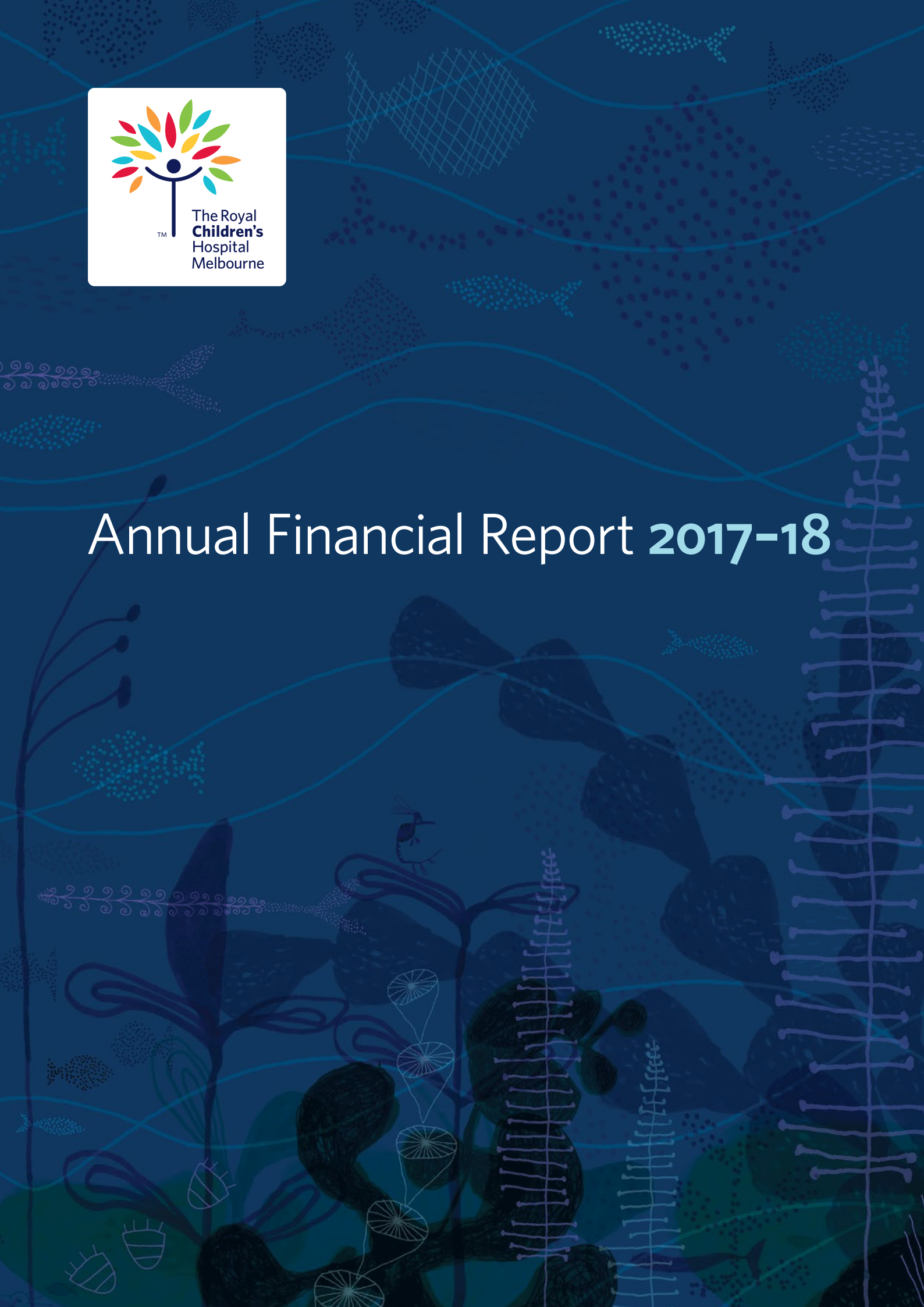
The Royal Children's Hospital Melbourne

Annual Financial Report 2017–18



Contents

The Royal Children's Hospital Melbourne

Our vision and values

VISION

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

VALUES

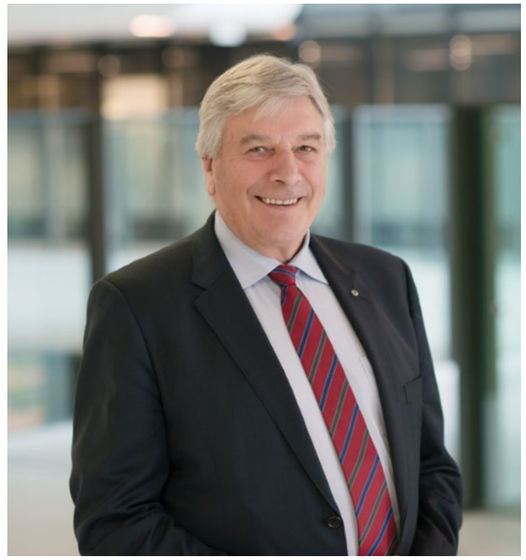
Unity
We work as a team and in partnership with our communities

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



I am pleased to report that The Royal Children's Hospital (RCH) has recorded an operating surplus of $2.35 million in 2017–18. While this is down on last year's result of $2.95 million, it clearly demonstrates our ability to deliver financial stability while responding to the ever-increasing demand for our services. It also reflects the commitment of the RCH Board and Executive to ensure we have a sustainable model that will continue to deliver world-leading results in paediatric care for many years to come.

As we approach the conclusion of 2018, it's a good time to reflect on the goals set forth in our 2013–18 Strategic Plan. In particular, our commitment to creating a digital-first health service has resulted in many improvements to our service quality and delivery for the benefit of both our patients and staff.

We are now a digital leader in Australian healthcare, having successfully introduced a hospital-wide Electronic Medial Record (EMR) in 2016. In the first of half of 2017, we became the first Australian health service to achieve a stage six rating for our EMR across both inpatient and outpatient areas. The EMR continues to deliver increases in efficiency and quality of patient care across the hospital, with the RCH receiving the highest possible rating in our 2017 EMR Gateway review which assessed benefits realisation.

Our new online ED Activity Tracker is an Australian first, using data from the EMR to predict wait times in our ED and help parents determine if they should bring their child to the RCH ED, their local ED or a GP.

This is a tremendous achievement reflecting the skill of our people and their commitment to delivering significant improvements in patient care and accessibility, particularly in our Emergency Department (ED), where our key performance indicators improved across the board in 2017–18.

Our new online ED Activity Tracker is an Australian first, using data from the EMR to predict wait times in our ED and help parents determine if they should bring their child to the RCH ED, their local ED or a GP. Since its launch, the Activity Tracker website has been viewed more than 1,000 times a day on average.

Subscriptions to our MyRCH Portal grew by 20 per cent this year, demonstrating that patients continue to value online access to the EMR and a range of associated services. In 2017–18 we continued to explore the potential of our remote access with the launch of RCH Link, a pilot program giving approved GP clinics and regional hospitals remote access our EMR, enabling better treatment and support for our shared patients when they are not at the hospital.

Our Specialist Clinics team has also used data analysis to improve patient access, with predictive modelling leading to significant reductions in the number of cancelled appointments. I am delighted to report that this pilot project was one of our six finalists in the 2017 Victorian Public Healthcare Awards, including the Premier's Award for Large Health Service of the Year.

The RCH also won the Secretary's Award for Improving Integration of Care for Patients with Chronic and Complex Conditions for 'Care is a partnership', the pilot program for our Complex Care Hub, which is recognised as a unique model of paediatric care in Australia.

We continued to be a leader in many other aspects of paediatric health both in Australia and globally throughout 2017–18. The RCH Gender Service (RCHGS) is a world leader in the care of gender diverse young people and, in an Australian first, it released the *Australian Standards of Care and Treatment Guidelines: For trans and gender diverse children and adolescents*, recognised as the world's most progressive and clinically relevant treatment resource.

We also relaunched our paediatric Clinical Practice Guidelines online, and these are now available to medical practitioners worldwide via the Internet, receiving 3.7 million views and generating 1.4 million new users to date.

The RCH National Child Health Poll entered its third year, exploring a different paediatric and adolescent health issue each quarter. We are the only Australian children's hospital conducting this type of research and helping to change health outcomes for Australian children by increasing awareness and understanding of these issues amongst Australian parents.

The Poll is widely read through local and national media, and shared across our social media channels, which now enjoy more than 105,000 followers on Facebook and 6,800 on Twitter. It is one of the many ways we provide education and information on child health issues nationally.

However, it's important that we also continue to learn from the community we serve, particularly our patients and their families. In 2017–18, we received 963 pieces of consumer feedback and our Consumer Forum, held in November 2017, reached 4,744 people. The insights provided through these channels, together with our many committees and forums, helps us deliver continuous improvement across our services.

* * * * *

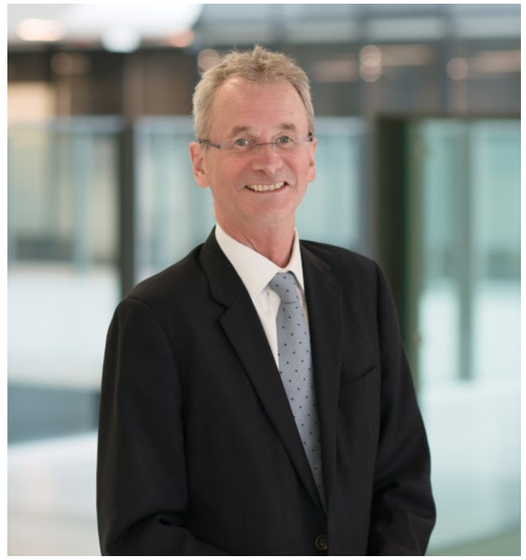
On behalf of the RCH Board I would like to acknowledge the hard work and commitment of our staff members, volunteers, partners and donors who have contributed to our ongoing success and thank them for their unwavering support.

I would also like to thank the RCH Executive and, in particular, our CEO John Stanway, for their commitment to building a sustainable and innovative RCH in what continues to be an increasingly challenging and complex environment.

I look forward to working together as we continue to build a sustainable hospital that will deliver great care to our patients and their families for many years to come.

Rob Knowles AO
Chairman

CEO's report



Once again, 2017–18 was a year where the demand for our services continued to rise. However, I'm pleased to report that The Royal Children's Hospital (RCH) has again proven itself to be a sustainable and innovative health service that continues to thrive in an increasingly challenging environment.

Over the past five years, we have worked to build a robust, digitally-focused organisation that is able to deliver great care in response to the ongoing demand for our services which, over the past year, has included:

- 86,140 presentations to our Emergency Department (ED) (up from 85,980 in 2017)
- 338,142 ambulatory appointments (up from 322,359 in 2017)
- 50,314 inpatient admissions and (up from 48,949 in 2017)
- 17,984 surgeries, including 28 organ transplants (up from 17,518 in 2017).

We also added 787 children to the elective surgery waiting list per month in 2017–18, compared to 790 children in 2016–17. While our surgical waitlist numbers remained fairly static this year, we treated almost four times that number over the course of the year with new patients accounting for around 40 per cent of the wait list in any given month.

We anticipated and responded to this ever-increasing demand and acuity by using innovative models of care that were, in many cases, Australian or world firsts.

In December 2017, the RCH established The Bridge, our new digital command centre, to help us realise the potential of our EMR by providing real-time data to drive improvements in patient care and productivity.

> We anticipated and responded to this ever-increasing demand and acuity by using innovative models of care that were, in many cases, Australian or world firsts.

Our EMR data is now being harnessed in many ways, including:

- helping clinical staff assess the rates of low-value healthcare practices and inform interventions with a view to reducing inappropriate ordering
- better managing waitlists in our Specialist Clinics by removing duplicate referrals
- improving the quality of problem lists in patient records, resulting in problem lists being updated in 91 per cent of cases by October 2017, up from only 47 per cent prior to July of that year
- delivering a 15 per cent increase in immunisation rates for overdue inpatients
- enabling the activation of more than 6,400 profiles on the My RCH Portal
- piloting RCH Link to enable approved regional health providers to access shared patient records remotely.

We are also working with The Royal Melbourne Hospital, Peter MacCallum Cancer Centre and The Royal Women's Hospital to deliver an Epic EMR accessible across the three hospitals, with a view to connecting our health services for the benefit of shared patients.

In June 2018, we launched a partnership with The Northern Hospital, which enables us to deliver the right care in the right place at the right time. The alliance means that, with the agreement of their parents, patients from the Epping catchment who do not require tertiary care can be transferred to The Northern and receive appropriate treatment closer to home. This is a reciprocal arrangement, and patients from The Northern requiring tertiary care will also be able to transfer to the RCH. This enables the RCH to better manage resources and care for the sickest and most critically ill patients.

> In June 2018, we launched an alliance with The Northern Hospital, which enables us to deliver the right care in the right place at the right time.

Improving access to our ED

The RCH Emergency Department (ED) can experience 300 presentations on any given day, and in 2017–18 we implemented several new strategies to help us meet this demand and better serve our patients when they are at their most vulnerable.

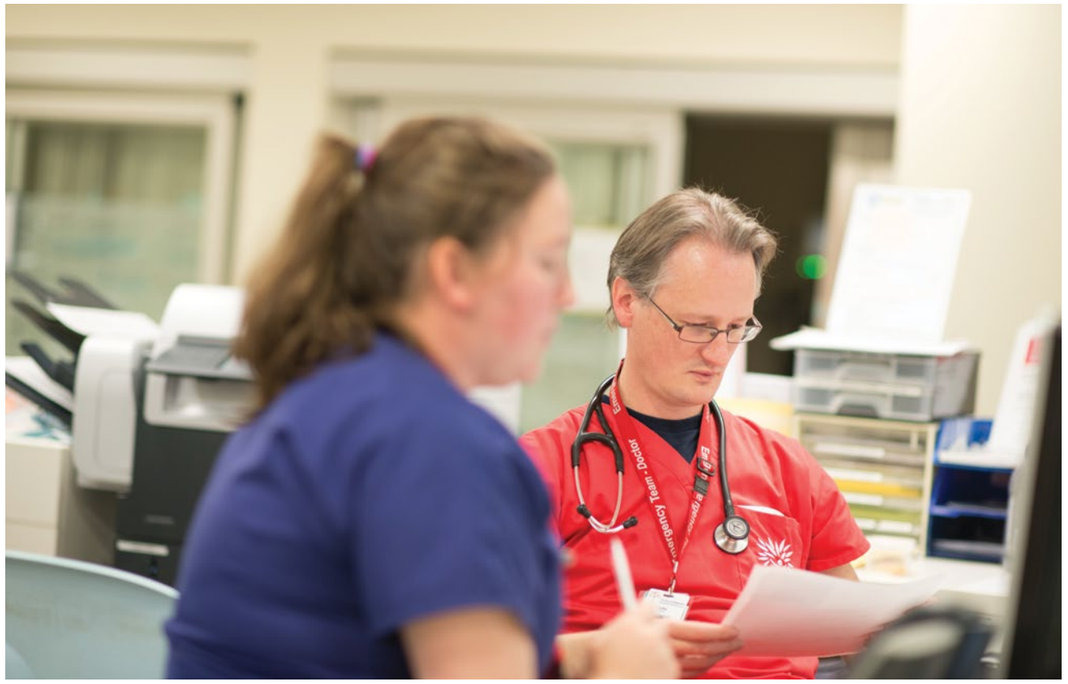
In March 2018, we introduced the Rapid Assessment, Planning, Investigations and Discharge trial to divert the least serious cases away from the ED and reduce the number of patients who leave before being seen. In its first three months, 81 per cent of patients were seen on time, up from 64 per cent during the same time in 2017. The number of patients seen in the four-hour target was up 10 per cent on the same time last year.

In June 2018, we launched a new online ED Activity Tracker to provide an up-to-date picture of likely wait times in our ED, providing activity indicators from normal to very busy or extremely busy. By helping parents make informed decisions about whether to present to the RCH ED, their local ED, or a GP, we are working towards reducing pressure on our services and better managing public expectations.

Our ED Fast Track Facility is now fully operational with an extra ten treatment spaces for children with low complexity illness and injury. This has enabled rapid assessment and treatment, resulting in improved access to emergency care for all patients. More than 18,000 children were seen in our Fast Track Facility in 2017–18, equating to 21 per cent of ED presentations.

These measures have enabled our ED to see more patients, while also improving our key performance indicators, including (as at June 2018):

- 74.5 per cent of patients were seen on time, up from 56.1 per cent in June 2017
- 86.2 per cent of Category 2 patients were seen on time, up from 69.8 per cent in June 2017



CEO's report (continued)

- 85.9 per cent of Category 3 patients were seen on time, up from 62.5 per cent in June 2017
- 71.4 per cent of patients being seen within our four-hour target, up from 63.8 per cent in June 2017
- 5.7 per cent instead of patients left before being seen, down from 12.7 per cent in 2017

Supporting patients remotely

We are currently piloting RCH Link, a program to enable approved GP clinics and regional hospitals to remotely access secured information from their patients' RCH EMR. There are currently 207 health professionals collaborating to pilot the web-based portal and deliver a better patient experience.

We continued to expand our Specialist Clinics telehealth service to better care for rural and regional patients who would otherwise have to travel long distances for an appointment. In 2017–18, 1,744 Specialist Clinic telehealth appointments occurred, including 470 for interstate patients, saving 1,353,199km of travel.

We expanded the RCH Hospital in the Home (HITH) ward from 36 beds to 51 beds and opened a Mother/Baby Unit to provide HITH for children weaning from nasogastric tube dependence or babies with sleeping and settling issues.

In August 2017 we launched the RCH Complex Care Hub (CCH), a model of care unique to paediatric healthcare in Australia. The CCH supports children with chronic and complex medical needs by streamlining the delivery of services through a single point of contact for patients and families. About 287 patients now benefit from this service and it has been expanded to include a Complex Asthma Program.

Supporting our people and the environment

We recognise that to care for our patients, we must also care for each other. In January, following a year long consultation process, we launched the RCH Compact, a set of ten pledges outlining the way in which our people will behave and work better together to deliver great care. Building our Compact was a collaborative process that engaged more than 2,500 staff in developing and refining these core pledges which are now a central pillar of the RCH's culture.

To help ensure the Compact is embedded in everything we do, the RCH launched a Safe and Positive Workplace Behaviours procedure and toolkit to help staff to address behaviour that is not in line with our Code of Conduct or the RCH Compact.

The RCH is now part of the Australian Network on Disability's Victorian Employer Enablement Project, an initiative that supports people with disability to work in participating organisations. As a result, we are now investing in building our capacity to hire, retain and promote people with disability.

In 2017, the RCH implemented a Sustainability Action Plan, which has led to a significant drop in utilities consumption, with gas down 4 per cent, water down 12 per cent, total waste volume down 7 per cent, and clinical waste down 32 per cent. The introduction of comingled recycle bins in wards in 2018 has seen an average monthly increase of 55 per cent in recyclable materials and a reduction in landfill waste and charges.

In June 2017 we transitioned to a new payroll system designed to give our staff more choice and mobility in where and how they accessed their records.

This was an important initiative, but implementation of the new system has not been without its challenges. Over the past year, we've encountered a range of system and process issues.

We have undertaken a significant amount of work to fix these issues and provide support to our employees, including a rectification project and revised governance framework. We will continue to work on improving these systems and remain committed to delivering a transparent and accountable service that meets the needs of both our staff and the hospital.

Thank you

Reflecting on my first year after being appointed CEO, I am immensely proud to lead the RCH as it secures its place as a world leader in paediatric medicine, while continuing to deliver great care for the children of Victoria.

There are many people without whom our achievements over the past year would not be possible. In particular, I would like to acknowledge and thank our almost 6,000 staff and 900 volunteers for the skill and commitment they bring in caring for our patients and their families.

I would also like to acknowledge the tireless work of my colleagues on the RCH Executive team and thank the members of our Board and our Chairman, the Hon Rob Knowles AO, for their leadership and support over the past year.

The RCH is part of the world-leading Melbourne Children's Campus and I would like to thank our campus partners, The Murdoch Children's Research Institute and the University of Melbourne – Department of Paediatrics, and acknowledge the role they play in helping us deliver great care.

It's important to remember that many of our greatest achievements would not have been possible without the assistance of our partners at both the RCH Foundation and the Good Friday Appeal, and the community who continue to be so generous in their support.

Thank you all and I look forward to leading the RCH as it continues to deliver a sustainable and innovative health service for the benefit of Victoria's children and their families.

John Stanway
Chief Executive Officer

RCH Staff Awards

At our 147th Annual General Meeting and Staff Awards night in November, we celebrated the incredible work of team members across the organisation.

The recipients of the 2017 awards were:

Rosemary Aisbett
Executive Director Nursing and Allied Health
CHAIRMAN'S MEDAL

The Nutrition and Dietetic Team
CEO GREAT CARE AWARD FOR EXCELLENT CLINICAL OUTCOMES

The Immunisation Centre Team
CEO GREAT CARE AWARD FOR POSITIVE EXPERIENCE

The Health Information Services Team
CEO AWARD FOR GREAT CARE FOR SUSTAINABLE HEALTHCARE

The Decision Support Team
CEO GREAT CARE AWARD FOR TIMELY ACCESS

The Workplace Health and Safety Team
CEO GREAT CARE AWARD FOR ZERO HARM

Nicola Watt
ALLIED HEALTH AWARD

Sharon Kinney
MARY PATTEN AWARD

James Liddle
DR WILLIAM SNOWBALL AWARD

Tracey Lawson
SUPPORTING GREAT CARE AWARD

Cheryl Bartolo
YVONNE WAGNER AWARD

Associate Professor Andrew Davis
CONSUMER CHOICE AWARD

Board member profiles

Chairman: Hon Rob Knowles AO

Hon Rob Knowles AO was Victorian Minister for Health from 1996–99 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, former Aged Care Complaints Commissioner and former Commissioner with the National Mental Health Commission. He is currently a Director with Beyond Blue Ltd, Drinkwise Australia Ltd, Global Health Ltd, IPG Ltd, the Silver Chain group of Companies and a Community Member of the Council of the Royal Australasian College of Surgeons.

Ms Christine Corbett

LLB, B.Bus (Communication), GAICD

Christine Corbett is an accomplished and highly versatile business leader and Non-Executive Director, with extensive experience in delivering strong financial and people outcomes in the retail, eCommerce, consumer services and logistics sectors. As Chief Customer Officer at Australia Post, Christine played an integral role in transforming one of the country's most iconic organisations to ensure that it met the contemporary needs of all Australians. She was accountable for all the key customer touch points, including the largest retail network in the country with over 4,300 post offices, the customer contact centre, digital channels and over 10 million customer interactions each day. She was also responsible for brand, marketing, customer experience, corporate social responsibility as well as the consumer and small business segments. She is a Graduate of the Australian Institute of Company Directors and completed an executive leadership program at Stanford University. Christine holds a Bachelor of Law and a Bachelor of Business (Communication) from the Queensland University of Technology.

Dr Christine Cunningham

BA, BLit, MSc, PhD, FAICD

Dr Christine Cunningham works as a consultant researcher and reviewer particularly in the areas of strategic development, service outcomes and governance. She has a doctorate from the University of Melbourne and a Master's Degree in Science and is a Fellow of the Australian Institute of Company Directors. Christine has held a variety of clinical, policy, research and board roles including the Board of Northeast Health Wangaratta, a sub-regional public health service from 2006–14, where she was Chairman from 2009–14.

Ms Petrina Dorrington

Dip. Hotel & Catering Operations, GAICD

Petrina Dorrington is an experienced executive in the not-for-profit sector. She was the executive director of Kids Under Cover from 1997–07 and a director from 2007–13. Petrina is a director of the Consumer Policy Research 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 David Lau

BPharm, MClinPharm, GCHealthSysMgt, FSHP, MAICD

David Lau is an Associate Director at Dandolo Partners International, a specialist public policy management consultancy. David leads projects across a diverse portfolio, with particular expertise in healthcare, technology and innovation, and industry development. David's background is as a clinician, hospital executive, and consultant. Amongst various roles, he has been Optus' Industry Lead for Health, 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 1995–97. Riverwood in Australia was a 600 employee, five plant, $125 million revenue folding carton business owned by the listed US multinational corporation. Mr Mandel is currently a non-executive director of several 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 Royal Children's Hospital. She is also a medical practitioner and is currently on the Board of Vincentcare Victoria.

Retired on 30 June

Ms Jacinda de Witts

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

Jacinda de Witts is a legal practitioner with more than 20 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.

Mr Peter Yates AM

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

Peter Yates is Deputy Chairman of The Myer Family Investments Ltd, a Director of AIA Australia Limited and a Director of Linfox Australia Pty Ltd. 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, the NHMRC Centre for Personalised Immunology at ANU and the Australian Research Council Centre of Excellence for Quantum Computation and Communication Technology at UNSW. 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 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, 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 and in 2017 was made a Fellow of the Australian Academy of Technology and Engineering (ATSE).

Board sub-committee membership

Audit & Corporate Risk Management Committee

David Mandel (Chair)
Christine Corbett
Jacinda de Witts
Dr Linden Smibert

Community Advisory Committee

Hon Rob Knowles AO (Chair)
Dr Christine Cunningham
Petrina Dorrington

Finance Committee

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

David Lau (Chair)
Christine Corbett
David Mandel
Max Findlay (External Member)

Quality and Population Health Committee

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

Remuneration Committee

Hon Rob Knowles AO (Chair)
Dr Christine Cunningham
David Lau

Executive staff

Chief Executive Officer
John Stanway
BEc, Grad Dip IR, FAICD

Chief Operating Officer
Jane Miller
BAppSc (Speech Path), GradDipNeuro, MHlthMgmt, GAICD

Acting Chief Nursing Officer and Executive Director Nursing & Allied Health
Rosemary Aisbett
BHSc (Nursing), PeriOperative Cert, Dip Man, RN

Executive Director Communications
Alison Errey
GradDipPublicAdmin, MJour

Chief Financial Officer (from 3 June 2018)
Jon Marcard
B.Ec, FCA, MAICD

Chief Medical Officer and Executive Director Medical Services & Clinical Governance
Professor Peter McDougall (retired 4 May 2018)
MB BS, MBA, FRACP, GAICD

Chief of Critical Care
Ed Oakley
MBBS, FACEM

Chief of Surgery
Mike O'Brien
PhD, FRCSI(Paed), FRACS(Paed)

Chief of Medicine
Associate Professor Matt Sabin
MRCPCH (UK), FRACP, PhD

Acting Chief Financial Officer (up to 3 June 2018)
Andrew Whittingham
B.Sc. (Hons), ACMA, CPA

Acting Executive Director Strategy & Organisational Improvement
Jane Widdison
BA (Hons), GradDipHealth, MHlthMgmt, Associate Fellow ACHSM

Executive Director People & Culture
Simone Zelencich
GradDipAdmin, MEd, MBA, GAICD

Workforce data

Labour category	June Current month FTE		June YTD FTE	
	2017	2018	2017	2018
Nursing	1,278	1,330	1,261	1,288
Administration and Clerical	668	641	660	655
Medical Support	362	370	372	364
Hotel and Allied Services	212	219	214	211
Medical Officers	121	137	128	125
Hospital Medical Officers	281	322	288	302
Sessional Clinicians	107	127	109	114
Ancillary Staff (Allied Health)	300	334	294	315
Total	**3,329**	**3,480**	**3,326**	**3,374**

Application of employment and conduct principles

The Royal Children's Hospital (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 the 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. The RCH promotes a culture of diversity and inclusion.

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 dispute processes.

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

In addition, the RCH Compact was launched in January 2018. Comprising a set of ten pledges, the RCH Compact sets out the ways in which our people have agreed they will behave and work better together to deliver great care.

The RCH has also launched a Safe and Positive Workplace Behaviours procedure and toolkit to help staff address behaviour that is not in line with our Code of Conduct or the RCH Compact.

Organisational chart

As at 1 July 2018

The Royal Children's Hospital Board

Chief Information Officer David Morton

Chief Executive Officer John Stanway

General Counsel Emma Carnovale

Chief Operating Officer Jane Miller

Chief of Medicine
Tom Connell

- Adolescent Medicine
- Allergy and Immunology
- Children's Cancer Centre
- Clinical Haematology
- Dermatology
- Endocrinology and Diabetes
- General Medicine
- Mental Health Program
- Metabolic Medicine
- Nephrology
- Neuro-development and Disability
- Neurology
- Palliative Care
- Paediatric Integrated Cancer Service (PICS)
- RCH Early Childhood Intervention Service
- Rehabilitation
- Respiratory
- Victorian Forensic Paediatric Medical Services (VFPMS)

Chief of Surgery
Mike O'Brien

- Anaesthesia and Pain Management
- Cardiac Surgery
- Cardiology
- Dentistry
- Gastroenterology and Clinical Nutrition
- Gynaecology
- Medical Imaging
- Neurosurgery
- Ophthalmology
- Orthopaedics
- Otolaryngology
- Paediatric and Neonatal Surgery
- Perioperative Suite
  - Central Sterilising Services
  - Operating Theatres
  - Possum
  - Recovery
- Plastic and Maxillofacial Surgery
- Urology

Chief of Critical Care
Ed Oakley

- Biomedical Engineering
- Emergency Department
- Neonatal Medicine (NICU)
- Paediatric Infant Perinatal Emergency Retrieval (PIPER)
- Paediatric Intensive Care Unit (PICU)

Executive Director Nursing & Allied Health and Chief Nursing Officer
Rosemary Aisbett

- After Hours Management
- Bed Management
- Allied Health
  - Audiology
  - Educational Play Therapy
  - Equipment Distribution Centre
  - Music Therapy
  - Gatehouse
  - Nutrition/Food Services
  - Occupational Therapy
  - Orthotic and Prosthetic Unit
  - Physiotherapy
  - Speech Pathology
  - Social Work, Aboriginal Health and Pastoral Care
- Infection Prevention and Control
- Interpreter and NESB Services
- Nursing and Administration Workforce
- Nursing Education and Research
- Emergency Management and Planning
- Wards
  - Banksia
  - Butterfly
  - Cockatoo
  - Day Oncology
  - Dolphin
  - Emergency
  - Kelpie
  - Koala
  - Kookaburra
  - Platypus
  - Rosella
  - Sugar Glider

- Ambulatory Services
  - Complex Care Hub
  - Specialist Clinics
  - Day Medical Centre
  - Wallaby
- EMR Team
- Laboratory Services
- Pharmacy

Executive Director Medical Services & Clinical Governance and Chief Medical Officer
Matt Sabin

- Children's Bioethics Centre
- Health Services Research
- Medical Education
- Medical Workforce Unit
- RCH Global
- Research, Ethics and Governance

Executive Director Strategy & Organisational Improvement
Jane Widdison

- Centre for Adolescent Health
- Centre for Community Child Health
- Decision Support
- Education Institute
- Health Information Services
- Internal Audit Coordination
- Risk and Information Management Systems
- Strategy and Improvement

Executive Director People & Culture
Simone Zelencich

- Early Learning
- Human Resources
- Library
- Payroll
- Workforce Development
- Workplace Health, Safety and Wellbeing

Executive Director Communications
Alison Errey

- Archives
- Corporate Communications
- Family Services and Volunteers
- International Patients
- RCH Creative Studio
- RCH National Child Health Poll
- Switchboard

Chief Financial Officer
Jon Marcard

- Facilities
- Finance
- Management Accounting
- Procurement and Supply
- Support Services

Statutory statements

The Royal Children's Hospital (RCH) is a public health service and is incorporated pursuant to the provisions of the Health Services Act 1988 (as amended). The RCH has cared for the children of Victoria since it was founded in 1870 and is internationally recognised as a leading centre for paediatric treatment, teaching and research.

Powers and duties

The powers and duties of the RCH are prescribed by the Health Services Act 1988. The hospital is accountable to the people of Victoria through the Minister for Health, The Hon. Jill Hennessy MP.

Nature and range of services

The RCH is the major specialist paediatric hospital in Victoria and also provides specialist care for children from Tasmania, southern New South Wales, and other states around Australia. It is also Victoria's designated major trauma centre for paediatrics.

The hospital delivers the state-wide Paediatric, Infant and Perinatal Emergency Retrieval (PIPER) service and is a Nationally Funded Centre for paediatric heart transplantation, paediatric liver transplantation (in collaboration with Austin Health), and paediatric lung transplant (in collaboration with Alfred Health).

The RCH is part of the Melbourne Children's campus and regularly collaborates with its campus partners, Murdoch Children's Research Institute and the University of Melbourne – Department of Paediatrics to provide global leadership in integrated clinical care, research and education.

The RCH also leads several state-wide services, including:

- Victorian Paediatric Rehabilitation Service (with Monash Health, Ballarat Health Services, Barwon Health, Bendigo Health, Eastern Health and Goulburn Valley Health)
- Victorian Paediatric Palliative Care Program (with Monash Health and Very Special Kids)
- Victorian Forensic Paediatric Medical Service (with Monash Health and Victorian Institute of Forensic Medicine)
- Victorian Infant Hearing Screening Program.

Freedom of information

The *Victorian Freedom of Information (FOI) Act 1982* provides a legally enforceable right of access to information held by government agencies.

FOI requests to the RCH should be made in writing and detailed instructions on how to make an application can be found on the RCH website (www.rch.org.au/foi), together with information regarding associated costs and timeframes.

For more information, the Freedom of Information staff at RCH can be reached on (03) 9345 5132 or (03) 9345 5156. Alternatively, inquiries can be sent to foi@rch.org.au

General information regarding the Freedom of Information Act can be found on the Victorian Government website on www.ovic.vic.gov.au

Nominated FOI Officers

Ms Emma Carnovale, General Counsel

Ms Annabelle Mann, Senior Legal Counsel

Ms Laura Hartmann, Senior Legal Counsel

Ms Judith Smith, Freedom of Information Officer and Reviewer

Mr Ricky Huynh, FOI Reviewer

Ms Felicity Hood, FOI Reviewer

Requests received	2017–18	2016–17
Total requests	715	616
Access granted in full	325	291
No information available	39	31
Application withdrawn	67	50

Requests made came primarily from patients and their families (approximately 57 per cent), legal or representatives (35 per cent) and the TAC (approximately 4 per cent).

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.

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 the *Privacy and Data Protection Act 2014*) and its implications in the work place. The RCH has a privacy policy and procedures in place that reflect the legislative requirements.

Communication regarding privacy is published via the RCH intranet using 'Intranet News' items, including a story promoting Privacy Awareness Week in May 2018, and videos known as Shortcuts. 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.

We also conducted quarterly audits of our EMR to ensure that staff continue to access patient information appropriately.

The Privacy Officer addresses general staff enquiries in relation to privacy. Privacy is part of the culture at the RCH and ongoing education is in place to ensure this continues to be the case.

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 to IBAC.

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.

Ex-gratia payments

There were no ex-gratia payments in FY 2017–18.

Victorian Industry Participation Program

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

There were no contracts commenced or completed by the RCH in 2017–18 which required disclosure under VIPP.

Workplace Health and Safety

In 2017–18 the RCH Workplace Health and Safety (WHS) program has been progressively reviewed, refreshed and implemented throughout the hospital to ensure we are supporting the delivery of Great care and consistently working to create a zero harm environment.

Staff health and wellbeing

The RCH has continued to focus on supporting health and wellbeing by identifying innovative ways of offering services to staff working outside standard business hours and at satellite sites.

The RCH Employee Assistance Program (EAP) continues to provide free and confidential counselling, coaching and support services to all staff. The RCH strengthened its EAP streams of care to introduce Legal Assist, which provides staff with access to two sessions of expert legal support and advice across family law, tenancy/renting, real estate and consumer disputes.

The EAP service was further enhanced in 2017–18 to also include specialist phone helplines in recognition of the need for specific, specialist support. These include:

- Aboriginal and Torres Strait Islander Peoples Helpline
- Lesbian, Gay, Bisexual, Transgender, Intersex, Queer or Questioning Helpline
- Domestic and Family Violence Helpline
- Eldercare Helpline

In 2017–18 the EAP Connect mobile app was introduced, providing 24/7 access to information, support and referral using the EAP online portal service.

In May 2018, a Mental Health Toolkit was launched to support staff struggling with mental health.

Recognising the importance of early detection of skin cancer, the RCH continued to partner with BUPA in offering free skin checks to over 200 staff, with 11% of participants referred for further investigation.

The RCH continued to build on the joint Federal and State government *Healthy Achievement Program* and was recognised in December 2017 for its achievement in promoting a smoke-free workplace. This brings the RCH closer to reaching its position as an employer of choice with only two remaining health priorities to be obtained.

In 2018 the Pastoral and Spiritual Care Team commenced free meditation sessions for all staff, incorporating techniques of mindfulness, conscious breathing, positive visualization, releasing negative and limiting thoughts to support health and wellbeing across the workforce.

Workplace Health and Safety Projects

The development and implementation of initiatives to strengthen our commitment to a safety-first culture included the following new projects:

Safe and Positive Workplace Behaviours

The Safe and Positive Workplace Behaviours procedure, toolkit and e-learning module were developed in extensive consultation with the RCH workforce. They were created to ensure every person at the RCH is able to work in a safe and positive environment, free from bullying, harassment and discrimination. It also supports the Compact, Code of Conduct and Victorian Public Sector Code of Conduct. The toolkit supports staff and managers in understanding what behaviours can potentially create an unsafe environment, and work proactively with each other to resolve any concerns.

Psychological First Aid Training

In September 2017, the Workplace Health and Safety Consultative Committee, identified the need for additional support to staff following critical incidents. A working group sought to understand current practice and external benchmarking. The group determined that all managers and senior staff should undertake Psychological First Aid Training. A pilot program has been developed and will be trialled before rolling the program out across the organisation.

Mental Health Strategy

In recognition of the increased need for an organisational-wide approach to mental health, the RCH developed a Mental Health Strategy 2018–21, to ensure that any staff experiencing mental health issues are treated with respect and dignity.

Injury management

The Early Intervention Program continues to be highly effective in quickly identifying when injuries occur, enabling the RCH to effectively support the health and wellbeing of these staff. In 2017–18, 57 employees were assisted under our program (compared to 62 in 2016–17). Of these, 43 cases have been finalised, with 14 continuing to be actively managed.

During 2017–18 there were 429 incidents reported via the Victorian Health Incident Management System (12.7/100 FTE). This result compares to 395 in 2016–17 (11.9/100 FTE) and 467 2015–16 (13.9/100 FTE).

Statutory statements (continued)

A total of 10 standard workers' compensation claims for 'lost time' were accepted in 2017–18 (0.3/100 FTE), compared to the same number last year and 14 in 2015-16 (0.4/100 FTE). Of this year's claims, eight cases are closed and two remain open.

For 2017–18, the total cost incurred of these claims were $1,416,290. This figure is comprised of actual paid costs $207,070 and estimated costs $1,209,222. The average incurred cost per claim was $141,629 in 2017–18; compared to $126,793 and $143,300 for 2016–17 and 2015–16 respectively.

The actual costs paid have reduced by $122,223 since 2016–17, reflecting a reduction in the average time lost per claim. In 2017–18 claims were successfully finalised in 5.76 weeks (on average), a significant improvement on eight weeks in 2016–17.

Education and training

Several existing and new WHS education and training programs were reviewed and developed.

The WHS e-learning module was updated to reflect new and emerging health, safety and wellbeing obligations and this forms part of the mandatory annual staff training program.

A new materials handling module was developed and produced in November 2017 to build capability in the management of hazardous manual handling tasks and reduce the risk of musculoskeletal injuries.

Health and wellbeing initiatives were also promoted more broadly across the campus to increase staff engagement and involvement. Wellbeing initiatives were promoted at Nursing@2 forums, Junior Medical Officers Lunch and Learns, Graduate Nursing Orientation, and at monthly divisional team meetings.

Occupational violence

The prevention and management of occupational violence and aggression (OVA) remains a focus for the RCH and the hospital developed *The RCH's Framework for the Prevention and Management of OVA* in October 2017. The framework covers six domains: governance, prevention, training, response, reporting and investigation. Implementation of each element of the framework has begun and will continue to be rolled out in 2018–19.

Occupational violence statistics	2017–18
Workcover accepted claims with an occupational violence cause per 100 FTE	0.057
Number of accepted Workcover claims with lost time injury with an occupational violence cause per 1,000,000 hours worked.	0.523
Number of occupational violence incidents reported	90
Number of occupational violence incidents reported per 100 FTE	2.58
Percentage of occupational violence incidents resulting in a staff injury, illness or condition	55.5%

Definitions

For the purpose 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: an event or circumstance that could have resulted in, or did result in, harm to an employee. Incidents of all severity rating must be included. Code Grey reporting is not included.

Accepted Workcover claims: Accepted Workcover claims that were lodged in 2017–18.

Lost time: is defined as greater than one day.

Workplace Health and Safety Awards

The annual RCH WHS Awards continue to celebrate and recognise the many ways in which individuals, teams and departments demonstrate commitment to safety, injury management and health and wellbeing at the hospital.

Many outstanding nominations were received, and awards presented in 2017–18 as follows:

- **Best Solution to a Specific Workplace Health and Safety Issue** – awarded to the Pastoral & Spiritual Care Team for developing and implementing fortnightly peer support, debriefing, self-care and mindfulness sessions in the Koala and Cockatoo ward resulting in benefits associated with stress reduction
- **Health & Safety Representative of the Year** – awarded to Wayne Ritchie Enrolled Nurse Banksia for establishing positive working relationships with all key stakeholders when managing staff and patient related safety matters
- **Manager Excellence in Return to Work** – awarded to Laura O'Connor Nurse Unit Manager Operating Theatres for her outstanding contribution in supporting, facilitating and successfully returning injured workers back to work.
- **Worker Excellence in Return to Work** – awarded to Judy Wells Registered Nurse Developmental Medicine who displayed a positive attitude, resilience and perseverance towards a gradual return to work.

Compliance with building and maintenance provisions

The RCH was delivered as a Public Private Partnership (PPP) project, in accordance with the State Government's Partnerships Victoria policy. Children's Health Partnership (CHP) is the State's private sector partner and is responsible for maintaining the new hospital facility through Spotless, the Facility Management subcontractor, for a period of 25 years.

Spotless provide a comprehensive maintenance program for the facility, including maintenance of essential services. An annual Essential Safety Measures report is issued at the end of each reporting period to certify compliance.

Safe Patient Care Act 2015

The hospital has no matters to report in relation to its obligations under section 40 of the *Safe Patient Care Act 2015*.

Car parking fees

The RCH complies with the DHHS hospital circular on car parking fees effective 1 February 2016. Details of car parking fees and concession benefits are available on the RCH website at www.rch.org.au/info/az_guide/Car_parking

Environmental performance

The RCH monitors energy consumption and waste generation through the RCH Sustainability Committee and the Utilities Management Committee. These committees serve as an important mechanism to initiate and oversee new waste and energy reduction initiatives.

CHP, the State's private sector partner, is responsible for ensuring that building, plant and equipment performance is monitored and maintained with the objective of minimising energy consumption and greenhouse gas emissions.

In 2017, the RCH implemented a Sustainability Action Plan, resulting in a significant drop in utilities consumption: gas down 4%; water down 12%; a total waste volume down 7% and clinical waste down 32%. The introduction of comingled recycle bins in wards in 2018 has seen an average monthly increase of 55% in recyclable materials and a reduction in landfill waste and charges.

Over the past year the RCH has also established a users group to manage on-site staff amenities for the benefit of staff who choose to walk, run or cycle to work.

Advertising campaigns

The RCH ran no advertising campaigns reportable for the 2017–18 period.

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.

Additional Information (FRD 22H)

In compliance with the requirements of FRD 22H 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.

Statutory statements (continued)

Consultancies less than $10,000

In 2017-18 there was one consultancy where the total fees payable were $4,500 (ex GST).

Consultancies more than $10,000

In 2017–18 there were four consultancies where the total fees payable to the consultants were $10,000 or greater. The total expenditure incurred during 2017–18 in relation to these consultancies was $428,000 (ex GST).

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (ex GST) $	Expenditure 2017–18 (ex GST) $	Future expenditure committed
Pitcher Partners	HR Capability review	Mar-17	Jun-17	105,322.54	66,359.94	–
Pitcher Partners	Roster on Pilot review	May-18	Jun-18	76,000.00	59,640.00	–
Deloitte	Training Review	Jan-18	May-18	75,000.00	75,000.00	–
Nous Group Pty Ltd	Clinical Service Plan	Feb-18	May-18	227,050.00	227,050.00	–
Total				**483,372.54**	**428,049.94**	**–**

Details of Information and Communication Technology (ICT) expenditure

The total ICT expenditure incurred during 2017–18 is $19.5m 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)
$17.0m	$2.5m	–	$2.5m

Statement of Priorities

Part A

Goals	Strategies	Deliverables	Outcomes
Better health A system geared to prevention as much as treatment Everyone understands their own health and risks Illness is detected and managed early Healthy neighbourhoods and communities encourage healthy lifestyles	**Better health** Reduce statewide risks Build healthy neighbourhoods Help people to stay healthy Target health gaps	Complete four Royal Children's Hospital Child polls on health issues impacting Australian families and provide toolkits for parents and carers and primary healthcare providers, aligned to clinical best practice guidelines to address identified children's health and wellbeing issues.	**Achieved.** Four child health polls were released in October, November, March and June on Mental Health, Oral Health, Kids and Food, and Childhood Bullying. Toolkits for parents, carers and primary healthcare providers have been developed.
		To support the identification of family members and our staff who may be at risk of family violence and associated health impacts, we will roll out the Family Violence Training Program to The Royal Children's Hospital staff in a further ten inpatient wards.	**Achieved.** Family Violence Training has been rolled out to 10 wards: Emergency, Dolphin, Butterfly, Wallaby, Sugar Glider, Kookaburra, Kelpie, Platypus, Cockatoo and Day Oncology. Training has also been rolled out to all of Allied Health, Pain Management, Nursing Education, Complex Care, Advanced Practitioner Nursing (APN) group, Victorian Infant Hearing Screening Program (VIHSP), and Diabetes.
		To improve continuity of care beyond the hospital we will increase the number of community providers who access patient information through The Royal Children's Hospital provider portal.	**Achieved.** An additional 12 new sites with a total of 25 providers were registered with the RCH provider portal, RCH Link.
		To ensure our staff who work in the community are safe we will provide staff with duress alarms and remote tracking through the implementation of a new hospital communications system.	**In progress.** The new hospital communication system has not been fully implemented due to a delay in the contract signing process. However, significant progress has been made and the project is on track for completion by early September 2018.

Statement of Priorities (continued)

Goals	Strategies	Deliverables	Outcomes
Better access Care is always there when people need it More access to care in the home and community People are connected to the full range of care and support they need There is equal access to care	**Better access** Plan and invest Unlock innovation Provide easier access Ensure fair access	Improve access and flow within the cancer service by implementing strategies where appropriate patients are treated in Hospital in the Home.	**Achieved.** The Low Risk Febrile Neutropenia program was launched 8 January 2018. Since the launch, 19 out of 57 patients with febrile neutropenia have been identified as low-risk, with nine safely transitioned to home-based care with support of HITH. In-hospital length of stay has significantly reduced compared to pre-implementation.
		Reduce the length of stay by 10 per cent to ensure that patients receive the most effective and efficient care.	**Achieved.** Inlier multiday length of stay has reduced by 12 per cent and overall multiday length of stay by 15 per cent since June 2017.
		Expand the roll-out of direct appointment scheduling of Specialist Clinic appointments to patients and families via the Electronic Medical Record My RCH Portal to a further six clinics to support the delivery of patient-centred care.	**Achieved.** The roll-out of direct appointment scheduling has expanded to a further two specialties and six clinics (Urology and Developmental Medicine) with a combined total of 24 clinics.
		Improve access for rural patients to five specialist paediatric services through telehealth.	**Achieved.** Improved access for rural patients using telehealth for acute oncology, long-term oncology follow-up, allergy, neurology, and hand therapy services has been implemented and embedded into business as usual.

Goals	Strategies	Deliverables	Outcomes
Better care Target zero avoidable harm Healthcare that focuses on outcomes Patients and carers are active partners in care Care fits together around people's needs	**Better care** Put quality first Join up care Partner with patients Strengthen the workforce Embed evidence Ensure equal care		
	Mandatory actions against the 'Target zero avoidable harm' goal: Develop and implement a plan to educate staff about obligations to report patient safety concerns.	Develop and implement a multimedia communication strategy to promote and encourage the reporting of patient safety concerns (Targeting Zero 2.1.4).	**Achieved.** Patient safety newsletter has been developed. Reporting of incidents occurs at nursing meetings.
	In partnership with consumers, identify three priority improvement areas using Victorian Healthcare Experience Survey data and establish an improvement plan for each. These should be reviewed every 6 months to reflect new areas for improvement in patient experience.	Develop an improvement plan and commence implementation to optimise the workflows in the Emergency Department to improve consumer experience in relation to waiting times.	**Achieved.** The Rapid Assessment, Planning, Investigation and Discharge (RAPID) team model was implemented in March 2018 and has resulted in a 39.6 per cent reduction in fail to wait (FTW), improvement in access to care for Category 3 patients by 20.3 per cent, improvement in Seen on Time performance by 18 per cent, and 8.3 per cent improvement in care within four hours KPI.
		Develop an improvement plan and commence implementation to expand criteria-led discharge process for eligible patients to improve patient/family experience and timeliness of discharge.	**Achieved.** 'Ready to Go' trial commenced in the Sugar Glider (medical) ward. Improvement plan under development.
		Develop an improvement plan and commence implementation to enhance processes in the Specialist Clinic contact centre to improve consumer experience with scheduling of Specialist Clinic appointments.	**Achieved.** An improvement project plan has been developed and commenced. Seventeen standard workflows have been implemented, and a 'contact centre welcome to RCH pilot project' is about to start to further improve consumer experience.

Statement of Priorities (continued)

Part B: Performance priorities

High quality and safe care

Key performance indicator	Target	2017–18 actuals
Accreditation		
Accreditation against the NSQHS Standards	Full compliance	Achieved
Infection prevention and control		
Compliance with the Hand Hygiene Australia program	80%	84.3%
Percentage of healthcare workers immunised for influenza	75%	89.3%
Patient experience		
VHES – Positive Patient Experience Q1	95% Positive experience	94%
VHES – Positive Patient Experience Q2		98%
VHES – Positive Patient Experience Q3		96%
VHES – Discharge Care Q1	75% Very positive experience	75%
VHES – Discharge Care Q2		74%
VHES – Discharge Care Q3		69%
VHES – Patient Perception of Cleanliness Q1	≥70%	78%
VHES – Patient Perception of Cleanliness Q2		80%
VHES – Patient Perception of Cleanliness Q3		81%
Healthcare associated infections		
Number of patients with ICU central line-associated blood stream infection (CLABSI)	Nil	Not achieved
Rate of patients with SAB[1] per occupied bed days	<1/10,000	3
Adverse events		
Number of sentinel events	Nil	Not achieved
Mental health		
Rate of seclusion events relating to a child and adolescent acute mental health admission	<15/1,000	7.4
Percentage of child and adolescent acute mental health inpatients who have a post-discharge follow-up within seven days	75%	80%

Strong governance, leadership and culture

Key performance indicator	Target	2017–18 actuals
People matter survey – percentage of staff with an overall positive response to safety and culture questions	80%	89%
People matter survey – percentage of staff with a positive response to the question, 'I am encouraged by my colleagues to report any patient safety concerns I may have'	80%	94%
People matter survey – percentage of staff with a positive response to the question, 'Patient care errors are handled appropriately in my work area'	80%	92%
People matter survey – percentage of staff with a positive response to the question, 'My suggestions about patient safety would be acted upon if I expressed them to my manager'	80%	90%
People matter survey – percentage of staff with a positive response to the question, 'The culture in my work area makes it easy to learn from the errors of others'	80%	83%
People matter survey – percentage of staff with a positive response to the question, 'Management is driving us to be a safety-centred organisation'	80%	90%
People matter survey – percentage of staff with a positive response to the question, 'This health service does a good job of training new and existing staff'	80%	80%
People matter survey – percentage of staff with a positive response to the question, 'Trainees in my discipline are adequately supervised'	80%	83%
People matter survey – percentage of staff with a positive response to the question, 'I would recommend a friend or relative to be treated as a patient here'	80%	98%

1 SAB is Staphylococcus Aureus Bacteraemia

Timely access to care

Key performance indicator	Target	2017–18 actuals
Emergency care		
Percentage of patients transferred from ambulance to emergency department within 40 minutes	90%	98%
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%	72%
Percentage of emergency patients with a length of stay in the emergency department of less than four hours	81%	75%
Number of patients with a length of stay in the emergency department greater than 24 hours	0	1
Elective surgery		
Percentage of urgency category 1 elective surgery patients admitted within 30 days	100%	100%
Percentage of urgency category 1, 2 and 3 elective surgery patients admitted within clinically recommended time	94%	88%
Percentage of patients on the waiting list who have waited longer than clinically recommended time for their respective triage category	15% proportional improvement from prior year	17% proportional improvement from prior year
Number of patients on the elective surgery waiting list[2]	1,995	2,187
Number of hospital initiated postponements per 100 scheduled elective surgery admissions	≤8/100	5.5/100
Number of patients admitted from the elective surgery waiting list	8,585	8,288
Specialist Clinics		
Percentage of urgent patients referred by a GP or external specialist who attended a first appointment within 30 days	100%	52%
Percentage of routine patients referred by GP or external specialist who attended a first appointment within 365 days	90%	83%

Effective financial management

Key performance indicator	Target	2017–18 actuals
Finance		
Operating result ($m)	$0.0	$2.3m
Average number of days to paying trade creditors	60 days	39 days
Average number of days to receiving patient fee debtors	60 days	38 days
Public & private WIES[3] activity performance to target	100%	99.98%
Adjusted current asset ratio	0.7 or 3% improvement from health service base target	1.1%
Number of days with available cash	14 days	16.5 days

2 The target shown is the number of patients on the elective surgery waiting list as 30 June 2018

3 WIES is a Weighted Inlier Equivalent Separation

Statement of Priorities (continued)

Part C

Funding type	2017–18 actuals
Acute admitted	
WIES Public	43,893
WIES Private	14,121
WIES TAC	354
Acute non-admitted	
Home enteral nutrition	6,758
Home renal dialysis	9
Specialist Clinics – public	143,886
Total parenteral nutrition	138
Subacute and non-acute admitted	
Subacute WIES – Rehabilitation Public	226
Subacute WIES – Rehabilitation Private	104
Subacute non-admitted	
Health Independence Program – Public	23,029
Mental health and drug services	
Mental health ambulatory	35,218
Mental health inpatient – available bed days	5,840
Primary health	
Community health/primary care programs	1,956
Other	
NFC – Paediatric Heart Transplant without VAD	6
NFC – Paediatric Heart Transplant with VAD	9
NFC – Paediatric lung transplantation	1[4]
NFC – Transplants – paediatric liver	4[5]
Health workforce	134

4 Five lung transplants were performed. The RCH's share was 5x0.15

5 Eight liver transplants were performed. The RCH's share was 8x0.55

The Royal Children's Hospital

Summary of financial results

	2018 $'000	2017 $'000	2016 $'000	2015 $'000	2014 $'000
Total revenue	758,740	704,524	692,608	607,903	518,331
Total expenses	757,523	705,040	673,922	633,468	585,609
Net result for the year (inc. capital and specific items)	**1,217**	**(516)**	**18,686**	**(25,565)**	**(67,278)**
Retained surplus/(accumulated deficit)	**(202,067)**	**(199,231)**	**(191,246)**	**(209,736)**	**(185,615)**
Total of assets	1,413,781	1,323,224	1,353,641	1,329,667	1,260,743
Total of liabilities	1,212,175	1,235,180	1,265,165	1,270,598	1,166,858
Net assets	**201,605**	**88,044**	**88,476**	**59,069**	**93,886**
Total equity	**201,605**	**88,044**	**88,476**	**59,069**	**93,886**

Operational and financial performance 2018

The Royal Children's Hospital (RCH) ended the year with an annual operating surplus (before capital and specific items) of $2.3m. The RCH has successfully met its Statement of Priorities financial target.

The favourable result for the year is predominantly due to the RCH performing better than planned on the activity based revenue, namely WIES, Heart transplant and private patient's revenue. In the first half of the 2017–18 financial year, the RCH received additional funding for exceeding WIES targets and has received a guarantee of WIES funding for the second half of the year, without recall.

Summary of significant changes in financial position 2018

As per Financial Reporting Direction (FRD) 103F, RCH performs an annual fair value assessment of its *Non-financial physical assets*. Based on property price indices issued by Valuer General Victoria (VGV) in June 18, the RCH recorded an increase in the value of its land and buildings with the main increase ($75m) relating to revaluation of Public Private Partnership building (that the RCH records on behalf of the State of Victoria).

During the 2018–19 financial year, the RCH will engage VGV to conduct a formal valuation of its land and buildings.

Subsequent events

Events after the balance sheet date – nil (refer to note 8.9 in the financial statements).

Attestations

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 2018.

Signed:

The Hon Rob Knowles AO, The Royal Children's Hospital Chairman, 11 September 2018

Data Integrity

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

Signed:

John Stanway, Chief Executive Officer, The Royal Children's Hospital, 11 September 2018

Conflict of Interest

I, John Stanway, certify that The Royal Children's Hospital has put in place appropriate internal controls and processes to ensure that it has complied with the requirements of hospital circular 07/2017 Compliance reporting in health portfolio entities (Revised) and has implemented a 'Conflict of Interest' policy consistent with the minimum accountabilities required by the VPSC. Declaration of private interest forms have been completed by all executive staff within The Royal Children's Hospital and members of the board, and all declared conflicts have been addressed and are being managed. Conflict of interest is a standard agenda item for declaration and documenting at each executive board meeting.

Signed:

John Stanway, Chief Executive Officer, The Royal Children's Hospital, 11 September 2018

Compliance with Health Purchasing Victoria (HPV) Health Purchasing Policies

I, John Stanway, certify that the Royal Children's Hospital has put in place appropriate internal controls and processes to ensure that it has complied with the requirements as set out in the HPV Health Purchasing Policies in relation to mandatory HPV collective agreements as required by the *Health Services Act 1988 (Vic)* and has reviewed the controls and processes during May 2018.

The Royal Children's Hospital reports that the review conducted of organisational compliance to procurement policy as set out in the HPV Health Purchasing Policies identified five (5) issues of non-compliance that have been reported to HPV and that are currently being rectified.

Signed:

John Stanway, Chief Executive Officer, The Royal Children's Hospital, 11 September 2018

Financial Management Compliance attestation

I, the Hon Rob Knowles AO, on behalf of the Responsible Body, certify that The Royal Children's Hospital has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.

Signed:

The Hon Rob Knowles AO, The Royal Children's Hospital Chairman, 11 September 2018

Disclosure index

The annual report of the 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
Charter and purpose		
FRD 22H	Manner of establishment and the relevant Ministers	16
FRD 22H	Purpose, functions, powers and duties	16
FRD 22H	Initiatives and key achievements	4–9
FRD 22H	Nature and range of services provided	16
Management and structure		
FRD 22H	Organisational structure	14–15
Financial and other information		
FRD 10A	Disclosure index	30
FRD 11A	Disclosure of ex-gratia expenses	17
FRD 21C	Responsible person and executive officer disclosures	28
FRD 22H	*Application and operation of Protected Disclosure 2012*	16
FRD 22H	*Application and operation of Carers Recognition Act 2012*	16
FRD 22H	*Application and operation of Freedom of Information Act 1982*	16
FRD 22H	*Compliance with building and maintenance provisions of Building Act 1993*	18
FRD 22H	Details of consultancies over $10,000	20
FRD 22H	Details of consultancies under $10,000	20
FRD 22H	Employment and conduct principles	13
FRD 22H	Information and Communication Technology Expenditure	20
FRD 22H	Major changes or factors affecting performance	27
FRD 22H	Occupational violence	18
FRD 22H	Operational and budgetary objectives and performance against objectives	27
FRD 22H	Summary of the entity's environmental performance	19
FRD 22H	Significant changes in financial position during the year	27
FRD 22H	Statement on National Competition Policy	19
FRD 22H	Subsequent events	27
FRD 22H	Summary of the financial results for the year	27
FRD 22H	Additional information available on request	19
FRD 22H	Workforce Data Disclosures including a statement on the application of employment and conduct principles	13
FRD 25C	Victorian Industry Participation Policy disclosures	17
FRD 103F	Non-Financial Physical Assets	57–58, 63
FRD 110A	Cash flow Statements	38
FRD 112D	Defined Benefit Superannuation Obligations	52
SD 5.2.3	Declaration in report of operations	28
SD 5.1.4	Financial Management Compliance Attestation	29
Other requirements under Standing Directions 5.2		
SD 5.2.2	Declaration in financial statements	32
SD 5.2.1(a)	Compliance with Australian accounting standards and other authoritative pronouncements	32, 41
SD 5.2.1(a)	Compliance with Ministerial Directions	32
Legislation		
Freedom of Information Act 1982		16
Protected Disclosure Act 2012		16
Carers Recognition Act 2012		16
Victorian Industry Participation Policy Act 2003		17
Building Act 1993		18
Financial Management Act 1994		28–29, 32, 41
Safe Patient Care Act 2015		18

Financial statements

The Royal Children's Hospital

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

The attached financial statements for The Royal Children's Hospital and the Consolidated Entities have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including 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 accompanying notes, presents fairly the financial transactions during the year ended 30 June 2018 and the financial position of The Royal Children's Hospital and the Consolidated Entities at 30 June 2018.

At the time of signing, we are not aware of any circumstance 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
11 September 2018

John Stanway
Chief Executive Officer
The Royal Children's Hospital
Melbourne
11 September 2018

Jon Marcard
Chief Financial Officer
The Royal Children's Hospital
Melbourne
11 September 2018

Independent Auditor's Report

VAGO
Victorian Auditor-General's Office

To the Board of The Royal Children's Hospital

Opinion

I have audited the consolidated financial report of The Royal Children's Hospital (the health service) and its controlled entities (together the consolidated entity), which comprises the:

- consolidated entity and health service balance sheet as at 30 June 2018
- consolidated entity and health service comprehensive operating statement for the year then ended
- consolidated entity and health service statement of changes in equity for the year then ended
- consolidated entity and health service cash flow statement for the year then ended
- notes to the financial statements, including significant accounting policies
- board member's, accountable officer's and chief finance and accounting officer's declaration.

In my opinion, the financial report presents fairly, in all material respects, the financial positions of the consolidated entity and the health service as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the *Financial Management Act 1994* and applicable Australian Accounting Standards.

Basis for Opinion

I have conducted my audit in accordance with the *Audit Act 1994* which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.

My independence is established by the *Constitution Act 1975*. My staff and I are independent of the health service and the consolidated entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Other Information

The Board of the health service are responsible for the Other Information, which comprises the information in the health service's annual report for the year ended 30 June 2018, but does not include the financial report and my auditor's report thereon.

My opinion on the financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.

Board's responsibilities for the financial report

The Board of the health service is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Financial Management Act 1994*, and for such internal control as the Board determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Board is responsible for assessing the health service and the consolidated entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994,* my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 health service and the consolidated entity's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board
- conclude on the appropriateness of the Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the health service and the consolidated entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the health service and the consolidated entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the health service and consolidated entity to express an opinion on the financial report. I remain responsible for the direction, supervision and performance of the audit of the health service and the consolidated entity. I remain solely responsible for my audit opinion.

I communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
13 September 2018

Ron Mak
as delegate for the Auditor-General of Victoria

2

The Royal Children's Hospital
Comprehensive operating statement

For the year ended 30 June 2018

	Note	Parent entity 2018 $'000	Parent entity 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
Revenue from operating activities	2.1	664,132	610,027	667,172	620,186
Revenue from non-operating activities	2.1	970	924	1,393	1,509
Employee expenses	3.1	(466,550)	(421,979)	(469,111)	(424,230)
Non-salary labour costs	3.1	(18,077)	(18,261)	(18,222)	(18,403)
Supplies and consumables	3.1	(73,523)	(69,251)	(73,523)	(69,251)
Other expenses	3.1	(103,247)	(97,109)	(106,183)	(99,651)
Finance costs – self funded activity	3.3	(1,360)	(1,402)	(1,360)	(1,402)
Net result before capital and specific items		**2,345**	**2,950**	**166**	**8,758**
Capital purpose income	2.1	88,960	88,356	86,824	85,012
Net gain/(loss) on disposal of non-financial assets	7.2	(123)	(189)	(123)	(189)
Expenditure for capital purpose	3.1	(446)	(2,164)	(446)	(2,164)
Depreciation and amortisation	4.3	(44,608)	(43,988)	(45,069)	(44,409)
Finance costs	3.3	(49,179)	(50,888)	(49,179)	(50,888)
Available-for-sale revaluation gain/(loss) recognised	2.1	13	194	4,116	4,046
Net result after capital and specific items		**(3,038)**	**(5,727)**	**(3,710)**	**167**
Other economic flows included in net result					
Net gain/(loss) on financial instruments	2.1	–	–	(113)	624
Revaluation of long service leave	2.1	3,867	4,828	3,867	4,828
Other gains/(losses) from other economic flows	2.1	389	383	389	383
Total other economic flows included in net result		**4,255**	**5,212**	**4,142**	**5,836**
NET RESULT FOR THE YEAR		**1,217**	**(516)**	**433**	**6,003**
Other comprehensive income					
Items that may be reclassified subsequently to net result					
Changes to financial assets available-for-sale revaluation surplus	8.1	266	84	6,363	1,429
Items that will not be reclassified to net result					
Changes in property, plant and equipment revaluation surplus	8.1	112,078	–	112,235	362
COMPREHENSIVE RESULT FOR THE YEAR		**113,561**	**(432)**	**119,031**	**7,793**

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

The Royal Children's Hospital
Balance sheet

As at 30 June 2018

	Note	Parent entity 2018 $'000	Parent entity 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
ASSETS					
Current assets					
Cash and cash equivalents	6.2	32,001	33,050	51,377	64,802
Receivables	5.1	33,812	24,892	29,021	21,126
Investments and other financial assets	4.1	–	–	36,617	35,555
Inventories	5.2	1,771	1,539	1,802	1,568
Prepayments		1,271	1,489	1,438	1,708
Total current assets		**68,854**	**60,969**	**120,256**	**124,759**
Non-current assets					
Receivables	5.1	32,874	25,159	32,874	25,159
Investments and other financial assets	4.1	10,289	9,671	100,015	80,960
Property, plant and equipment	4.2	1,229,876	1,150,017	1,237,993	1,159,243
Intangible assets	4.4	63,962	70,134	75,964	82,821
Investment properties	4.5	7,926	7,272	9,285	7,272
Total non-current assets		**1,344,927**	**1,262,254**	**1,456,131**	**1,355,455**
TOTAL ASSETS		**1,413,781**	**1,323,224**	**1,576,387**	**1,480,214**
LIABILITIES					
Current liabilities					
Payables	5.4	26,861	35,029	28,992	36,953
Provisions	3.4	124,556	112,579	124,567	112,660
Borrowings	6.1	35,259	33,575	35,259	33,575
Other current liabilities	5.3	13,617	11,631	7,613	5,529
Total current liabilities		**200,293**	**192,815**	**196,430**	**188,718**
Non-current liabilities					
Provisions	3.4	20,328	15,107	20,338	15,113
Borrowings	6.1	989,549	1,024,903	989,549	1,024,903
Other non-current liabilities	5.3	2,006	2,355	3,700	4,141
Total non-current liabilities		**1,011,883**	**1,042,365**	**1,013,587**	**1,044,157**
TOTAL LIABILITIES		**1,212,175**	**1,235,180**	**1,210,017**	**1,232,875**
NET ASSETS		**201,605**	**88,044**	**366,370**	**247,339**
EQUITY					
Property, plant and equipment revaluation surplus	8.1	295,302	183,224	299,223	186,988
Financial assets available-for-sale revaluation surplus	8.1	557	291	14,088	7,726
Restricted specific purpose surplus	8.1	16,499	12,446	115,096	122,839
Contributed capital	8.1	91,314	91,314	91,314	91,314
Accumulated deficit	8.1	(202,067)	(199,231)	(153,352)	(161,527)
TOTAL EQUITY		**201,605**	**88,044**	**366,370**	**247,339**
Commitments	6.3				
Contingent assets and contingent liabilities	7.3				

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

The Royal Children's Hospital
Statement of changes in equity

For the year ended 30 June 2018

Consolidated	Note	Property, plant and equipment revaluation surplus $'000	Financial asset available for sale revaluation surplus $'000	Restricted specific purpose surplus $'000	Contributed capital $'000	Accumulated surpluses/ (deficits) $'000	Total $'000
Balance at 1 July 2016		**186,626**	**6,297**	**96,646**	**91,314**	**(141,337)**	**239,546**
Net result for the year		–	–	–	–	6,003	6,003
Other comprehensive income for the year		362	1,429	–	–	–	1,791
Transfer to accumulated surplus/(deficit)		–	–	26,193	–	(26,193)	–
Balance at 30 June 2017	8.1	**186,988**	**7,726**	**122,839**	**91,314**	**(161,527)**	**247,339**
Net result for the year		–	–	–	–	433	433
Other comprehensive income for the year		112,235	6,363	–	–	–	118,598
Transfer to accumulated surplus/(deficit)		–	–	(7,743)	–	7,743	–
Balance at 30 June 2018	8.1	**299,223**	**14,088**	**115,096**	**91,314**	**(153,352)**	**366,370**

Parent	Note	Property, plant and equipment revaluation surplus $'000	Financial asset available for sale revaluation surplus $'000	Restricted specific purpose surplus $'000	Contributed capital $'000	Accumulated surpluses/ (deficits) $'000	Total $'000
Balance at 1 July 2016		**183,224**	**207**	**4,977**	**91,314**	**(191,246)**	**88,476**
Net result for the year		–	–	–	–	(516)	(516)
Other comprehensive income for the year		–	84	–	–	–	84
Transfer to accumulated surplus/(deficit)		–	–	7,469	–	(7,469)	–
Balance at 30 June 2017		**183,224**	**291**	**12,446**	**91,314**	**(199,231)**	**88,044**
Net result for the year		–	–	–	–	1,217	1,217
Other comprehensive income for the year		112,078	266	–	–	–	112,344
Transfer to accumulated surplus/(deficit)		–	–	4,053	–	(4,053)	–
Balance at 30 June 2018		**295,302**	**557**	**16,499**	**91,314**	**(202,067)**	**201,605**

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

The Royal Children's Hospital
Cash flow statement

For the year ended 30 June 2018

	Note	Parent entity 2018 $'000	Parent entity 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Operating grants from government		467,705	434,999	469,102	435,511
Capital grants from government		4,308	3,001	4,308	3,001
Patient fees received		24,703	22,689	24,703	22,689
Private practice fees received		30,611	31,745	30,611	31,745
Donations and bequests received		20,044	18,199	30,387	30,756
GST received from/(paid to) ATO		2,252	2,029	2,254	2,011
Interest received		931	1,104	4,468	4,352
Capital donations and bequests received		2,137	3,484	1	137
Other receipts		60,023	58,678	58,440	60,284
Total receipts		**612,715**	**575,927**	**624,275**	**590,485**
Employee expenses paid		(457,817)	(430,654)	(460,447)	(433,042)
Fee for service medical officers		(3,690)	(2,617)	(3,690)	(2,617)
Payments for supplies and consumables		(80,647)	(70,550)	(79,397)	(70,550)
Finance cost		(1,360)	(1,402)	(1,360)	(1,402)
Other payments		(65,193)	(59,783)	(77,711)	(73,380)
Total payments		**(608,708)**	**(565,006)**	**(622,606)**	**(580,993)**
NET CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES	8.2	**4,007**	**10,921**	**1,669**	**9,493**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for non-financial assets		(4,267)	(20,570)	(4,929)	(20,832)
Proceeds from sale of non-financial assets		12	17	12	17
Purchase of investments		–	–	(9,375)	(11,578)
Proceeds from sale of investments		–	–	–	5,700
NET CASH FLOW FROM/(USED IN) INVESTING ACTIVITIES		**(4,254)**	**(20,552)**	**(14,292)**	**(26,693)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings		(802)	(835)	(802)	(835)
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		**(802)**	**(835)**	**(802)**	**(835)**
Net increase/(decrease) in cash and cash equivalents held		(1,049)	(10,466)	(13,425)	(18,035)
Cash and cash equivalents at the beginning of financial year		33,050	43,516	64,802	82,836
CASH AND CASH EQUIVALENTS AT THE END OF FINANCIAL YEAR	6.2	**32,001**	**33,050**	**51,377**	**64,802**

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

Notes to the Financial Statements
30 June 2018

Table of contents

Basis of presentation

These financial statements are presented in Australian dollars and the historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured on a different basis.

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Consistent with the requirements of AASB 1004 *Contributions* (that is contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the hospital.

Additions to net assets which have been designated as contribution by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contribution by owners.

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also future periods that are affected by the revision. Judgements and assumptions made by management in applying the application of AASB that have significant effect on the financial statements and estimates are disclosed in the notes.

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.

Note 1: Summary of significant accounting policies

These annual financial statements represent the audited general purpose financial statements for The Royal Children's Hospital (RCH) for the year ended 30 June 2018. The purpose of the report is to provide users with information about the RCHs' 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 AASBs, 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 RCH is a not-for-profit entity and therefore applies the additional Australian-specific paragraphs ('Aus') applicable to 'not-for-profit' Health Services under the AASBs.

The annual financial statements were authorised for issue by the Board of the RCH on 11 September 2018.

(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 2018, and the comparative information presented in these financial statements for the year ended 30 June 2017.

The going concern basis was used to prepare the financial statements. The RCH 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 RCH adequate cash flow support to meet its current and future obligations as and when they fall due for a period up to September 2019. 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 RCH.

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 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.

Estimates where judgments and estimates have been applied include provisions for leave entitlements (refer note 3.4) and provisions for doubtful receivables (refer note 5.1 (a)). Estimates have also been applied to certain employee expenses (refer note 3.1).

(c) Reporting entity

The financial statements include all the controlled activities of the RCH.

Its principal address is:

50 Flemington Road
Parkville
Victoria 3052

A description of the nature of the RCH'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 RCH'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 RCH is predominantly funded by grant funding for the provision of outputs.

(d) Principles of consolidation

These statements are presented on a consolidated basis in accordance with AASB 10 *Consolidated Financial Statements*:

- The consolidated financial statements of the RCH include all reporting entities controlled by the RCH; and
- The consolidated financial statements exclude bodies of the RCH that are not controlled by the RCH, and therefore are not consolidated.
- Control exists when the RCH 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 8.7.
- The parent entity is not shown separately in the notes.
- 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 RCH reporting entity include audited results of below entities:

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

The Royal Children's Hospital's Foundation Trust Fund is a controlled entity of the RCH 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 was deemed to be a controlled entity of the RCH because the majority of the entity's Board positions comprised of the RCH's senior management. The company was deregistered on 16 February 2017 and its transactions and activities have been included for consolidation up to this date.

In the process of preparing consolidated financial statements for the RCH, all material transactions and balances between consolidated entities are eliminated.

Intersegment transactions

Transactions between segments within the RCH 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 accounted for in accordance with the policy outlined in note 4.6.

(e) 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 Australian Taxation Office (ATO). 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 ATO 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 ATO are presented as an operating cash flow.

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

Note 2: Funding delivery of our services

The RCH's overall objective is to deliver programs and services that support and enhance the wellbeing of all Victorians. To enable the hospital to fulfil its objective it receives income based on parliamentary appropriations. The hospital also receives income from the supply of services.

Structure

Note 2.1: Analysis of revenue by source

Consolidated	Admitted patients 2018 $'000	Non-admitted 2018 $'000	EDs 2018 $'000	Mental health 2018 $'000	Primary health 2018 $'000	Other 2018 $'000	Total 2018 $'000
Government grants	352,607	61,062	18,764	20,251	362	5,877	458,924
Commonwealth government	11,007	2,752	–	200	20	592	14,570
Indirect contribution by Department of Health and Human Services	51,863	–	–	–	–	–	51,863
Patient fees	22,170	295	–	–	–	–	22,465
Research and program grants	98	24	–	38	–	4	163
Recoupment from private practice for use of hospital facilities	14,695	1,366	–	–	–	–	16,061
Corporate services	22	6	–	–	–	–	28
Pathology	5,852	1,463	–	–	–	–	7,315
Commercial and other activities (refer note 3.2)	–	–	–	–	–	55,822	55,822
Other revenue from operating activities	11,803	958	(16)	(32)	1,208	26,039	39,961
Total revenue from operating activities	**470,117**	**67,926**	**18,748**	**20,457**	**1,590**	**88,333**	**667,172**
Interest and dividends	3	1	–	–	–	1,389	1,393
Total revenue from non-operating activities	**3**	**1**	**–**	**–**	**–**	**1,389**	**1,393**
Capital purpose income (excluding interest)	–	–	–	–	–	86,824	86,824
Net gain/(loss) on disposal of non-financial assets	–	–	–	–	–	(123)	(123)
Total capital purpose income	**–**	**–**	**–**	**–**	**–**	**86,702**	**86,702**
Net gain/(loss) on financial instruments	–	–	–	–	–	(113)	(113)
Revaluation of long service leave	–	–	–	–	–	3,867	3,867
Other gains/(losses) from other economic flows	–	–	–	–	–	389	389
Total net income from other economic flows	**–**	**–**	**–**	**–**	**–**	**4,142**	**4,142**
Available-for-sale revaluation surplus gain/(loss) recognised	–	–	–	–	–	4,116	4,116
Total revenue	**470,120**	**67,927**	**18,748**	**20,457**	**1,590**	**184,683**	**763,525**

Note 2.1: Analysis of revenue by source (continued)

Consolidated	Admitted patients 2017 $'000	Non-admitted 2017 $'000	EDs 2017 $'000	Mental health 2017 $'000	Primary health 2017 $'000	Other 2017 $'000	Total 2017 $'000
Government grants	319,975	59,081	16,867	18,431	319	4,980	419,653
Commonwealth government	8,166	2,042	–	200	19	629	11,056
Indirect contribution by Department of Health and Human Services	44,628	–	–	–	–	–	44,628
Patient fees	20,718	272	–	–	–	17	21,006
Research and program grants	164	38	–	31	445	–	677
Recoupment from private practice for use of hospital facilities	15,458	1,259	–	–	–	–	16,717
Corporate services	22	6	–	–	–	–	28
Pathology	5,856	1,464	–	–	–	–	7,320
Commercial and other activities (refer note 3.2)	–	–	–	–	–	52,861	52,861
Other revenue from operating activities	9,014	940	(4)	270	645	35,376	46,241
Total revenue from operating activities	**424,001**	**65,100**	**16,863**	**18,932**	**1,427**	**93,863**	**620,186**
Interest and dividends	–	–	–	–	–	1,509	1,509
Total revenue from non-operating activities	**–**	**–**	**–**	**–**	**–**	**1,509**	**1,509**
Capital purpose income (excluding interest)	–	–	–	–	–	85,012	85,012
Net gain/(loss) on disposal of non-financial assets	–	–	–	–	–	(189)	(189)
Total capital purpose income	**–**	**–**	**–**	**–**	**–**	**84,823**	**84,823**
Net gain/(loss) on financial instruments	–	–	–	–	–	624	624
Revaluation of long service leave	–	–	–	–	–	4,828	4,828
Other gains/(losses) from other economic flows	–	–	–	–	–	383	383
Total net income from other economic flows	**–**	**–**	**–**	**–**	**–**	**5,836**	**5,836**
Available-for-sale revaluation surplus gain/(loss) recognised	–	–	–	–	–	4,046	4,046
Total revenue	**424,001**	**65,100**	**16,863**	**18,932**	**1,427**	**190,077**	**716,400**

Revenue has been classified across programs as defined in the Agency Information Management System (AIMS) guidelines. For clinical support, an estimated FTE ratio has been applied in order to allocate revenue to admitted patients and non-admitted patients.

The Department of Health and Human Services makes certain payments on behalf of the RCH. These amounts have been brought to account in determining the operating result for the year by recording them as revenue and expenses.

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 RCH 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 RCH gains control of the underlying assets irrespective of whether conditions are imposed on the RCH'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 04/2017 (updated for 2017–18).

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 surplus, such as specific restricted purpose surplus.

Dividend revenue

Dividend revenue is recognised when the right to receive payment is established. Dividends represent the income arising from the RCH's investments in financial assets.

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.

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, inflation rates and changes in probability factors;
- revaluation gains/(losses) from investment properties;
- revaluation of provision for doubtful debts; and
- revaluation gains/(losses) from financial instruments at fair value through profit or loss.

Category groups

The RCH 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.

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 RCH 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.

Note 3: Cost of delivering our services

This section provides an account of the expenses incurred by the RCH in delivering services and outputs. In section 2, the funds that enable the provision of services were disclosed and in this note the cost associated with provision of services are recorded.

Structure

Note 3.1: Analysis of expenses by source

Consolidated	Admitted patients 2018 $'000	Non-admitted 2018 $'000	EDs 2018 $'000	Mental health 2018 $'000	Primary health 2018 $'000	Other 2018 $'000	Total 2018 $'000
Employee expenses	328,705	45,044	27,655	15,059	11,948	40,700	469,111
Non-salary labour costs	8,753	4,999	136	832	24	3,478	18,222
Supplies and consumables	59,698	9,607	1,247	135	27	2,808	73,523
Other expenses	76,737	5,995	441	806	1,797	20,406	106,183
Finance costs – self funded activity (refer note 3.3)	–	–	–	–	–	1,360	1,360
Total expenditure from operating activities	**473,893**	**65,645**	**29,479**	**16,832**	**13,796**	**68,753**	**668,399**
Expenditure for capital purposes	–	–	–	–	–	446	446
Depreciation and amortisation (refer note 4.3)	–	–	–	–	–	45,069	45,069
Finance lease interest expense (refer note 3.3)	–	–	–	–	–	49,179	49,179
Total other expenses	**–**	**–**	**–**	**–**	**–**	**94,694**	**94,694**
Total expenses	**473,893**	**65,645**	**29,479**	**16,832**	**13,796**	**163,447**	**763,093**

Consolidated	Admitted patients 2017 $'000	Non-admitted 2017 $'000	EDs 2017 $'000	Mental health 2017 $'000	Primary health 2017 $'000	Other 2017 $'000	Total 2017 $'000
Employee expenses	293,207	40,027	24,938	13,636	11,293	41,129	424,230
Non-salary labour costs	7,438	4,743	104	736	136	5,245	18,403
Supplies and consumables	55,910	9,027	1,312	147	27	2,828	69,251
Other expenses	72,346	5,289	461	1,048	1,968	18,539	99,651
Finance costs – self funded activity (refer note 3.3)	–	–	–	–	–	1,402	1,402
Total expenditure from operating activities	**428,900**	**59,086**	**26,815**	**15,568**	**13,425**	**69,144**	**612,938**
Expenditure for capital purposes	–	–	–	–	–	2,164	2,164
Depreciation and amortisation (refer note 4.3)	–	–	–	–	–	44,409	44,409
Finance lease interest expense (refer note 3.3)	–	–	–	–	–	50,888	50,888
Total other expenses	**–**	**–**	**–**	**–**	**–**	**97,460**	**97,460**
Total expenses	**428,900**	**59,086**	**26,815**	**15,568**	**13,425**	**166,603**	**710,397**

Expenditure has been classified across programs as defined in the Agency Information Management System (AIMS) guidelines. For clinical support, an estimated FTE ratio has been applied in order to allocate expenditure to admitted patients and non-admitted patients.

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 or value 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.

New payroll system implementation

The RCH implemented a changeover of its outsourced payroll system and services in June 2017 which involved the following changes:

1. The payroll system changed from CHRIS 21 to SAP;
2. The payroll processing service moved from Rivor Pty Ltd to Melbourne Health; and
3. The technical support and development of the system moved from Frontier Ltd to Datacom Business Services Pty Ltd.

The above changes have caused a number of issues relating to the correct calculation of employee pay and leave balances which required rectification.

During the financial year the RCH has undertaken a significant amount of work to stabilise the payroll system to ensure employees receive their correct pay and entitlements. A number of key actions were taken, including:

- Commissioning an internal audit review and commitment to deliver the recommendations, including (but not limited to) establishing a 'One stop shop' for payroll queries in an effort to consistently capture and document all payroll queries that arise following an employee contact with the payroll provider, enabling trend and system issues to be readily identified and reported for priority action;
- Putting further pay cycle checks in place to reduce errors before they occur;
- Establishing a payroll rectification committee to prioritise and manage the correction of system defects;
- Working closely with both Melbourne Health and Datacom to identify issues and implement fixes; and
- Commencing a review of the rostering system, in order to streamline the localised and paper based roster and timesheet process across the hospital.

Whilst a number of the issues have been corrected during the financial year, an estimated amount of $600k is included in debtors (refer to note 5.1) relating to salary overpayments, of which $323k is relating to overpaid superannuation obligations to staff, yet to be recovered as at 30 June 2018. The RCH, as a government agency, has a responsibility to taxpayers to collect the overpaid monies.

As at 30 June 2018, the RCH has recognised $460k in its employee provision (refer to note 3.4) representing an estimate of the remaining salary underpayment, with a commitment to continue to review and resolve the issues in financial year 2018–19.

Whilst the RCH acknowledges the difficulties surrounding the payroll system, the RCH has taken the necessary steps to identify under or over payments and have accounted for these in accordance with the *Financial Management Act 1994* and applicable AASBs in the financial results for 2017–18 (refer to note 7.3).

The RCH is committed to improving the quality of its payroll function and to resolve staff payroll issues as soon as possible and will continue working towards delivering a payroll services which meets the needs of our staff.

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 4.1 *Investments and other financial assets*.

Foreign currencies

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

Note 3.1: Analysis of expenses by source (continued)

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 RCH 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.

Other economic flows

Other economic flows are changes 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 4.2 Property, plant and equipment.
- 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

- 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 7.1); and
  - disposals of financial assets and derecognition of financial liabilities.
- Revaluations of financial instruments at fair value, refer to note 7.1.

Note 3.2: Analysis of revenue and expenses by internally managed and restricted specific purpose funds

	Expense[(i)]		Revenue[(i)]	
	Consolidated 2018 $'000	Consolidated 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
Commercial activities				
Private practice activities	10,402	12,351	17,208	18,101
Car park	1,148	1,488	10,529	10,343
Property expense/revenue	30	35	283	283
Child Health and Information Centre	221	133	121	124
Early Learning Centre	2,722	2,666	3,186	3,148
Creative Studio	103	323	285	417
Safety Centre	–	1	–	1
Other activities				
Research and scholarship	12,408	10,815	12,378	11,106
Departmental and general purpose funds	8,998	6,535	11,832	9,339
Total	**36,033**	**34,345**	**55,822**	**52,861**

(i) Restricted and Internally Managed Specific Purpose Funds revenue and expenses are classified as 'Other' in note 2.1 and note 3.1 respectively.

Note 3.3: Finance costs

	Consolidated 2018 $'000	Consolidated 2017 $'000
Finance costs – self funded activity		
Interest expense on TCV loan	1,360	1,402
Total finance costs – self funded activity	**1,360**	**1,402**
Finance costs – capital items		
Finance charges on PPP lease[(i)]	49,179	50,888
Total finance costs – capital items	**49,179**	**50,888**
Total finance costs	**50,539**	**52,290**

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

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 RCH on behalf of the State of Victoria in accordance with AASB 117 *Leases*.

Note 3.4: Employee benefits in the balance sheet

	Consolidated 2018 $'000	Consolidated 2017 $'000
CURRENT PROVISIONS		
Employee benefits		
Accrued wages and salaries		
– unconditional and expected to be settled within 12 months (nominal value)	17,383	12,871
Accrued days off		
– unconditional and expected to be settled within 12 months (nominal value)	1,059	975
Annual leave		
– unconditional and expected to be settled within 12 months (nominal value)	31,707	28,436
– unconditional and expected to be settled after 12 months (present value)	5,409	4,716
Long service leave		
– unconditional and expected to be settled within 12 months (nominal value)	6,281	5,829
– unconditional and expected to be settled after 12 months (present value)	51,521	49,453
	113,359	**102,281**
Provisions related to employee benefit on-costs		
– unconditional and expected to be settled within 12 months (nominal value)	4,552	4,056
– unconditional and expected to be settled after 12 months (present value)	6,655	6,323
	11,208	**10,379**
Total current provisions	**124,567**	**112,660**
NON-CURRENT PROVISIONS		
Employee benefits	18,210	13,532
Provisions related to employee benefit on-costs	2,128	1,581
Total non-current provisions	**20,338**	**15,113**
Total provisions	**144,905**	**127,774**
(a) Employee benefits and related on-costs		
CURRENT EMPLOYEE BENEFITS AND RELATED ON-COSTS		
Unconditional long service leave entitlements	64,559	61,738
Annual leave entitlements	41,443	36,962
Accrued wages and salaries	17,383	12,871
Accrued days off	1,182	1,089
NON-CURRENT EMPLOYEE BENEFITS AND RELATED ON-COSTS		
Conditional long service leave entitlements (present value)	20,338	15,113
Total employee benefits	**144,905**	**127,774**
(b) Movements in provisions		
Movement in long service leave:		
Balance at the beginning of financial year	76,851	76,139
Provision made during the year		
– Revaluation increments/(decrements)	(3,867)	(4,828)
– Expense recognising employee service	17,845	12,074
Settlement made during the year	(5,933)	(6,534)
Balance at the end of financial year	**84,897**	**76,851**

Provisions

Provisions are recognised when the RCH 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.

Actuarial assumptions for employee benefit provisions are made for likely tenure of existing staff, patterns of leave taken, future salary movements and discount rates.

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.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, annual leave and accrued days off are measured at:

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

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. An unconditional right arises after a qualifying period.

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 gains or losses following revaluation of the present value of non-current LSL liabilities are recognised as transactions, except to the extent that they arise due to changes in estimations (e.g. bond rate movements, inflation rate movements and changes in probability factors), for which the gains or losses are recognised as other economic flows.

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 RCH 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 related to employee expenses

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

Note 3.5: Superannuation

	Paid contributions for the year		Contribution outstanding at year end	
	Consolidated 2018 $'000	Consolidated 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
Defined benefit plans[(i)]				
Health Super Scheme	686	452	49	52
Defined contribution plans				
Health Super Scheme	23,593	21,196	2,052	1,731
Hesta	9,557	8,044	820	691
Other	2,274	168	97	147
Total	**36,110**	**29,860**	**3,017**	**2,622**

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

New payroll system implementation

Defects in the new payroll system has resulted in a number of variances in the payment and calculation of superannuation throughout the year resulting in an estimated overpayment of $323k. These defects have been identified and work arounds are in place to correctly reconcile and pay superannuation. The RCH has commenced steps to recover this amount, however a provision has been included in the accounts (refer to note 3.1).

Accrued superannuation

The outstanding superannuation accrual between the last pay run and year end is estimated at $1,556k. This becomes payable once the full pay run is processed in July 2018.

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 RCH to the superannuation plan in respect to the current services of current RCH 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 RCH are entitled to receive superannuation benefits and the RCH 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 RCH are disclosed in the above table.

Superannuation liabilities

The RCH does not recognise any unfunded defined benefit liability in respect of the superannuation plans because the RCH 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.

Note 4: Key assets to support service delivery

The RCH controls infrastructure and other investments that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the hospital to be utilised for delivery of those outputs.

Structure

Note 4.1: Investments and other financial assets

	Consolidated	
	2018 $'000	2017 $'000
CURRENT		
Held for trading – at fair value through profit or loss		
Managed funds[(i)]	36,617	35,555
Total current	**36,617**	**35,555**
NON-CURRENT		
Investments in other entities – at fair value through profit or loss		
Shares in other entities	1	1
Available for sale – at fair value through other comprehensive income		
Managed funds[(i)]	100,014	80,959
Total non-current	**100,015**	**80,960**
Total investments and other financial assets	**136,632**	**116,515**
Represented by:		
Health service investments	10,289	9,671
Investments held by The Royal Children's Hospital Foundation	126,343	106,843
Share of investments held by Victorian Comprehensive Cancer Centre	1	1
Total investments and other financial assets	**136,632**	**116,515**

(i) The managed funds consists of investments held by the RCH and The Royal Children's Hospital Foundation (RCHF). The RCHF is consolidated into the RCH for reporting purposes as it is the ultimate beneficiary of the RCHF. The 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*.

Note 4.1: Investments and other financial assets (continued)

Investments and other financial assets

Hospital investments are in accordance with the Standing Directions 3.7.2 – 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.

Investments are classified in the following categories:

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

The RCH 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 RCH 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.

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 RCH 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 RCH has transferred its rights to receive cash flows from the asset and either:
  (a) has transferred substantially all the risks and rewards of the asset; or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets

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

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. 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 4.2: Property, plant and equipment

(a) Gross carrying amount and accumulated depreciation

	Consolidated 2018 $'000	Consolidated 2017 $'000
Land		
Crown land at fair value for hospital use	86,309	82,849
Freehold	21,906	19,598
Total land	**108,215**	**102,448**
Buildings		
Buildings at fair value	42,957	41,746
Less accumulated impairment	–	500
Less accumulated depreciation	1,310	2,679
Total buildings	**41,648**	**38,567**
Plant and equipment		
Plant and equipment at fair value	2,063	2,110
Less accumulated impairment	–	3
Less accumulated depreciation	1,349	1,224
Total plant and equipment	**714**	**882**
Medical equipment		
Medical equipment at fair value	80,500	77,899
Less accumulated depreciation	63,896	56,835
Total medical equipment	**16,603**	**21,064**
Computers and communication		
Computers and communication at fair value	12,911	14,672
Less accumulated impairment	–	18
Less accumulated depreciation	10,502	11,703
Total computers and communication	**2,409**	**2,951**
Furniture and fittings		
Furniture and fittings at fair value	1,364	1,368
Less accumulated impairment	–	39
Less accumulated depreciation	355	258
Total furniture and fittings	**1,009**	**1,071**
Motor vehicles		
Motor vehicles at fair value	458	458
Less accumulated depreciation	281	244
Total motor vehicles	**177**	**214**
Artwork		
Artwork at fair value	822	816
Total artwork	**822**	**816**
Public Private Partnership (PPP) assets		
Leased buildings at fair value	1,005,042	999,051
Less accumulated depreciation	(0)	71,763
Total leased buildings	**1,005,042**	**927,288**
Leased fittings at fair value	43,390	43,390
Less accumulated depreciation	9,399	7,953
Total leased fittings	**33,991**	**35,437**
Leased equipment at fair value	33,413	33,413
Less accumulated depreciation	6,835	5,693
Total leased equipment	**26,577**	**27,719**
Leased cultural assets at fair value	785	785
Total leased cultural assets	**785**	**785**
Total leased assets	**1,066,395**	**991,230**
Total PPP assets	**1,066,395**	**991,230**
Total property, plant and equipment	**1,237,993**	**1,159,243**

Note 4.2: Property, plant and equipment (continued)

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

Note that intangible assets are not included in this schedule, refer note 4.4.

Consolidated	Land	Buildings	Plant and equip.	Medical equip.	Computers and communic.	Furniture and fittings	Motor vehicles	Artwork	PPP assets	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016	**103,222**	**37,642**	**1,081**	**27,256**	**1,018**	**221**	**232**	**817**	**1,018,289**	**1,189,777**
Additions	–	2,507	55	1,862	1,785	312	25	–	0	6,548
Disposals	–	–	(8)	(173)	(20)	(3)	(2)	–	–	(206)
Net transfers between classes	(1,136)	(612)	(47)	11	1,809	646	–	–	–	671
Revaluation increments/ (decrements)	362	–	–	–	–	–	–	–	–	362
Depreciation and amortisation (note 4.3)	–	(971)	(198)	(7,893)	(1,643)	(106)	(41)	–	(27,056)	(37,908)
Balance at 1 July 2017	**102,448**	**38,566**	**883**	**21,062**	**2,949**	**1,071**	**214**	**817**	**991,233**	**1,159,243**
Additions	–	1,339	46	3,130	1,234	40	–	6	–	5,796
Disposals	–	(37)	(27)	(26)	(82)	–	–	–	–	(172)
Net transfers between classes	(925)	(436)	–	–	–	–	–	–	–	(1,361)
Revaluation increments/ (decrements)	6,693	3,321	–	–	–	–	–	–	102,222	112,235
Depreciation and amortisation (note 4.3)	–	(1,106)	(188)	(7,564)	(1,694)	(102)	(37)	–	(27,057)	(37,748)
Balance at 30 June 2018	**108,215**	**41,646**	**715**	**16,602**	**2,407**	**1,009**	**177**	**823**	**1,066,399**	**1,237,993**

The RCH 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 RCH'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. In June 2018 a managerial valuation (including the PPP land and building) was carried out to revalue land and buildings to fair value.

The Department of Health and Human Services (DHHS) has provided revaluation amounts to be recorded for the PPP assets. Based on valuation advice from DHHS, a revaluation adjustment has been made in the 2017–18 financial year.

The net transfer in 2018 reflects a reclassification from a property owned by the RCH Foundation (159 Flemington Road) from property, plant and equipment assets class to investment properties to reflect the current use of that property. The net transfer in 2017 related to the RCH equipment purchased for the EMR project which was previously classified as an intangible asset (whilst the asset was under construction during the 2016–17 financial year) and a reclassification of a RCH property into an investment property to reflect the use of that property.

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

Consolidated	Carrying amount as at 30 June 2018	Fair value measurement at end of reporting period using: (i)		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Land at fair value				
Non-specialised land	21,906	–	21,906	–
Specialised land	86,309	–	–	86,309
Total land at fair value	**108,215**	**–**	**21,906**	**86,309**
Buildings at fair value				
Non-specialised buildings	18,585	–	18,585	–
Specialised buildings	23,062	–	–	23,062
Total buildings at fair value	**41,648**	**–**	**18,585**	**23,062**
Plant and equipment at fair value				
Plant and equipment	714	–	–	714
Medical equipment	16,603	–	–	16,603
Computers and communication	2,409	–	–	2,409
Furniture and fittings	1,009	–	–	1,009
Motor vehicles	177	–	–	177
Artwork	822	–	822	–
Total plant and equipment at fair value	**21,735**	**–**	**822**	**20,913**
PPP assets at fair value				
Leased buildings	1,005,042	–	–	1,005,042
Leased fittings	33,991	–	–	33,991
Leased equipment	26,577	–	–	26,577
Leased cultural assets	785	–	785	–
Total PPP assets at fair value	**1,066,395**	**–**	**785**	**1,065,610**
Total	**1,237,993**	**–**	**42,099**	**1,195,894**

Note 4.2: Property, plant and equipment (continued)

Consolidated	Carrying amount as at 30 June 2017 $'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	19,598	–	19,598	–
Specialised land	82,849	–	–	82,849
Total land at fair value	**102,448**	**–**	**19,598**	**82,849**
Buildings at fair value				
Non-specialised buildings	17,422	–	17,422	–
Specialised buildings	21,145	–	–	21,145
Total buildings at fair value	**38,567**	**–**	**17,422**	**21,145**
Plant and equipment at fair value				
Plant and equipment	882	–	–	882
Medical equipment	21,064	–	–	21,064
Computers and communication	2,951	–	–	2,951
Furniture and fittings	1,071	–	–	1,071
Motor vehicles	214	–	–	214
Artwork	816	–	816	–
Total plant and equipment at fair value	**26,998**	**–**	**816**	**26,182**
PPP assets at fair value				
Leased buildings	927,288	–	–	927,288
Leased fittings	35,437	–	–	35,437
Leased equipment	27,719	–	–	27,719
Leased cultural assets	785	–	785	–
Total PPP assets at fair value	**991,230**	**–**	**785**	**990,445**
Total	**1,159,243**	**–**	**38,621**	**1,120,622**

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AASBs that have significant effects on the financial statements and estimates relate to fair value of land, buildings, plant and equipment.

Consistent with AASB 13 *Fair Value Measurement*, the RCH 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 RCH 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 RCH 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 RCH's independent valuation agency.

The RCH, 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. Judgements and assumptions made by management in the application of AASBs 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.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The measurement of fair value is based on the following assumptions:

- that the transaction to sell the asset or transfer the liability takes place either in the principal market or the most advantageous market (in the absence of a principal market), either of which must be accessible to the RCH at the measurement date; and
- that the RCH uses the same valuation assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Consideration of highest and best use (HBU) for non-financial physical assets

Judgements about highest and best use take into account the characteristics of the assets concerned, including restrictions on the use and disposal of assets arising from the asset's physical nature and any applicable legislative/contractual arrangements.

In considering the HBU for non-financial physical assets, valuers are presumed best placed to determine highest and best use (HBU) in consultation with the RCH. The RCH and valuers have a shared understanding of the circumstances of the assets.

In accordance with paragraph AASB 13.29, the RCH can assume the current use of a non-financial physical asset is its HBU unless market or other factors suggest that a different use by market participants would maximise the value of the asset.

Therefore, an assessment of the HBU will be required when the indicators are triggered within a reporting period, which suggest the market participants would have perceived an alternative use of an asset that can generate maximum value. Once identified, the RCH is required to engage with the Valuer-General Victoria or other independent valuers for a formal HBU assessment.

These indicators, as a minimum, include the following external factors:

- changed acts, regulations, local law or such instrument which affects or may affect the use or development of the asset;
- changes in planning scheme, including zones, reservations, overlays that would affect or remove the restrictions imposed on the asset's use from its past use;
- evidence that suggest the current use of an asset is no longer core to requirements to deliver a health service's service obligation; or
- evidence that suggests that the asset might be sold or demolished at reaching the late stage of an asset's life cycle.

In addition, the RCH needs to assess the HBU as part of the 5-year review of fair value of non-financial physical assets. This is consistent with the current requirements on FRD 103F *Non-financial physical assets* and FRD 107B *Investment properties*.

Valuation hierarchy

The RCH needs to use valuation techniques that are appropriate for the circumstances and where there is sufficient data available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy. It is 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.

Identifying unobservable inputs (level 3) fair value measurements

Level 3 fair value inputs are unobservable valuation inputs for an asset or liability. These inputs require significant judgement and assumptions in deriving fair value for both financial and non-financial assets.

Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e., an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Note 4.2: Property, plant and equipment (continued)

Assumptions about risk include the inherent risk in a particular valuation technique used to measure fair value (such as a pricing risk model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability, i.e. it might be necessary to include a risk adjustment when there is significant measurement uncertainty. For example, when there has been a significant decrease in the volume or level of activity compared with normal market activity for the asset or liability or similar assets or liabilities, and the RCH has determined that the transaction price or quoted price does not represent fair value.

The RCH develops unobservable inputs using the best information available in the circumstances, which might include the hospital's own data. In developing unobservable inputs, the RCH may begin with its own data, but adjusts this data if reasonably available information indicates that other market participants would use different data or there is something particular to the RCH that is not available to other market participants. The RCH does not undertake exhaustive efforts to obtain information about other market participant assumptions. However, the RCH takes into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the object of a fair value measurement.

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 2018 a managerial valuation was carried out in accordance with *Financial Reporting Direction 103F* to revalue the land and buildings to its fair value.

In June 2017 a managerial valuation was carried out in accordance with *Financial Reporting Direction 103F* 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.

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 RCH, 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 RCH'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 2018 a managerial valuation was carried out in accordance with *Financial Reporting Direction* 103F to revalue the land and buildings to its fair value.

In June 2017 a managerial valuation was carried out in accordance with *Financial Reporting Direction* 103F 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 amount.

There were no changes in valuation techniques throughout the period to 30 June 2018.

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 2018	Land $'000	Buildings $'000	Plant and equipment $'000	PPP assets $'000
Opening balance	82,849	21,145	26,180	990,446
Purchases (sales)	–	–	4,316	–
Gains or losses recognised in net result				
Depreciation	–	(450)	(9,585)	(27,057)
Subtotal	**82,849**	**20,695**	**20,911**	**963,389**
Items recognised in other comprehensive income				
Revaluation	3,459	2,367	–	102,222
Subtotal	**3,459**	**2,367**	**–**	**102,222**
Closing balance	**86,309**	**23,062**	**20,911**	**1,065,611**

Consolidated 2017	Land $'000	Buildings $'000	Plant and equipment $'000	PPP assets $'000
Opening balance	82,849	21,595	29,810	1,017,502
Purchases (sales)	–	–	3,832	0
Reclassification	–	–	2,419	–
Gains or losses recognised in net result				
Depreciation	–	(450)	(9,881)	(27,056)
Subtotal	**82,849**	**21,145**	**26,180**	**990,446**
Closing balance	**82,849**	**21,145**	**26,180**	**990,446**

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

Note 4.2: Property, plant and equipment (continued)

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

	Valuation technique	Significant unobservable inputs
Specialised land		
Crown land at fair value for hospital use Crown land at fair value to be returned to park land	Market approach	Community Service Obligation (CSO) adjustment
Specialised buildings		
Mental health facility in Travancore Research precinct building	Depreciated replacement cost	Direct cost per square metre Useful life of specialised buildings
Plant and equipment at fair value		
Plant and equipment Furniture and fittings Computers and communication	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of PP&E
Vehicles		
Vehicles used for hospital services	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of vehicles
Medical equipment at fair value		
Medical equipment	Depreciated historical cost used as a reasonable proxy for depreciated replacement cost	Useful life of medical equipment
PPP assets		
	Depreciated replacement cost	Building cost per square meter
Leased buildings		Useful life of buildings
Leased fittings		Useful life of fittings
Leased equipment		Useful life of equipment

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

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued 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.

The initial cost for non-financial physical assets under finance lease (refer to note 6.1 (b)) 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 is 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 RCH 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 surpluses are normally not transferred to accumulated funds on de-recognition of the relevant asset.

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

Note 4.3: Depreciation and amortisation

	Consolidated 2018 $'000	Consolidated 2017 $'000
Depreciation		
Buildings	1,106	971
Plant and equipment	188	198
Medical equipment	7,566	7,895
Computers and communication	1,691	1,644
Furniture and fittings	101	105
Motor vehicles	37	41
Leased buildings	24,468	24,468
Leased fittings	1,446	1,446
Leased equipment	1,142	1,142
Total depreciation	**37,745**	**37,910**
Amortisation		
Intangible assets	7,325	6,498
Total amortisation	**7,325**	**6,498**
Total depreciation and amortisation	**45,069**	**44,409**

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	2018	2017
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
Network and infrastructure	3 to 10 years	3 to 10 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	2018	2017
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.

Note 4.4: Intangible assets

	Consolidated 2018 $'000	Consolidated 2017 $'000
Software	66,344	67,955
Less accumulated amortisation	25,776	20,066
Less transfers between classes	–	2,378
	40,568	**45,511**
Car park revenue rights[(i)]	30,000	30,000
Less accumulated amortisation	6,465	5,193
	23,535	**24,807**
Prepaid rent	14,000	14,000
Less accumulated amortisation	2,139	1,497
	11,861	**12,503**
Total intangible assets	**75,964**	**82,821**

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 2016	**26,079**	**41,808**	**13,143**	**81,031**
Additions	–	11,307	–	11,307
Net transfers between classes	–	(2,378)	–	(2,378)
Amortised as rent expense	–	–	(641)	(641)
Amortisation (note 4.3)	(1,272)	(5,226)	–	(6,498)
Balance at 30 June 2017	**24,807**	**45,511**	**12,502**	**82,821**
Additions	–	1,590	–	1,590
Impairment write off	–	(533)	–	(533)
Amortised as rent expense	–	–	(641)	(641)
Amortisation (note 4.3)	(1,272)	(6,000)	–	(7,272)
Balance at 30 June 2018	**23,535**	**40,568**	**11,860**	**75,964**

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

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 RCH.

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.

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 RCH 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 (2017: 3 to 23.5 years).

Note 4.5: Investment properties

(a) Movements in carrying value for investment properties

Consolidated	Consolidated 2018 $'000	Consolidated 2017 $'000
Balance at the beginning of the year	**7,272**	**4,918**
Transfers (to)/from property, plant and equipment	1,359	1,748
Net gain from fair value adjustments	654	606
Balance at the end of the year	**9,285**	**7,272**

(b) Fair value measurement hierarchy for investment properties

Consolidated	Carrying amount as at 30 June 2018 $'000	Fair value measurement at end of reporting period using:		
		Level 1(i) $'000	Level 2(i) $'000	Level 3(i) $'000
Investment properties	9,285	–	9,285	–
Total	**9,285**	**–**	**9,285**	**–**

Consolidated	Carrying amount as at 30 June 2017 $'000	Fair value measurement at end of reporting period using:		
		Level 1(i) $'000	Level 2(i) $'000	Level 3(i) $'000
Investment properties	7,272	–	7,272	–
Total	**7,272**	**–**	**7,272**	**–**

(i) Classified in accordance with the fair value hierarchy, refer note 4.2 (c).

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 the RCH.

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 RCH.

Subsequent to initial recognition at cost, investment properties are revalued to fair value with changes in the fair value recognised as other economic flows in the period that they arise. Investment properties are neither depreciated nor tested for impairment. Independent valuations are carried out on a regular basis as required in FRD 107B *Investment properties*, or if there are indications that the fair value differs significantly from carrying amount.

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.

Transfers from property, plant and equipment have been recorded at fair value at the time of the transfer, which is the time of change in use (i.e. end of owner-occupation) for the specific properties.

Note 4.6: Jointly controlled operations and assets

Name of entity	Principal activity	Ownership interest 2018	Ownership interest 2017
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, training and patient care. The RCH joined the Victorian Comprehensive Cancer Centre on 1 July 2010.	10.0%	10.0%

The RCH'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:

	2018 $'000	2017 $'000
Assets		
Current assets		
Cash and cash equivalents	1,586	566
Receivables	3	1
GST recoverable	4	2
Prepayments	101	–
Total current assets	**1,695**	**569**
Non-current assets		
Property, plant and equipment	4	3
Other	1	1
Total non-current assets	**5**	**4**
Total assets	**1,700**	**573**
Liabilities		
Current liabilities		
Accrued expenses	18	10
Payables	26	13
Provisions – LSL and annual leave	11	8
Total current liabilities	**54**	**31**
Non-current liabilities		
Provisions – LSL	10	6
Total non-current liabilities	**10**	**6**
Total liabilities	**64**	**37**
Net assets	**1,636**	**536**
Equity		
Accumulated surpluses/(deficits)	1,649	536
Total equity	**1,649**	**536**

Note 4.6: Jointly controlled operations and assets (continued)

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

	2018 $'000	2017 $'000
Revenue		
Grants and other revenue	1,410	534
Interest	21	9
Total revenue	**1,431**	**543**
Expenses		
Employee benefits	242	142
Other expenses from continuing operations	74	32
Depreciation and amortisation	2	1
Total expenses	**318**	**175**
Net result	**1,113**	**368**

Investments in joint operations

In respect of any interest in joint operations, the RCH recognises in the financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of liabilities that it had incurred;
- its share of the revenue from the operation; and
- its expenses, including its share of any expenses incurred jointly.

Note 5: Other assets and liabilities

This section sets out those assets and liabilities that arose from the RCH's operations.

Structure

Note 5.1: Receivables

	Consolidated 2018 $'000	Consolidated 2017 $'000
CURRENT		
Contractual		
Inter hospital debtors	1,673	1,445
Trade debtors	2,545	1,777
Patient fees	7,906	8,166
Accrued investment income	1,105	1,001
Diagnostic debtors	1,303	1,229
Sundry debtors[(i)]	6,805	5,253
Less allowance for doubtful debts		
Trade debtors	8	5
Patient fees	214	468
Sundry debtors	–	161
Diagnostic debtors	85	101
	21,030	**18,135**
Statutory		
GST receivable	2,882	2,991
Accrued revenue Department of Health and Human Services	5,109	–
Total current receivables	**29,021**	**21,126**
NON-CURRENT		
Statutory		
Accrued revenue Department of Health and Human Services	32,874	25,159
Total non-current receivables	**32,874**	**25,159**
Total receivables	**61,895**	**46,285**
(a) Movements in allowance for doubtful debts		
Balance at the beginning of financial year	736	513
Amounts written off during the year	(156)	(240)
Increase/(decrease) in allowance recognised in net result	(272)	463
Balance at the end of financial year	**307**	**736**

(i) As disclosed in note 3.1 the 2018 figure includes overpayment of salary and superannuation. Overpayments of salaries to staff are expensed as employee expenses in the period they are paid. Recoveries are recorded as a reduction of employee expenses for the period in which the recoveries are made.

Note 5.1: Receivables (continued)

Receivables

Receivables consist of:

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

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.

Note 5.2: Inventories

	Consolidated 2018 $'000	Consolidated 2017 $'000
Pharmaceuticals – at cost	1,771	1,539
Gift shop – at cost	32	29
Total inventories	**1,802**	**1,568**

Inventories

Inventories include goods and other property 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.

Note 5.3: Other liabilities

	Consolidated 2018 $'000	Consolidated 2017 $'000
CURRENT		
Monies held in trust		
– Patient monies held in trust	80	59
– Employee monies held in trust (salary packaging)	1,782	1,668
Income in advance		
– Rental	349	349
– AEDI Commonwealth grant	–	48
– Other	5,401	3,405
Total current	**7,613**	**5,529**
NON-CURRENT		
Income in advance		
– Rental	3,700	4,141
Total non-current	**3,700**	**4,141**
Total other liabilities	**11,313**	**9,670**
Total monies held in trust represented by the following assets		
Cash assets (note 6.2)	80	59
Cash assets held on behalf of employees (note 6.2)	1,782	1,668
Total	**1,862**	**1,727**

Note 5.4: Payables

	Consolidated 2018 $'000	Consolidated 2017 $'000
CURRENT		
Contractual		
Trade creditors	14,673	14,312
Accrued expenses	7,208	9,352
Deposits	1,149	35
Sundry creditors[(i)]	1,694	3,986
	24,723	**27,686**
Statutory		
Superannuation and workcover	4,269	3,648
Department of Health and Human Services	–	5,619
	4,269	**9,267**
Total current payables	**28,992**	**36,953**

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

Payables consist of:

- Contractual payables which consist predominantly of accounts payable representing liabilities for goods and services provided to the RCH prior to the end of the financial year that are unpaid, and arise when the RCH 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.

Note 6: How we finance our operations

This section provides information on the sources of finance utilised by the RCH during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the hospital. This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note 7.1 provides additional disclosures relating to financial instruments.

Structure

Note 6.1: Borrowings

(a) Loans and finance lease liabilities

	Consolidated 2018 $'000	Consolidated 2017 $'000
CURRENT		
TCV loan[(i)]	921	877
Finance lease liability[(ii)] (refer note 6.1b)	34,338	32,699
Total current	**35,259**	**33,575**
NON-CURRENT		
TCV loan[(i)]	26,265	27,112
Finance lease liability[(ii)] (refer note 6.1b)	963,283	997,791
Total non-current	**989,549**	**1,024,903**
Total borrowings	**1,024,807**	**1,058,478**

(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 RCH records on behalf of the Department of Health and Human Services according to the information provided..

All borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. 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.

Note 6.1: Borrowings (continued)

(b) Finance lease liabilities

PPP finance lease liability

	Minimum future lease payments[i]		Present value of minimum future lease payments[ii]	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Commissioned PPP related finance lease liabilities payable				
Not longer than one year	82,048	82,048	34,338	32,730
Longer than 1 year and not later than 5 years	328,191	328,191	154,997	147,711
Longer than 5 years	1,105,638	1,187,686	808,286	849,910
Minimum future lease payments	**1,515,877**	**1,597,925**	**997,621**	**1,030,351**
Less future finance charges	(518,256)	(567,574)	–	–
Present value of minimum lease payments	**997,621**	**1,030,351**	**997,621**	**1,030,351**
Included in the financial statements as				
Current borrowings			34,338	32,699
Non-current borrowings			963,283	997,652
			997,621	**1,030,351**

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

(ii) The weighted average interest rate implicit in the finance lease is 4.84% (2016–17: 4.84%).

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

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.

Finance leases are recognised as assets and liabilities at amounts equal to the fair value of the lease property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The lease asset is accounted for as a non-financial physical asset and is depreciated over the shorter of the estimated useful life of the asset or the term of the lease. If there is certainty that the RCH will obtain ownership of the lease asset by the end of the lease term, the asset shall be depreciated over the useful life of the asset. 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.

The comparative information has been adjusted to correctly reflect the present value of minimum future lease payments. This is for disclosure purposes only as the amendments were not material to require a change to the accounts.

Note 6.2: 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 2018 $'000	Consolidated 2017 $'000
Cash on hand	3	3
Monies held on behalf of employees (salary packaging)	1,782	1,668
Cash at bank	20,314	16,996
Deposits at call	26,327	33,835
Fixed deposits	2,950	12,300
Total cash and cash equivalents	**51,377**	**64,802**
Represented by:		
Cash for health service operations (as per cash flow statement)[i]	51,377	64,802
Total cash and cash equivalents	**51,377**	**64,802**

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

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.

Note 6.3: Commitments

(a) Commitments other than public private partnerships

	Consolidated 2018 $'000	Consolidated 2017 $'000
Capital expenditure commitments		
Payable:		
Plant and equipment	2	6
Medical equipment	2,364	398
Computers and communication	509	315
Furniture and fittings	13	–
Software	283	848
Artwork	–	4
Total capital expenditure commitments	**3,171**	**1,571**
Operating commitments		
Operating commitments	16,268	18,364
Total operating commitments	**16,268**	**18,364**
Lease commitments		
Commitments in relation to leases contracted for at the reporting date		
Operating commitments	1,369	1,631
Total lease commitments	**1,369**	**1,631**
Total commitments for expenditure (inclusive of GST) other than public private partnerships	**20,807**	**21,566**

In previous years, the RCH have reported operations commitments including future obligations to pay utilities under contracts by Health Purchasing Victoria. For the current reporting period, utilities have been excluded from commitments. The 2017 numbers have been amended accordingly to ensure consistency in comparatives.

Note 6.3: Commitments (continued)

(b) Public private partnerships[(i)]

	Consolidated 2018 $'000	Consolidated 2017 $'000
Commissioned public private partnerships – other commitments[(ii)]	Other commitments	Other commitments
Children's Health Partnership	1,603,659	1,669,689
Total commitments for public private partnerships	**1,603,659**	**1,669,689**

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

(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.

(c) Commitments payable

Nominal values	Consolidated 2018 $'000	Consolidated 2017 $'000
Capital expenditure commitments payable		
Less than 1 year	3,171	1,571
Total capital expenditure commitments	**3,171**	**1,571**
Operating commitments		
Less than 1 year	10,014	10,391
More than 1 year but no more than 5 years	5,664	7,805
More than 5 years	590	168
Total operating commitments	**16,268**	**18,364**
Lease commitments		
Less than 1 year	547	571
More than 1 year but no more than 5 years	822	1,060
Total lease commitments	**1,369**	**1,631**
Public private partnership commitments (commissioned)		
Less than 1 year	46,909	44,666
More than 1 year but no more than 5 years	260,135	241,877
More than 5 years	1,296,615	1,383,145
Total public private partnership commitments	**1,603,659**	**1,669,689**
Total commitments (inclusive of GST)	**1,624,466**	**1,691,255**
Less GST recoverable from the Australian Tax Office	1,892	1,961
Total commitments (exclusive of GST)	**1,622,574**	**1,689,294**

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed at their nominal value and are inclusive of 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.

Note 7: Risks, contingencies and valuation uncertainties

The RCH is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information (including exposures to financial risks), as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the RCH is related mainly to fair value determination.

Structure

Note 7.1: Financial instruments

(a) Financial risk management objectives and policies

The RCH'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); and
- debt securities.

The RCH's main financial risks include credit risk, liquidity risk, interest rate risk, foreign currency risk and equity price risk. The RCH manages these financial risks in accordance with its financial risk management policy.

The RCH uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the financial risk management committee of the RCH.

The main purpose in holding financial instruments is to manage prudentially the RCH's financial risks within the government policy parameters.

Categorisation of financial instruments

Consolidated 2018	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	–	–	51,377	–	–	51,377
Receivables	–	–	26,139	–	–	26,139
Other financial assets						
– Managed funds	36,617	–	–	100,014	–	136,631
– Shares in other entities	1	–	–	–	–	1
Total financial assets[(i)]	**36,618**	**–**	**77,516**	**100,014**	**–**	**214,148**
Financial liabilities						
Payables	–	–	–	–	24,723	24,723
TCV loan	–	–	–	–	27,186	27,186
Finance lease liabilities	–	–	–	–	997,621	997,621
Monies held in trust	–	–	–	–	80	80
Total financial liabilities[(ii)]	**–**	**–**	**–**	**–**	**1,049,610**	**1,049,610**

Note 7.1: Financial instruments (continued)

Consolidated 2017	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	–	–	64,802	–	–	64,802
Receivables	–	–	18,135	–	–	18,135
Other financial assets						
– Managed funds	35,555	–	–	80,959	–	116,514
– Shares in other entities	1	–	–	–	–	1
Total financial assets[(i)]	**35,556**	**–**	**82,937**	**80,959**	**–**	**199,453**
Financial liabilities						
Payables	–	–	–	–	27,686	27,686
TCV loan	–	–	–	–	27,988	27,988
Finance lease liabilities	–	–	–	–	1,030,490	1,030,490
Monies held in trust	–	–	–	–	59	59
Total financial liabilities[(ii)]	**–**	**–**	**–**	**–**	**1,086,223**	**1,086,223**

(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).

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

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

Consolidated 2018	Net holding gain/(loss) $'000	Interest income/ (expense) $'000	Fee income/ (expense) $'000	Impairment loss $'000	Total $'000
Financial assets					
Cash and cash equivalents[(i)]	–	1,389	–	–	1,389
Held for trading at fair value through profit or loss[(ii)]	(113)	1,525	–	–	1,412
Loans and receivables[(i)]	–	–	–	–	–
Available for sale[(i)]	6,363	6,006	–	–	12,369
Total financial assets	**6,250**	**8,921**	**–**	**–**	**15,170**
Financial liabilities					
At amortised cost[(iii)]	–	(50,539)	–	–	(50,539)
Total financial liabilities	**–**	**(50,539)**	**–**	**–**	**(50,539)**

Consolidated 2017	Net holding gain/(loss) $'000	Interest income/ (expense) $'000	Fee income/ (expense) $'000	Impairment loss $'000	Total $'000
Financial assets					
Cash and cash equivalents[(i)]	–	1,509	–	–	1,509
Held for trading at fair value through profit or loss[(ii)]	624	901	–	–	1,525
Loans and receivables[(i)]	–	–	–	–	–
Available for sale[(i)]	1,429	7,248	–	–	8,677
Total financial assets	**2,053**	**9,658**	**–**	**–**	**11,711**
Financial liabilities					
At amortised cost[(ii)]	–	(52,290)	–	–	(52,290)
Total financial liabilities	**–**	**(52,290)**	**–**	**–**	**(52,290)**

(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.

Note 7.2: Net gain/(loss) on disposal of non-financial assets

	Consolidated 2018 $'000	Consolidated 2017 $'000
Proceeds from disposal of non-current assets		
Plant and equipment	3	–
Computers and communications	–	13
Motor vehicles	9	4
Total proceeds from disposal of non-current assets	**12**	**17**
Less: written down value of non-current assets disposed		
Plant and equipment	4	8
Medical equipment	129	173
Computers and communications	2	20
Furniture and fittings	–	3
Motor vehicles	–	2
Total written down value of non-current assets disposed	**135**	**206**
Net gain/(loss) on disposal of non-financial assets	**(123)**	**(189)**

Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised in the comprehensive operating statement.

Impairment of non-financial assets

All non-financial assets are assessed annually for indications of impairment, except for:

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

If there is an indication of impairment, the assets concerned are tested as to whether their carrying amount exceeds their possible recoverable amount. Where an asset's carrying amount 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 account applicable to that same class of asset.

If there is an indication that there has been a reversal 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 or destruction 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.

Note 7.3: 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.

Contingent assets

Following implementation issues associated with the new payroll system and payroll processing provider, the RCH believes it could have a potential receivable against some of its former and current employees arising from overpayment of salaries and wages. When the amount is identified, the RCH has provided a receivable for it in the accounts.

Contingent liabilities

The RCH has a potential liability to pay its employees if they have been underpaid throughout the year. Underpayments can arise from leave balances being accrued incorrectly in the payroll system, inaccurate processing of pay increments and EBA increases, superannuation entitlements not being allocated correctly, or other similar issues. When the amount is identified, the RCH has provided provision for it in the accounts (refer to note 3.1).

As part of rollout of the new payroll system, the RCH entered into a TNA (Transaction Negotiated Authority) with the Commonwealth Bank as part of the implementation of a new payroll system to transfer payments to staff. The TNA facility entered into comes with an overdraft limit of $15m.

Any claims made against the RCH are covered by public healthcare insurance managed by Victorian Managed Insurance Authority (VMIA).

Note 8: Other disclosures

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

Structure

Note 8.1: Equity

	Consolidated 2018 $'000	Consolidated 2017 $'000
(a) Surpluses		
Property, plant and equipment revaluation surplus[(i)]		
Balance at the beginning of the year	186,988	186,626
Revaluation increment/(decrement)[(i)]		
– Land	6,693	362
– Buildings	105,543	–
Balance at the end of the year	**299,223**	**186,988**
Represented by		
– Land	56,277	49,584
– Buildings	242,741	137,198
– Artwork	205	205
	299,223	**186,988**
Financial assets available for sale revaluation surplus[(ii)]		
Balance at the beginning of the year	7,726	6,297
Valuation gain/(loss) recognised[(ii)]	10,479	5,475
Cumulative gain(loss) on available-for-sale financial assets transferred to operating statement	(4,116)	(4,046)
Balance at the end of the year	**14,088**	**7,726**
Restricted specific purpose surplus		
Balance at the beginning of the year	122,839	96,646
Transfer (to)/from accumulated surpluses/(deficits)	(7,743)	26,191
Balance at the end of the year	**115,096**	**122,839**
Total reserves	**428,407**	**317,553**
(b) Contributed capital		
Balance at the beginning of the year	91,314	91,314
Balance at the end of the year	**91,314**	**91,314**
(c) Accumulated surpluses/(deficits)		
Balance at the beginning of the year	(161,527)	(141,337)
Net result for the year	433	6,003
Transfer (to)/from reserves	7,743	(26,191)
Balance at the end of the year	**(153,352)**	**(161,527)**
Total equity at the end of the year	**366,370**	**247,339**

(i) The property, plant and equipment revaluation is a result of managerial revaluations of property, plant and equipment in accordance with FRD103F. Refer note 4.2. 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.

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.

Note 8.1: Equity (continued)

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 RCH has possession or title to the funds but has no discretion to amend or vary the restriction and/or condition underlying the funds received.

Note 8.2: Reconciliation of net result for the year to net cash inflow/(outflow) from operating activities

	Consolidated 2018 $'000	Consolidated 2017 $'000
Net result for the year	**433**	**6,003**
Non-cash movements		
Depreciation and amortisation	45,069	44,409
Facility management, lifecycle and other expenses paid by DHHS under PPP agreement	(43,963)	(41,694)
DHHS – indirect contribution on repayment of finance lease liabilities	(82,048)	(82,048)
Facility management, lifecycle and other charges under PPP agreement	43,963	41,694
PPP – non-cash finance lease interest expense	49,179	50,888
Provision for doubtful receivables	(111)	463
Revaluation of held-for-trading financial instruments	113	(624)
Revaluation of long service leave	(3,867)	(4,828)
Revaluation of investment properties	(654)	(606)
Movements included in investing and financing activities		
Net (gain)/loss from sale of non-financial assets	123	189
Available-for-sale revaluation surplus (gain)/loss recognised	(4,116)	(4,046)
Movements in assets and liabilities		
Change in operating assets and liabilities		
– (Increase)/decrease in held for trading investments	(6,130)	(9,304)
– Increase/(decrease) in payables	(7,961)	2,204
– Increase/(decrease) in employee benefits	20,997	6,232
– (Increase)/decrease in other assets	(9,795)	(18,538)
– (Increase)/decrease in receivables	(15,499)	(5,031)
– Increase/(decrease) in other liabilities	3,326	(981)
– Increase/(decrease) in non-currrent interest bearing liability	(2,485)	(2,415)
Less cash flows from investing and financing activities		
Net cash (inflow)/outflow from investing and financing activities	15,094	27,528
Net cash inflow/(outflow) from operating activities	**1,669**	**9,493**

Note 8.3: Responsible persons disclosures

(a) Responsible persons

	Period	
Responsible Ministers		
The Honourable Jill Hennessy, Minister for Health and Minister for Ambulance Services	1 July 2017	30 June 2018
The Honourable Martin Foley, Minister for Housing, Disability and Ageing and Minister for Mental Health	1 July 2017	30 June 2018
Governing Board		
Hon Rob Knowles AO (Chairman)	1 July 2017	30 June 2018
Ms Christine Corbett	22 August 2017	30 June 2018
Dr Christine Cunningham	1 July 2017	30 June 2018
Ms Jacinda de Witts	1 July 2017	30 June 2018
Ms Petrina Dorrington	1 July 2017	30 June 2018
Mr David Lau	1 July 2017	30 June 2018
Mr David Mandel	1 July 2017	30 June 2018
Dr Linden Smibert	1 July 2017	30 June 2018
Mr Peter Yates OAM	1 July 2017	30 June 2018
Accountable Officer		
Mr John Stanway (Chief Executive Officer)	1 July 2017	30 June 2018

Remuneration received or receivable by responsible persons was in the range: $670,000–$679,999 ($750,000–$759,999 in 2016–17).

Note 8.4: Executive officers disclosures

Remuneration of executives

The number of executive officers, other than Ministers and Accountable Officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided in exchange for services rendered, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long-service benefit or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers

	Total remuneration	
	2018 ($)	2017 ($)
Short term employee benefits	2,384,868	2,601,530
Post employment benefits	221,186	230,813
Other long term benefits	78,294	47,662
Termination benefits	–	–
Share-based payments	–	–
Total remuneration	**2,684,348**	**2,880,005**
Total number of executives(i)	**11**	**12**
Total annualised employee equivalent (AEE)(ii)	**8.94**	**8.21**

(i) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (note 8.5).

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

Note 8.5: Related parties

The RCH is a wholly owned and controlled entity of the State of Victoria. Related parties of the hospital include:

- all key management personnel and their close family members;
- all cabinet ministers and their close family members; and
- all hospitals and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

Key management personnel of The Royal Children's Hospital

Entity	Key management personnel	Position title
The Royal Children's Hospital	The Hon Rob Knowles AO	Board Chair
The Royal Children's Hospital	Dr Christine Cunningham	Board Member
The Royal Children's Hospital	Ms Jacinda de Witts(i)	Board Member
The Royal Children's Hospital	Ms Petrina Dorrington	Board Member
The Royal Children's Hospital	Mr David Lau	Board Member
The Royal Children's Hospital	Mr David Mandel	Board Member
The Royal Children's Hospital	Dr Linden Smibert	Board Member
The Royal Children's Hospital	Mr Peter Yates AM(i)	Board Member
The Royal Children's Hospital	Ms Christine Corbett(ii)	Board Member
The Royal Children's Hospital	John Stanway	Chief Executive Officer

(i) Mr Yates and Ms de Witts both retired from the Board on 30 June 2018.

(ii) Ms Corbett was appointed to the Board on 22 August 2017.

Mr Sammy Kumar returns to the Board on 1 July 2018 after an initial term from 2012 to 2015.

Key management personnel (KMP) of the hospital include the Portfolio Ministers and Cabinet Ministers and KMP as determined by the hospital. The compensation detailed below excludes the salaries and benefits the Portfolio Ministers receive. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968*, and is reported within the Department of Parliamentary Services' Financial Report.

Compensation	2018 ($000)	2017 ($000)
Short term employee benefits	612	698
Post employment benefits	52	58
Other long term benefits	13	–
Termination benefits	–	–
Total	**677**	**756**

Transactions with key management personnel and other related parties

Given the breadth and depth of State government activities, related parties transact with the Victorian public sector in a manner consistent with other members of the public e.g. stamp duty and other government fees and charges. Further employment of processes within the Victorian public sector occur on terms and conditions consistent with the *Public Administration Act 2004* and Codes of Conduct and Standards issued by the Victorian Public Sector Commission. Procurement processes occur on terms and conditions consistent with the Victorian Government Procurement Board requirements. Outside of normal citizen type transactions with the department, there were no related party transactions that involved key management personnel and their close family members other than those disclosed. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

During the year, related parties of key management personnel were awarded contracts on terms and conditions equivalent for those that prevail in arm's length transactions under the State's procurement process. The transactions are outlined below.

All other transactions that have occurred with KMP and their related parties have been trivial or domestic in nature. In this context, transactions are only disclosed when they are considered of interest to users of the financial report in making and evaluation decisions about the allocation of scare resources.

Note 8.5: Related parties (continued)

The Royal Children's Hospital Foundation

Two Board Members and the CEO of the RCH were also Directors of the RCHF.

The transactions between the two entities relates to reimbursements made by the RCHF to the RCH 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.

	Parent entity 2018 $	Parent entity 2017 $
Distributions and reimbursements by The Royal Children's Hospital's Foundation	38,472,307	34,408,584
Payments to The Royal Children's Hospital's Foundation	350,477	267,767
Receivable from The Royal Children's Hospital's Foundation	6,255,059	5,524,694

Murdoch Children's Research Institute

The CEO and Board Chairman of the RCH were also Directors of Murdoch Children's Research Institute (MCRI) during 2017–18 financial year.

The transactions between the two entities relates to reimbursements made by MCRI to the RCH for salaries, goods and services paid on its behalf. In addition the transactions relate to general research funding, clinical supplies and support provided to MCRI. All dealings are in the normal course of business and are on normal commercial terms and conditions.

	Parent entity 2018 $	Parent entity 2017 $
Reimbursements by Murdoch Children's Research Institute	8,342,136	7,889,966
Payments to Murdoch Children's Research Institute	14,383,439	12,375,672
Receivable from Murdoch Children's Research Institute	671,021	–

Victorian Clinical Genetics Services

Victorian Clinical Genetics Services (VCGS) is a wholly owned subsidiary of MCRI which the CEO and Board Chairman of the RCH were Directors of during 2017–18 financial year.

The transactions between the two entities relates to reimbursements made by VCGS to the RCH for goods and services paid on its behalf. In addition the transactions relate to general research funding, clinical supplies and support provided to VCGS. All dealings are in the normal course of business and are on normal commercial terms and conditions.

	Parent entity 2018 $	Parent entity 2017 $
Reimbursements by Victorian Clinical Genetics Services	1,586,419	1,992,573
Payments to Victorian Clinical Genetics Services	763,560	513,800
Receivable from Victorian Clinical Genetics Services	53,994	175,643
Payable to Victorian Clinical Genetics Services	132	38,437

Victorian Comprehensive Cancer Centre

The CEO of the RCH was a Director of Victorian Comprehensive Cancer Centre during the 2017–18 financial year.

The transactions between the two entities relates to membership fees paid by the RCH. All dealings are in the normal course of business and are on normal commercial terms and conditions.

	Parent entity 2018 $	Parent entity 2017 $
Payments by The Royals Children's Hospital for membership fees	147,175	145,000

The Royal Children's Hospital Education Institute Limited

The CEO of the RCH was a Director of the RCH Education Institute Limited during 2016–17 financial year.

The transactions between the two entities relates to a cash distribution to the RCH following deregistration of the RCH Education Institute Limited.

	Parent entity 2018 $	Parent entity 2017 $
Cash distribution from The Royal Children's Hospital Education Institute Limited following deregistration	–	928,369

Optus

A Director of the RCH was an employee of Optus until 9 April 2018. Optus provided services to the RCH during the financial year ended 30 June 2018. 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.

	Parent entity 2018 $	Parent entity 2017 $
Telephone charges	277,969	269,405

Australia Post

A Director of the RCH is an employee of Australia Post. Australia Post provided services to the RCH during the financial year ended 30 June 2018. Ms Corbett commenced as a Director during 2017–18 and was not involved in the procurement or provision of services rendered by Australia Post. These arrangements were on normal commercial terms and conditions and in the ordinary course of business.

	Parent entity 2018 $	Parent entity 2017 $
Postal charges	322,794	N/A

Significant transactions with government-related parties

The RCH received funding from the Department of Health and Human Services of $422 million.

The RCH received funding from the Department of Education and Training of $4.7 million.

The information above is provided as required per AASB 124 *Related Party Disclosures*. Adoption of the new standard does not require comparative figures to be included for the first reporting period.

Note 8.6: Remuneration of auditors

	Consolidated 2018 $'000	Consolidated 2017 $'000
Victorian Auditor-General's Office		
Audit or review of financial statements	390	167
Other service providers		
Audit or review of financial statements	67	70
Total remuneration	**457**	**237**

Note 8.7: Controlled entities

Name of entity	Country of incorporation/ establishment	Equity holding
The Royal Children's Hospital Foundation Trust Fund	Australia	n/a
The Royal Children's Hospital Education Institute Limited(i)	Australia	Limited by guarantee

Controlled entities contribution to the consolidated results

Controlled entities contribution to the consolidated results	2018 $'000	2017 $'000
Net result for the year		
The Royal Children's Hospital Foundation Trust Fund	(1,600)	4,514
The Royal Children's Hospital Education Institute Limited(i)	–	(925)
Total result for controlled entities	**(1,600)**	**3,589**

(i) Deregistered on 16 February 2017.

Note 8.8: Ex-gratia payments

Nil.

Note 8.9: 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 8.10: Financial dependency

The RCH is reporting a net result before capital and specific items of $2,345k (2017: $2,950k), a net current asset position of negative $131,439k (2017: negative $131,846k), resulting in a current asset ratio of 0.34 (2017: 0.32) and a net cash flow from operations of $4,007k (2017: $10,921k).

As a result, the RCH is wholly dependent on the continued financial support of the State Government and in particular, the Department of Health and Human Services.

Going concern

The Department of Health and Human Services has provided confirmation that it will continue to provide the RCH adequate cash flow support to meet its current and future obligations as and when they fall due for a period up to September 2019. On that basis, the financial statements have been prepared on a going concern basis.

Note 8.11: Alternative presentation of comprehensive operating statement

	Note	Parent entity 2018 $'000	Parent entity 2017 $'000	Consolidated 2018 $'000	Consolidated 2017 $'000
Grants					
– Operating	2.1	529,181	479,280	530,578	479,793
– Capital	2.1	86,422	85,049	86,422	85,049
Interest and dividends	2.1	970	924	1,393	1,509
Sales of goods and services	2.1	62,882	62,990	62,882	62,990
Other income					
– Other capital income	2.1	2,415	3,119	279	(225)
– Other operating income	2.1	72,069	67,756	73,712	77,404
– Available-for-sale revaluation surplus recognised	2.1	13	194	4,116	4,046
Revenue from transactions		**753,953**	**699,313**	**759,383**	**710,564**
Employee expenses	3.1	(466,550)	(421,979)	(469,111)	(424,230)
Operating expenses					
– Supplies and consumables	3.1	(73,523)	(69,251)	(73,523)	(69,251)
– Non-salary labour costs	3.1	(18,077)	(18,261)	(18,222)	(18,403)
– Finance costs – self funded activity	3.3	(1,360)	(1,402)	(1,360)	(1,402)
– Other	3.1	(103,247)	(97,109)	(106,183)	(99,651)
Non-operating expenses					
– Finance costs – other	3.3	(49,179)	(50,888)	(49,179)	(50,888)
– Expenditure for capital purpose	3.1	(446)	(2,164)	(446)	(2,164)
Depreciation and amortisation	4.3	(44,608)	(43,988)	(45,069)	(44,409)
Expenses from transactions		**(756,991)**	**(705,040)**	**(763,093)**	**(710,397)**
Net result from transactions		**(3,038)**	**(5,727)**	**(3,710)**	**167**
Other economic flows included in net result					
Net gain/(loss) on financial instruments	2.1	–	–	(113)	624
Revaluation of long service leave	2.1	3,867	4,828	3,867	4,828
Other gains/(losses) from other economic flows	2.1	389	383	389	383
Total other economic flows included in net result		**4,255**	**5,212**	**4,142**	**5,836**
NET RESULT FOR THE YEAR		**1,217**	**(516)**	**433**	**6,003**
Other comprehensive income					
Items that may be reclassified subsequently to net result					
Changes to financial assets available-for-sale revaluation surplus	8.1	266	84	6,363	1,429
Items that will not be reclassified to net result					
Changes in property, plant and equipment revaluation surplus	8.1	112,078	–	112,235	362
COMPREHENSIVE RESULT FOR THE YEAR		**113,561**	**(432)**	**119,031**	**7,793**

Note 8.12: AASBs issued that are not yet effective

As at 30 June 2018, 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 RCH 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 *Financial Instruments*[(i)]	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 amendments are likely to result in earlier recognition of impairment losses and at more regular intervals. The initial application of AASB 9 is not expected to significantly impact the financial position however there will be a change to the way financial instruments are classified and new disclosure requirements.
AASB 2014-1 *Amendments to Australian Accounting Standards [Part E Financial Instruments]*	Amends various AASBs 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 *Amendments to Australian Accounting Standards arising from AASB 9*	Amends various AASBs 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 15 *Revenue from Contracts with Customers*	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. Note that amending standard AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15* has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017.	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.
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	Amends the measurement of trade receivables and the recognition of dividends as follows: • 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: – 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 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*	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 for for-profit entities to the 2018–19 reporting period in accordance with the transition requirements.
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	This Standard amends AASB 15 to clarify requirements for identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: • 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 for AASB 15 above.
AASB 2016-7 *Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities*	This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 Jan 2019	This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019–20 reporting period.
AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*	AASB 2016-8 inserts Australian requirements and authoritative implementation guidance for not-for-profit-entities into AASB 9 and AASB 15. This standard amends AASB 9 and AASB 15 to include requirements to assist not-for-profit entities in applying the respective standards to particular transactions and events.	1 Jan 2019	This standard clarifies the application of AASB 15 and AASB 9 in a not-for-profit context. The areas within these standards that are amended for not-for-profit application include: **AASB 9** • Statutory receivables are recognised and measured similarly to financial assets **AASB 15** • The 'customer' does not need to be the recipient of goods and/or services; • The 'contract' could include an arrangement entered into under the direction of another party; • Contracts are enforceable if they are enforceable by legal or 'equivalent means'; • Contracts do not have to have commercial substance, only economic substance; and • Performance obligations need to be 'sufficiently specific' to be able to apply AASB 15 to these transactions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 8.12: AASBs issued that are not yet effective (continued)

Standard/ interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 16 *Leases*	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	The assessment has indicated that most operating leases, with the exception of short term and low value leases will come on to the balance sheet and will be recognised as right of use assets with a corresponding lease liability. In the operating statement, the operating lease expense will be replaced by depreciation expense of the asset and an interest charge. There will be no change for lessors as the classification of operating and finance leases remains unchanged.
AASB 1058 *Income of Not-for-Profit Entities*	This standard replaces AASB 1004 *Contributions* and establishes revenue recognition principles for transactions where the consideration to acquire an asset is significantly less than fair value to enable to not-for-profit entity to further its objectives.	1 Jan 2019	The current revenue recognition for grants is to recognise revenue up front upon receipt of the funds. This may change under AASB 1058, as capital grants for the construction of assets will need to be deferred. Income will be recognised over time, upon completion and satisfaction of performance obligations for assets being constructed, or income will be recognised at a point in time for acquisition of assets. The revenue recognition for operating grants will need to be analysed to establish whether the requirements under other applicable standards need to be considered for recognition of liabilities (which will have the effect of deferring the income associated with these grants). Only after that analysis would it be possible to conclude whether there are any changes to operating grants. The impact on current revenue recognition of the changes is the phasing and timing of revenue recorded in the profit and loss statement.

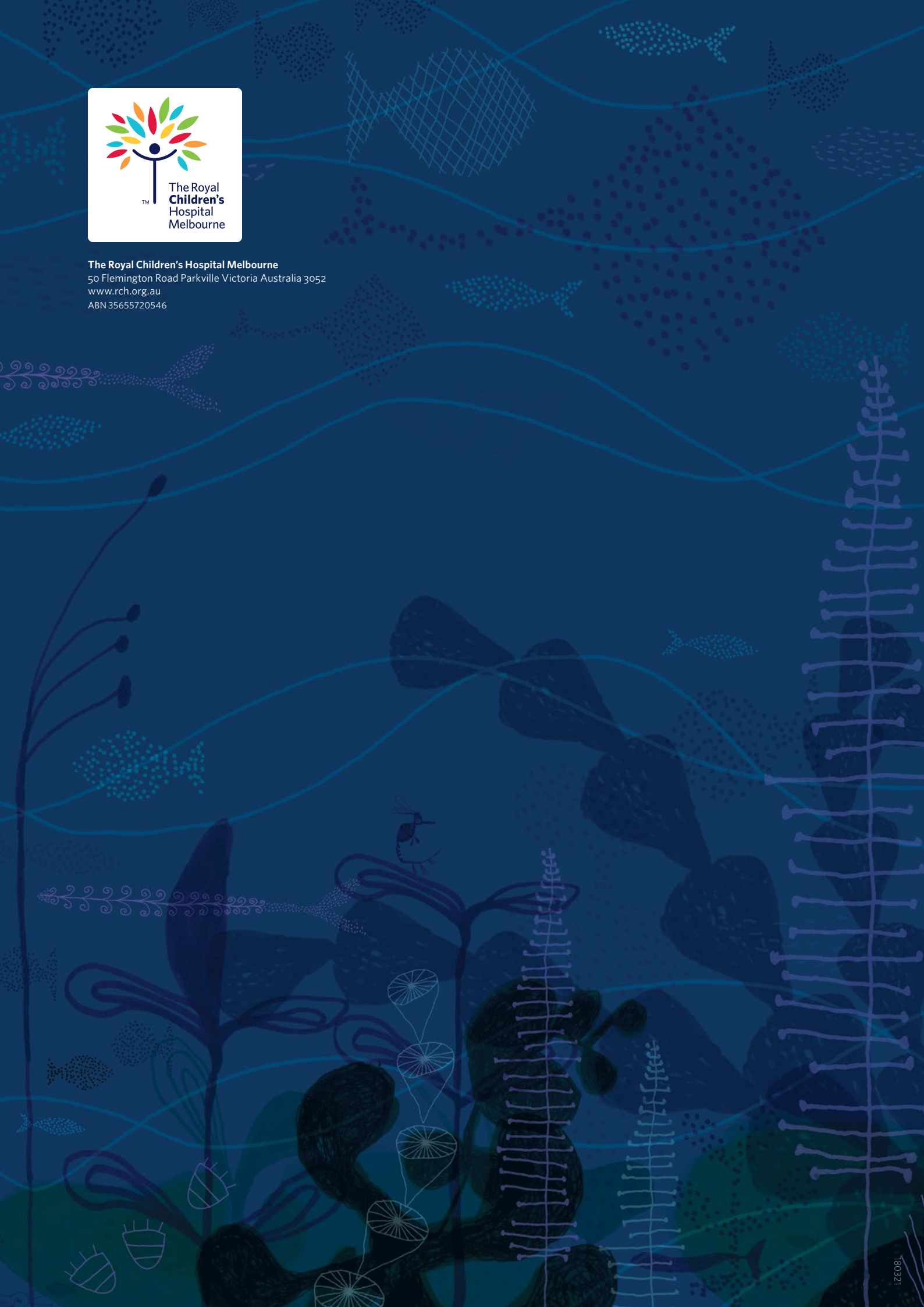
Standard/ interpretation	Summary	Applicable for annual reporting periods beginning on	Impact on public sector entity financial statements
AASB 1059 *Service Concession Arrangements: Grantor*	This standard applies to arrangements that involve an operator providing a public service on behalf of a public sector grantor. It involves the use of a service concession asset and where the operator manages at least some of the public service at its own direction. An arrangement within the scope of this standard typically involves an operator constructing the asset used to provide the public service or upgrading the assets and operating and maintaining the assets for a specified period of time. The state has two types of PPPs: 1. Social Infrastructure: A PPP that requires the government to make payments to the operator upon commencement of services: • Operator finances and constructs the infrastructure; and • State pays unitary service payments over the term. 2. Economic Infrastructure: A PPP that is based on user pays model: • Operator finances and constructs the infrastructure; • State does not pay for the cost of the construction; and • Operator charges asset users and recovers the cost of construction and operation for the term of the contract.	1 Jan 2019	For an arrangement to be in scope of AASB 1059 all of the following requirements are to be satisfied: • Operator is providing public services using a service concession asset; • Operator manages at 'least some' of public services under its own discretion; • The state controls/regulates: – What services are to be provided; – To whom; and – At what price • State controls any significant residual interest in the asset. If the arrangement does not satisfy all the above requirements the recognition will fall under the requirements of another applicable accounting standard. Currently the social infrastructure PPPs are only recognised on the balance sheet at commercial acceptance. The arrangement will need to be progressively recognised as and when the asset is being constructed. This will have the impact of progressively recognising the financial liability and corresponding asset as the asset is being constructed. For economic infrastructure PPP arrangements, that were previously not on balance sheet, the standard will require recognition of these arrangements on balance sheet. There will be no impact to net debt, as a deferred revenue liability will be recognised and amortised over the concession term.
AASB 17 *Insurance Contracts*	The new Australian standard eliminates inconsistencies and weaknesses in existing practices by providing a single principle based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides requirements for presentation and disclosure to enhance comparability between entities. This standard does not apply to the not-for-profit public sector entities. The AASB is undertaking further outreach to consider the application of this standard to the not-for-profit public sector.	1 Jan 2021	The assessment has indicated that there will be no significant impact for the public sector.

Note 8.12: AASBs issued that are not yet effective (continued)

In addition to the new standards and amendments, the AASB has issued a list of other amending standards that are not effective for the 2016–17 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 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*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurements of Share-based Payment Transactions*
- AASB 2016-6 *Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts*
- AASB 2017-1 *Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–16 Cycle and Other Amendments*
- AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014–16 Cycle*

(i) 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.



The Royal Children's Hospital Melbourne
50 Flemington Road Parkville Victoria Australia 3052
www.rch.org.au
ABN 35655720546

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