) has been on a journey of transformation for many years as the healthcare sector continues to change rapidly.

The hospital's 2013-18 Strategic Plan identified information technology, innovation and sustainability as key enablers for the RCH to deliver great care and continue to be a great children's hospital, leading the way.

Remaining an iconic children's hospital and global leader in paediatric care is challenging and requires new and more efficient models of care, a strong focus on innovation, maximising the use of resources, using data to better understand the business, an ability to predict resource use and maximise efficiencies and productivity.

I am very proud of the recent successful implementation of the hospital-wide Electronic Medical Record (EMR). It is a major step forward in enabling information technology and data to improve the quality and safety of many aspects of medical care and service delivery at the RCH.

Along with the new Electronic Medical Record, our social media footprint and the Australian Child Health Poll are leading edge examples of how we now use data to drive service delivery, research and consumer engagement.

At the same time, the hospital continues to deliver great care in a safe environment from dedicated and coordinated teams.

Every decision in this journey has been motivated by how it will benefit the children we care for, and how it will support the incredible RCH team that cares for them.

I was delighted in February this year to sign the RCH Senior Medical Staff and Executive Compact. This will establish a true partnership between Senior Medical Staff and hospital Executive team, and define what we expect of each other, what we commit to each other, and how we will work together.

Every decision in this journey has been motivated by how it will benefit the children we care for, and how it will support the incredible RCH team that cares for them.

This is the first step in building a stronger workplace culture; building and broadening accountability; and supporting staff to handle challenges with open and authentic conversations.

I would like to acknowledge and thank my fellow Board members for your hard work over the past year, and to commend CEO Professor Christine Kilpatrick and the RCH Executive for your accomplished leadership in 2015-16.

I sincerely thank all RCH staff members and volunteers for their commitment to our patients and families. Each and every individual working in the hospital is making a direct and invaluable contribution to the Victorian community. It is a true privilege to work with such a committed, diverse and talented group, and I look forward to another year.

A handwritten signature in black ink that reads "Rob Knowles".

Rob Knowles AO
Chairman

CEO's report



The year 2015–16 has been one of great significance for The Royal Children's Hospital (RCH) as, after more than two years of intensive planning, we implemented our new Electronic Medical Record (EMR) in April, initiating a seismic shift in the way we work and deliver care.

The EMR offers our clinicians the most up-to-date and accurate information, all in one place, when they care for each patient.

The EMR has improved communication among doctors, nurses, allied health professionals and the rest of the patient care team, helping them to deliver even safer care, and creating much stronger interdependency and visibility between teams.

It also supports improved communication with patients and families through 'My RCH Portal', a new secure, online information hub for each RCH patient.

Great transformations, such as the transition to the EMR, require extraordinary energy from the entire organisation. As a team we needed to fundamentally rethink and reshape our processes, while continuing to deliver great care to our patients every day.

The speed and proficiency with which RCH staff incorporated the EMR into clinical care was simply astonishing. The level of staff engagement I witnessed across this hospital was also remarkable. RCH staff embraced change, shared information, and worked together to find the right solutions to shared questions. Importantly, as a team, we were kind to each other throughout learning curves and challenging periods.

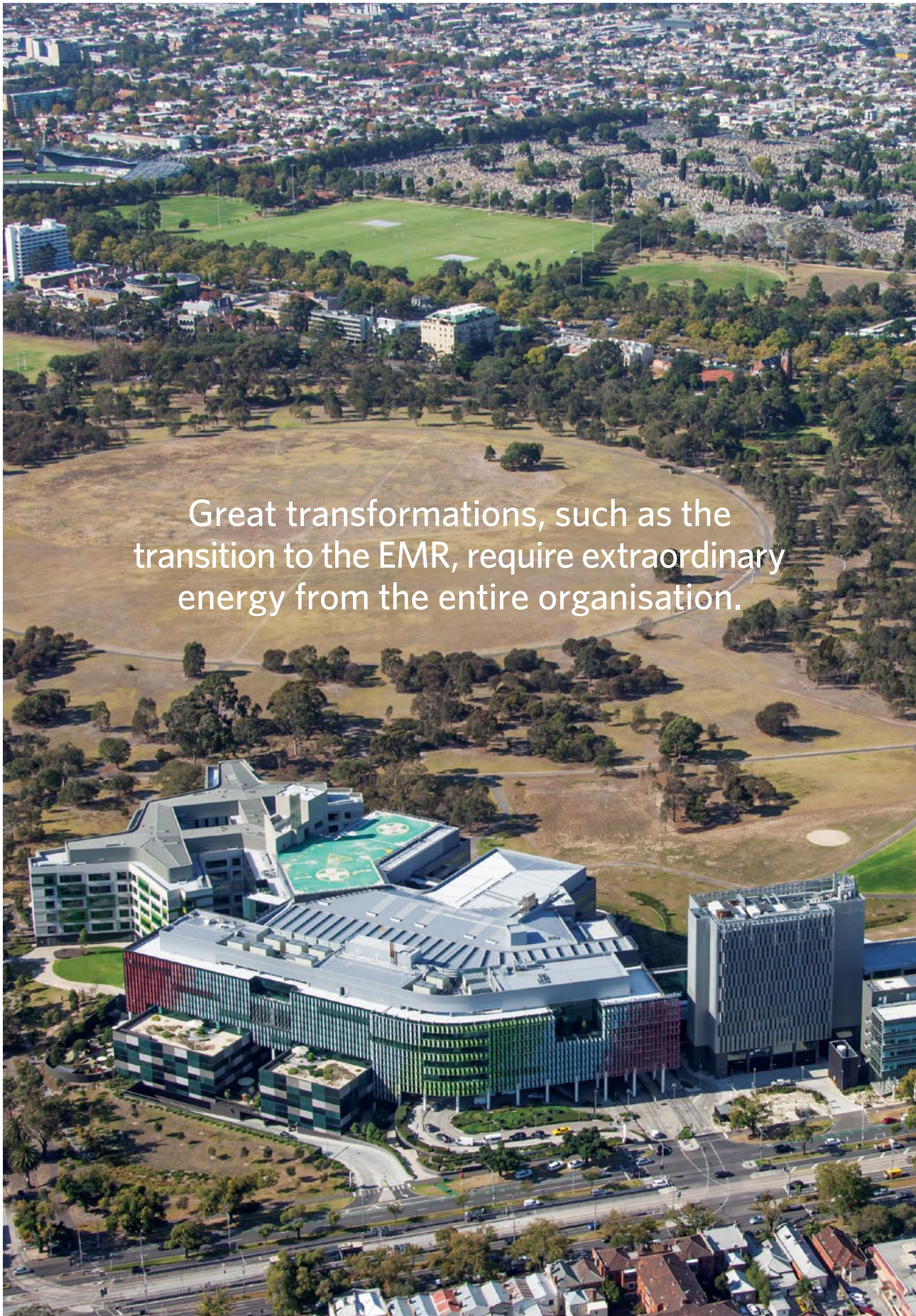
The RCH Senior Medical Staff-Executive Compact is another significant investment in the hospital's workplace culture. An agreement that heralds a new era of respect and shared responsibility by the doctors and administrators of the RCH, it was unveiled and signed by Senior Medical Staff, Executive and Board in February this year.

The speed and proficiency with which RCH staff incorporated the EMR into clinical care was simply astonishing... RCH staff embraced change, shared information, and worked together to find the right solutions to shared questions.

The Senior Medical Staff-Executive Compact has had positive flow-on effects to other staff, and therefore to our patients and families, and we are now developing a broad-based Compact for all RCH staff.

This year the RCH also began a significant 'Hospital After Hours' project to improve quality and safety around the clock; launched the Australian Child Health Poll to understand the health, wellbeing and lives of children in contemporary Australia; and signed a historic partnership agreement with Boston Children's Hospital.

We recognise that small changes can also have big impacts, and in the past year introduced the RCH Huddle, a daily 8.30am stand-up meeting lasting no more than 15 minutes. Attended by about 40 clinical, support and corporate staff, it enables quick verbal updates from key operational areas plus a forecast of the day ahead, so that challenges can be proactively addressed. A Huddle report is posted on the intranet immediately after each meeting so that staff hospital-wide can understand and respond to current issues.



Great transformations, such as the transition to the EMR, require extraordinary energy from the entire organisation.



We recognise that small changes can also have big impacts, and in the past year introduced the RCH Huddle...

The 2015-16 year saw more than 88,654 children presenting to our Emergency Department, a significant increase on 84,000 last financial year.

There were also more than 255,150 appointments in our Specialist Clinics; more than 19,112 surgeries performed in our theatres, of which 8,596 were from the elective surgery waiting list; and 45,474 children were admitted to our wards and day medical centre.

The RCH also actively supported care in the community, with more than 460 children receiving care from RCH@Home and Palliative Care services every day.

Our transplant teams have exceeded expectations this financial year. Over the

2015-16 period, the hospital performed a record 12 heart transplants. With our partners at the Austin Hospital we performed 13 liver transplants; and with our Alfred Hospital colleagues we delivered four lung transplants.

In May 2015 the RCH appeared at the Royal Commission into Institutional Responses to Child Sexual Abuse regarding the abuse of a former patient in the early 1980s. In the past year we have continued to learn from the Commission inquiry through the ongoing review and strengthening of policies and practices pertaining to the safety, protection and welfare of children.

In January this year we implemented the Victorian Government's new Child Safe Standards. This has helped us to consolidate the ways in which we ensure safety for our patients, and embed protective measures into the everyday thinking and practice of leaders, staff and volunteers.

At our 145th Annual General Meeting and Staff Awards night, we celebrated the incredible work of our staff from across the organisation.

The recipients of the 2016 awards were:

Chairman's Medal

Dr Simon Young

CEO Great Care Award for Excellent Clinical Outcomes

Dr Michelle Telfer

CEO Great Care Award for Positive Experience

The RCH Complex Care Program

CEO Great Care Award for Timely Access

Dolphin, Medical Short Stay team

CEO Great Care Award for Zero Harm

Day Cancer Care Team

Allied Health Award

Catherine Bailey

Administrative Excellence Award

Ruth Hankinson

Mary Patten Award

Helen Codman

Dr William Snowball Award

Suzanne Boyce

Consumer Choice Award

Anne Shipp

I thank all RCH staff and volunteers for their outstanding work this year, and their collective contribution to great care.

Christine Kilpatrick

Chief Executive Officer



Board member profiles

Chairman

Hon Rob Knowles AO

Hon Rob Knowles AO was Victorian Minister for Health from 1996 until 1999 and MLC for Ballarat from 1976–99. He has also served as Chairman of Food Standards Australia and New Zealand; as a member of the National Health & Hospital Reform Commission and as a former Aged Care Complaints Commissioner. He is currently a Director with the Silver Chain group of Companies, St John of God Healthcare Ltd, Drinkwise Australia Ltd and IPG Ltd. He is also a Commissioner with the National Mental Health Commission.

Dr Christine Cunningham

BA, BLit, MSc, PhD, GAICD

Dr Christine Cunningham is a statistician and researcher with a doctorate from the University of Melbourne and a Master's Degree in Science. Christine currently works as a consultant researcher particularly in the areas of service outcomes and governance.

Christine has held a variety of clinical, policy, analysis and research roles. Dr Cunningham has also served on the Board of Northeast Health Wangaratta, a sub-regional public health service from 2006–14 and was Chairman from 2009–14.

Ms Jacinda de Witts

B.Ec, LLB (Hons), Grad Dip Corp & Sec Law

Ms Jacinda de Witts is a Partner with the legal firm of Hive Legal and has over 15 years' private practice experience. Jacinda has extensive experience advising private sector and government clients on a broad range of commercial, corporate and regulatory matters, in particular in the health sector. Jacinda has a Bachelor of Economics and a Bachelor of Laws (with first class honours) from the University of Sydney, and a Graduate Diploma in Corporations and Securities Law from the University of Melbourne.

Ms Petrina Dorrington

Dip. Hotel & Catering Operations

Ms Petrina Dorrington is an experienced executive in the not-for-profit sector. She was the executive director of Kids Under Cover from 1997 to 2007 and a director from 2007 to 2013. Petrina is a director of the Consumer Utilities Advocacy Centre and has previously served on other boards including the Spectrum Migrant Resource Centre and Homes for Homes. She was awarded a study scholarship to Stanford University's Executive Program for Non Profit Leaders in 2006 and graduated as a fellow of the Williamson Community Leadership Program in 2007. Petrina currently provides project services to not-for-profits and private companies. She volunteers for the Anglicare Friends Program and is a mentor for the Lord Mayor's Charitable Foundation's Youth In Philanthropy program.

Mr Max Findlay

Mr Max Findlay joined Programmed Maintenance Services in August 1988; was appointed Managing Director in March 1990 and retired from this role in 2008. He has extensive industry specific experience, including approximately 20 years of marketing and general management experience in the industrial and manufacturing industries. Mr Findlay's experience prior to joining Programmed Maintenance Services included 11 years with Australian Consolidated Industries, three years with Smith & Nephew and five years with James Sephton Plastics. In his time with Programmed Maintenance Services, Mr Findlay held the positions of Business Development Manager, General Manager and Managing Director. He has a Bachelor of Economics and Politics from Monash University and is a Fellow of the Australian Institute of Company Directors. Since retiring from Programmed Maintenance Services, Mr Findlay has been involved in a number of Public and Private Company Boards.

Ms Jane Hume

– resigned 9 May 2016

B.Com, GAICD, Grad Dip Fin & Inv, Grad Dip Arts (Pol Sci)

Jane Hume has a background in Investment Banking with positions as a Vice President at Deutsche Asset Management Australia, Key Accounts Manager at Rothschild Australia Asset Management and as Investment Research Manager and Private Banker at National Australia Bank. She is currently a senior industry policy adviser to AustralianSuper. She has a Bachelor of Commerce degree from the University of Melbourne, a Graduate Diploma of Arts (Political Science) from the University of Melbourne and a Graduate Diploma Finance and Investment from the Securities Institute of Australia. Previously on the board of directors of Melbourne's Federation Square, Jane has also had a number of roles in community and professional organisations, including the committee of management of the Post and Antenatal Depression Association (PANDA).

Mr David Lau

BPharm, MCLinPharm, GCHHealthSysMgt, FSHP, MAICD

David Lau is Industry Lead for Health at Optus, responsible for the development and implementation of health sector strategies, business and product development, and thought leadership. David's background is as a clinician, hospital executive, and consultant. Amongst various roles, he has been an Executive Director at the Royal Victorian Eye and Ear Hospital, Director of Pharmacy at Eastern Health, President of the Pharmacy Board of Victoria, Chair of the Victorian Pharmacy Authority, and a board member of North Yarra Community Health.

Mr David Mandel

BSc Chem, FTA-Snr, CIMA, GAICD

David Mandel has a Bachelor of Science (Chemistry) from the University of Sussex England. He commenced his career as a marketing graduate with Unilever UK and held a number of senior management roles with Smorgon Consolidated Industries, Visy and Riverwood International Corp in both the USA and Australia, where he was Managing Director for three years from 1995 to 1997. Riverwood in Australia was a 600 employee, five plant, \$125 million revenue folding carton businesses owned by the listed US multinational corporation. Mr Mandel is currently a non-executive director of a number of companies in the technology and biotech spaces, as well as the sport and not for profit sectors.

Dr Linden Smibert

MBBS, FRACGP, FAICD

Dr Linden Smibert is an experienced director with many years on a number of Boards in the health and education sectors. Her interests encapsulate her clinical background with a sound understanding of corporate governance, strategy, change management, financial management, quality control, risk and safety, all of which are necessary at the RCH. She is also a medical practitioner and is currently also on the Board of Vincentcare Victoria.

Mr Peter Yates AM

B.Com (Melb), Master of Science (MGT) (Stanford), MAICD, Doctorate of the University (Murdoch)

Mr Peter Yates is Deputy Chairman of The Myer Family Investments Ltd and a Director of AIA Australia Limited. He is Chairman of the Royal Institution of Australia, the Australian Science Media Centre, the Faculty of Business and Economics at Melbourne University, The Royal Children's Hospital Foundation, the Shared Value Project and Deputy Chairman of Asialink.

Peter is a Director of The Royal Children's Hospital and the Australian Chamber Orchestra and serves on the advisory boards of the Australian Research Council, the Centre of Excellence for Quantum Computation and Communication Technology at UNSW and the NHMRC Centre for Personalised Immunology at ANU.

From 2004-07 Peter was Managing Director of Oceania Capital Partners and held the position of Chief Executive Officer of Publishing and Broadcasting Limited from 2001-04. Until 2001 he worked in the Investment Banking industry including 15 years with Macquarie Bank. He holds a Doctorate of the University from Murdoch University, a Masters degree from Stanford University Graduate School of Business and a Commerce degree from Melbourne. He speaks Japanese, having studied at Keio University in Tokyo.

Peter has been a director of Publishing and Broadcasting, Crown Ltd, Foxtel Ltd, The Nine Network, Ninemsn, ticketek, Veda Ltd, Oceania Capital Partners Ltd, the National Portrait Gallery, The Melbourne International Arts Festival, Centre for Independent Studies, MOKO.mobi and the Australia-Japan Foundation.

In the June 2011 Queen's Birthday Honours, Peter was awarded a Member of the Order of Australia for service to education, to the financial services industry and to a range of arts, science and charitable organisations.

Board sub-committee membership

Audit and Corporate Risk Management Committee

David Mandel (Chair)
Jacinda de Witts
Max Findlay
Dr Linden Smibert

Community Advisory Committee

Jane Hume* (Chair)
- (until 9 May 2016)
Dr Christine Cunningham
Petrina Dorrington

Finance Committee

Incorporating Facilities Management Board
Sub-committee, IT Board
Sub-committee and Investment Committee

Max Findlay (Chair)
Robert Green (External Member)
Jane Hume* (until 9 May 2016)
David Lau
David Mandel

Intellectual Property Committee

[Required by RCH By-Laws]

Whole of Board

Quality and Population Health Committee

Dr Christine Cunningham (Chair)
Jacinda de Witts
Petrina Dorrington
Dean Griggs (External Member)
David Lau
Dr Linden Smibert

Remuneration Committee

Hon Rob Knowles AO (Chair)
Dr Christine Cunningham
Max Findlay

*Jane Hume resigned from the RCH Board on 9 May 2016.

Executive staff

Chief Executive Officer

Professor Christine Kilpatrick

MBBS, MBA, MD, FRACP, FRACMA, FAICD

Executive Director Communications

Jayne Dullard

BA (Hons), GAICD

Executive Director Corporate Services and Chief Financial Officer

Jennifer Gale

FCPA, BBus (Acc), MAICD

Executive Director Medical Services & Clinical Governance and Chief Medical Officer

Dr Peter McDougall

MBBS, MBA, FRACP, GAICD

Executive Director Strategy & Organisational Improvement

Jane Miller

BAppSc (Speech Path), GradDipNeuro, MHIthMgmt, GAICD

Chief of Surgery

Mike O'Brien

PhD, FRCSI(Paed), FRACS(Paed), MAICD

Chief of Medicine

Professor Colin Robertson

MBBS, MSc, MD, FRACP, MAICD

Resigned as Chief of Medicine: February 2016

Associate Professor Matthew Sabin

MRCPCCH (UK), FRACP, PhD

Appointed Chief of Medicine: May 2016

Deputy Chief Executive Officer and Executive Director Clinical Operations

John Stanway

BEc, Grad Dip IR, FAICD

Executive Director Nursing & Allied Health and Chief Nursing Officer

Bernadette Twomey

MN (Hons) PgDipHsc (Mgmt), BHS (Ngs), ADN, RN, MAICD

Executive Director People & Culture

Simone Zelencich

Grad Dip Admin, MBA, M.Ed, GAICD

Workforce data

Labour category	June Current month FTE*		June YTD FTE**	
	2015	2016	2015	2016
Nursing	1,211	1,238	1,188	1,244.40
Administration and Clerical	628	639.80	610	646.60
Medical Support	370	371.40	364	373.70
Hotel and Allied Services	204	180.70	205	180.70
Medical Officers	129	126.40	123	126.40
Hospital Medical Officers	274	364.40	275	364.40
Sessional Clinicians	96	112	96	112.60
Ancillary Staff (Allied Health)	284	292.90	285	293.60
Total	3,196	3,325.60	3,146	3,342.40

Application of employment and conduct principles

The Royal Children's Hospital's (RCH) Code of Conduct is founded on four organisational values of Unity, Respect, Integrity and Excellence. The Code of Conduct sets out the way we conduct ourselves at RCH and the values inform and guide our behaviours. All employees and volunteers are required to comply with these values, principles and policy in all their undertakings.

Employment decisions at the RCH are based on merit and the RCH provides equal employment opportunity for all employees. Grievance and dispute resolution processes are in place that provide fairness and protect employees from negative consequences as a result of accessing formal redress processes.

Each employee or volunteer of RCH is also required to comply and abide by the Code of Conduct as published by the Public Sector Standards Commission.

Organisational chart



Statutory statements

The Royal Children's Hospital (RCH) has cared for the children of Victoria since it was founded in 1870. It is internationally recognised as a leading centre for paediatric treatment, teaching and research. The hospital is accountable to the people of Victoria, through the Minister for Health.

Powers and duties

The powers and duties of the RCH are prescribed by the Health Services Act 1988.

Nature and range of services

The RCH provides a full range of paediatric clinical and surgical services, including neonatal care, cardiac, plastic and craniofacial, orthopaedic and neurosurgery, adolescent health, cancer and renal services and health promotion programs. It is a national paediatric heart, liver (with Austin Hospital) and lung (with Alfred Hospital) transplant centre as well as the national centre for the treatment of hypoplastic left heart syndrome. The hospital is the paediatric major trauma centre for Victoria, Tasmania and southern New South Wales. The hospital is the major teaching and research centre with key campus partnerships with Murdoch Childrens Research Institute and the University of Melbourne.

Freedom of Information

The Victorian Freedom of Information (FOI) Act 1982 provides a legally enforceable right of access to information held by government agencies. All FOI applications received by the RCH were processed in accordance with the provisions of the FOI Act. The RCH provides an annual report on FOI applications to the Freedom of Information Commissioner.

Nominated Officers

Ms Tammy O'Connor, Senior Legal Counsel
(UNTIL SEPTEMBER 2015)

Ms Emma Carnovale, General Counsel
(FROM OCTOBER 2015)

Ms Annabelle Mann, Senior Legal Counsel
(FROM OCTOBER 2015)

Ms Judith Smith, Freedom of Information Officer and Reviewer

Ms Sophie Garrity, FOI Reviewer

Ms Paige Farrow, FOI Reviewer
(UNTIL JANUARY 2016)

Mr Ricky Huynh, FOI Reviewer
(FROM JANUARY 2016)

Ms Felicity Hood, FOI Reviewer
(FROM JANUARY 2016)

Requests received	2015-16	2014-15
Total requests	650	611
Access granted in full	398	422
No information available	28	18
Application withdrawn	64	55

Privacy

Kathy Cassin, Manager of Health Information Services, is the RCH Privacy Officer. Since the Health Records Act became legally binding on July 1, 2002 the RCH has aimed to ensure all staff are aware of the Act (and occasionally the Information Privacy Act, 2000) and its implications in the work place. The RCH has a privacy policy and procedures in place which reflect the legislative requirements.

Communication regarding privacy is published via the RCH intranet using 'Intranet News' items and video Short Cuts, and department education and presentations are conducted on request. These activities play an important role in building a solid foundation of privacy knowledge in the hospital.

The Privacy Officer continues to address general staff enquiries in relation to privacy.

In summary, privacy is part of the culture at the RCH and this will continue with the current ongoing education in place.

Protected disclosures

Under the Protected Disclosures Act 2012 (the Act), complaints about certain serious misconduct or corruption involving public health services in Victoria should be made directly to the Independent Broad-based Anti-corruption Commission (IBAC) in order to remain protected under the Act.

The RCH encourages individuals to make any disclosures which are protected disclosures within the meaning of the Act with IBAC.

National Competition Policy

In accordance with the Competition Principles Agreement (CPA), the State of Victoria is obliged to apply competitive neutrality policy and principles to all significant business activities undertaken by government agencies and local authorities.

The RCH has regard to this policy in relevant significant business activities.

Ex gratia payments

Nil

Victorian Industry Participation Policy

The RCH complies with the intent of the Victorian Industry Participation Policy Act 2003. The Act requires wherever possible local industry participation in supplies, taking into consideration the principle of value for money and transparent tendering processes.

Carers Recognition Act 2012

The Carers Recognition Act 2012 promotes and values the role of people in care relationships. The RCH understands the different needs of persons in care relationships and that care relationships bring benefits to the patients, their carers and the community. The RCH takes all practicable measures to ensure that its employees, agents and carers have an awareness and understanding of the care principles and this is reflected in our commitment to a model of patient and family centred care and to involving carers in the development and delivery of our services.

RCH Workplace Health and Safety (WHS)

The RCH Health and Safety governance structure, system and processes have been progressively reviewed, refreshed and implemented throughout the hospital to enable the effective management of organisational risks and support of the provision of Great Care and the RCH as a great place to work.

The 2016 WHS strategic plan has been developed in order to achieve systematic and sustainable improvements in health and safety to plan and organise the RCH

health and safety activities. The plan provides the organisation with a roadmap for ongoing improvement in WHS performance brought about by the setting of objectives and targets, and the allocation of responsibility for the work required.

The RCH's WHS Strategy 2016 commits the RCH to providing a work environment that is safe, well maintained, and accessible. This plan also outlines how the RCH will improve work health and safety and continue the momentum towards eliminating workplace injuries and illnesses.

Ensuring the health, safety and wellbeing of everyone in our hospital is a vital part of our work at the RCH; as with the clinical care we provide to our patients, our approach to workplace health and safety is underpinned by the values of unity, respect, integrity and excellence. In support of the RCH strategic Plan 2013-18, the WHS strategic plan outlines our plan for contributing to the delivery of great care by ensuring our people are happy, safe and well.

By placing health, safety and wellbeing at the centre of everything we do, we contribute significantly to the great care we provide, and ensure we are working towards a zero harm environment.

Education and training

An important requirement under the OH&S legislation is to educate all employees on their roles and responsibilities, including personal accountability. The RCH WHS Manager training program is intended to provide all line managers with an understanding of their WHS obligations to effectively monitor team performance and ensure continuous improvement and a safety culture.

The program consists of six training modules with an annual refresher and update for new managers. The modules include:

- Psychological wellness and safety/building resilience
- Risk management training
- Manual handling
- Safe workplace behaviours
- Managing staff injuries
- Chemical management

The internal RCH early intervention program continues to provide support and assistance to managers by identifying and

facilitating return to work outcomes for physical and psychological conditions. The program details the steps taken to assist injured employees to return to work as soon as medically appropriate. The procedure ensures that injury management occurs promptly and effectively, so that injured employees can remain at work or return to work at the earliest appropriate time. Based on the positive experience of the Early Intervention Program, a foundation for proactive intervention in the way RCH staff identify and control hazards, improved performance of employee health and safety is being sustained. Since January 2016, a total 24 injuries have been effectively managed through this program.

RCH supports and recognises the benefits of consulting with employees on matters that will affect their health and safety. Workplace Health and Safety Committees continue to provide a regular forum for collaboration and for addressing ongoing and emerging risks. This regular, proactive dialogue has contributed to a number of innovative health and safety risk management solutions.

The RCH Workplace Health and Safety Consultative Committee convened throughout 2016. A key outcome of the Consultative Committee approach has been the shared understanding and awareness more generally of WHS issues existing across the hospital and what it means to embed a safety culture. This structure has also provided for effective escalation of issues requiring assistance and support beyond the local work area and also an opportunity to bring together all campus partners in a consultative and constructive forum. The forum has enabled opportunity for all Campus Partners to come together as a collective to discuss work health and safety from the perspective of the wider community.

RCH Staff Health and Wellbeing

The RCH Health and Wellbeing program promotes and enables a healthy work environment. The 2016 program continued to focus on the physical and psychological wellbeing of employees and includes:

- RCH Employee Assistance Program (EAP) for free short term counselling for all employees including crisis counselling support for teams:

- Peer Support Program
- Wellbeing Seminars
- Fatigue Management Program
- Staff Massage Program
- Mindfulness, Wellbeing and Performance Workshops
- Mature Age Worker Project (Transition to Retirement)
- Wellbeing Champions
- Healthy Together Achievement Program
- Workplace Skin Checks provided an opportunity for staff to sign up for a skin check with a registered skin check professional.
- The Stretch, Strengthen and Energize program is a weekly 45 minute lunchtime fitness class designed to help staff let go of stress with a creative blend of Pilates and Yoga. Adapted to the skills and needs of each participant, the program is designed to assist staff in addressing their physical health and wellbeing in a fun and supportive environment.

Patient handling

The RCH Smart Move Smart Lift patient handling training program is a combination of online theoretical learning, practical training and competency assessment that aims to teach staff members how, when and where to use the patient handling equipment available in the hospital. The components are linked by a series of training videos, based on core patient handling competencies, to be used as audiovisual learning tools by staff members upon completion of the online learning package, and prior to commencing hands-on training and assessment with trainers in their departments. Resources including 10 videos and competency assessments tools have been developed to prepare staff for practical training and assessment of their competency in the manual handling of patients.

Workplace Health and Safety Projects

WorkHealth Improvement Network (WIN)

The RCH is participating in wave 3 of this 18-month WorkSafe project, focussing on the mental health and wellbeing of medical staff. The aim is to develop, test and

implement initiatives that will be of benefit to this group. Participation in the WIN program provides incremental funding up to a total of \$5,000 over the six-month duration of RCH's participation, concluding in August 2016.

Fatigue Risk Management Study

The Workplace Health and Safety Team engaged the services of Fatigue Management and Sleep Solutions Australia to conduct a study into fatigue risk management in four departments at RCH: Emergency, PIPER, Support Services and RCH@Home. The study methodology incorporated focus groups, site tours, confidential individual interviews and anonymous surveys. Findings and recommendations at both an departmental and organisational level has been developed with a summary to be presented to the RCH Executive.

Victorian Health Incident Management Systems Project (VHIMS2 Improvement Project)

The Victorian Health Incident Management System (VHIMS) was initially implemented in 2010 as a dataset standard to capture adverse events, consumer feedback and workplace health and safety incidents within Victorian public health services. In response to feedback received from the health sector, the Department of Health and Human Services (DHHS) embarked on a Pilot Project which commenced in October 2015 to develop a new built-for purpose system. Following extensive consultation with over 42 health sector services, prototype testing was conducted by 10 pilot sites including RCH who volunteered to undertake initial testing to assist in identifying further opportunities for improvement in preparation for the State-wide rollout of the new system. Frontline staff from many RCH departments took part in the testing phase where further critical feedback was collected. The pilot site focus will now shift to local preparation for implementation of the new system which is scheduled to go live in October 2016.

Occupational violence

The 2015-16 Statement of Priorities requires all health services to monitor and publicly report incidents of occupational violence. This follows the Victorian Government's commitment to address occupational violence in healthcare and the Victorian Auditor-General's report Occupational

Violence against Healthcare Workers, released in 2015, that identified a need for better awareness of the prevalence and reporting of occupational violence incidents.

Occupational violence statistics are required to be reported to the community in the health service annual report. To ensure consistency in annual reporting, RCH is required, as a minimum, to report the following occupational violence statistics in the annual report as per the worked example below including the definitions listed underneath the table.

Occupational violence statistics 2015-16	
1. WorkCover accepted claims with an occupational violence cause per 100 FTE	0
2. Number of accepted WorkCover claims with lost time injury with an occupational violence cause per 1,000,000 hours worked.	0
3. Number of occupational violence incidents reported	40
4. Number of occupational violence incidents reported per 100 FTE	0.11 FTE
5. Percentage of occupational violence incidents resulting in a staff injury, illness or condition	27.5%

Definitions

For the purposes of the above statistics the following definitions apply:

Occupational violence: Any incident where an employee is abused, threatened or assaulted in circumstances arising out of, or in the course of their employment.

Incident: Occupational health and safety incidents reported in the health service incident reporting system. Code Grey reporting is not included.

Accepted WorkCover claims: Accepted WorkCover claims that were lodged in 2015-16.

Lost time: defined as greater than one day.

Workplace Health and Safety (WHS) Awards

In recognition of the hospital's ongoing commitment to the provision of a safe and healthy work environment, the WHS team announced 'The 2015 Workplace Health & Safety Awards'. The annual RCH WHS awards celebrate and recognise the many ways in which individuals, teams and departments demonstrate commitment to safety, health and wellbeing at the RCH.

A number of outstanding nominations were received with awards presented as follows:

- *Workplace Health & Safety Invention of the Year:* Pam Thomason, Senior Physiotherapist, Hugh Williamson Gait Analysis Laboratory
- *Manager Excellence in Return to Work:* Chee Van Douwen, Coordinator-Support Services
- *Worker Return to Work Achievement:* Nadia Sammut, Accounts Payable Clerk-Finance
- *Best Solution to a specific Workplace Health and Safety Issue:* Robert Reitmaier, Medical Photographer, Educational Resource Centre
- *Health and Safety Representative of the Year:* Eddy Cousinery, Anaesthetic Technician, Anaesthesia and Pain Management
- *Health and Safety Committee of the Year:* Division of Surgery

Compliance with building and maintenance provisions

The new hospital is maintained by the state's private sector partner, Children's Health Partnership (CHP) through Spotless for a period of 25 years. Spotless has established a comprehensive management and maintenance program with specialist contractors to maintain all Essential Safety Measures (ESM) services on site. An annual certificate will be issued at the end of the reporting period.

An external Building Surveyor will audit the maintenance of all the ESM at the new RCH facility annually and certifies the ESM report as evidence of an appropriate level of maintenance of the relevant physical fire safety measures.

Car parking fees

The RCH complies with the DHHS hospital circular on car parking fees effective 1 February 2016 and details of car parking fees and concession benefits can be viewed at www.rch.org.au/info/az_guide/car_parking

Environmental performance

The new RCH is managed by the state's private sector partner, Children's Health Partnership (CHP) and Spotless Service. CHP and the RCH hold all licences required

by environment legislation and have procedures in place to ensure that the terms of these licences are complied with.

Advertising campaigns

The Royal Children's Hospital ran no advertising campaigns reportable per FRD 22D for the 2015-16 period.

Additional information (FRD 22F)

In compliance with the requirements of FRD 22C Standard Disclosures in the Report of Operations, details in respect of the items listed below have been retained by The Royal Children's Hospital and are available to the relevant Ministers, Members of Parliament and the public on request (subject to the freedom of information requirements, if applicable):

- a) A statement of pecuniary interest has been completed;
- b) Details of shares held by senior officers as nominee or held beneficially;

- c) Details of publications produced by the Department about the activities of the Health Service and where they can be obtained;
- d) Details of changes in prices, fees, charges, rates and levies charged by the Health Service;
- e) Details of any major external reviews carried out on the Health Service;
- f) Details of major research and development activities undertaken by the Health Service that are not otherwise covered either in the Report of Operations or in a document that contains the financial statements and Report of Operations;
- g) Details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
- h) Details of major promotional, public relations and marketing activities undertaken by the Health Service to develop community awareness of the Health Service and its services;

- i) Details of assessments and measures undertaken to improve the occupational health and safety of employees;
- j) General statement on industrial relations within the Health Service and details of time lost through industrial accidents and disputes, which is not otherwise detailed in the Report of Operations;
- k) A list of major committees sponsored by the Health Service, the purposes of each committee and the extent to which those purposes have been achieved;
- l) Details of all consultancies and contractors including consultants/contractors engaged, services provided, and expenditure committed for each engagement.

Consultancies less than \$10,000

One Consultancy provided by Linda Betts & Associates totalling \$2,400.

Consultancies more than \$10,000

In 2015-16, there were three consultancies where the total fees payable to the consultants were \$10,000 or greater. The total expenditure incurred during 2015-16 in relation to these consultancies is \$55,960 (ex GST).

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (ex GST) \$	Expenditure 2015-16 (ex GST) \$
Price Waterhouse Coopers	Electronic Medical Record Project Data Privacy & Security review	1/03/16	31/05/16	48,000.00	24,000.00
Linda Betts & Associates	RCH People & Culture Review	1/04/16	Expected to complete by August 2016	19,980.00	19,980.00
Linda Betts & Associates	RCH Butterfly Ward Nursing Review	1/07/15	30/04/16	11,980.00	11,980.00
Total				79,960.00	55,960.00

Details of Information and Communication Technology (ICT) expenditure

The total ICT expenditure incurred during 2015-16 is \$40m with the details shown below.

Business As Usual (BAU) ICT expenditure (Total ex GST)	Non Business As Usual (non BAU) ICT expenditure (Total = Operational expenditure and Capital Expenditure ex GST)	Operational expenditure (ex GST)	Capital expenditure (ex GST)
\$9.1m	\$30.9m	-	\$30.9m

RCH Non BAU expenditure included the Electronic Medical Record

Statement of priorities

Part A

Domain	Action	Deliverables	Outcome
Patient experience and outcomes	Drive improved health outcomes through a strong focus on patient-centred care in the planning, delivery and evaluation of services, and the development of new models for putting patients first.	Implement a model of care for children with medical complexity, aligned with the DHHS Health Independence Programs guidelines, to reduce unnecessary hospital admissions and improve patient experience.	Achieved. Complex Care Service implemented. Ninety patients have been enrolled and service expansion continues. Program evaluation demonstrated a significant reduction in bed days and emergency presentation and positive consumer experience.
	Strengthen the response of health services to family violence. This includes implementing interventions, processes and systems to prevent; identify and respond appropriately to family violence at an individual and community level.	Develop a procedure and educational package for staff that builds workforce capability in identifying patients at risk.	Not achieved. The procedure has been developed. The education package is being developed and will be rolled out to staff in the 2016-17 financial year.
	Use consumer feedback and develop participation processes to improve person and family centred care, health service practice and patient experiences.	Collaborate with consumers to implement a patient portal as part of the electronic medical record to provide patient/family access to specialist clinic information including the ability to schedule appointments.	Achieved. Consumer representation on working group to develop My RCH Portal functionality. Pilot project to implement the My RCH Portal commenced in May and consumer feedback used to refine processes. More than 800 accounts were activated by 30 June 2016.
Governance, leadership and culture	Demonstrate an organisational commitment to Occupational Health and Safety, including mental health and wellbeing in the workplace. Ensure accessible and affordable support services are available for employees experiencing mental ill health. Work collaboratively with the Department of Health and Human Services and professional bodies to identify and address systemic issues of mental ill health amongst the medical professions.	Expand the Staff Health and Wellbeing Program, through the implementation of new programs including a Peer Support Program, Mindfulness, Wellbeing and Performance Workshops and Staff Health and Resilience Program, to promote mental health and wellbeing in the workplace.	Achieved. The RCH Peer Support Program and Mindfulness, Wellbeing and Performance Workshops have commenced.
	Monitor and publically report incidents of occupational violence. Work collaboratively with the Department of Health and Human Services to develop systems to prevent the occurrence of occupational violence.	Use existing public reporting mechanisms (including public ward-based quality and safety reports and the annual quality of care report) to raise awareness of occupational violence incidents and associated management strategies.	Achieved. Occupational violence incidents are now included in monthly KPI ward reports and displayed on notice boards. An article regarding preventing and de-escalating episodes of violence was included in the RCH annual Quality of Care Report 2014-15.

Domain	Action	Deliverables	Outcome
Governance, leadership and culture (continued)	Promote a positive workplace culture and implement strategies to prevent bullying and harassment in the workplace. Monitor trends of complaints of bullying and harassment and identify and address organisational units exhibiting poor workplace culture and morale.	Implement new bullying and harassment prevention training modules for line managers to improve: (i) workforce capability in the management of bullying and harassment, and (ii) workplace culture and safety.	Achieved. RCH Line Managers received Safe Workplace Behaviours training.
		Undertake a Board-led review of workplace culture.	Not achieved. Significant progress has been made.
	Build workforce capability and sustainability by supporting formal and informal clinical education and training for staff and health students, in particular inter-professional learning.	Implement a new learning management system to: (i) facilitate delivery of education and training and (ii) enable workforce development planning.	Achieved. The Mandatory Training Committee was convened, and the system was implemented to 5,000 users.
	Support excellence in clinical training through productive engagement in clinical training networks and developing health education partnerships across the continuum of learning.	Implement systems in accordance with the Best Practice Clinical Learning Environment Framework (BPCLE) to improve the quality of clinical training.	Achieved. The RCH BPCLE Pilot Program has been completed.
Safety and quality	Ensure management plans are in place to prevent, detect and contain Carbapenem Resistant Enterobacteriaceae as outlined in Hospital Circular 02/15 (issued 16 June 2015).	Maintain infection prevention and control practices (including surveillance, reporting and management) that aim to eliminate multi-resistant organism transmission in hospital.	Achieved. CRE audit completed and data submitted to VICNISS. RCH Nursing and Infection Prevention and Control teams reviewed processes associated with preventing organism transmission across RCH.
	Implement effective antimicrobial stewardship practices and increase awareness of antimicrobial resistance, its implications and actions to combat it, through effective communication, education, and training.	Embed processes within the electronic medical record to facilitate appropriate selection and timely approval of restricted antibiotics to enhance compliance with antimicrobial stewardship best practice.	Achieved. First line capabilities embedded for EMR Go Live in Electronic Medical Record (EMR).
Safety and quality (continued)	Ensure that emergency response management plans are in place, regularly exercised and updated, including trigger activation and communication arrangements.	Conduct an exercise in partnership with Victoria Police (Code Black), an Emergo surge exercise (Code Brown) and ongoing drills (for all other codes) to test and maintain emergency response preparedness in accordance with the State Hospital Emergency Response Plan.	Achieved. Code Black Exercise was conducted in conjunction with Victoria Police in February 2016. Ongoing drills for all codes have been conducted.

Statement of priorities (continued)

Domain	Action	Deliverables	Outcome
Financial sustainability	Improve cash management processes to ensure that financial obligations are met as they are due.	Enhance systems for debtor payment recovery to improve payment turn-around time.	Achieved. RCH debtor days as at 30 June 2016 is 53 days, below KPI of 60 days.
	Identify opportunities for efficiency and better value service delivery.	Deliver service redesign changes in Day Oncology to improve patient experience, access and flow	Achieved. Redesign project for improved patient load levelling, enhanced understanding of waiting times, and reduced occasions of delay completed.
Access	Implement integrated care approaches across health and community support services to improve access and responses for disadvantaged Victorians.	Implement a state-wide multidisciplinary Gender Service with links to community-based healthcare providers to improve access to services for children/young people with Gender Dysphoria.	Achieved. A state-wide multidisciplinary Gender Service with extensive links to community-based health care providers implemented.
	Progress partnerships with other health services to ensure patients can access treatments as close to where they live when it is safe and effective to so, making the most efficient use of available resources across the system.	Explore opportunities to deliver specialist clinics at secondary hospitals, regional hospitals and community health services to support delivery of care as close to home as possible.	Achieved. Clinics established at Barwon Health. Discussions underway with Northern and Western Health.
	Optimise system capacity by ensuring that allocated points of care are implemented as per the Travis review recommendations.	Implement additional medical short-stay capacity to improve access and patient flow.	Achieved. Medical Short Stay capacity increased to 24 beds.
	Optimise alternatives to hospital admission.	Implement a new model for physiotherapy in the home incorporating use of telehealth for patients with chronic disease to reduce need for hospital admission.	Achieved. Model that increased number of patients discharge to HITH with the support of Physiotherapy completed.

Part B: Performance priorities

Safety and quality performance

Key performance indicator	Target	2015-16 actuals
Compliance with NSQHS Standards accreditation	Full compliance	Full compliance
Cleaning standards	Full compliance	Full compliance
Compliance with the Hand Hygiene Australia program	80%	82.4%
Percentage of healthcare workers immunised for influenza	75%	86.2%

Patient experience and outcomes performance

Key performance indicator	Target	2015-16 actuals
Victorian Healthcare Experience Survey – data submission	Full compliance	Full compliance
Victorian Healthcare Experience Survey – patient experience	95% positive experience	100% positive experience
ICU central line-associated blood stream infection	No outliers	Not achieved
SAB rate per occupied bed days ¹	< 2/10,000	1/10,000
Newborn – Percentage of eligible newborns screened for hearing deficit	> 97%	98.8%
Mental Health – Percentage of child and adolescent patients with post-discharge follow-up within seven days	75%	76%
Mental Health – Rate of seclusion events relating to a child and adolescent acute admission	≤15/1,000	6/1,000

Governance, leadership and culture performance

Key performance indicator	Target	2015-16 actuals
People Matter Survey – percentage of staff with a positive response to safety culture questions	80%	92%

Quality and safety

Quality and safety	Target	2015-16 actuals
Cleaning standards (Overall)	Full compliance	Full compliance
Cleaning standards (AQL-A)	90%	97%
Cleaning standards (AQL-B)	85%	97%
Cleaning standards (AQL-C)	85%	97%

Financial sustainability performance

Key performance indicator	Target	2015-16 actuals
Operating result	\$0m	\$0.0037m
Trade creditors	< 60 days	34 days
Patient fee debtors	< 60 days	53 days
Public and private WIES ² performance to target	100%	99.2%

¹ SAB is staphylococcus aureus bacteraemia

² WIES is a Weighted Inlier Equivalent Separation.

Statement of priorities (continued)

Asset management

Asset management	Target	2015-16 actuals
Asset management plan	Full compliance	Full compliance
Adjusted current asset ratio	0.7	1.10*
Days of available cash	14 days	16 days

*Extracted from the June 2016 F1 report provided to the Department of Health and Human Services.

Access performance

Key performance indicator	Target	2015-16 actuals
Emergency care		
Percentage of ambulance patients transferred within 40 minutes	90%	95%
Percentage of Triage Category 1 emergency patients seen immediately	100%	100%
Percentage of Triage Category 1 to 5 emergency patients seen within clinically recommended times	80%	58%
Percentage of emergency patients with a length of stay less than four hours	81%	71%
Number of patients with a length of stay in the emergency department greater than 24 hours	0	0
Elective surgery		
Percentage of elective patients removed within clinically recommended timeframes	94%	86%
Percentage of Urgency Category 1 elective patients removed within 30 days	100%	100%
10% longest waiting Category 2 and 3 removals from the elective surgery waiting list	100%	100%
Number of patients on the elective surgery waiting list ³	2,095	1,838
Number of hospital initiated postponements per 100 scheduled admissions	≤8/100	5.4/100
Number of patients admitted from the elective surgery waiting list - annual total	9,136	8,594
Critical care		
Paediatric ICU number of days below the agreed minimum operating capacity ⁴	0	12
Neonatal ICU number of days below the agreed standard and flexible operating capacity ⁵	0	9

³ The target shown is the number of patients on the elective surgery waiting list as at 30 June 2016.

⁴ The agreed minimum operating capacity is 19 ICU equivalents.

⁵ The standard operating capacity and flex capacity is 18-22, increasing to 19-23 in October, 20-24 in December and 21-25 in January.

Part C: Activity and funding

Funding type	Activity	2015-16 Activity achievement
Acute admitted		
WIES Public	40,046	37,656
WIES Private	11,774	13,765
WIES (public and private)	51,820	51,421
WIES TAC	573	560
WIES TOTAL	52,393	51,981
Acute non-admitted		
Renal dialysis – home ABF	17	12
Subacute and non-acute admitted		
Rehab public	3,851	3,051
Rehab private	879	1,813
Subacute non-admitted		
Health Independence Program	23,610	23,738
Mental health and drug services		
Mental health inpatient – WOt	6,294	N/A
Mental health ambulatory	27,034	N/A
Primary health		
Community health/primary care programs	1,988	1,568
Nationally Funded Centre		
Transplants paediatric heart	-	11
Surgery for hypoplastic left heart syndrome	-	19
Transplants paediatric lung (Alfred)	-	4
Transplants paediatric liver	-	13
Total funding		

The Royal Children's Hospital

Summary of financial results

	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000	2012 \$'000
Total revenue	692,608	607,903	518,331	477,805	482,674
Total expenses	673,922	633,468	585,609	554,635	487,465
Net result for the year (inc. capital and specific items)	18,686	(25,565)	(67,278)	(76,830)	(4,791)
Retained surplus/(accumulated deficit)	(191,246)	(209,736)	(185,615)	(117,929)	(40,237)
Total assets	1,353,641	1,329,667	1,260,743	1,139,978	1,135,558
Total liabilities	1,265,165	1,270,598	1,166,858	1,125,898	1,045,244
Net assets	88,476	59,069	93,886	14,080	90,314
Total equity	88,476	59,069	93,886	14,080	90,314

Certain numbers above do not correspond to the 2013 and 2012 audited financial statements and reflect adjustments made as a result of correction of public private partnership (PPP) entries recorded on behalf of Department of Health and Human Services (DHHS).

Operational and budgetary objectives and performance against objectives

The Royal Children's Hospital (RCH) ended the year with \$37k annual operating surplus (before capital and specific items). The RCH successfully met its statement of priorities financial target, which was a break even operating result.

Summary of significant change in financial position during the year

The financial position includes PPP transactions (non-cash entries) which the RCH agrees to record on behalf of the state since financial years 2012-13. The net impact of PPP transactions in financial year 2015-16 is a notional surplus of \$ 2.5 million.

The \$29.4m increase in net assets for the year, is mainly due to capitalisation of two major capital projects; Electronic Medical Record (EMR) and Medical Resonance Imaging (MRI).

Subsequent events

Events after the balance sheet date - nil (refer note 28 in the financial statements section).

Responsible Bodies Declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present the Report of Operations for The Royal Children's Hospital for the year ending 30 June 2015.

Signed:



The Hon Rob Knowles AO The Royal Children's Hospital, Board Chairman 12 August 2016

Attestation on Data Integrity

I, Christine Kilpatrick, certify that The Royal Children's Hospital has put in place appropriate internal controls and processes to ensure that reported data reasonably reflects actual performance. The Royal Children's Hospital has critically reviewed these controls and processes during the year.

Signed:



Professor Christine Kilpatrick Chief Executive Officer 12 August 2016

Attestation on Risk Management

I, Christine Kilpatrick, certify that The Royal Children's Hospital has complied with Ministerial Direction 4.5.5 – Risk Management Framework and Processes. The Royal Children's Hospital Audit Committee has verified this.

Signed:



Professor Christine Kilpatrick Chief Executive Officer 12 August 2016

Compliance with DataVic Access Policy

Consistent with the DataVic Access Policy issued by the Victorian Government in 2012, the information included in this Annual Report will be available at www.rch.org.au/publications in machine readable format.

Disclosure index

The annual report of The Royal Children's Hospital is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of the Department's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
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Financial and other information		
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FRD 11A	Disclosure of ex gratia expenses	12
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FRD 22D	Application and operation of <i>Protected Disclosure 2012</i>	12
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	<i>Building Act 1993</i>	14
	<i>Financial Management Act 1994</i>	23, 26, 34



Financial statements

Board Member's, Accountable Officer's and Chief Finance and Accounting Officer's Declaration

We certify that the attached financial statements for The Royal Children's Hospital and the Consolidated Entities have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards, Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes to and forming part of the financial statements, presents fairly the financial transactions during the year ended 30 June 2016 and the financial position at that date of The Royal Children's Hospital and Consolidated Entities as at 30 June 2016.

At the time of signing, we are not aware of any circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on this day.



HON ROB KNOWLES AO

Chairman
The Royal Children's Hospital
Melbourne
12 August 2016



PROFESSOR CHRISTINE KILPATRICK

Chief Executive Officer
The Royal Children's Hospital
Melbourne
12 August 2016



JENNIFER GALE

Executive Director Corporate Services and CFO
The Royal Children's Hospital
Melbourne
12 August 2016

INDEPENDENT AUDITOR'S REPORT

To the Board Members, The Royal Children's Hospital Melbourne

The Financial Report

I have audited the accompanying financial report for the year ended 30 June 2016 of the The Royal Children's Hospital Melbourne which comprises comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the the Board Member's, accountable officer's and Chief Finance and Accounting Officer's declaration. The consolidated entity comprises The Royal Children's Hospital Melbourne and the entities it controlled at the year's end or from time to time during the financial year as disclosed in note 26 to the financial statements.

The Board Members' Responsibility for the Financial Report

The Board Members of The Royal Children's Hospital Melbourne are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the Financial Management Act 1994 and for such internal control as the Board Members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independent Auditor's Report (continued)


Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates have complied with all applicable independence pronouncements.

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of The Royal Children's Hospital Melbourne and the consolidated entity as at 30 June 2016 and their financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the Australian accounting profession.

MELBOURNE
15 August 2016


Dr Peter Frost
Acting Auditor-General

The Royal Children's Hospital Comprehensive operating statement

For the year ended 30 June 2016

	Note	Parent entity 2016 \$'000	Parent entity 2015 \$'000	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Revenue from operating activities	2	579,230	537,887	558,045	544,553
Revenue from non-operating activities	2	1,828	2,138	5,235	14,229
Employee expenses	3	(399,315)	(379,700)	(401,258)	(383,962)
Non-salary labour costs	3	(19,365)	(19,529)	(19,436)	(19,833)
Supplies and consumables	3	(69,406)	(63,997)	(69,406)	(64,000)
Other expenses	3	(91,493)	(75,626)	(94,145)	(77,896)
Finance costs – self funded activity	5	(1,442)	(1,170)	(1,442)	(1,170)
Net result before capital and specific items		37	2	(22,408)	11,921
Capital purpose income	2	111,826	67,413	111,826	67,413
Net gain/(loss) on disposal of non-financial assets	2a	(346)	(54)	(346)	(54)
Assets received free of charge		3	-	3	-
Expenditure for capital purpose	3	(772)	(3,390)	(772)	(97)
Depreciation and amortisation	4	(39,638)	(39,540)	(40,039)	(39,843)
Impairment of non-financial assets		-	-	(561)	-
Finance cost	5	(52,491)	(50,515)	(52,491)	(50,515)
Available-for-sale revaluation gain/(loss) recognised	2	67	519	15,235	5,303
NET RESULT FOR THE YEAR		18,686	(25,565)	10,446	(5,872)
Other comprehensive income					
Items that may be reclassified subsequently to net result					
Changes to financial assets available-for-sale revaluation surplus	18a	(468)	(123)	(11,471)	(890)
Items that will not be reclassified to net result					
Changes in property, plant and equipment revaluation surplus	18a	11,189	8,474	11,296	8,474
COMPREHENSIVE RESULT FOR THE YEAR		29,407	(17,214)	10,271	1,712

This statement should be read in conjunction with the accompanying notes.

Reclassifications may have occurred in comparative figures since the financial statements for 2014–15 were published, refer Note 1 (e).

The Royal Children's Hospital Balance sheet

As at 30 June 2016

	Note	Parent entity 2016 \$'000	Parent entity 2015 \$'000	Consolidated 2016 \$'000	Consolidated 2015 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	6	43,516	26,480	82,836	47,791
Receivables	7	22,740	19,965	19,294	17,441
Investments and other financial assets	8	-	-	25,627	44,399
Inventories	9	1,260	1,257	1,321	1,307
Prepayments		1,277	954	1,329	1,005
Total current assets		68,792	48,656	130,408	111,943
Non-current assets					
Receivables	7	22,423	19,141	22,423	19,141
Investments and other financial assets	8	9,152	22,143	74,815	102,725
Property, plant and equipment	10	1,180,677	1,194,684	1,189,777	1,204,525
Intangible assets	11	67,679	40,288	81,030	54,208
Investment properties	12	4,918	4,755	4,918	4,755
Total non-current assets		1,284,849	1,281,011	1,372,962	1,385,354
TOTAL ASSETS		1,353,641	1,329,667	1,503,370	1,497,297
LIABILITIES					
Current liabilities					
Payables	13	33,228	22,957	34,749	23,231
Provisions	14	111,296	98,162	111,486	98,707
Borrowings	15	31,995	794	31,995	794
Other current liabilities	16	12,615	11,905	7,649	6,377
Total current liabilities		189,134	133,818	185,879	129,110
Non-current liabilities					
Provisions	14	14,850	13,698	14,884	13,859
Borrowings	15	1,058,478	1,120,029	1,058,478	1,120,029
Other non-current liabilities	16	2,704	3,053	4,582	5,022
Total non-current liabilities		1,076,031	1,136,780	1,077,944	1,138,911
TOTAL LIABILITIES		1,265,165	1,270,598	1,263,823	1,268,021
NET ASSETS		88,476	59,069	239,547	229,276
EQUITY					
Property, plant and equipment revaluation surplus	18a	183,224	172,035	186,626	175,330
Financial assets available-for-sale revaluation surplus	18a	207	675	6,297	17,768
Restricted specific purpose surplus	18a	4,977	4,780	96,646	84,049
Contributed capital	18b	91,314	91,314	91,314	91,314
Accumulated deficit	18c	(191,246)	(209,736)	(141,337)	(139,185)
TOTAL EQUITY		88,476	59,069	239,547	229,276
Commitments	22				
Contingent assets and contingent liabilities	23				

This statement should be read in conjunction with the accompanying notes.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

The Royal Children's Hospital Statement of changes in equity

For the year ended 30 June 2016

Consolidated	Note	Property, plant and equipment revaluation surplus	Financial asset available for sale revaluation surplus	Restricted specific purpose surplus	Contributed capital	Accumulated surpluses/ (deficits)	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014		168,030	18,658	78,436	108,919	(128,914)	245,129
Net result for the year		-	-	-	-	(5,871)	(5,871)
Other comprehensive income for the year		8,474	(890)	-	-	-	7,584
Transfer to accumulated surplus/(deficit)		(1,174)	-	5,276	-	(4,064)	38
Contributed capital		-	-	-	(17,605)	-	(17,605)
Balance at 30 June 2015	18	175,330	17,768	83,712	91,314	(138,849)	229,276
Net result for the year		-	-	-	-	10,446	10,446
Other comprehensive income for the year		11,296	(11,471)	-	-	-	(175)
Transfer to accumulated surplus/(deficit)		-	-	12,934	-	(12,934)	-
Balance at 30 June 2016	18	186,626	6,297	96,646	91,314	(141,337)	239,547

Parent	Note	Property, plant and equipment revaluation surplus	Financial asset available for sale revaluation surplus	Restricted specific purpose surplus	Contributed capital	Accumulated surpluses/ (deficits)	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014		164,735	798	5,048	108,919	(185,615)	93,886
Net result for the year		-	-	-	-	(25,565)	(25,565)
Other comprehensive income for the year		8,474	(123)	-	-	-	8,351
Transfer to accumulated surplus/(deficit)		(1,174)	-	(268)	-	1,442	-
Contributed capital		-	-	-	(17,605)	-	(17,605)
Balance at 30 June 2015	3	172,035	675	4,780	91,314	(209,736)	59,068
Net result for the year		-	-	-	-	18,686	18,686
Other comprehensive income for the year		11,189	(468)	-	-	-	10,721
Transfer to accumulated surplus/(deficit)		-	-	197	-	(197)	-
Balance at 30 June 2016	3	183,224	207	4,977	91,314	(191,246)	88,476

This statement should be read in conjunction with the accompanying notes.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

The Royal Children's Hospital Cash flow statement

For the year ended 30 June 2016

	Note	Parent entity 2016 \$'000	Parent entity 2015 \$'000	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating grants from government		420,341	390,997	420,487	394,099
Patient fees received		22,587	19,408	22,587	19,408
Private practice fees received		27,989	29,158	27,989	29,158
Donations and bequests received		21,665	26,852	22,894	23,166
GST received from/(paid to) ATO		4,660	5,227	1,918	6,110
Interest received		1,904	2,690	22,241	20,367
Other receipts		60,252	43,558	80,982	56,012
Total receipts		559,399	517,889	599,100	548,321
Employee expenses paid		(404,410)	(388,501)	(406,879)	(392,849)
Fee for service medical officers		(3,239)	(2,711)	(3,239)	(2,711)
Payments for supplies and consumables		(67,936)	(77,724)	(81,062)	(78,324)
Finance cost		(1,442)	(1,170)	(1,442)	(1,170)
Other payments		(63,212)	(55,543)	(70,478)	(71,731)
Total payments		(540,239)	(525,650)	(563,100)	(546,785)
Cash generated from/(used in) operations		19,160	(7,761)	36,000	1,536
Capital grants from government		10,365	13,444	10,365	13,444
Other capital receipts		-	-	-	(2,200)
Capital donations and bequests received		19,588	2,681	-	-
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	19	49,113	8,365	46,364	12,779
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for non-financial assets		(45,396)	(15,964)	(45,626)	(30,596)
Proceeds from sale of non-financial assets		-	41	-	41
Purchase of investments		-	-	(16,046)	(16,705)
Proceeds from sale of investments		14,114	-	51,148	30,553
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		(31,282)	(15,922)	(10,525)	(16,707)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings		(794)	(383)	(794)	(383)
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		(794)	(383)	(794)	(383)
Net increase/(decrease) in cash and cash equivalents held		17,036	(7,940)	35,045	(4,311)
Cash and cash equivalents at the beginning of financial year		26,480	34,420	47,791	52,102
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	6	43,516	26,480	82,836	47,791

This statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

30 June 2016

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Note 1: Summary of significant accounting policies

These annual financial statements represent the audited general purpose financial statements for The Royal Children's Hospital for the year ended 30 June 2016. The purpose of the report is to provide users with information about The Royal Children's Hospitals' stewardship of resources entrusted to it.

(a) Statement of compliance

These financial statements are general-purpose financial reports which have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AASs), which include interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 101 *Presentation of Financial Statements*.

The financial statements also comply with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance, and relevant Standing Directions (SDs) authorised by the Minister for Finance.

The Royal Children's Hospital is a not-for-profit entity and therefore applies the additional Australian-specific paragraphs ('Aus') applicable to 'not-for-profit' Health Services under the AASs.

The annual financial statements were authorised for issue by the Board of The Royal Children's Hospital on 12 August 2016.

(b) Basis of accounting preparation and measurement

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2016, and the comparative information presented in these financial statements for the year ended 30 June 2015.

The going concern basis was used to prepare the financial statements. The Royal Children's Hospital is wholly dependent on the continued financial support of the State Government and in particular, the Department of Health and Human Services. The Department of Health and Human Services has provided confirmation that it will continue to provide The Royal Children's Hospital adequate cash flow support to meet its current and future obligations as and when they fall due for a period up to September 2017. This position is reviewed annually to ensure continuity under the going concern basis.

These financial statements are presented in Australian dollars, the functional and presentation currency of The Royal Children's Hospital.

The financial statements, except for cash flow information, have been prepared using the accrual basis of accounting. Under the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items, that is they are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

The financial statements are prepared in accordance with the historical cost convention, except for:

- non-current physical assets, which subsequent to acquisition, are measured at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made and are re-assessed when new indices are published by the Valuer General to ensure that the carrying amounts do not materially differ from their fair values;

- derivative financial instruments, managed investment schemes, certain debt securities, and investment properties after initial recognition, which are measured at fair value with changes reflected in the comprehensive operating statement (fair value through profit or loss); and
- available-for-sale investments which are measured at fair value with movements reflected in equity until the asset is derecognised (i.e. other comprehensive income – items that may be reclassified subsequent to net result);
- the fair value of assets other than land is generally based on their depreciated replacement value.

Judgments, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other resources. The estimates and associated assumptions are based on professional judgments derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Consistent with AASB 13 *Fair Value Measurement*, The Royal Children's Hospital determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment, investment properties and financial instruments, and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of AASB 13 and the relevant FRDs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, The Royal Children's Hospital has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, The Royal Children's Hospital determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Valuer-General Victoria (VGV) is The Royal Children's Hospital's independent valuation agency.

The Royal Children's Hospital, in conjunction with VGV monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluation is required.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments and assumptions made by management in the application of AASs that have significant effects on the financial statements and estimates, with a risk of material adjustments in the subsequent reporting period, are disclosed throughout the notes to the financial statements.

(c) Reporting entity

The financial statements include all the controlled activities of The Royal Children's Hospital.

Its principal address is:

50 Flemington Road
Parkville
Victoria 3052

A description of the nature of The Royal Children's Hospital's operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

Objectives and funding

The Royal Children's Hospital's overall objective is to improve the health and wellbeing of children and adolescents through leadership in healthcare, research and education, as well as improve the quality of life to Victorians.

The Royal Children's Hospital is predominantly funded by accrual based grant funding for the provision of outputs.

(d) Principles of consolidation

In accordance with AASB 10 *Consolidated Financial Statements*:

- the consolidated financial statements of The Royal Children's Hospital include all reporting entities controlled by The Royal Children's Hospital; and
- the consolidated financial statements exclude bodies of The Royal Children's Hospital that are not controlled by The Royal Children's Hospital, and therefore are not consolidated.

Control exists when The Royal Children's Hospital has the power to govern the financial and operating policies of a Health Service so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The consolidated financial statements include the audited financial statements of the controlled entities listed in Note 26.

Where control of an entity is obtained during the financial period, its results are included in the comprehensive operating statement from the date on which control commenced. Where control ceases during a financial period, the entity's results are included for that part of the period in which control existed. Where entities adopt dissimilar accounting policies and their effect is considered material, adjustments are made to ensure consistent policies are adopted in these financial statements.

Entities consolidated into The Royal Children's Hospital reporting entity include audited results of below entities:

- The Royal Children's Hospital's Foundation Trust Fund
- The Royal Children's Hospital Education Institute Limited

The Royal Children's Hospital's Foundation Trust Fund is a controlled entity of The Royal Children's Hospital by virtue of the power to appoint a new or additional trustee of the Foundation Trust Fund.

The Royal Children's Hospital Education Institute Limited is deemed to be a controlled entity of The Royal Children's Hospital because the majority of the entity's Board positions comprise of The Royal Children's Hospital's Senior Management.

In the process of preparing consolidated financial statements for The Royal Children's Hospital, all material transactions and balances between consolidated entities are eliminated.

Intersegment transactions

Transactions between segments within The Royal Children's Hospital have been eliminated to reflect the extent of the Hospital's operations as a group.

Jointly controlled assets or operations

Interests in jointly controlled assets or operations are not consolidated by The Royal Children's Hospital but are accounted for in accordance with the policy outlined in Note 1 (j) Financial assets.

(e) Scope and presentation of financial statements

Fund accounting

The Royal Children's Hospital operates on a fund accounting basis and maintains three funds: operating, specific purpose and capital funds. The Royal Children's Hospital's capital and specific purpose funds include unspent capital donations and receipts from fund-raising activities conducted solely in respect of these funds.

Services Supported by Health Services Agreement and Services Supported by Hospital and Community Initiatives

Activities classified as *Services Supported by Health Services Agreement* (HSA) are substantially funded by the Department of Health and Human Services and are also funded from other sources such as the Commonwealth, patients and residents, while *Services Supported by Hospital and Community Initiatives* (H&CI) are funded by The Royal Children's Hospital's own activities or local initiatives and/or the Commonwealth.

Comprehensive operating statement

The comprehensive operating statement includes the subtotal entitled 'Net result before capital and specific items' to enhance the understanding of the financial performance of The Royal Children's Hospital. This subtotal reports the result excluding items such as capital grants; assets received or provided free of charge, depreciation, and items of unusual nature and amount such as specific revenues and expenses. The exclusion of these items is made to enhance matching of income and expenses so as to facilitate the comparability and consistency of results between years and Victorian Public Health Services. The net result before capital and specific items is used by the management of The Royal Children's Hospital, the Department of Health and Human Services and the Victorian Government to measure the ongoing operating performance of The Royal Children's Hospital.

Capital and specific items, which are excluded from this sub-total, comprise:

- capital purpose income, which comprises all tied grants, donations and bequests received for the purpose of acquiring non-current assets, such as capital works, plant and equipment or intangible assets. It also includes donations of plant and equipment (refer Note 1 (f)). Consequently the recognition of revenue as capital purpose income is based on the intention of the provider of the revenue at the time the revenue is provided;
- impairment of financial and non-financial assets, including all impairment losses (and reversal of previous impairment losses), which have been recognised in accordance with Note 1 (j);
- depreciation and amortisation, as described in Note 1 (g);
- assets received or provided free of charge, as described in Note 1 (f) and (g); and

Note 1: Summary of significant accounting policies (continued)

- expenditure using capital purpose income, comprising expenditure which either falls below the asset capitalisation threshold, or doesn't meet asset recognition criteria and therefore does not result in the recognition of an asset in the balance sheet, where funding for that expenditure is from capital purpose income.

Balance sheet

Assets and liabilities are categorised either as current or non-current (non-current being those assets or liabilities expected to be recovered/settled more than 12 months after the reporting period), as disclosed in the notes where relevant.

Statement of changes in equity

The statement of changes in equity presents reconciliations of each non-owner and owner changes in equity from opening balance at the beginning of the reporting period to the closing balance at the end of the reporting period. It also shows separately changes due to amounts recognised in the comprehensive result and amounts recognised in other comprehensive income.

Cash flow statement

Cash flows are classified according to whether or not they arise from operating activities, investing activities, or financing activities. This classification is consistent with requirements under AASB 107 *Statement of Cash Flows*.

Rounding

All amounts shown in the financial statements are expressed to the nearest thousand dollars unless otherwise stated.

Minor discrepancies in tables between totals and sum of components are due to rounding.

Comparative information

A small number of transactions relating to the 2014-15 reporting period were reclassified for the purpose of better presentation in the financial statements. These reclassifications are strictly between different lines in the operating statement, balance sheet or notes in the financial statement, and do not alter previous year's net result for the year, comprehensive result for the year, net assets or total assets.

(f) Income from transactions

Income is recognised in accordance with AASB 118 *Revenue* and is recognised to the extent it is probable that the economic benefits will flow to The Royal Children's Hospital and the income can be reliably measured at fair value. Unearned income at reporting date is reported as income received in advance.

Amounts disclosed as revenue are, where applicable, net of returns, allowances and duties and taxes.

Government grants and other transfers of income (other than contributions by owners)

In accordance with AASB 1004 *Contributions*, government grants and other transfers of income (other than contributions by owners) are recognised as income when The Royal Children's Hospital gains control of the underlying assets irrespective of whether conditions are imposed on The Royal Children's Hospital's use of the contributions.

Contributions are deferred as income in advance when there is a present obligation to repay them and the present obligation can be reliably measured.

Indirect contributions from the Department of Health and Human Services

Insurance and outsourced contributions for the Public Private Partnership are recognised as revenue following advice from the Department of Health and Human Services.

Long Service Leave (LSL) - revenue is recognised upon finalisation of movements in LSL liability in line with the arrangements set out in the Metropolitan Health and Aged Care Services Division Hospital Circular 05/2013 (updated for 2013-14).

Patient fees

Patient fees are recognised as revenue on an accrual basis.

Private practice fees

Private practice fees are recognised as revenue on an accrual basis.

Revenue from commercial activities

Revenue from commercial activities such as commercial laboratory medicine is recognised on an accrual basis.

Donations and other bequests

Donations and bequests are recognised as revenue when received. If donations are for a special purpose, they may be appropriated to a reserve, such as specific restricted purpose surplus.

Dividend revenue

Dividend revenue is recognised when the right to receive payment is established.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield of the financial asset, which allocates interest over the relevant period.

Sale of investments

The gain/loss on sale of investments is recognised when the investment is realised.

Fair value of assets and services received free of charge or for nominal consideration

Resources received free of charge or for nominal consideration are recognised at their fair value when The Royal Children's Hospital obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another Health Service or agency as a consequence of a restructuring of administrative arrangements. In the latter case, such transfer will be recognised at carrying value. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(g) Expense recognition

Expenses are recognised as they are incurred and reported in the financial year to which they relate.

Cost of goods sold

Costs of goods sold are recognised when the sale of an item occurs by transferring the cost of the item(s) from inventories.

Employee expenses

Employee expenses include:

- wages and salaries;
- fringe benefit tax;
- leave entitlements;
- termination payments;
- workcover premiums; and
- superannuation expenses which are reported differently depending upon whether employees are members of defined benefit or defined contribution plans.

Defined contribution superannuation plans

In relation to defined contribution (i.e. accumulation) superannuation plans, the associated expense is simply the employer contributions that are paid or payable in respect of employees who are members of these plans during the reporting period. Contributions to defined contribution superannuation plans are expensed when incurred.

Defined benefit superannuation plans

The amount charged to the comprehensive operating statement in respect of defined benefit plan superannuation represents the contributions made by The Royal Children's Hospital to the superannuation plan in respect to the current services of current Royal Children's Hospital staff during the reporting period. Superannuation contributions are made to the plans based on the relevant rules of each plan, and are based upon actuarial advice.

Employees of The Royal Children's Hospital are entitled to receive superannuation benefits and The Royal Children's Hospital contributes to both the defined benefit and defined contribution plans. The defined benefit plans provide benefits based on years of service and final average salary.

The names and details of the major employee superannuation funds and contributions made by The Royal Children's Hospital are disclosed in Note 17: Superannuation

Depreciation

Assets with a cost in excess of \$1,000 are capitalised and depreciation has been provided on depreciable assets so as to allocate their cost or valuation over their estimated useful lives. Depreciation is generally calculated on a straight-line basis, at a rate that allocates the asset value, less any estimated residual value over its estimated useful life. Estimates of the remaining useful lives and depreciation method for assets are reviewed at least annually, and adjustments made where appropriate. This depreciation charge is not funded by the Department of Health and Human Services.

Depreciation is provided on property, plant and equipment, including freehold buildings, but excluding land and investment properties. Depreciation begins when the asset is available for use, which is when it is in the location and condition necessary for it to be capable of operating in a manner intended by management.

The following table indicates the expected useful lives of non-current physical assets on which the depreciation charges are based.

Non PPP assets	2016	2015
Buildings		
- Structure shell building fabric	30 to 60 years	30 to 60 years
- Site engineering services and site works	30 to 40 years	30 to 40 years
Central plant		
- Fit out	25 to 30 years	25 to 30 years
- Trunk reticulated building systems	30 years	30 years
Plant and equipment (non medical)	3 to 7 years	3 to 7 years
Medical equipment	7 to 15 years	7 to 15 years
Computers and communication	3 years	3 years
Furniture and fittings	13 years	13 years
Motor vehicles	10 years	10 years
Leasehold improvements	25 to 30 years	25 to 30 years

PPP assets	2016	2015
Buildings		
- Structure shell building fabric	60 years	60 years
- Site engineering services and site works	40 years	40 years
Central plant		
- Fit out	30 years	30 years
- Trunk reticulated building systems	30 years	30 years
Plant and equipment (non medical)	30 years	30 years
Medical equipment	30 years	30 years
Computers and communication	30 years	30 years
Furniture and fittings	30 years	30 years

As part of the buildings valuation, building values were separated into components and each component assessed for its useful life which is represented above.

Intangible produced assets with finite lives are depreciated as an expense on a systematic basis over the assets useful life.

Amortisation

Amortisation is allocated to intangible non-produced assets with finite useful lives on a systematic (typically straight-line) basis over the asset's useful life. Amortisation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The consumption of intangible non-produced assets with finite lives is classified as amortisation.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each annual reporting period. In addition, an assessment is made at each reporting date to determine whether there are indicators that the intangible asset concerned is impaired. If so, the asset concerned is tested as to whether its carrying value exceeds its recoverable amount.

Note 1: Summary of significant accounting policies (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually or whenever there is an indication that the asset may be impaired. The useful lives of intangible assets that are not being amortised are reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. In addition, The Royal Children's Hospital tests all intangible assets with indefinite useful lives for impairment by comparing the recoverable amount for each asset with its carrying amount:

- annually; and
- whenever there is an indication that the intangible asset may be impaired.

Any excess of the carrying amount over the recoverable amount is recognised as an impairment loss.

Intangible assets with finite useful lives are amortised over a 3 to 23.5 year period (2015: 3 to 23.5 years).

Finance costs

Finance costs are recognised as expenses in the period in which they are incurred.

Finance costs include:

- interest on long-term borrowings (interest expense is recognised in the period in which it is incurred); and
- finance charges in respect of finance leases recognised by The Royal Children's Hospital on behalf of the State of Victoria in accordance with AASB 117 *Leases*.

Other operating expenses

Other operating expenses generally represent day-to-day running costs incurred in normal operations and include:

- supplies and consumables, which are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.
- bad and doubtful debts, refer to Note 1 (j) Impairment of financial assets.

Fair value of assets, services and resources provided free of charge or for nominal consideration

Contribution of resources provided free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another agency as a consequence of a restructuring of administrative arrangements. In the latter case, such transfer will be recognised at carrying value.

Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

Borrowing costs of qualifying assets

In accordance with the paragraphs of AASB 123 *Borrowing Costs* applicable to not-for-profit public sector entities, The Royal Children's Hospital continues to recognise borrowing costs immediately as an expense, to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset.

(h) Other economic flows included in net results

Other economic flows are change in volume or value of assets or liabilities that do not result from transactions.

Net gain/(loss) on non-financial assets

Net gain/(loss) on non-financial assets and liabilities includes realised and unrealised gains and losses as follows:

- revaluation gains/(losses) of non-financial assets, refer to Note 1 (j) Revaluations of non-current physical assets.
- net gain/(loss) on disposal of non-financial assets, any gain or loss on the disposal of non-financial assets is the difference between the proceeds the carrying value of the asset at the time.
- net gain/(loss) on financial instruments, including:
 - realised and unrealised gains and losses from revaluation of financial instruments at fair value;
 - impairment and reversal of impairment for financial instruments at amortised cost (refer Note 1 (j)); and
 - disposals of financial assets and derecognition of financial liabilities.
- amortisation of non-produced intangible assets, intangible non-produced assets with finite lives are amortised as another economic flow on a systematic basis over the asset's useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- revaluations of financial instruments at fair value, refer to Note 1 (i) Financial instruments.
- share of net profits/(losses) of associates and joint entities, excluding dividends, refer to Note 1 (d).
- Other gains/(losses) from other economic flows

Other gains/(losses) include:

- the revaluation of the present value of the long services leave liability due to changes in the bond interest rates; and
- transfer of amounts from reserves to accumulated surplus or net result due to disposal, derecognition or reclassification.

(i) Financial instruments

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of The Royal Children's Hospital's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

Financial assets at fair value through profit or loss

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets

form part of a group of financial assets that are managed by The Royal Children's Hospital based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

Financial instruments at fair value through profit or loss are initially measured at fair value and attributed transaction costs are expensed as incurred. Subsequently, any changes in fair value are recognised in the net result as other comprehensive income as required by AASB 139 para 55. Any dividend or interest on a financial asset is recognised in the net result for the year.

Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in net result incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 21.

Reclassification of financial instruments at fair value through profit or loss

Financial instrument assets that meet the definition of loans and receivables may be reclassified out of the fair value through profit or loss category into the loans and receivables category, where they would have met the definition of loans and receivables had they not been required to be classified as fair value through profit or loss. In these cases, the financial instrument asset may be reclassified out of the fair value through profit or loss category, if there is the intention and ability to hold them for the foreseeable future or until maturity.

Loans and receivables

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits (refer to Note 1 (j)), term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Available-for-sale financial assets

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument assets. Such assets are initially recognised at fair value. Subsequent to initial recognition gains and losses arising from changes in fair value are recognised in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net result for the period. Fair value is determined in the manner described in Note 21.

Reclassification of available-for-sale financial assets

Available-for-sale financial instrument assets that meet the definition of loans and receivables may be classified into the loans and receivables category if there is the intention and ability to hold them for the foreseeable future or until maturity.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all of The Royal Children's Hospital's contractual payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

The financial liabilities include the Department of Health and Human Services' obligations to the Children's Health Partnership for the Quarterly Service Payment (QSP) for the new Royal Children's Hospital.

(j) Assets

Cash and cash equivalents

Cash and cash equivalents recognised on the balance sheet comprise cash on hand and cash at bank, deposits at call and highly liquid investments with an original maturity of three months or less, which are held for the purpose of meeting short term cash commitments rather than for investment purposes, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Receivables

Receivables consist of:

- statutory receivables, which includes predominantly amounts owing from the Victorian Government and Goods and Services Tax (GST) input tax credits recoverable; and
- contractual receivables, which includes mainly debtors in relation to goods and services and accrued investment income.

Receivables that are contractual are classified as financial instruments and categorised as loans and receivables. Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less any accumulated impairment.

Trade debtors are carried at nominal amounts due and are due for settlement within 30 days from the date of recognition. Collectability of debts is reviewed on an ongoing basis, and debts which are known to be uncollectible are written off. A provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified.

Investments and other financial assets

Hospital investments are in accordance with the Standing Directions 4.5.6 *Treasury Risk Management*. Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Note 1: Summary of significant accounting policies (continued)

Investments are classified in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; and
- available-for-sale financial assets.

The Royal Children's Hospital classifies its other financial assets between current and non-current assets based on the purpose for which the assets were acquired. Management determines the classification of its other financial assets at initial recognition.

The Royal Children's Hospital assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

All financial assets, except those measured at fair value through profit or loss are subject to annual review for impairment.

Inventories

Inventories include goods held either for sale, consumption or for distribution at no or nominal cost in the ordinary course of business operations. It excludes depreciable assets.

Inventories held for distribution are measured at cost, adjusted for any loss of service potential. All other inventories are measured at the lower of cost and net realisable value.

The basis used in assessing loss of service potential for inventories held for distribution include current replacement cost and technical or functional obsolescence. Technical obsolescence occurs when an item still functions for some or all of the tasks it was originally acquired to do, but no longer matches existing technologies. Functional obsolescence occurs when an item no longer functions the way it did when it was first acquired.

Cost for all inventories is measured on the basis of weighted average cost.

Property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalue at fair value less accumulated depreciation and accumulated impairment loss. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 10: Property, plant and equipment.

The initial cost for non-financial physical assets under finance lease (refer to Note 1 (I)) is measured at amounts equal to the fair value of the leased assets or if lower, the present value of the minimum lease payments committed over the lease term by the State of Victoria, each determined at the inception of the lease.

Crown land is measured at fair value with regard to the property's highest and best use after due consideration is made for any legal or constructive restrictions imposed on the land, public announcements or commitments made in relation to the intended use of the land. Theoretical opportunities that may be available in relation to the assets are not taken into account until it is virtually certain that any restrictions will no longer apply. Therefore, unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best uses.

Land and buildings are recognised initially at cost and subsequently measured at fair value less accumulated depreciation and accumulated impairment loss.

Plant, equipment and vehicles are measured initially at cost and subsequently measured at fair value less accumulated depreciation and impairment. Depreciated historical cost is generally a reasonable proxy for depreciated replacement cost because of the short lives of the assets concerned.

Artwork

Measured at full value less any impairment based on analysis of sale of comparable objects.

Restrictive nature of cultural and heritage assets, Crown land and other non-current physical assets

During the reporting period, The Royal Children's Hospital held artwork, Crown land and other non-current physical assets.

Such assets are deemed worthy of preservation because of the social rather than financial benefits they provide to the community. The nature of these assets means that there are certain limitations and restrictions imposed on their use and/or disposal.

Leasehold improvements

The cost of a leasehold improvement is capitalised as an asset and depreciated over the shorter of the remaining term of the lease or the estimated useful life of the improvements.

Revaluations of non-current physical assets

Non-current physical assets are measured at fair value and are revalued in accordance with FRD 103F *Non Current Physical Assets*. This revaluation process normally occurs at least every five years, based upon the asset's Government Purpose Classification, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations and any interim revaluations are determined in accordance with the requirements of the FRDs. Revaluation increments or decrements arise from differences between an asset's carrying value and fair value.

Revaluation increments are recognised in other comprehensive income and are credited directly in equity to the asset revaluation surplus, except that, to the extent that an increment reverses a revaluation decrement in respect of that same class of asset previously recognised as an expense in net result, the increment is recognised as income in the net result.

Revaluation decrements are recognised in other comprehensive income, except that, to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property plant and equipment.

Revaluation increases and revaluation decreases relating to individual assets within an asset class are offset against one another within that class but are not offset in respect of assets in different classes.

Revaluation surplus are normally not transferred to accumulated funds on de-recognition of the relevant asset.

In accordance with FRD 103F, The Royal Children's Hospital's non-current physical assets were assessed to determine whether revaluation of the non-current physical assets was required.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance including computer software and development costs and car park revenue right.

Intangible assets are initially recognised at cost. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to The Royal Children's Hospital.

Investment properties

Investment properties represent properties held to earn rentals or for capital appreciation or both. Investment properties exclude properties held to meet service delivery objectives of State of Victoria.

Investment properties are initially recognised at cost. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to The Royal Children's Hospital.

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in the fair value recognised as income or expenses in the period that they arise. Investment properties are not depreciated nor tested for impairment.

Rental revenue from the leasing of investment properties is recognised in the comprehensive operating statement in the periods in which it is receivable, on a straight line basis over the lease term.

Prepayments

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or part of expenditure made in one accounting period covering a term extending beyond that period.

Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised in the comprehensive operating statement. Refer to Note 1 (e) Comprehensive operating statement.

Impairment of non-financial assets

Apart from intangible assets with indefinite useful lives, all other assets are assessed annually for indications of impairment, except for:

- inventories; and
- investment properties measured at fair value.

If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written-off as an expense except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that same class of asset.

If there is an indication that there has been a change in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs of disposal. Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs of disposal.

Investments in joint operations

In respect of any interest in joint operations, The Royal Children's Hospital recognises in the financial statements:

- its share of jointly controlled assets;
- any liabilities that it had incurred;
- its share of liabilities incurred jointly by the joint venture;
- any income earned from the selling or using of its share of the output from the joint venture; and
- any expenses incurred in relation to being an investor in the joint venture.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- The Royal Children's Hospital retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Royal Children's Hospital has transferred its rights to receive cash flows from the asset and either:
 - has transferred substantially all the risks and rewards of the asset; or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where The Royal Children's Hospital has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of The Royal Children's Hospital's continuing involvement in the asset.

Impairment of financial assets

At the end of each reporting period The Royal Children's Hospital assesses whether there is objective evidence that a financial asset or group of financial asset is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Receivables are assessed for bad and doubtful debts on a regular basis. Bad debts considered as written off and allowances for doubtful receivables are expensed.

The amount of the allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Where the fair value of an investment in an equity instrument at balance date has reduced by 20 per cent or more than its cost price or where its fair value has been less than its cost price for a period of 12 or more months, the financial asset is treated as impaired.

In order to determine an appropriate fair value as at 30 June 2016 for its portfolio of financial assets, The Royal Children's Hospital used the market value of the individual units in the funds invested which was provided by the Victorian Funds Management Corporation.

In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

Note 1: Summary of significant accounting policies (continued)

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes:

- realised and unrealised gains and losses from revaluations of financial instruments that are designated at fair value through profit or loss;
- impairment and reversal of impairment for financial instruments at amortised cost; and
- disposals of financial assets.

Revaluation of financial instruments at fair value

Any revaluation gain/(loss) on financial instruments at fair value excludes dividends or interest earned on financial assets.

(k) Liabilities

Payables

Payables consist of:

- Contractual payables which consist predominantly of accounts payable representing liabilities for goods and services provided to The Royal Children's Hospital prior to the end of the financial year that are unpaid, and arise when The Royal Children's Hospital becomes obliged to make future payments in respect of the purchase of those goods and services. The normal credit terms for accounts payable are usually 60 days.
- Statutory payables, such as goods and services tax (GST) and fringe benefits tax (FBT) payables.

Contractual payables are classified as financial instruments and are initially recognised at fair value, and then subsequently carried at amortised cost. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

Borrowings

All borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs (refer also to Note 1 (l) Leases). The measurement basis subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in net result over the period of the borrowings using the effective interest method.

The classification depends on the nature and purpose of the borrowing.

Provisions

Provisions are recognised when The Royal Children's Hospital has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a liability is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

When some or all of the economic benefits required to settle a provision are expected to be received from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

Employee benefits

This provision arises for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

Wages and salaries, annual leave and accrued days off

Liabilities for wages and salaries, including non-monetary benefits, annual leave, sabbatical leave and accrued days off which are expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employee's services up to the reporting date, and are classified as current liabilities and measured at their nominal values.

Those liabilities that are not expected to be settled within 12 months are also recognised in the provision for employee benefits as current liabilities, but are measured at present value of the amounts expected to be paid when the liabilities are settled using the remuneration rate expected to apply at the time of settlement.

Long Service Leave (LSL)

The liability for LSL is recognised in the provision for employee benefits.

Unconditional LSL is disclosed in the notes to the financial statements as a current liability, even where the health service does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- Undiscounted value - if the health service expects to wholly settle within 12 months; and
- Present value - if the health service does not expect to wholly settle within 12 months.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL liability is measured at present value.

Any gain or loss followed revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates for which it is then recognised as other economic flow.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date or when an employee decides to accept an offer of benefit in exchange for the termination of employment.

The Royal Children's Hospital recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

On-costs

Employee benefit on-costs, such as workers compensation and superannuation are recognised together with provisions for employee benefits.

Superannuation liabilities

The Royal Children's Hospital does not recognise any unfunded defined benefit liability in respect of the superannuation plans because The Royal Children's Hospital has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance administers and discloses the State's defined benefit liabilities in its financial statements.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised as an expense in the consolidated comprehensive operating statement.

(l) Leases

A lease is a right to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership.

Leases of property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

The hospital facility was built through a Public Private Partnership arrangement between the State of Victoria and Children's Health Partnership Pty Ltd. The Royal Children's Hospital occupies the facility through a sublease agreement with Children's Health Partnership Pty Ltd. The Royal Children's Hospital, on behalf of the State of Victoria, agreed to record and report the State's obligations and associated accounting transactions as provided by the Department of Health and Human Services.

The finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, present value of the minimum lease payment, each determined at the inception of the lease. Minimum lease payments are apportioned between reduction of the outstanding lease liability, and the periodic finance expense which is calculated using the interest rate implicit in the lease, and charged directly to the comprehensive operating statement.

Contingent rentals associated with finance leases are recognised as an expense in the period in which they are incurred.

Operating leases**Entity as lessor**

Rental income from operating lease is recognised when received over the term of the relevant lease.

Entity as lessee

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

Leasehold improvements

The cost of leasehold improvements are capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter

(m) Equity**Contributed capital**

Consistent with Australian Accounting Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* and FRD 119A *Contributions by Owners*, appropriations for additions to the net asset base have been designated as contributed capital. Other transfers that are in the nature of contributions or distributions by owners that have been designated as contributed capital are also treated as contributed capital.

Property, plant and equipment revaluation surplus

The asset revaluation surplus is used to record increments and decrements on the revaluation of non-current physical assets.

Financial asset available-for-sale revaluation surplus

The available-for-sale revaluation surplus arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, that portion of the surplus which relates to that financial asset is effectively realised, and is recognised in the comprehensive operating statement. Where a revalued financial asset is impaired that portion of the surplus which relates to that financial asset is recognised in the comprehensive operating statement.

Specific restricted purpose reserve

A specific restricted purpose reserve is established where The Royal Children's Hospital has possession or title to the funds but has no discretion to amend or vary the restriction and/or condition underlying the funds received.

(n) Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of a note (refer to Note 22) at their nominal value and are inclusive of the goods and services tax (GST) payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised on the balance sheet.

(o) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of note and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST receivable or payable respectively.

(p) Service concession arrangements

The hospital building is maintained by Children's Health Partnership (CHP) through Spotless, as part of the PPP arrangement. Under the agreement between CHP and The State of Victoria, CHP is responsible for the maintenance of the building for a 25-year period ending in December 2036. The State of Victoria pays CHP a quarterly service payment for the delivery of maintenance and ancillary services. The service charges have been brought to account in the operating result by recognising them as non-cash revenue and expenditure.

Note 1: Summary of significant accounting policies (continued)

(q) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented as an operating cash flow.

Commitments and contingent assets and liabilities are presented on a gross basis.

(r) Foreign currency

Foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the payment.

(s) Category groups

The Royal Children's Hospital has used the following category groups for reporting purposes for the current and previous financial years.

Admitted patient services (admitted patients) comprises all acute and subacute admitted patient services, where services are delivered in public hospitals.

Mental health services (mental health) comprises all specialised mental health services providing a range of inpatient and ambulatory services which treat and support people with a mental illness and their families and carers. These services aim to identify mental illness early, and seek to reduce its impact through providing timely acute care services and support for those living with a mental illness.

Non admitted services comprises acute and subacute non admitted services, where services are delivered in public hospital clinics and provide models of integrated community care, which significantly reduces the demand for hospital beds and supports the transition from hospital to home in a safe and timely manner.

Emergency Department services (EDs) comprises all emergency department services.

Primary, community and dental health comprises a range of home based, community based, community, primary health and dental services including health promotion and counselling and a range of dental health services.

Other services not reported elsewhere (other) comprises services not separately classified above, including laboratory testing, clinical services, allied health, junior medical training and various support services. Health and Community Initiatives also falls into this category group.

(t) Issued but not yet effective Australian accounting and reporting pronouncements

As at 30 June 2016, the following standards and interpretations had been issued by the AASB but were not yet effective. They become effective for the first financial statements for reporting periods commencing after the stated operative dates as detailed in the table below. The Royal Children's Hospital has not and does not intend to adopt these standards early.

Standard/interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 9 <i>Financial Instruments</i> ¹	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 Jan 2018	The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i> ¹	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: <ul style="list-style-type: none"> the change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and other fair value changes are presented in profit and loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. 	1 Jan 2018	The assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI). Hedge accounting will be more closely aligned with common risk management practices making it easier to have an effective hedge. For entities with significant lending activities, an overhaul of related systems and processes may be needed.
AASB 2014-1 <i>Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	1 Jan 2018	This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.
AASB 14 <i>Regulatory Deferral Accounts</i> ²	AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP.	1 Jan 2018	The assessment has indicated that there is no expected impact, as those that conduct rate-regulated activities have already adopted Australian Accounting Standards.

Note 1: Summary of significant accounting policies (continued)

Standard/interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 15 <i>Revenue from Contracts with Customers</i> ¹	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. A potential impact will be the upfront recognition of revenue from licenses that cover multiple reporting periods. Revenue that was deferred and amortised over a period may now need to be recognised immediately as a transitional adjustment against the opening returned earnings if there are no former performance obligations outstanding.
AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i> ¹	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: <ul style="list-style-type: none"> the entity's right to receive payment of the dividend is established; it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount can be measured reliably. 	1 Jan 2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.
AASB 2015-8 <i>Amendments to Australian Accounting Standards - Effective Date of AASB 15</i> ¹	This Standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 Jan 2018	This amending standard will defer the application period of AASB 15 to the 2018-19 reporting period in accordance with the transition requirements.
AASB 2016-3 <i>Amendments to Australian Accounting Standards - Clarifications to AASB 15</i> ¹	This standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: <ul style="list-style-type: none"> a promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified in AASB 15.

Standard/interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are current not recognised) on balance sheet.	1 Jan 2019	<p>The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase.</p> <p>Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.</p> <p>The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement.</p> <p>No change for lessors.</p>
AASB 2014-4 <i>Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation</i> [AASB 116 & AASB 138]	<p>Amends AASB 116 <i>Property, Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> to:</p> <ul style="list-style-type: none"> • establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset; and • prohibit the use of revenue based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset. 	1 Jan 2016	The assessment has indicated that there is no expected impact as the revenue-based method is not used for depreciation and amortisation.
AASB 2014-9 <i>Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements</i> [AASB 1, 127 & 128]	Amends AASB 127 <i>Separate Financial Statements</i> to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 Jan 2016	The assessment indicates that there is no expected impact as the entity will continue to account for the investments in subsidiaries, joint ventures and associates using the cost method as mandated if separate financial statements are presented in accordance with FRD 113A.
AASB 2014-10 <i>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> [AASB 10 & AASB 128]	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates</i> to ensure consistent treatment in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that:</p> <ul style="list-style-type: none"> • a full gain or loss to be recognised by the investor when a transaction involves a business (whether it is housed in a subsidiary or not); and • a partial gain or loss to be recognised by the parent when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. 	1 Jan 2016	The assessment has indicated that there is limited impact, as the revisions to AASB 10 and AASB 128 are guidance in nature.

Note 1: Summary of significant accounting policies (continued)

Standard/interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 2015-1 <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle</i> [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]	Amends the methods of disposal in AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> . Amends AASB 7 <i>Financial Instruments</i> by including further guidance on servicing contracts.	1 Jan 2016	The assessment has indicated that when an asset (or disposal group) is reclassified from 'held to sale' to 'held for distribution', or vice versa, the asset does not have to be reinstated in the financial statements. Entities will be required to disclose all types of continuing involvement the entity still has when transferring a financial asset to a third party under conditions which allow it to derecognise the asset.
AASB 2015-6 <i>Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities</i> [AASB 10, AASB 124 & AASB 1049]	The Amendments extend the scope of AASB 124 <i>Related Party Disclosures</i> to not-for-profit public sector entities. A guidance has been included to assist the application of the Standard by not-for-profit public sector entities.	1 Jan 2016	The amending standard will result in extended disclosures on the entity's key management personnel (KMP), and the related party transactions.
AASB 2016-4 <i>Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i>	The standard amends AASB 136 <i>Impairment of Assets</i> to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities.	1 Jan 2017	The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 <i>Fair Value Measurement</i> is the same as the depreciated replacement cost concept under AASB 136.

In addition to the new standards and amendments above, the AASB has issued a list of other amending standards that are not effective for the 2015-16 reporting period (as listed below). In general, these amending standards include editorial and references changes that are expected to have insignificant impacts on public sector reporting.

- AASB 1056 *Superannuation Entities*
- AASB 1057 *Application of Australian Accounting Standards*
- AASB 2014-1 *Amendments to Australian Accounting Standards [PART D – Consequential Amendments arising from AASB 14 Regulatory Deferral Accounts only]*²
- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* [AASB 1 & AASB 11]
- AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants* [AASB 101, AASB 116, AASB 117, AASB 123, AASB 136, AASB 140 & AASB 141]
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101* [AASB 7, AASB 101, AASB 134 & AASB 1049]
- AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception* [AASB 10, AASB 12, AASB 128]²

- AASB 2015-9 *Amendments to Australian Accounting Standards – Scope and Application Paragraphs* [AASB 8, AASB 133 & AASB 1057]¹
- AASB 2015-10 *Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*
- AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses* [AASB 112]
- AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*

Notes

1. For the current year, given the number of consequential amendments to AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*, the standards/interpretations have been grouped together to provide a more relevant view of the upcoming changes.
2. This standard or amendment may not be relevant to Victorian not-for-profit entities when operative.

Note 2: Analysis of revenue by source

Consolidated	Admitted patients	Non-admitted	EDs	Mental health	Primary health	Other	Total
	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
Government grants	306,012	58,499	15,491	16,763	314	3,481	400,560
Commonwealth government	8,063	2,016	-	200	-	515	10,794
Indirect contribution by Department of Health and Human Services	43,443	-	-	-	-	-	43,443
Patient fees	20,354	267	-	-	-	15	20,635
Research and program grants	69	16	-	23	456	-	563
Recoupment from private practice for use of hospital facilities	14,133	1,178	-	-	-	-	15,311
Corporate services	73	18	-	-	-	-	92
Pathology	5,929	1,482	-	-	-	-	7,412
Business units and specific purpose funds	-	-	-	-	-	42,853	42,853
Other revenue from operating activities	9,174	963	(8)	57	705	5,492	16,383
Total revenue from operating activities	407,249	64,440	15,483	17,043	1,474	52,356	558,045
Interest and dividends	-	-	-	-	-	5,235	5,235
Total revenue from non-operating activities	-	-	-	-	-	5,235	5,235
Capital purpose income (excluding interest)	-	-	-	-	-	111,483	111,483
Total capital purpose income	-	-	-	-	-	111,483	111,483
Available-for-sale revaluation surplus gain/(loss) recognised	-	-	-	-	-	15,235	15,235
Total revenue	407,249	64,440	15,483	17,043	1,474	184,310	689,999

Consolidated	Admitted patients	Non-admitted	EDs	Mental health	Primary health	Other	Total
	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000	2015 \$'000
Government grants	288,077	55,590	18,708	16,761	390	3,874	383,401
Commonwealth government	6,716	1,679	-	200	-	543	9,139
Indirect contribution by Department of Health and Human Services	31,472	-	-	-	-	-	31,472
Patient fees	18,441	203	-	-	-	-	18,643
Research and program grants	240	34	-	51	561	3,069	3,956
Recoupment from private practice for use of hospital facilities	14,168	1,237	-	-	-	-	15,404
Corporate services	179	45	-	-	-	-	223
Pathology	6,047	1,512	-	-	-	-	7,558
Business units and specific purpose funds	-	-	-	-	-	35,227	35,227
Other revenue from operating activities	8,693	2,043	36	112	616	28,029	39,529
Total revenue from operating activities	374,033	62,343	18,744	17,125	1,567	70,742	544,553
Interest and dividends	-	-	-	-	-	14,229	14,229
Total revenue from non-operating activities	-	-	-	-	-	14,229	14,229
Capital purpose income (excluding interest)	-	-	-	-	-	67,359	67,359
Total capital purpose income	-	-	-	-	-	67,359	67,359
Available-for-sale revaluation surplus gain/(loss) recognised	-	-	-	-	-	5,303	5,303
Total revenue	374,033	62,343	18,744	17,125	1,567	157,633	631,444

Indirect contributions by Department of Health and Human Services: Department of Health and Human Services makes certain payments on behalf of The Royal Children's Hospital. These amounts have been brought to account in determining the operating result for the year by recording them as revenue and expenses.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 2a: Net gain/(loss) on disposal of non-financial assets

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Proceeds from disposal of non-current assets		
Medical equipment	-	41
Total proceeds from disposal of non-current assets	-	41
Less: written down value of non-current assets disposed		
Plant and equipment	91	-
Medical equipment	232	93
Computers and communications	17	2
Furniture and fittings	5	-
Total written down value of non-current assets disposed	346	95
Net gain/(loss) on disposal of non-financial assets	(346)	(54)

Note 3: Analysis of expenses by source

Consolidated	Admitted patients 2016 \$'000	Non-admitted 2016 \$'000	EDs 2016 \$'000	Mental health 2016 \$'000	Primary health 2016 \$'000	Other 2016 \$'000	Total 2016 \$'000
Employee expenses	276,855	37,896	23,844	13,728	10,697	38,238	401,258
Non-salary labour costs	7,557	4,870	124	503	47	6,335	19,436
Supplies and consumables	56,356	9,016	1,323	142	15	2,554	69,406
Other expenses	66,693	5,013	420	863	1,809	19,348	94,145
Finance costs – self funded activity	-	-	-	-	-	1,442	1,442
Total expenditure from operating activities	407,461	56,795	25,711	15,236	12,568	67,917	585,688
Expenditure for capital purposes	-	-	-	-	-	772	772
Depreciation and amortisation (refer Note 4)	-	-	-	-	-	40,039	40,039
Impairment of non-financial assets	-	-	-	-	-	561	561
Finance lease interest expense	-	-	-	-	-	52,491	52,491
Total other expenses	-	-	-	-	-	93,864	93,864
Total expenses	407,461	56,795	25,711	15,236	12,568	161,780	679,552

Consolidated	Admitted patients 2015 \$'000	Non-admitted 2015 \$'000	EDs 2015 \$'000	Mental health 2015 \$'000	Primary health 2015 \$'000	Other 2015 \$'000	Total 2015 \$'000
Employee expenses	265,170	36,850	22,872	12,984	10,249	35,837	383,962
Non-salary labour costs	7,188	4,574	201	851	256	6,763	19,833
Supplies and consumables	51,886	8,163	1,292	127	16	2,517	64,000
Other expenses	53,103	5,058	416	844	1,685	16,791	77,896
Finance costs – self funded activity	-	-	-	-	-	1,170	1,170
Total expenditure from operating activities	377,347	54,646	24,780	14,805	12,206	63,077	546,861
Expenditure for capital purposes	-	-	-	-	-	97	97
Depreciation and amortisation (refer Note 4)	-	-	-	-	-	39,843	39,843
Finance lease interest expense	-	-	-	-	-	50,515	50,515
Total other expenses	-	-	-	-	-	90,455	90,455
Total expenses	377,347	54,646	24,780	14,805	12,206	153,532	637,316

Reclassifications may have occurred in comparative figures since the financial statements for 2014–15 were published, refer Note 1 (e).

Note 3a: Analysis of revenue and expenses by internally managed and restricted specific purpose funds

	Expense ⁽ⁱ⁾		Revenue ⁽ⁱ⁾	
	Consolidated 2016 \$'000	Consolidated 2015 \$'000	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Commercial activities				
Private practice activities	11,346	13,053	15,131	16,364
Car park	1,394	1,375	8,762	8,889
Property expense/revenue	30	16	279	247
Child Health and Information Centre	212	216	199	229
Early Learning Centre	2,724	2,621	3,001	2,991
Educational Resource Centre	312	283	425	475
Safety Centre	-	1	1	2
Other activities				
Research and scholarship	6,565	93	6,644	173
Departmental and general purpose funds	6,602	4,581	8,413	5,856
Total	29,186	22,239	42,853	35,227

(i) Restricted and internally managed specific purpose funds revenue and expenses are classified as 'Other' in Note 2 and Note 3 respectively.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 4: Depreciation and amortisation

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Depreciation		
Buildings	968	798
Plant and equipment	199	577
Medical equipment	7,672	8,730
Computers and communication	920	1,718
Furniture and fittings	34	62
Motor vehicles	41	42
Leased buildings	24,468	22,826
Leased fittings	1,446	1,446
Leased equipment	1,142	1,165
Total depreciation	36,892	37,362
Amortisation		
Intangible assets	3,147	2,480
Total amortisation	3,147	2,480
Total depreciation and amortisation	40,039	39,843

Note 5: Finance costs

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Finance costs – self funded activity		
Interest expense on TCV loan	1,442	1,170
Total finance costs – self funded activity	1,442	1,170
Finance costs – capital items		
Finance charges on PPP lease ⁽ⁱ⁾	52,491	50,515
Total finance costs – capital items	52,491	50,515

(i) Finance charges in respect of assets contracted under the PPP arrangement, are reported on behalf of the State of Victoria.

Note 6: Cash and cash equivalents

For the purposes of the cash flow statement, cash assets includes cash on hand and in banks, investments in money market instruments, and short term deposits which are readily convertible to cash on hand, and are subject to an insignificant risk of change in value.

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Cash on hand	8	8
Monies held on behalf of employees (salary packaging)	1,771	2,947
Cash at bank	18,050	26,064
Deposits at call	18,843	3,598
Fixed deposits	44,163	15,173
Total cash and cash equivalents	82,836	47,791
Represented by:		
Cash for health service operations (as per cash flow statement) ⁽ⁱ⁾	82,836	47,791
Total cash and cash equivalents	82,836	47,791

(i) Cash for health service operations includes cash held for capital commitments, operating commitments and salary packaging monies held on behalf of employees.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 7: Receivables

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CURRENT		
Contractual		
Inter hospital debtors	2,572	1,710
Trade debtors	3,058	3,456
Patient fees	6,946	6,513
Accrued investment income	580	222
Diagnostic debtors	1,270	940
Sundry debtors	2,902	5,173
Less allowance for doubtful debts		
Trade debtors	49	32
Patient fees	413	729
Sundry debtors	24	22
Diagnostic debtors	26	76
	16,815	17,155
Statutory		
GST receivable	2,479	-
Accrued revenue Department of Health and Human Services	-	114
Victorian Health Funding Pool	-	172
Total current receivables	19,294	17,441
NON-CURRENT		
Contractual		
Inter hospital	-	163
Statutory		
Accrued revenue Department of Health and Human Services	22,423	18,978
Total non-current receivables	22,423	19,141
Total receivables	41,717	36,582
(a) Movement in provision for doubtful debts		
Movement in allowance for doubtful debts		
Balance at the beginning of financial year	859	951
Amounts written off during the year	(85)	(165)
Increase/(decrease) in allowance recognised in net result	(261)	74
Balance at the end of financial year	513	859

(b) Ageing analysis of receivables

Please refer Note 21 (b) for the ageing analysis of contractual financial assets.

(c) Nature and extent of risk arising from receivables

Please refer Note 21 (b) for the nature and extent of credit risk arising from contractual financial assets.

Note 8: Investments and other financial assets

	Parent entity		Consolidated	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
CURRENT				
Held for trading – at fair value through profit or loss				
Managed funds ⁽ⁱ⁾	-	-	25,627	44,399
Term deposits	-	-	-	-
Total current	-	-	25,627	44,399
NON-CURRENT				
Available for sale – at fair value through other comprehensive income				
Managed funds ⁽ⁱ⁾	9,152	22,143	74,814	102,725
Total non-current	9,152	22,143	74,814	102,725
Total investments and other financial assets	9,152	22,143	100,441	147,123
Represented by:				
Health service investments	9,152	22,143	9,152	22,143
Investments held by The Royal Children's Hospital Foundation	-	-	91,289	124,980
Total investments and other financial assets	9,152	22,143	100,441	147,123

(i) The managed funds consists of investments held by The Royal Children's Hospital (RCH) and The Royal Children's Hospital Foundation (RCHF). RCHF is consolidated into RCH for reporting purposes as it is the ultimate beneficiary of RCHF. RCHF is registered under the Australian Charities and Not-for-profits Commission and is not subject to reporting requirements under the *Financial Management Act 1994* or Standing Directions from the Minister for Finance or the directions from the Minister for Health under the *Health Services Act 1988*.

(a) Ageing analysis of receivables

Please refer Note 21 (b) for the ageing analysis of investments and other financial assets.

(b) Nature and extent of risk arising from receivables

Please refer Note 21 (b) for the nature and extent of credit risk arising from investments and other financial assets.

Note 9: Inventories

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Pharmaceuticals – at cost	1,260	1,257
Gift shop – at cost	62	51
Total inventories	1,321	1,307

Note 10: Property, plant and equipment

(a) Gross carrying amount and accumulated depreciation

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Land		
Crown land at fair value for hospital use	82,849	72,679
Freehold	20,373	19,247
Total land	103,222	91,926
Buildings		
Buildings at fair value	39,889	40,239
Less accumulated impairment	500	-
Less accumulated depreciation	1,746	1,296
Total buildings	37,643	38,943
Plant and equipment		
Plant and equipment at fair value	2,185	2,176
Less accumulated impairment	3	-
Less accumulated depreciation	1,102	960
Total plant and equipment	1,081	1,216
Medical equipment		
Medical equipment at fair value	80,435	78,916
Less accumulated depreciation	53,179	54,559
Total medical equipment	27,256	24,357
Computers and communication		
Computers and communication at fair value	11,628	11,163
Less accumulated impairment	18	-
Less accumulated depreciation	10,590	9,761
Total computers and communication	1,019	1,402
Furniture and fittings		
Furniture and fittings at fair value	422	402
Less accumulated impairment	39	-
Less accumulated depreciation	163	139
Total furniture and fittings	221	263
Motor vehicles		
Motor vehicles at fair value	461	454
Less accumulated depreciation	229	196
Total motor vehicles	232	258
Artwork		
Artwork at fair value	816	816
Total artwork	816	816
Public Private Partnership (PPP) assets		
Leased buildings	999,051	999,051
Less accumulated depreciation	47,295	22,826
Total leased buildings	951,757	976,225
Leased fittings	43,390	48,274
Less accumulated depreciation	6,507	5,060
Total leased fittings	36,884	43,214
Leased equipment	33,413	28,529
Less accumulated depreciation	4,551	3,409
Total leased equipment	28,862	25,120
Leased cultural assets	785	785
Total leased cultural assets	785	785
Total leased assets	1,018,287	1,045,344
Total PPP assets	1,018,287	1,045,344
Total property, plant and equipment	1,189,777	1,204,525

(b) Reconciliations of the carrying amounts of each class of assets

Note that intangible assets are not included in this schedule, refer Note 11.

	Land	Buildings	Plant and equipment	Medical equipment	Computers and communications	Furniture and fittings	Motor vehicles	Artwork	PPP assets	Total
Consolidated	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2014	100,986	35,162	367	31,430	2,023	150	299	814	965,821	1,137,052
Additions	-	4,578	1,432	1,583	1,202	185	-	3	105,698	114,681
Disposals	(17,605)	-	-	(93)	(2)	-	-	-	-	(17,700)
Net transfers between classes	-	-	(6)	167	(152)	(9)	-	-	(736)	(736)
Revaluation increments/(decrements)	8,545	-	-	-	-	-	-	-	-	8,545
Depreciation and amortisation (Note 4)	-	(798)	(578)	(8,730)	(1,669)	(62)	(42)	-	(25,437)	(37,316)
Balance at 1 July 2015	91,926	38,942	1,215	24,357	1,402	264	257	817	1,045,346	1,204,526
Additions	-	166	160	11,127	555	52	48	-	-	12,109
Disposals	-	-	(91)	(556)	(1)	(21)	(33)	-	-	(702)
Revaluation increments/(decrements)	11,296	-	-	-	-	-	-	-	-	11,296
Impairment	-	(500)	(3)	-	(18)	(39)	-	-	-	(561)
Depreciation and amortisation (Note 4)	-	(966)	(199)	(7,672)	(920)	(35)	(41)	-	(27,057)	(36,891)
Balance at 30 June 2016	103,222	37,642	1,081	27,256	1,018	221	232	817	1,018,289	1,189,777

The Royal Children's Hospital on behalf of the State of Victoria records the Public Private Partnership (PPP) assets and any other additions and improvement to the PPP assets.

An independent valuation of The Royal Children's Hospital's land and buildings was conducted by the Valuer-General Victoria to determine the fair value of the land and buildings. The valuation, which conforms to Australian Valuation Standards, was determined by reference to the amounts for which assets could be exchanged between knowledgeable willing parties in an arm's length transaction. The valuation was based on independent assessments. The effective date of the valuation is 30 June 2014.

The Department of Health and Human Services has provided revaluation amounts to be recorded for the PPP assets.

Land for the old hospital site (Crown allotment 2634 parish Jika Jika) has been transferred to Department of Health and Human Services as per Victorian Government Gazette on 24 February 2015. The value of the land was \$17,605k.

In June 2015 and June 2016 a managerial valuation was carried out in accordance with Financial Reporting Direction 103 to revalue the land to its fair value.

Note 10: Property, plant and equipment (continued)

(c) Fair value measurement hierarchy for non-financial assets

Consolidated	Carrying amount as at 30 June 2016 \$'000	Fair value measurement at end of reporting period using ^(a) :		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Land at fair value				
Non-specialised land	20,373	-	20,373	-
Specialised land	82,849	-	-	82,849
Total land at fair value	103,222	-	20,373	82,849
Buildings at fair value				
Specialised buildings	37,643	-	16,048	21,595
Total buildings at fair value	37,643	-	16,048	21,595
Plant and equipment at fair value				
Plant and equipment	1,081	-	-	1,081
Medical equipment	27,256	-	-	27,256
Computers and communication	1,019	-	-	1,019
Furniture and fittings	221	-	-	221
Motor vehicles	232	-	-	232
Artwork	816	-	816	-
Total plant and equipment at fair value	30,625	-	816	29,809
PPP assets at fair value				
Leased buildings	951,757	-	-	951,757
Leased fittings	36,884	-	-	36,884
Leased equipment	28,862	-	-	28,862
Leased cultural assets	785	-	785	-
Total PPP assets at fair value	1,018,287	-	785	1,017,502
Total	1,189,777	-	38,022	1,151,755

Consolidated	Carrying amount as at 30 June 2015 \$'000	Fair value measurement at end of reporting period using ⁽ⁱ⁾ :		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Land at fair value				
Non-specialised land	19,247	-	19,247	-
Specialised land	72,679	-	-	72,679
Total land at fair value	91,926	-	19,247	72,679
Buildings at fair value				
Specialised buildings	38,943	-	16,861	22,082
Total buildings at fair value	38,943	-	16,861	22,082
Plant and equipment at fair value				
Plant and equipment	1,216	-	-	1,216
Medical equipment	24,357	-	-	24,357
Computers and communication	1,402	-	-	1,402
Furniture and fittings	263	-	-	263
Motor vehicles	257	-	-	257
Artwork	816	-	816	-
Total plant and equipment at fair value	28,311	-	816	27,495
PPP assets at fair value				
Leased buildings	976,225	-	-	976,225
Leased fittings	43,214	-	-	43,214
Leased equipment	25,120	-	-	25,120
Leased cultural assets	785	-	785	-
Total PPP assets at fair value	1,045,344	-	785	1,044,559
Total	1,204,524	-	37,709	1,166,815

(i) Classification in accordance with the fair value hierarchy, refer Note 1.

Non-specialised land, non-specialised buildings and artwork

Non-specialised land, non-specialised buildings and artworks are valued using the market approach. Under this valuation method, the assets are compared to recent comparable sales or sales of comparable assets which are considered to have nominal or no added improvement value.

For non-specialised land and non-specialised buildings, an independent valuation was performed by independent valuers (the Valuer-General Victoria) to determine the fair value using the market approach.

Valuation of the assets was determined by analysing comparable sales and allowing for share, size, topography, location and other relevant factors specific to the asset being valued. An appropriate rate per square metre has been applied to the subject asset. The effective date of the valuation is 30 June 2014.

In June 2015 and June 2016 a managerial valuation was carried out in accordance with Financial Reporting Direction 103 to revalue the Land to its fair value.

For artwork, valuation of the assets is determined by a comparison to similar examples of the artist's work in existence throughout Australia and research on price paid for similar examples offered at auction or through art galleries in recent years.

To the extent that non-specialised land, non-specialised buildings and artworks do not contain significant, unobservable adjustments, these assets are classified as Level 2 under the market approach.

Note 10: Property, plant and equipment (continued)

Specialised land and specialised buildings

The market approach is also used for specialised land and specialised buildings although is adjusted for the community service obligation (CSO) to reflect the specialised nature of the assets being valued. Specialised assets contain significant, unobservable adjustments; therefore these assets are classified as Level 3 under the market based direct comparison approach.

The CSO adjustment is a reflection of the valuer's assessment of the impact of restrictions associated with an asset to the extent that is also equally applicable to market participants. This approach is in light of the highest and best use consideration required for fair value measurement, and takes into account the use of the asset that is physically possible, legally permissible and financially feasible. As adjustments of CSO are considered as significant unobservable inputs, specialised land would be classified as Level 3 assets.

For The Royal Children's Hospital, the depreciated replacement cost method is used for the majority of specialised buildings, adjusting for the associated depreciation. As depreciation adjustments are considered as significant and unobservable inputs in nature, specialised buildings are classified as Level 3 for fair value measurements.

An independent valuation of The Royal Children's Hospital's specialised land and specialised buildings was performed by the Valuer-General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2014.

In June 2015 and June 2016 a managerial valuation was carried out in accordance with Financial Reporting Direction 103 to revalue the Land to its fair value.

Plant and equipment

Plant and equipment is held at carrying value (depreciated cost). When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, the depreciated replacement cost is used to estimate the fair value. Unless there is market evidence that current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the existing carrying value.

There were no changes in valuation techniques throughout the period to 30 June 2016.

For all assets measured at fair value, the current use is considered the highest and best use.

(d) Reconciliation of level 3 fair value⁽ⁱ⁾

Consolidated 2016	Land \$'000	Buildings \$'000	Plant and equipment \$'000	PPP assets \$'000
Opening balance	72,679	22,082	27,494	1,044,559
Purchases (sales)	-	-	11,244	-
Gains or losses recognised in net result				
Depreciation	-	(487)	(8,868)	(27,057)
Impairment loss	-	-	(60)	-
Subtotal	72,679	21,595	29,810	1,017,502
Items recognised in other comprehensive income				
Revaluation	10,170	-	-	-
Subtotal	10,170	-	-	-
Closing balance	82,849	21,595	29,810	1,017,502
Consolidated 2015	Land \$'000	Buildings \$'000	Plant and equipment \$'000	PPP assets \$'000
Opening balance	83,737	22,495	34,278	965,036
Purchases (sales)	-	-	4,297	105,698
Reclassification	-	-	-	47
Transfers in (out) of level 3	-	-	-	(785)
Gains or losses recognised in net result				
Depreciation	-	(413)	(11,081)	(25,437)
Subtotal	83,737	22,082	27,494	1,044,559
Items recognised in other comprehensive income				
Revaluation	(11,057)	-	-	-
Subtotal	(11,057)	-	-	-
Closing balance	72,679	22,082	27,494	1,044,559

(i) Classification in accordance with the fair value hierarchy, refer Note 1.

(e) Description of significant unobservable inputs to level 3 valuations

2016	Valuation technique ⁽ⁱ⁾	Significant unobservable inputs ⁽ⁱⁱ⁾	Range (weighted average) ⁽ⁱⁱ⁾	Sensitivity of fair value measurement to changes in significant unobservable inputs
Specialised land				
Crown land at fair value for hospital use Crown land at fair value returned to park land	Market approach	Community Service Obligation (CSO) adjustment	40–60% (39%) ⁽ⁱⁱⁱ⁾	A significant increase (decrease) in the CSO adjustment would result in a significantly lower (higher) fair value.
Specialised buildings				
Mental Health facility in Travenore	Depreciated replacement cost	Direct cost per square metre	\$1,325–\$2,650/m ² (\$2,157)	A significant increase or decrease in direct cost per square meter adjustment would result in a significantly higher or lower fair value.
Research Precinct building		Useful life of specialised buildings	30–60 years (37 years)	A significant increase (decrease) in the estimated useful life of the assets would result in a significantly higher (lower) fair value.
Plant and equipment at fair value				
Plant and equipment	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of PP&E	3–7 years	A significant increase (decrease) in the estimated useful life of the assets would result in a significantly higher (lower) fair value.
Furniture and fittings Computers and communication			13 years 3 years	
Vehicles				
Vehicles used for hospital services	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of vehicles	10 years	A significant increase (decrease) in the estimated useful life of the assets would result in a significantly higher (lower) fair value.
Medical equipment at fair value				
Medical equipment	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of medical equipment	7–15 years	A significant increase (decrease) in the estimated useful life of the assets would result in a significantly higher (lower) fair value.
PPP assets				
Leased buildings	Depreciated replacement cost	Building cost per square meter Useful life of buildings	\$1,541–\$2,724/m ² (\$2,197) 25–60 years	Increase (decrease) in cost per square metre would result in a higher (lower) fair value. A significant increase (decrease) in the estimated useful life of the assets would result in a significantly higher (lower) fair value.
Leased fittings Leased equipment		Useful life of fittings Useful life of equipment	30 years 30 years	

There is no change to the significant unobservable inputs to Level 3 valuations from prior year.

Note 11: Intangible assets

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Software	56,648	26,035
Less accumulated amortisation	14,840	12,966
	41,808	13,069
Car park revenue rights ⁽ⁱ⁾	30,000	30,000
Less accumulated amortisation	3,921	2,649
	26,079	27,351
Prepaid rent	14,000	14,000
Less accumulated amortisation	857	212
	13,143	13,788
Total intangible assets	81,030	54,208

Reconciliation of the consolidated carrying amounts of intangible assets at the beginning and end of the previous and current financial year:

	Car park revenue rights \$'000	Software \$'000	Prepaid rent \$'000	Total \$'000
Balance at 1 July 2014	28,623	2,662	-	31,284
Additions	-	11,616	14,000	25,616
Amortisation (Note 4)	(1,272)	(1,207)	(212)	(2,691)
Balance at 30 June 2015	27,351	13,070	13,788	54,209
Additions	-	30,612	-	30,612
Amortisation (Note 4)	(1,272)	(1,874)	(645)	(3,791)
Balance at 30 June 2016	26,079	41,808	13,143	81,030

(i) As part of The Royal Children's Hospital project, the revenue stream associated with the three level underground car park (stage 1 and stage 2) is retained by The Royal Children's Hospital. The rights for this revenue are financed by way of a long-term loan from the Treasury Corporation of Victoria (TCV).

Note 12: Investment properties

(a) Movements in carrying value for investment properties

Consolidated	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Balance at the beginning of the year	4,755	4,755
Disposals	(540)	-
Net gain from fair value adjustments	703	-
Balance at the end of the year	4,918	4,755

(b) Fair value measurement hierarchy for investment properties as at 30 June 2016

Consolidated	Carrying amount as at 30 June 2016 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 ⁽ⁱ⁾ \$'000	Level 2 ⁽ⁱ⁾ \$'000	Level 3 ⁽ⁱ⁾ \$'000
Investment properties	4,918	-	4,918	-
Total	4,918	-	4,918	-

Consolidated	Carrying amount as at 30 June 2015 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 ⁽ⁱ⁾ \$'000	Level 2 ⁽ⁱ⁾ \$'000	Level 3 ⁽ⁱ⁾ \$'000
Investment properties	4,755	-	4,755	-
Total	4,755	-	4,755	-

(i) Classified in accordance with the fair value hierarchy, refer Note 1.

Note 13: Payables

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CURRENT		
Contractual		
Trade creditors	12,444	7,213
Accrued expenses	8,316	7,400
Deposits	29	39
Sundry creditors ⁽ⁱ⁾	4,859	4,621
	25,648	19,272
Statutory		
GST payable	-	254
Superannuation and workcover	3,279	3,704
Department of Health and Human Services	5,822	-
	9,101	3,958
Total current payables	34,749	23,231

(i) Sundry creditors are liabilities for payments made outside of the normal accounts payable cycle (including PAYG and other salary deductions).

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

(a) Maturity analysis of payables

Please refer Note 21 (c) for the maturity analysis of contractual payables.

(b) Nature and extent of risk arising from payables

Please refer Note 21 (c) for the nature and extent of risk arising from contractual payables.

Note 14: Provisions

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CURRENT PROVISIONS		
Employee benefits		
Accrued wages and salaries		
- unconditional and expected to be settled within 12 months (nominal value)	13,864	9,248
Accrued days off		
- unconditional and expected to be settled within 12 months (nominal value)	935	773
Annual leave		
- unconditional and expected to be settled within 12 months (nominal value)	28,471	25,378
- unconditional and expected to be settled after 12 months (present value)	3,211	3,995
Long service leave		
- unconditional and expected to be settled within 12 months (nominal value)	5,340	4,995
- unconditional and expected to be settled after 12 months (present value)	49,597	45,092
	101,418	89,480
Provisions related to employee benefit on-costs		
- unconditional and expected to be settled within 12 months (nominal value)	3,996	3,582
- unconditional and expected to be settled after 12 months (present value)	6,073	5,645
	10,069	9,227
Total current provisions	111,486	98,707
NON-CURRENT PROVISIONS		
Employee benefits	13,349	12,430
Provisions related to employee benefit on-costs	1,535	1,429
Total non-current provisions	14,884	13,859
Total provisions	126,370	112,567
(a) Employee benefits and related on-costs		
CURRENT EMPLOYEE BENEFITS AND RELATED ON-COSTS		
Unconditional long service leave entitlements	61,255	55,847
Annual leave entitlements	35,325	32,750
Accrued wages and salaries	13,864	9,248
Accrued days off	1,042	862
NON-CURRENT EMPLOYEE BENEFITS AND RELATED ON-COSTS		
Conditional long service leave entitlements (present value)	14,884	13,859
Total employee benefits	126,370	112,567
(b) Movements in provisions		
Movement in long service leave:		
Balance at the beginning of financial year	69,706	63,595
Provision made during the year		
- Revaluation increments/(decrements)	3,300	1,363
- Expense recognising employee service	7,537	9,638
Settlement made during the year	(5,374)	(4,889)
Balance at the end of financial year	75,169	69,706

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 15: Borrowings

(a) Loans

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CURRENT		
- TCV loan ⁽ⁱ⁾	835	794
- Finance lease liability ⁽ⁱⁱ⁾ (refer Note 15b)	31,160	-
Total current	31,995	794
NON-CURRENT		
- TCV loan ⁽ⁱ⁾	27,988	28,823
- Finance lease liability ⁽ⁱⁱ⁾ (refer Note 15b)	1,030,490	1,091,207
Total non-current	1,058,478	1,120,029
Total borrowings	1,090,473	1,120,824

(i) The TCV loan is an unsecured loan with an interest rate of 4.93%. The maturity date of the loan is 31 December 2036.

(ii) Secured by the assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default. Note that the obligation of fulfilling PPP interest and principal payments over the PPP term rests with the Department of Health and Human Services. The Royal Children's Hospital records on behalf of the Department of Health and Human Services according to the information provided.

(b) Finance lease liabilities

PPP finance lease liability

	Minimum future lease payments ⁽ⁱ⁾		Present value of minimum future lease payments	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Commissioned PPP related finance lease liabilities payable				
Not longer than one year	82,048	82,048	82,048	82,048
Longer than 1 year and not later than 5 years	328,191	328,191	328,191	328,191
Longer than 5 years	1,270,228	1,352,276	1,270,228	1,352,276
Minimum future lease payments	1,680,467	1,762,515	1,680,467	1,762,515
- Less future finance charges	618,817	671,308	618,817	671,308
Present value of minimum lease payments	1,061,650	1,091,207	1,061,650	1,091,207
Included in the financial statements as				
Non-current borrowing finance lease liabilities	1,061,650	1,091,207	1,061,650	1,091,207
	1,061,650	1,091,207	1,061,650	1,091,207

(i) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

Source information provided by the Department of Health and Human Services.

Note 16: Other liabilities

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
CURRENT		
Monies held in trust		
- Patient monies held in trust	74	387
- Employee monies held in trust (salary packaging)	1,771	2,947
Income in advance		
- Rental	349	349
- AEDI Commonwealth grant	309	586
- Other	5,146	2,108
Total current	7,649	6,377
NON-CURRENT		
Income in advance		
- Rental	4,582	5,022
Total non-current	4,582	5,022
Total other liabilities	12,231	11,400
Total monies held in trust represented by the following assets		
Cash assets (Note 6)	74	387
Total	74	387

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 17: Superannuation

	Paid contributions for the year ⁽ⁱ⁾		Contribution outstanding at year end	
	Consolidated 2016 \$'000	Consolidated 2015 \$'000	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Defined benefit plans⁽ⁱ⁾				
Health Super Scheme	432	667	38	49
Defined contribution plans				
Health Super Scheme	22,403	20,941	1,751	1,674
Hesta	8,191	8,558	628	591
Other	569	387	163	126
Total	31,594	30,553	2,580	2,439

(i) The basis for determining the level of contributions is determined by the various actuaries of the defined benefit superannuation plans.

(ii) Paid contributions include contributions that have been paid in relation to the reporting periods.

Note 18: Equity

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
(a) Surpluses		
Property, plant and equipment revaluation surplus⁽ⁱ⁾		
Balance at the beginning of the year	175,330	168,030
Revaluation increment/(decrement) ⁽ⁱ⁾		
- Land	11,296	8,545
- Buildings	-	(71)
Transfers		
- Land	-	(1,174)
Balance at the end of the year	186,626	175,330
Represented by		
- Land	49,223	37,927
- Buildings	137,198	137,198
- Artwork	205	205
	186,626	175,330
Financial assets available for sale revaluation surplus⁽ⁱⁱ⁾		
Balance at the beginning of the year	17,768	18,658
Valuation gain/(loss) recognised ⁽ⁱⁱ⁾	3,764	4,413
Cumulative gain(loss) on available-for-sale financial assets transferred to operating statement	(15,235)	(5,303)
Balance at the end of the year	6,297	17,768
Restricted specific purpose surplus		
Balance at the beginning of the year	83,712	78,436
Transfer (to)/from accumulated surpluses/(deficits)	12,934	5,276
Balance at the end of the year	96,646	83,712
Total reserves	289,569	276,810
(b) Contributed capital		
Balance at the beginning of the year	91,314	108,919
Capital contribution ⁽ⁱⁱⁱ⁾	-	(17,605)
Balance at the end of the year	91,314	91,314
(c) Accumulated surpluses/(deficits)		
Balance at the beginning of the year	(138,849)	(128,914)
Net result for the year	10,446	(5,871)
Transfer (to)/from reserves	(12,934)	(4,064)
Balance at the end of the year	(141,337)	(138,849)
Total equity at the end of the year	239,547	229,276

(i) The property, plant and equipment revaluation is a result of managerial revaluations of property, plant and equipment in accordance with FRD103. Refer Note 10. This includes assets contracted under the PPP arrangement, reported on behalf of the State of Victoria.

(ii) The financial assets available-for-sale revaluation surplus balance is as a result of the year-on-year revaluations of available-for-sale financial assets. When a revalued financial asset is sold, the portion of the reserve relating to that financial asset is realised and reclassified to net result in the comprehensive operating statement. When a revalued financial asset is impaired, the portion of the reserve relating to the impairment of that financial asset is reclassified to net result in the comprehensive operating statement.

(iii) Land for the old hospital site (Crown allotment 2634 parish Jika Jika) has been transferred to Department of Health and Human Services as per Victorian Government Gazette on 24 February 2015. The value of the land was \$17,605k.

Reclassifications may have occurred in comparative figures since the financial statements for 2014-15 were published, refer Note 1 (e).

Note 19: Reconciliation of net result for the year to net cash inflow/(outflow) from operating activities

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Net result for the year	10,446	(5,872)
Non-cash movements		
Depreciation and amortisation	40,039	39,843
Facility management, lifecycle and other expenses paid by DHHS under PPP agreement	(39,782)	(28,516)
DHHS - indirect contribution on repayment of finance lease liabilities	(82,048)	(50,386)
Facility management, lifecycle and other charges under PPP agreement	39,782	28,516
PPP - non-cash finance lease interest expense	52,491	50,515
Provision for doubtful receivables	(261)	(92)
Assets received free of charge	(3)	-
Movements included in investing and financing activities		
Net (gain)/loss from sale of non-financial assets	346	54
Income from managed funds reinvested	(203)	(115)
Available-for-sale revaluation surplus (gain)/loss recognised	(15,755)	5,303
Movements in assets and liabilities		
Change in operating assets and liabilities		
- (Increase)/decrease in fair value of held for trading investments	18,772	11,443
- Increase/(decrease) in payables	11,518	(11,132)
- Increase in employee benefits	13,804	4,039
- (Increase)/decrease in other assets	(9,264)	(155,452)
- (Increase)/decrease in receivables	(4,875)	(581)
- Increase/(decrease) in other liabilities	32,032	3,219
- Increase/(decrease) in non-current interest bearing liability	(31,995)	104,903
Less cash flows from investing and financing activities		
Net cash (inflow)/outflow from investing and financing activities	11,319	17,090
Net cash inflow/(outflow) from operating activities	46,364	12,779

Note 20: Non-cash financing and investing activities

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Disposal of land	-	(17,605)
Total non-cash financing and investing activities	-	(17,605)

Note 21: Financial instruments

(a) Financial risk management objectives and policies

The Royal Children's Hospital's principal financial instruments comprise:

- Cash assets
- Term deposits
- Receivables (excluding statutory receivables)
- Investment in equity instruments and managed investment schemes
- Payables (excluding statutory payables)
- Debt securities

The obligation of fulfilling the Public Private Partnership (PPP) interest payment over the PPP term rests with the Department of Health and Human Services.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised with respect to each class of financial assets, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to manage prudently The Royal Children's Hospital's financial risks within the government policy parameters.

Categorisation of financial instruments

Consolidated 2016	Contractual financial assets and liabilities designated at fair value through profit/loss \$'000	Contractual financial assets and liabilities held for trading at fair value through profit/loss \$'000	Contractual financial assets - loans and receivables \$'000	Contractual financial assets - available for sale \$'000	Contractual financial liabilities at amortised cost \$'000	Total \$'000
Contractual financial assets						
Cash and cash equivalents	-	-	82,836	-	-	82,836
Receivables	-	-	16,815	-	-	16,815
Other financial assets						
- Managed funds	25,627	-	-	74,814	-	100,441
- Shares in other entities	1	-	-	-	-	1
Total financial assets⁽ⁱ⁾	25,628	-	99,651	74,814	-	200,093
Financial liabilities						
Payables	-	-	-	-	25,648	25,648
TCV loan	-	-	-	-	28,823	28,823
Finance lease liabilities	-	-	-	-	1,061,650	1,061,650
Monies held in trust	-	-	-	-	74	74
Total financial liabilities⁽ⁱⁱ⁾	-	-	-	-	1,116,195	1,116,195
Consolidated 2015						
Contractual financial assets						
Cash and cash equivalents	-	-	47,791	-	-	47,791
Receivables	-	-	17,155	-	-	17,155
Other financial assets						
- Managed funds	44,399	-	-	102,724	-	147,123
- Shares in other entities	-	-	-	-	-	-
Total financial assets⁽ⁱ⁾	44,399	-	64,946	102,724	-	212,069
Financial liabilities						
Payables	-	-	-	-	19,272	19,272
TCV loan	-	-	-	-	29,617	29,617
Finance lease liabilities	-	-	-	-	1,091,206	1,091,207
Monies held in trust	-	-	-	-	387	387
Total financial liabilities⁽ⁱⁱ⁾	-	-	-	-	1,140,482	1,140,483

(i) The total amount of the financial assets disclosed here excludes statutory receivables (i.e. GST input tax credit recoverable and Department of Health and Human Services receivables).

(ii) The total amount of the financial liabilities disclosed includes loans from the Treasury Corporation of Victoria and PPP finance liabilities, and excludes income in advance and statutory payables (i.e. taxes payable, Department of Health and Human Services payables and Victorian Health Funding Pool account payables).

Net holding gain/(loss) on financial instruments by category

Consolidated 2016	Net holding gain/(loss)	Interest income/(expense)	Fee income/(expense)	Impairment loss	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents ⁽ⁱ⁾	-	1,565	-	-	1,565
Held for trading at fair value through profit or loss ⁽ⁱⁱ⁾	203	2,657	-	-	2,860
Loans and receivables ⁽ⁱ⁾	-	-	-	-	-
Available for sale ⁽ⁱ⁾	(468)	810	-	-	342
Total financial assets	(265)	5,032	-	-	4,767
Financial liabilities					
At amortised cost ⁽ⁱⁱⁱ⁾	-	53,934	-	-	53,934
Total financial liabilities	-	53,934	-	-	53,934
Consolidated 2015					
Consolidated 2015	Net holding gain/(loss)	Interest income/(expense)	Fee income/(expense)	Impairment loss	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Cash and cash equivalents ⁽ⁱ⁾	-	2,610	-	-	2,610
Held for trading at fair value through profit or loss ⁽ⁱⁱ⁾	-	1,794	-	-	1,794
Loans and receivables ⁽ⁱ⁾	-	(39)	-	-	(39)
Available for sale ⁽ⁱ⁾	7,178	-	-	-	7,178
Total financial assets	7,178	4,365	-	-	11,543
Financial liabilities					
At amortised cost ⁽ⁱⁱⁱ⁾	-	51,685	-	-	51,685
Total financial liabilities	-	51,685	-	-	51,685

(i) For cash and cash equivalents, receivables and available-for-sale financial assets, the net gain or loss is calculated by taking the interest revenue, plus or minus foreign exchange gains or losses arising from revaluation of the financial assets, and minus any impairment recognised in the net result.

(ii) For financial assets and liabilities that are held-for-trading or designated at fair value through profit or loss, the net gain or loss is calculated by taking the movement in the fair value of the financial asset or liability.

(iii) For financial liabilities measured at amortised cost, the net gain or loss is calculated by taking the interest expense, plus or minus foreign exchange gains or losses arising from the revaluation of financial liabilities measured at amortised cost.

(b) Credit risk**The Royal Children's Hospital**

Credit risk arises from the contractual financial assets of The Royal Children's Hospital which comprises cash and deposits, non-statutory receivables and available for sale contractual financial assets. The Royal Children's Hospital's exposure to credit risk arises from the potential default of a counter party on their contractual obligations resulting in financial loss. Credit risk is measured at fair value and is monitored on a regular basis.

The Royal Children's Hospital manages credit risk arising from receivables by undertaking transactions predominantly with other government bodies and patients covered by Medicare and highly rated insurers. The majority of the patients are located within Australia. Standard payment terms are 30 days for Department of Health and Human Services, patient debtors and large corporate clients, controlled entity debtors, and Murdoch Childrens Research Institute and seven days for all other debtors. Credit risk is also managed through debt collection procedures, including use of debt collection agency for debts outstanding for 90 days.

The Royal Children's Hospital's Foundation Trust Fund

The Royal Children's Hospital's Foundation Trust Fund is exposed to a low level of risk in its Trade and other receivables.

The Royal Children's Hospital's Foundation Trust Fund manages its exposure to credit risk by only investing in accordance with the Investment policy approved by the Board, which is monitored by the Trustee's Investment Committee. The Board permits investments in the following asset categories:

- Unlisted units in Managed funds which are invested in:
 - Equities listed on recognised stock exchanges
 - High yield securities in the form of loans and hybrid securities
 - Listed fixed interest securities listed on the ASX as well as interest rate derivatives and stock derivatives
 - Global fixed interest securities
 - Property development loans, infrastructure debt structured financial instruments, asset and mortgage-backed securities.

Note 21: Financial instruments (continued)

2. Fixed interest securities which have a minimum rating level AA and actively traded liquid market.

3. Cash securities which are held with Australian licensed banks that have a minimum rating level of AA.

Given these investment guidelines, the Trust does not expect any counterparty to fail to meet its obligations.

Except as otherwise detailed in the following table, the carrying amount of contractual financial assets recorded in the financial statements, net of any allowances for losses, represents The Royal Children's Hospital's and its Controlled Entities' maximum exposure to credit risk.

Ageing analysis of contractual financial assets as at 30 June 2016

Consolidated 2016	Consolidated carrying amount \$'000	Not past due and not impaired \$'000	Past due but not impaired			Impaired financial assets \$'000
			Less than 1 month \$'000	1-3 months \$'000	3 months -1 year \$'000	
Contractual financial assets						
Cash and cash equivalents	82,836	82,836	-	-	-	-
Receivables ⁽ⁱ⁾						
- Inter hospital debtors	2,572	2,183	215	82	92	-
- Trade debtors	3,008	2,799	143	55	12	-
- Patient fees	6,533	5,140	483	565	346	-
- Accrued investment income	580	580	-	-	-	-
- Diagnostic debtors	1,245	1,078	106	40	20	-
- Sundry debtors	2,878	2,254	358	136	130	-
Other financial assets						
- Available for sale - managed funds	74,814	74,814	-	-	-	-
- Held for trading - managed funds	25,627	25,627	-	-	-	-
- Shares in other entities	1	1	-	-	-	-
Total financial assets	200,093	197,311	1,305	878	600	-

Consolidated 2015	Consolidated carrying amount \$'000	Not past due and not impaired \$'000	Past due but not impaired			Impaired financial assets \$'000
			Less than 1 month \$'000	1-3 months \$'000	3 months -1 year \$'000	
Contractual financial assets						
Cash and cash equivalents	47,791	47,791	-	-	-	-
Receivables ⁽ⁱ⁾						
- Inter hospital debtors	1,710	1,556	135	5	13	-
- Trade debtors	3,424	583	2,065	608	169	-
- Patient fees	5,784	3,813	1,260	117	594	-
- Accrued investment income	222	222	-	-	-	-
- Diagnostic debtors	864	535	145	184	-	-
- Sundry debtors	5,151	2,309	2,065	608	169	-
Other financial assets						
- Available for sale - managed funds	102,725	102,725	-	-	-	-
- Held for trading - managed funds	44,399	44,399	-	-	-	-
Total financial assets	212,069	203,933	5,670	1,522	946	-

(i) Ageing analysis of financial assets exclude statutory financial assets (i.e. GST input tax credit and Department of Health and Human Services receivable).

There are no material financial assets which are individually determined to be impaired. Currently The Royal Children's Hospital does not hold any collateral as security nor credit enhancements relating to any of its financial assets. (2015: Nil)

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. The ageing analysis table above discloses the ageing only of contractual financial assets that are past due but not impaired.

(c) Liquidity risk

Liquidity risk is the risk that The Royal Children's Hospital and controlled entities would be unable to meet its financial obligations as and when they fall due. The Royal Children's Hospital's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed in the face of the balance sheet.

Liquidity risk management policy

Liquidity risk is managed through regular monthly cash grants from the Department of Health and Human Services. Trade payable contracts are entered into in accordance with The Royal Children's Hospital's policies for authorisation and suppliers are periodically reviewed. The Royal Children's Hospital aims to settle all short term payables within 60 days. Any short-term or long-term borrowings entered into by The Royal Children's Hospital require approval by the State Minister for Health and State Treasurer.

The Royal Children's Hospital's Trust Fund minimises the exposure to liquidity risk by undertaking the following steps:

- Allowance for a solvency buffer in line with cash requirements to deliver approved business plans.
- Maintenance of adequate liquid cash by the Trust in order to meet short-term obligations incurred by the Trust.

The Royal Children's Hospital Education Institute manages liquidity risk by monitoring forecast cash flows.

The following table discloses the contractual maturity analysis for The Royal Children's Hospital and consolidated entity's financial liabilities. For interest rates applicable to each class of liability, refer to individual notes to the financial statements.

Maturity analysis of financial liabilities as at 30 June

Consolidated 2016	Carrying amount \$'000	Nominal cash flows \$'000	Maturity dates					
			Less than 1 month \$'000	1-3 months \$'000	3 months - 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
Payables								
- Trade creditors and accruals	20,760	20,760	1,899	18,543	315	3	-	
- Deposits	29	29	29	-	-	-	-	
- Sundry creditors	4,859	4,859	3,135	1,684	40	-	-	
Other financial liabilities ⁽ⁱ⁾								
- TCV loan ⁽ⁱⁱ⁾	28,823	28,823	-	205	630	3,781	24,207	
- Monies held in trust	74	74	74	-	-	-	-	
Total financial liabilities	54,545	54,545	5,137	20,431	985	3,784	24,207	

Consolidated 2015	Carrying amount \$'000	Nominal cash flows \$'000	Maturity dates					
			Less than 1 month \$'000	1-3 months \$'000	3 months - 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
Payables								
- Trade creditors and accruals	14,613	14,613	4,081	10,531	1	-	-	
- Deposits	39	39	3	8	22	-	5	
- Sundry creditors	4,621	4,621	4,205	-	416	-	-	
Other financial liabilities ⁽ⁱ⁾								
- TCV loan ⁽ⁱⁱ⁾	29,617	29,617	-	195	600	3,599	25,223	
- Monies held in trust	387	387	387	-	-	-	-	
Total financial liabilities	49,276	49,276	8,676	10,734	1,039	3,599	25,228	

(i) Ageing analysis of financial liabilities excludes PPP finance lease liability and statutory financial liabilities (i.e. GST payable). Maturity analysis of PPP finance lease liability is disclosed under Note 15 (b) Finance lease liabilities.

(ii) TCV loan will mature on 31 December 2036.

Note 21: Financial instruments (continued)

(d) Market risk

The Royal Children's Hospital's and its controlled Entities exposure to market risk are primarily through interest rate risk and equity price risk. Exposure to foreign currency risk is discussed below. Objectives, policies and processes used to manage each of these risks are disclosed in the paragraph below.

Currency risk

The Royal Children's Hospital and its controlled entities are exposed to insignificant foreign currency risk through payables relating to purchases of supplies and consumables from overseas. It is also exposed to foreign currency risk through managed investments that have exposure to overseas markets. Movement in foreign currency is reflected in the value of the underlying units in the funds.

Interest rate risk

Exposure to interest rate risk arises primarily from cash and cash equivalents held in floating rate facilities. The Royal Children's Hospital and its controlled entities minimise interest rate risk by mainly undertaking fixed rate financial instruments. For financial liabilities, The Royal Children's Hospital and controlled entities mainly undertake financial liabilities with relatively even maturity values.

Equity price risks

Both The Royal Children's Hospital and The Royal Children's Hospital's Foundation Trust Fund manage the equity price risk associated with the investments in managed funds through their own Investment Committees. These sub-committees are delegated with responsibility for overseeing the development, monitoring and review of the investment strategy and policies. The committees monitor the returns on investments, and determine the allocation between the different classes of investments available.

Interest rate exposure of financial assets and liabilities as at 30 June

Consolidated 2016	Weighted average effective interest rates %	Carrying amount \$'000	Interest rate exposure		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non interest bearing \$'000
Financial assets					
Cash and cash equivalents	1.86%	82,836	61,709	21,119	8
Receivables ⁽ⁱ⁾					
- Inter hospital debtors		2,572	-	-	2,572
- Trade debtors		3,058	-	-	3,058
- Patient fees		6,946	-	-	6,946
- Accrued investment income		580	-	-	580
- Diagnostic debtors		1,270	-	-	1,270
- Sundry debtors		2,902	-	-	2,902
Other financial assets					
- Available for sale - managed funds	3.12%	74,814	6,651	-	68,163
- Held for trading - managed funds	3.69%	25,627	15,483	-	10,144
- Shares in other entities		1	-	-	1
Total financial assets		200,606	83,844	21,119	95,644
Financial liabilities					
Payables					
- Trade creditors and accruals		20,760	-	-	20,760
- Deposits		29	-	-	29
- Sundry creditors		4,859	-	-	4,859
- TCV loan ⁽ⁱⁱ⁾	4.93%	28,823	28,823	-	-
- Finance lease liabilities	4.88%	1,061,650	1,061,650	-	-
Other financial liabilities					
- Monies held in trust		74	-	-	74
Total financial liabilities		1,116,195	1,090,473	-	25,722

Consolidated 2015	Weighted average effective interest rates %	Carrying amount \$'000	Interest rate exposure		
			Fixed interest rate \$'000	Variable interest rate \$'000	Non interest bearing \$'000
Financial assets					
Cash and cash equivalents	1.38%	47,791	15,173	32,618	-
Receivables ⁽ⁱ⁾					
- Inter hospital debtors		1,710	-	-	1,710
- Trade debtors		3,456	-	-	3,456
- Patient fees		6,513	-	-	6,513
- Accrued investment income		222	-	-	222
- Diagnostic debtors		940	-	-	940
- Sundry debtors		5,173	-	-	5,173
Other financial assets					
- Available for sale - managed funds	2.28%	102,725	15,984	-	86,741
- Held for trading - managed funds		44,399	-	-	44,399
Total financial assets		212,928	31,157	32,618	149,154
Financial liabilities					
Payables					
- Trade creditors and accruals		14,613	-	-	14,613
- Deposits		39	-	-	39
- Sundry creditors		1,673	-	-	1,673
- TCV loan ⁽ⁱⁱ⁾	4.93%	29,617	29,617	-	-
- Finance lease liabilities	4.84%	1,091,207	1,091,207	-	-
Other financial liabilities					
- Monies held in trust		387	-	-	387
Total financial liabilities		1,137,535	1,120,824	-	16,712

(i) The carrying amount excludes types of statutory financial assets and liabilities (GST input tax credit, GST payable, Department of Health and Human Services payables and income in advance).

(ii) The TCV loan has a fixed interest rate of 4.93% maturing on 31 December 2036.

Note 21: Financial instruments (continued)

Sensitivity analysis

Taking into account past performance, expectations, economic forecasts, and management's knowledge and experience of the financial markets, The Royal Children's Hospital believes the following movements are 'reasonably possible' over the next 12 months:

A shift of +0.25% and -0.25% in the current market interest rates from year-end rates;

A shift of +10% and -10% in current market indices.

Base rates are sourced from Victorian Funds Management Corporation.

The following table discloses the impact on net operating result and equity for each category of financial instrument at year end as presented to key management personnel, if changes in the relevant risk occur.

Financial instruments that have a fixed interest over the next 12 months are not subject to risk arising from movement in market interest rates, and have not been included in the table below.

Consolidated 2016	Carrying amount \$'000	Interest rate risk				Other price risk			
		-0.25%		+0.25%		-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	82,836	(207)	(207)	207	207	-	-	-	-
Investments									
- Units in managed funds (available for sale)	74,814	(17)	(17)	17	17	-	(6,816)	-	6,816
- Units in managed funds (held for trading)	25,627	(39)	(39)	39	39	(1,014)	(1,014)	1,014	1,014
- Shares in other entities	1	-	-	-	-	-	-	-	-
	183,278	(262)	(262)	262	262	(1,015)	(7,831)	1,015	7,831

Consolidated 2015	Carrying amount \$'000	Interest rate risk				Other price risk			
		-1.00%		+1.00%		-20%		+20%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
Financial assets									
Cash and cash equivalents	47,791	(478)	(478)	478	478	-	-	-	-
Investments									
- Units in managed funds (available for sale)	102,725	(160)	(160)	160	160	-	(17,348)	-	17,348
- Units in managed funds (held for trading)	44,399	-	-	-	-	(8,880)	(8,880)	8,880	8,880
	194,914	(638)	(638)	638	638	(8,880)	(26,228)	8,880	26,228

(e) Fair value

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:

(i) Level 1 - the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;

(ii) Level 2 - the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and

(iii) Level 3 - the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The Royal Children's Hospital considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short term nature of the financial instruments and the expectation that they will be paid or received in full.

The following table shows that the fair values of the contractual financial assets and liabilities are the same as their carrying amounts.

Comparison between carrying amount and fair value

Consolidated	Carrying amount 2016 \$'000	Fair value 2016 \$'000	Carrying amount 2015 \$'000	Fair value 2015 \$'000
Financial assets				
Cash and cash equivalents	82,836	82,836	47,791	47,791
Receivables				
- Inter hospital debtors	2,572	2,572	1,710	1,710
- Trade debtors	3,008	3,008	3,424	3,424
- Patient fees	6,533	6,533	5,784	5,784
- Accrued investment income	580	580	222	222
- Diagnostic debtors	1,245	1,245	864	864
- Sundry debtors	2,902	2,902	5,173	5,173
Other financial assets				
- Available for sale - managed funds	74,814	74,814	102,725	102,725
- Held for trading - managed funds	25,627	25,627	44,399	44,399
- Shares in other entities	1	1	-	-
Total financial assets	200,118	200,118	212,091	212,091
Financial liabilities				
Payables				
- Trade creditors and accruals	20,760	20,760	14,613	14,613
- Deposits	29	29	39	39
- Sundry creditors	4,859	4,859	4,621	4,621
Other financial liabilities				
- Monies held in trust	74	74	387	387
- Interest bearing liabilities	28,823	28,823	29,617	29,617
- Finance lease liabilities	1,061,650	1,061,650	1,091,207	1,091,207
Total financial liabilities	1,116,195	1,116,195	1,140,483	1,140,483

Note 21: Financial instruments (continued)

Financial assets measured at fair value

Consolidated	Carrying amount as at 30 June 2016 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets at fair value through profit or loss				
Other financial assets				
- Available for sale - managed funds	74,814	17,210	57,604	-
- Held for trading - managed funds	25,627	-	25,627	-
- Shares in other entities	1	-	1	-
Total financial assets	100,442	17,210	83,232	-

Consolidated	Carrying amount as at 30 June 2015 \$'000	Fair value measurement at end of reporting period using:		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets at fair value through profit or loss				
Other financial assets				
- Available for sale - managed funds	102,725	15,984	86,741	-
- Held for trading - managed funds	44,399	-	44,399	-
Total financial assets	147,123	15,984	131,139	-

Note 22: Commitments

This note includes commitments for operating leases, capital and operating expenditure under contracts for the supply of works, services and materials insofar as they are not provided for in the balance sheet.

(a) Commitments other than public private partnerships

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Capital expenditure commitments		
Payable		
Plant and equipment	-	14
Medical equipment	171	5,735
Computers and communication	549	14
Furniture and fittings	36	2
Software ⁽ⁱ⁾	4,547	14,531
Total capital expenditure commitments	5,304	20,296
Operating commitments		
Operating commitments	13,051	14,970
Total operating commitments	13,051	14,970
Lease commitments		
Commitments in relation to leases contracted for at the reporting date		
Operating commitments	753	922
Total lease commitments	753	922
Total commitments for expenditure (inclusive of GST) other than public private partnerships	19,108	36,188

(i) Capital commitments for 2015 include commitments relating to the Electronic Medical Records (EMR) project.

(b) Public private partnerships⁽ⁱ⁾

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Commissioned public private partnerships – other commitments⁽ⁱⁱ⁾		
	Other commitments	Other commitments
Children's Health Partnership	1,744,231	1,795,637
Total commitments for public private partnerships	1,744,231	1,795,637

(i) The present values of the minimum lease payments for commissioned public private partnerships (PPPs) are recognised on the balance sheet and are not disclosed as commitments.

(ii) The year on year reduction in the present values of the other commitments reflects the payments made, offset by the impact of the discounting period of the commissioning.

Source information provided by the Department of Health and Human Services.

Note 22: Commitments (continued)

(c) Commitments payable

Nominal values	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Capital expenditure commitments payable		
Less than 1 year	5,243	20,186
More than 1 year but no more than 5 years	61	110
Total capital expenditure commitments	5,304	20,296
Operating commitments		
Less than 1 year	11,795	12,595
More than 1 year but no more than 5 years	1,256	2,375
Total operating commitments	13,051	14,970
Lease commitments		
Less than 1 year	464	607
More than 1 year but no more than 5 years	289	314
Total lease commitments	753	921
Public private partnership commitments (commissioned)		
Less than 1 year	43,110	40,003
More than 1 year but no more than 5 years	218,778	264,122
More than 5 years	1,482,343	1,491,513
Total public private partnership commitments	1,744,231	1,795,638
Total commitments (inclusive of GST)	1,763,338	1,831,825
Less GST recoverable from the Australian Tax Office	1,737	3,290
Total commitments (exclusive of GST)	1,761,601	1,828,535

Note 23: Contingent assets and contingent liabilities

Contingent liabilities

Any claims made against The Royal Children's Hospital are covered by public healthcare insurance managed by Victorian Managed Insurance Authority (VMIA).

Note 24: Jointly controlled operations and assets

Name of entity	Principal activity	Ownership interest	
		2016	2015
Victorian Comprehensive Cancer Centre	The member entities have committed to the establishment of a world leading comprehensive cancer centre in Parkville, Victoria, through the joint venture, with a view to saving lives through the integration of cancer research, education and training and patient care. The Royal Children's Hospital joined the Victorian Comprehensive Cancer Centre on 1 July 2010.	10.0%	11.1%

The Royal Children's Hospital's interest in assets employed in the above jointly controlled operations and assets is detailed below. The amounts are included in the consolidated financial statements under their respective asset categories:

	2016 \$'000	2015 \$'000
Assets		
Current assets		
Cash and cash equivalents	257	241
Receivables	3	1
GST recoverable	1	3
Prepayments	4	3
Total current assets	264	249
Non-current assets		
Property, plant and equipment	4	4
Other	1	-
Total non-current assets	5	4
Total assets	269	253
Liabilities		
Current liabilities		
Accrued expenses	10	27
Payables	43	23
Provisions - LSL and annual leave	42	38
Total current liabilities	96	89
Non-current liabilities		
Provisions - LSL	6	6
Total non-current liabilities	6	6
Total liabilities	101	93
Net assets	168	160
Equity		
Accumulated surpluses/(deficits)	168	160
Total equity	168	160

The Royal Children's Hospital's interest in revenue and expenses resulting from jointly controlled operations and assets is detailed below:

	2016 \$'000	2015 \$'000
Revenue		
Grants and other revenue	166	156
Interest	5	6
Total revenue	171	162
Expenses		
Employee benefits	153	151
Other expenses from continuing operations	8	(4)
Depreciation and amortisation	1	1
Total expenses	163	148
Net result	8	15

Note 25: Responsible persons disclosures

(a) Responsible persons

	Period	
Responsible Minister		
The Honourable Jill Hennessy MLA Minister for Health	1 July 2015	30 June 2016
The Honourable Martin Foley MLA Minister for Mental Health	1 July 2015	30 June 2016
Governing Boards		
Hon Rob Knowles AO (Chairman)	1 July 2015	30 June 2016
Dr Christine Cunningham	1 July 2015	30 June 2016
Ms Jacinda de Witts	1 July 2015	30 June 2016
Ms Petrina Dorrington	8 September 2015	30 June 2016
Mr Max Findlay	1 July 2015	30 June 2016
Ms Jane Hume	1 July 2015	9 May 2016
Mr David Lau	1 July 2015	30 June 2016
Mr David Mandel	1 July 2015	30 June 2016
Dr Linden Smibert	1 July 2015	30 June 2016
Mr Peter Yates AM	11 August 2015	30 June 2016
Accountable Officers		
Professor Christine Kilpatrick (Chief Executive Officer)	1 July 2015	30 June 2016

(b) Remuneration of responsible persons

The number of responsible persons is shown for each relevant income band:

	Consolidated 2016 No.	Consolidated 2015 No.
Income band		
\$10,000 – \$19,999	1	1
\$20,000 – \$29,999	8	8
\$30,000 – \$39,999	–	–
\$40,000 – \$49,999	1	1
\$460,000 – \$469,999	–	1
\$480,000 – \$489,999	1	–
Total numbers	11	11

Total remuneration received or due and receivable by responsible persons from the reporting entity amounted to:

	Consolidated 2016 \$	Consolidated 2015 \$
Total remuneration	668,604	697,112

Amounts relating to Responsible Ministers are reported in the financial statements of the Department of Premier and Cabinet.

The responsible persons for The Royal Children's Hospital's controlled entities received no remuneration in the 2015-16 year (2014-15: nil). The responsible persons' profiles are disclosed in The Royal Children's Hospital's controlled entities financial statements.

(c) Other transactions of responsible persons and their related parties**The Hon Rob Knowles AO (Chairman)**

The Royal Children's Hospital Chairman, the Hon Rob Knowles AO is a director of Global Health Ltd. Global Health Ltd provided services to The Royal Children's Hospital during the financial year ended 30 June 2016. These arrangements were on normal commercial terms and conditions and in the ordinary course of business.

	Consolidated 2016 \$	Consolidated 2015 \$
Global Health Ltd	200,082	159,410

Ms Jane Hume (Director)

A Director of The Royal Children's Hospital, Ms Jane Hume is a Superannuation Policy Strategist at Australian Super. Five employees of The Royal Children's Hospital are members of Australian Super. RCH paid superannuation contributions on their behalf during the financial year ended 30 June 2016. These arrangements were on normal commercial terms and conditions and in the ordinary course of business.

	Consolidated 2016 \$	Consolidated 2015 \$
Australian Super	33,902	21,989

Mr David Lau (Director)

A Director of The Royal Children's Hospital, Mr David Lau is an employee of Optus. Optus provided services to The Royal Children's Hospital during the financial year ended 30 June 2016. Mr Lau was not involved in the procurement or provision of services rendered by Optus and these arrangements were on normal commercial terms and conditions and in the ordinary course of business.

	Consolidated 2016 \$	Consolidated 2015 \$
Optus	262,491	206,824

Mr Sammy Kumar (Director)

A Director of The Royal Children's Hospital in the financial year ended 30 June 2015, Mr Sammy Kumar is a partner at PricewaterhouseCoopers (PwC). PwC provided services to The Royal Children's Hospital during the financial year ended 30 June 2015. Mr Kumar was not involved in the procurement or provision of services rendered by PwC and these arrangements were on normal commercial terms and conditions and in the ordinary course of business.

	Consolidated 2016 \$	Consolidated 2015 \$
PricewaterhouseCoopers	-	174,778

Note 25: Responsible persons disclosures (continued)

(d) Controlled entities related parties transactions

The Royal Children's Hospital Foundation Trust Fund

The Chairman and the CEO of The Royal Children's Hospital are also Directors of The Royal Children's Hospital Foundation. The Chairman of The Royal Children's Hospital Foundation is also a director of The Royal Children's Hospital.

The transactions between the two entities relate to reimbursements made by The Royal Children's Hospital Foundation Trust Fund to The Royal Children's Hospital for goods and services and the transfer of funds by way of distributions made to the hospital. All dealings are in the normal course of business and are on normal commercial terms and conditions.

	Consolidated 2016 \$	Consolidated 2015 \$
Distributions and reimbursements by The Royal Children's Hospital's Foundation Trust Fund	44,676,016	25,051,459

The Royal Children's Hospital Education Institute Limited

The transactions between the two entities relate to reimbursements made by The Royal Children's Hospital Education Institute Limited to The Royal Children's Hospital for salaries, goods and services paid on its behalf. All dealings are in the normal course of business and are on normal commercial terms and conditions.

	Consolidated 2016 \$	Consolidated 2015 \$
Reimbursements by The Royal Children's Hospital Education Institute Limited for salaries, goods and services	1,500,177	2,160,603

(e) Other receivables from and payables to controlled entities

	Consolidated 2016 \$	Consolidated 2015 \$
The Royal Children's Hospital's Foundation Trust Fund	1,929,310	1,914,706
The Royal Children's Hospital Education Institute Limited	(72,261)	932,362
Total amounts receivable from controlled entities	1,857,049	2,847,068

Note 25a: Executive officers disclosures

Executive officers' remuneration

The numbers of executive officers, and their total remuneration during the reporting period are shown in the first two columns in the table below in their relevant income bands. The base remuneration of executive officers is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long-service leave payments, redundancy payments and retirement benefits. The total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

Total remuneration payments include bonus payments leave entitlements and contract renegotiations during the year.

Income band	Parent			
	Total remuneration		Base remuneration	
	2016 No.	2015 No.	2016 No.	2015 No.
\$200,000 - \$209,999	-	-	-	1
\$210,000 - \$219,999	-	-	-	1
\$220,000 - \$229,999	-	1	-	2
\$230,000 - \$239,999	-	-	1	1
\$240,000 - \$249,999	-	1	1	-
\$250,000 - \$259,999	-	2	1	-
\$260,000 - \$269,999	2	-	1	-
\$270,000 - \$279,999	1	1	-	-
\$280,000 - \$289,999	1	-	-	1
\$290,000 - \$299,999	-	-	-	1
\$320,000 - \$329,999	-	-	1	-
\$330,000 - \$339,999	-	-	-	1
\$340,000 - \$349,999	-	1	1	-
\$350,000 - \$359,999	1	1	-	-
\$360,000 - \$369,999	1	-	-	-
\$410,000 - \$419,999	-	-	1	-
\$420,000 - \$429,999	-	1	-	-
\$440,000 - \$449,999	1	-	-	-
Total number of executives	7	8	7	8
Total annualised employee equivalent (AEE)⁽ⁱ⁾	7.00	7.83	7.00	7.83
Total amount	2,268,949	2,387,894	2,076,083	2,039,593

(i) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

Executive remuneration

One executive director resigned during the year.

Note 26: Controlled entities

Name of entity	Country of incorporation/ establishment	Equity holding
The Royal Children's Hospital's Foundation Trust Fund	Australia	n/a
The Royal Children's Hospital Education Institute Limited	Australia	Limited by guarantee
Controlled entities contribution to the consolidated results		
	2016 \$ '000	2015 \$ '000
Controlled entities contribution to the consolidated results		
Net result for the year		
The Royal Children's Hospital's Foundation Trust Fund	(4,628)	11,828
The Royal Children's Hospital Education Institute Limited	(582)	136
Total consolidated result	(5,210)	11,964

Note 27: Remuneration of auditors

	Consolidated 2016 \$'000	Consolidated 2015 \$'000
Victorian Auditor-General's Office		
Audit or review of financial statements	165	194
Other service providers		
Audit or review of financial statements	59	88
Total remuneration	224	282

Note 28: Events occurring after the balance sheet date

At the time of authorising the financial statements, there were no events after the balance sheet date with impact on the financial statements.

Note 29: Financial dependency

The Royal Children's Hospital is wholly dependent on the continued financial support of the State Government and in particular, the Department of Health and Human Services. The Department of Health and Human Services has provided confirmation that it will continue to provide The Royal Children's Hospital adequate cash flow support to meet its current and future obligations as and when they fall due for a period up to September 2017.



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