# Annual Report

2016–17

the royal victorian eye and ear hospital

# Contents






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# Vision, Mission and Values



The Royal Victorian Eye and Ear Hospital (the Eye and Ear) is Australia's leading provider of eye and ear health care. In 2016–17, the Eye and Ear cared for over 200,000 patients throughout Victoria and continued to improve its operational and financial performance.

## Vision

Improving quality of life through caring for the senses.

## Mission

We aspire to be the world's leading eye and ear hospital by:

- Excelling in specialist services
- Integrating teaching and research with clinical services
- Leading workforce capability
- Partnering with consumers and communities
- Building a sustainable future

## Values

**Integrity**
We act ethically, accept personal accountability, communicate openly and honestly and treat everyone with trust and respect.

**Care**
We treat patients with respect, are compassionate, thoughtful and responsive to their needs and sensitive to diversity.

**Teamwork**
We communicate openly, respect diversity of views and skills and work effectively with partners and in multi-disciplinary teams to deliver the best outcomes for patients.

**Excellence**
We give our personal best at all times, deliver exemplary customer service, monitor performance and seek leading edge ways to improve it.

# Chair and CEO Report



## It has been a busy and exciting year for The Royal Victorian Eye and Ear Hospital (the Eye and Ear) as we continue to focus on providing the best possible care for our patients whilst our redevelopment project progresses.

The Eye and Ear is the largest provider of specialist eye, ear, nose and throat care services in Victoria. Our clinical services are delivered in partnership with patients, carers, the community and other health care providers across all metropolitan, regional and rural areas.

We continued to experience high demand on our services, with the hospital caring for 148,018 outpatients, 15,049 inpatients and 40,712 emergency patients this year.

### Building a better future

Our redevelopment project continues to progress and a key focus for the year was the opening of a temporary second site, Eye and Ear on the Park, in August 2016. Relocating our outpatient and some of our day surgical services to this site allows the builders to complete the redevelopment of our main hospital site (at Gisborne Street) faster and in a less disruptive manner to our patients, visitors, staff and volunteers. In February this year, we opened a new theatre at Eye and Ear on the Park, increasing the operating capacity in our Day Surgery Facility to a total of four operating rooms and one treatment room. This additional theatre has enabled additional surgical activity to be undertaken resulting in reduced wait-times.

In December last year we were delighted to win the 'Secretary's Award for Improving Hospital Performance' at the 2016 Victorian Public Healthcare Awards for our Emergency Department. The Emergency Department was our first clinical area to be opened as part of the redevelopment in May 2016. The awards celebrate outstanding innovation and excellence in healthcare; our award is credit to our staff who worked hard to create efficiencies within our new Emergency Department and a safer, more patient centred facility.

### Involving our consumers in all we do

At the Eye and Ear we have a dedicated group of volunteers on our consumer register who provide their time to participate in our committees, hospital working groups, focus groups and act as patient ambassadors. This year consumer feedback and involvement has led to the development of some key initiatives. We have launched a new feedback campaign, encouraging patients and their families to share feedback with us, so we can review and strengthen the way we provide care. We have developed new patient pathway posters in clinical areas, which explain the patient journey through the hospital, ensuring our patients know what to expect and reduce stress. New hand hygiene stations were also installed in key areas of our hospital, encouraging patients and visitors to use the hand sanitisers and follow the safe hygiene practices of our staff.

These initiatives demonstrate our ongoing commitment to the National Safety and Quality Health Service Standards, as they are intrinsically linked to Standard 2, Partnering with Consumers and Standard 3, Infection Control.

### Important research partnerships

In August 2016 it was announced that additional funding had been allocated to support more cochlear implants. This funding from the Victorian Government is recognition of the incredible work of our staff and partners in this area, who strive to provide world-leading care to the Victorian public. In May 2017 we celebrated reaching the 4,000th cochlear implant and the 1000th implant for a child. This was a great achievement, given we only celebrated the 2,000th implant seven years ago (in 2010).

In early 2017 it was announced that Bionic Vision Technologies (BVT) had secured further funding for the development of the Bionic Eye. The Eye and Ear are a partner in the BVT consortium which is comprised of the University of Melbourne, the University of New South Wales, the Bionics Institute, Centre for Eye Research Australia, CSIRO's Data 61, Western Sydney University and the Australian College of Optometry. This is a very exciting announcement for the BVT consortium and will allow ongoing work to continue on the development of the Bionic Eye in Melbourne.

### New technology launch a success

In 2016 we officially launched our new eyeConnect device with Peninsula Health at Frankston Hospital. The eyeConnect device connects patients who present with eye injuries or conditions at Emergency Departments in outer metropolitan, rural and regional areas with our specialist staff, without the patient having to travel into East Melbourne. This new technology has assisted Peninsula Health clinicians to identify when a patient can be managed locally and avoid travelling long distances unnecessarily. Following this launch, we are in the process of rolling out eyeConnect devices to 15 regional health services.

## Aboriginal health

We continue to prioritise Aboriginal eye and ear health via our ongoing partnership with the Victorian Aboriginal Health Service. In December 2016, the Healthy Ears Outreach Clinic was short listed as a finalist for the 'Minister for Health's Award for improving indigenous health - Closing the gap' category in the Victorian Public Healthcare Awards. Although it didn't win, it was a great achievement to be short listed.

Early in 2017, nine Aboriginal and Torres Strait Islander children came to our hospital for ear, nose or throat surgery. These children had been on waiting lists in regional Victoria for minor surgeries, such as having tonsils or adenoids taken out, or grommets put in, from anywhere between a few months and a few years. These surgeries happened thanks to the collaboration between our hospital, Royal Workforce Agency Victoria, the Healthy Ears program and Aboriginal Community Controlled Health Organisations, Mallee District Aboriginal Services in Mildura and Njernda Aboriginal Cooperative in Echuca. These small operations can have a significant impact on a child, for example not missing as much school, attending swimming lessons and getting more sleep. The surgeries were performed in the school holidays, to ensure the children were well enough to return to school at the start of term.

## Staff Awards and recognition

The Eye and Ear Excellence Awards recognise individuals and specialist groups who have contributed to achieving organisational excellence. The award categories acknowledge creative and original thinking which results in positive outcomes for our patients, an improved working environment or improved hospital systems. The winners of the 2016 Excellence Awards were:

- Board Chair's Medal – Associate Professor Anne Brooks, Head of Special Eye Clinic 3
- CEO's Team Award – Day Surgery Facility
- Aubrey Bowen Medal – Dr Elsie Chan, Ophthalmologist
- Nursing Excellence Award - Pat Usher, Registered Nurse, Outpatients
- Allied Health Excellence Award - Cordelia Khoo, Audiologist, Cochlear Implant Clinic
- Administrative Excellence Award - Amanda Ritchie, Ward Clerk, Ward 8

## Acknowledgements

The Board Chair and CEO would like to thank Board Members, clinicians, volunteers and all staff for their continued dedication and passion throughout the year, particularly with the opening of our new temporary site at Eye and Ear on the Park. This commitment ensures that we continue to provide world class care to our patients and the broader Victorian community.

We would like to extend a special thank you to Derek Skues and Sue Smethurst for their contribution during their time on the Board of Directors, which ended in 2016. We also welcome Associate Professor Deborah Colville and Ms Linda Hornsey to the Board.

## Thank you

The Eye and Ear is most grateful for the generosity of its supporters. Financial support from our loyal donors and philanthropic Trusts and Foundations help the hospital to continue its work in improving quality of life through caring for the senses.

We are also sincerely grateful to our volunteers and community advisory members who offer their time to help others and make the patient experience a more positive and memorable one.

In accordance with the *Financial Management Act 1994*, we are pleased to present the Report of Operations for The Royal Victorian Eye and Ear Hospital for the year ending 30 June 2017.

**Sherene Devanesen**
Chair, Board of Directors

**Mark Petty**
Chief Executive Officer

# Board of Directors and Board Committees



## The Board of Directors is appointed by the Governor in Council on the recommendation of the Victorian Minister for Health and is governed by the principles contained within the *Health Services Act 1988* (as amended).

The Board provides governance of The Royal Victorian Eye and Ear Hospital and is responsible for its financial performance, strategic directions, the quality of its health care services and strengthening community involvement through greater partnerships.

The Eye and Ear by-laws enable the Board to delegate certain responsibilities. The by-laws are supported by the delegations of executive and operational responsibility, enabling designated executives and staff to perform their duties through the exercise of specified authority. The Board meets monthly during the year, excluding January.

**Dr Sherene Devanesen** MBBS; DIP(OBS)RACOG; FRACMA; FACHSM; FAIM; FHKCCM; GAICD

Appointed 14 April 2015
Chair Board of Directors
Member Finance Committee, Redevelopment Committee, Remuneration Committee

Dr Devanesen is the Chief Executive Officer of Yooralla. Before joining Yooralla in January 2014, Dr Devanesen was Chief Executive Officer of Peninsula Health. With over 30 years' experience in the management of health services and medical administration, her experience has provided her with a strong reputation in consumer consultation and engagement and in achieving quality outcomes for human and community services. Dr Devanesen is a Fellow of the Royal Australasian College of Medical Administrators, a Fellow of the Australasian College of Health Service Management, a Fellow of the Australian Institute of Management, a Fellow of the Hong Kong College of Community Medicine and a Graduate of the Australian Institute of Company Directors.

**Mr David Anderson BCOM, MCOM (Finance), GAICD**

Appointed 26 April 2016
Member Audit Committee (from August 2016), Finance Committee (from February 2017)

Mr Anderson brings a wealth of experience in finance and audit. He has held senior finance positions within the Victorian Government over the past 20 years and has been Executive Director of Finance at Peninsula Health since 2002. He has a demonstrated commitment to the wider community and roles include being a current Fellow and Board member of Australian Health Services Financial Management Association (AHSFMA) and previously Treasurer of the State-wide Autistic Society (Vic).

**Dr Malcolm Brown MBBS, DOH, FAFOEM (RACP)**

Appointed 1 July 2011, reappointed 1 July 2014
Chair Audit Committee, Primary Care and Population Health Advisory Committee
Member Quality Committee, Remuneration Committee

Dr Brown is an occupational physician in private practice and has many years' corporate experience, working primarily in the oil and gas and mining industries in Australia, the Middle East and Europe. He has sat on government expert committees, mainly on environmental health matters. Dr Brown is a Director of the Centre for Eye Research Australia (CERA) and is also an adjunct lecturer at the School of Public Health and Preventative Medicine at Monash University.

**Associate Professor Deborah Colville MBBS, FRANZCO, FRACS Grad Dip Epi, MPH Cert Ed & Training, PhD, Dip Management, MAICD**

Appointed 1 July 2016
Member Quality Committee (from August 2016)

Associate Professor Colville brings a wealth of clinical experience to the Board, as a practicing ophthalmologist and medical educator. She has published over 40 scientific papers, conducts research at the University of Melbourne's Northern and Royal Melbourne Hospitals, undertakes regular sessional work as an ophthalmologist at a number of hospitals, holds a current academic position at Monash University, has held a number of elected positions at the Royal Australasian College of Surgeons and is currently on the RACS Women in Surgery Section, and RANZCO Women in Ophthalmology, Executives. She takes a keen interest in the promotion of women in medicine, including networking internationally.

**Mr Roger Greenman** AM

Appointed 1 July 2009, reappointed 30 June 2012, 1 July 2015
Chair Quality Committee, Redevelopment Committee
Member Finance Committee, Remuneration Committee

Mr Greenman is the past Chief Executive Officer and former Board member of Cabrini Health. He has an acute health background with considerable experience in hospital construction and redevelopment. Since March 2015, Mr Greenman has been Chair of the Snowdome Foundation.

**Ms Linda Hornsey** GRAD. DIP AB, GAICD

Appointed 2 August 2016
Member Community Advisory Committee and the Primary Care and Population Health Advisory Committee (from December 2016)

Ms Hornsey has recently retired from her position of General Manager for Organisational Transformation at Vision Australia, a provider of services for people who are blind or have low vision. Previously, she was Secretary of the Department of Premier and Cabinet in Tasmania for nine years, has worked as a journalist and political adviser and has many years' experience in public administration. Ms Hornsey has experience as a director of a number of statutory boards, including Western Health. She is also a member of the Parenting Research Centre Board and its Governance Committee.

**Sandra Mercer Moore** AM, DBA, M PHYSIOTHERAPY

Appointed 1 July 2011, reappointed 1 July 2014
Chair Community Advisory Committee
Member Quality Committee, Redevelopment Committee

Dr Mercer Moore has extensive experience in the Australian and the International Health Care industry, covering both private and public sectors. She is a past president of the World Confederation for Physical Therapy, an alternate Director of the Centre for Eye Research Australia (CERA) and a Fellow of the Australian Institute of Company Directors. Dr Mercer Moore, an independent management and training consultant and has served as a Board Member for a range of organisations.

**Mr Andrew Porter** MA (HONS), FCA, MAICD

Appointed 1 July 2009, reappointed 1 July 2011, 1 July 2014
Chair Finance Committee
Member Redevelopment Committee, Remuneration Committee

Mr Porter is a Chartered Accountant and has had over 22 years' experience in accounting and financial management. He is currently Chief Financial Officer of the ASX-listed companies Australian Foundation Investment Company Ltd, Djerriwarrh Investments Ltd, Mirrabooka Investments Ltd and AMCIL Ltd. Mr Porter is also a member of the National Executive of the G100, the representative organisation for Australia's leading CFOs.

**Ms Llewellyn Prain** BA(HONS), LLB(HONS), GAICD

Appointed 1 July 2015
Member Audit Committee, Community Advisory Committee

Ms Prain has worked as a commercial litigation lawyer and in senior roles at a number of Victorian government agencies. She is a past chair of the Western Region Health Centre and was an inaugural director of cohealth, one of the largest community health organisations in Australia. She is currently a director of Western Water and the Public Transport Ombudsman of Victoria and a member of the Disability Services Board. During 2017 she is completing the Williamson Community Leadership program. Ms Prain has a vision impairment and brings a strong consumer focus to the Board.

# Board Committees



### Audit Committee

The Audit Committee membership comprises the following non-executive directors: Dr Malcolm Brown (Chair), Ms Llewellyn Prain and Mr David Anderson (from 11 August 2016).

The Audit Committee meets at least four times per year and assists the Board in monitoring compliance with laws, regulations, standards and internal controls.

Key responsibilities for the Audit Committee include monitoring the hospital's strategic and operational risks, developing the hospital's strategic internal audit plan, oversight of the Internal Audit Program, review of the Draft Annual Accounts and review of the relevant risk policies and procedures. All the Audit Committee members are independent of Management.

### Finance Committee

The Finance Committee membership comprises the following non-executive directors: Mr Andrew Porter (Chair), Dr Sherene Devanesen, Mr Roger Greenman AM and Mr David Anderson (from 1 February 2017). Advisor: Mr Grant Cashin.

The Finance Committee meets at least seven times per year and assists the Board to fulfil its duties relating to the effective financial management of the Eye and Ear.

Key responsibilities for the Finance Committee include oversight of the hospital's annual operating and capital budget, review of the financial management reports, advising the Board on the financial implications associated with major projects and reviewing the relevant financial policies and procedures. All the Finance Committee members are independent of management.

### Quality Committee

The Quality Committee membership comprises the following non-executive directors: Mr Roger Greenman AM (Chair), Dr Malcolm Brown, Associate Professor Deb Colville and Dr Sandra Mercer Moore AM. Consumer member: Mr Jonathan Mortimer.

The Quality Committee meets quarterly and provides leadership and strategic direction on issues regarding the quality of services at the Eye and Ear. The Committee's focus is the delivery of the highest level of quality and safety to patients, family and staff and to ensure that all relevant standards are met. Innovation to improve quality and safety systems is a priority. The committee works in conjunction with the Community Advisory Committee to develop the annual Quality of Care Report which highlights patient and family-centred care service improvements.

### Remuneration Committee

The Remuneration Committee membership comprises the following non-executive directors: Dr Sherene Devanesen (Chair), Dr Malcolm Brown, Mr Roger Greenman AM and Mr Andrew Porter.

The Remuneration Committee meets at least annually and makes assessments and recommendations to the Board concerning the performance against the agreed Performance Plan, remuneration and bonus awards (if applicable) and terms and conditions of employment for the Chief Executive Officer. It also provides oversight of the remuneration and bonus arrangements (if applicable) of the Executive Directors of the hospital.

### Community Advisory Committee

The Community Advisory Committee membership includes the following non-executive directors: Dr Sandra Mercer Moore AM (Chair), Ms Linda Hornsey (since December 2016) and Ms Llewellyn Prain.

The membership also comprises at least 8 members nominated by the Committee Chair and approved by the Board to represent the views of the communities served by the Eye and Ear.

The Community Advisory Committee advises the Board on consumer and community participation in the development and delivery of services. The committee meets bi-monthly.

### Primary Care and Population Health Advisory Committee

The Primary Care and Population Health Advisory Committee membership includes the following non-executive directors: Dr Malcolm Brown (Chair) and Ms Linda Hornsey (since December 2016).

The Primary Care and Population Health Advisory Committee provides advice to the Board on working with primary health services and responding to population health issues. The committee meets at least annually.

# Executive Management



### Chief Executive Officer (CEO)

**Mark Petty** MHA, GDIP COMP SCI, BAPP SCI ADV NSG, FAICD

The Chief Executive Officer is accountable to the Board for executive leadership and management of operational, policy, and strategic goals agreed with the Board and in accordance with the funding, planning and regulatory framework of the Victorian Government Department of Health and Human Services.

### Executive Director Medical Services and Chief Medical Officer

**Dr Caroline Clarke** MD, FRACP, MRCP, FRACMA

The Executive Director, Medical Services and Chief Medical Officer (CMO) has executive responsibility for the medical workforce, medical training and education, and the research strategy of the hospital. In addition, the CMO is responsible for the leadership of clinical governance and improvement initiatives, including those related to the redevelopment. The role is also responsible for providing leadership and direction to the introduction of the Electronic Medical Record, and for management of Health Information Services.

### Clinical Director Ophthalmology Services

**Dr Mark McCombe** MBBS, FRANZCO

The Clinical Director Ophthalmology Services is responsible for ophthalmic medical leadership. The role advises on strategy and models of care in ophthalmology that are sustainable and lead to excellence.

### Executive Director Chief Operating Officer and Chief Nursing Officer

**Ms Jenni Bliss** GENERAL NURSING, GRAD DIP, ADVANCED CLINICAL PRACTICE PAEDIATRICS AND PROFESSIONAL CERTIFICATE IN HEALTH SYSTEMS MANAGEMENT, ACHS EXECUTIVE LEADERSHIP PROGRAM

The Chief Operating Officer is responsible for overseeing all clinical operations for the organisation including surgical and inpatient services, the Emergency Department, and ambulatory service delivery and emergency management. As Chief Nursing Officer, the role has professional responsibility and leadership for all nursing staff, the clinical competence framework and nurse education.

### Clinical Director ENT Services

**Mr Robert Briggs** MBBS, FRACS, FACS

The Clinical Director ENT Services provides clinical and medical leadership, advice on models of care to support clinical excellence in ear, nose and throat and surgical support services.

### Executive Director Redevelopment, Planning and Infrastructure

**Mr Ian Leong** BACH BLDG (QS) (HONS), GRAD DIP COMP SC, MBA

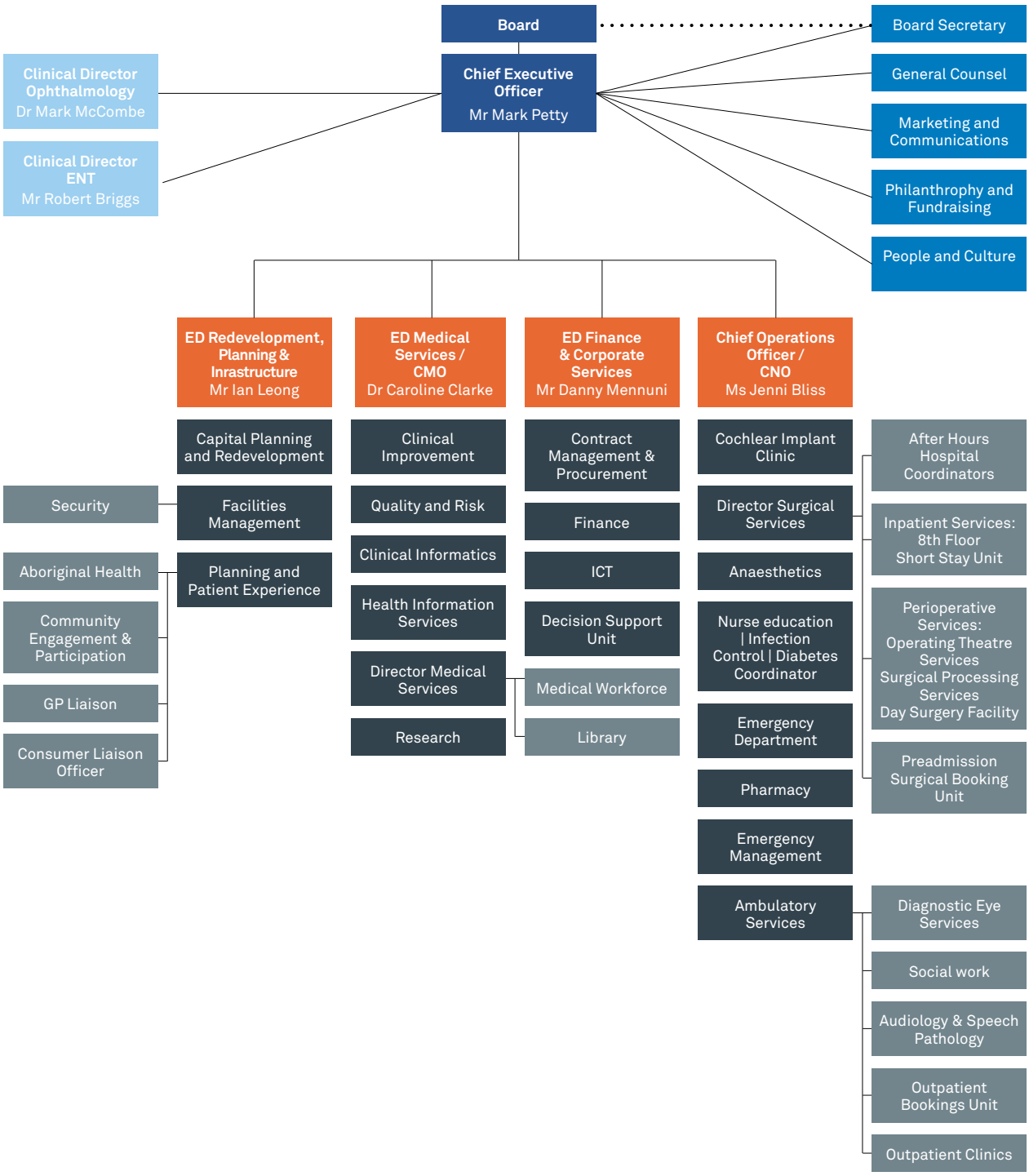
The Executive Director Redevelopment, Planning and Infrastructure has overarching responsibility for capital redevelopment of the Eye and Ear, Business and Strategic Planning incorporating future health service delivery strategy, facility maintenance and security services. The role has overview of the Eye and Ear on the Park site/services, oversight of the five-year redevelopment program including the model of care and physical works associated with the redevelopment and service planning.

### Executive Director Finance & Corporate Services

**Mr Danny Mennuni** B.BUS, CPA

The Executive Director Finance and Corporate Services is the Chief Financial Officer and is responsible for providing leadership in financial management, reporting and controls. The position is also responsible for leading and managing efficient and effective information technology, decision support, contracts and procurement services.

# Organisational Chart



# Donors and Supporters



The Eye and Ear is appreciative of the continued support of our donors, ambassadors and volunteers. The financial donations and funding we receive enables us to improve our services to patients through the purchase of state-of-the-art equipment, new treatment options and continued research into new diagnostic techniques and treatments.

We also gratefully acknowledge our supporters who have expressed their intent to leave a bequest to the Eye and Ear. This helps us continue to improve care and treatment for those living with vision and hearing loss in the future.

### Patron

Mr Anthony Howard QC
(11 August 2015 – present)

### Wagstaff Fellowships 2016–17

In 2016–17 funds from the bequest from Ernest Wagstaff were used to fund the final year of a research fellowships in otolaryngology.

The Wagstaff Fellow, Dr Karina Needham (PhD) completed her study on functional outcomes of novel treatments for hearing loss in April 2017.

### Peter Howson Deafness Fellowship 2016–17

A joint venture between the Eye and Ear and the Deafness Foundation funds a two year Fellowship in the field of hearing science. This continued into 2016–17.

Dr Kerryn Saunders (MB BS, FRACP) was appointed as the third Peter Howson Deafness Fellow in researching a new clinical model for early identification and management of congenital CMV hearing loss. Dr Saunders is now into the second year of her Fellowship.

### Zoran Georgievski Memorial Research Scholarship 2016–17

The late Associate Professor Zoran Georgievski was Manager of Diagnostic Eye Services at the Eye and Ear. In 2012, in conjunction with La Trobe University, a scholarship was established in his memory.

Ms Jane Scheetz was the inaugural recipient of the Scholarship and completed her PhD research project on 'The Validity and Reliability of Orthoptists in Classifying or Measuring Glaucoma Progression' in April 2017.

### Our Major Donors, Bequestors, Corporate and Community Supporters

#### Trusts and Foundations

The Muriel and Les Batten Foundation
Collier Charitable Fund
Eldon and Anne Foote Trust
H & L Hecht Trust
Lord Mayor's Charitable Foundation
The Louis & Lesley Nelken Trust Fund
John T Reid Charitable Trusts
Joe White Bequest

#### Bequests

Estate of Gerald William Brooks
Estate of Gordon Darling
Estate of Alfred Heller
Estate of Kevin John Hughes
Estate of Nancy Jury
Estate of Betty Lynette Kronemberg
Estate of Gerald Joseph Mann
Estate of Stellios Papayianneris
Estate of Leslie Poulton
Estate of Annie Smithies
Estate of Lesley Helen Young

#### Estates

The Orloff Family Charitable Trust
The Elizabeth & Alexander Reddan Memorial Foundation
The Harry Yoffa Charitable Bequest

#### Managed by Perpetual

Estate of Alfred H W Dehnert
The Joseph & Kate Levi Charitable Trust
The Rudolph Hally & Pia Martin Memorial Trust

#### Managed by Equity Trustees

Estate of Leonard Edwin Bergemann
The Erica Cromwell Trust
The Joseph Kronheimer Charitable Fund
George T & Lockyer Potter Trust
Estate of Heather Sybil Smith
Betty Brenda Spinks Charitable Trust
Eliza Wallis Charitable Trust
Estate of John F Wright
Ernest and Letitia Wears Memorial Trust

**Managed by State Trustees**
Estate of Bruce L Powell
Estate of Jessie Ross

## Major Donors

Mrs Ann Chlebnikowski
Mr John Cook
Mrs Beryl Coombs
Mrs Elizabeth Donovan
Mr Trevor Edwards
Mr Byron George
Mr Brian Goddard
Mr Michael Halprin
Mr William Kerr
Mrs Patricia Marks
Miss Jules McLean in memory of the late Mr Douglas McLean
Mr Keith & Mrs Jeanne McRae
Mrs Nirmala Pandey
Mr John Haydn Phillips
Mr Greg Shalit & Ms Miriam Faine
Mr Harry Soultanidis
Mrs Marjorie Todd
Venton International Pty Ltd
Dr Robert Webb
Mr Andrew Whitehead

Four anonymous donors

Dr William G Campbell donated funds to purchase a Truevision Ngenuity 3D Visualization System for the hospital's Vitreoretinal Operating Theatre.

## Community Supporters

Ballarat Combined Charities
Frankston Friends
Mitcham Uniting Church
Ritchies
Uniting Church in Australia
Zouki Catering

## Volunteers

The hospital is home to a dedicated and growing group of volunteers who assist in a range of roles, offer a welcoming smile and a bit of extra help to reassure patients in need. With our hospital undergoing a redevelopment and opening our new temporary site (Eye and Ear on the Park), the volunteer role is even more vital and appreciated by patients and visitors. This year, we welcomed an additional 11 volunteers to the Eye and Ear team.

In the past year our volunteers have given close to 8,000 hours of their time and provided direct assistance to over 65,000 patients. The Concierge volunteers at both the main hospital and at Eye and Ear on the Park provide an important personal touch to our patients' experience as they help patients and their carers through their journey from arrival at our front door to arranging a taxi ride home. Volunteers also support patients in our Outpatient Clinics and have been instrumental in making the transition to our new Emergency Department a smooth one for patients and visitors. We sincerely thank all our volunteers for their hard work and continued commitment.

We would like to take the opportunity to thank our Auxiliary members who are often one of the first people in the hospital in the morning and continue to raise vital funds both within the hospital and the wider community.

We also appreciate the contributions made by consumers on our consumer register who provide their time to participate in committees, hospital working groups, focus groups, review information for patients and act as patient ambassadors. Our consumers make up a very special workforce who represent the voices of our patients. We currently have just over 100 consumers on our register who have partnered with the hospital to provide their feedback and help us work towards ensuring that our hospital meets the needs of all our patients and visitors.

# Service Overview



## The Royal Victorian Eye and Ear Hospital has provided state-wide eye, ear, nose and throat health care since it was founded in 1863. The hospital is accountable to the people of Victoria, through the Minister for Health.

### Manner of establishment and relevant Minister

The Eye and Ear was founded in 1863 by the pioneer surgeon, Dr Andrew Sexton Gray. The hospital is a public health service and is established under the *Health Services Act 1988* (as amended). The responsible Minister during the reporting period was The Hon Jill Hennessy MP.

### Powers and duties

The power and duties of The Royal Victorian Eye and Ear Hospital are prescribed by the *Health Services Act 1988*.

### Nature and range of services

The Royal Victorian Eye and Ear Hospital provides a state-wide specialist tertiary and emergency eye and ear health care service. It is internationally recognised as a leader in clinical service delivery, teaching and research in both ophthalmology and otolaryngology.

The hospital operates from two central locations in East Melbourne to ensure ease of access to eye and ear specialists. Services are provided in outpatient and community settings.

As the largest public provider of ophthalmology and ENT services in Victoria, the hospital delivers more than half of Victoria's public eye surgery and all of Victoria's public cochlear implants.

The Eye and Ear has over 60 different outpatient clinics for the diagnosis, monitoring and treatment of vision and hearing loss and provides a 24-hour emergency eye and ENT health service. The majority of services provided at the Eye and Ear are on an outpatient or same-day basis. In 2016–17 we cared for over 200,000* patients throughout Victoria:

- 148, 018 outpatients*
- 15,049 inpatients
- 40, 712 emergency patients.

There were also 17,846 pharmacy occasions of service, which are not included as part of our total number of patients in 2016–17.

The hospital is a teaching and research centre and has key partnerships with the Centre for Eye Research Australia, The University of Melbourne, the Bionics Institute, Bionic Vision Technologies and The HEARing CRC.

*These figures are different to previous years, due to differences in calculation, in 2016–17 these have been calculated using the Department of Health and Human Services definition of specialist clinics.

### Disability Action Plan

The Eye and Ear is committed to providing an inclusive and accessible environment for staff, patients and visitors to the hospital; regardless of ability or capacity. The Partnering with Consumers and Community Plan incorporates the Disability Action Plan (DAP) and includes a new governance model to ensure organisational wide engagement in the key deliverables and objectives of the plan.

The DAP reflects the strategic priorities of the Eye and Ear, whilst meeting the requirements of the *Federal Disability Discrimination Act 2006*. Major DAP achievements implemented in 2016–17 include finalising the language line project, an accessibility audit of our web site and input into strategic and operational planning processes.

### Privacy

Privacy is an important part of the culture at the Eye and Ear. Since the *Health Records Act 2001* became legally binding in 2002, the hospital has aimed to ensure all staff are aware of the Act and its implications in the workplace. The hospital also aims to ensure compliance with the *Privacy and Data Protection Act 2014*.

The Eye and Ear's Privacy Officer is the Executive Director Medical Services and Chief Medical Officer.

### Protected Disclosure Act 2012 (Vic)

Under the *Protected Disclosures Act 2012* (Vic) (the Act), complaints about certain serious misconduct or corruption involving a public health service in Victoria should be made directly to the Independent Broadbased Anti-corruption Commission (IBAC) in order to remain protected under the Act. The Eye and Ear encourages individuals to make any disclosures which are protected disclosures within the meaning of the Act to IBAC. The hospital also has a range of procedures in place to protect persons making disclosures and to ensure no detrimental action is taken against anyone who makes or is involved in the investigation of a protected disclosure, including an overarching procedure available through the hospital's website. The hospital is not an entity that can receive protected disclosures under the Act.

## Carers Recognition Act 2012

The *Carers Recognition Act 2012* recognises, promotes and values the role of carers. The Eye and Ear understands the different needs of carers and the value they provide to the community. In our commitment to a model of patient and family-centred care, we recognise and involve carers in the development, delivery and evaluation of our services.

## Freedom of Information

The Victorian *Freedom of Information (FOI) Act 1982* provides members of the public with the right to apply, in writing, to the Eye and Ear for access to information held by the hospital. The hospital provides an annual report of all FOI requests to the Victorian Department of Justice.

| Freedom of Information Applications 2016–17 | |
|---|---|
| Total requests | 187 |
| Fully granted | 179 |
| Completed | 179 |

Of the 187 applications, 52 were from the general public. Of the total requests received by the hospital (187 received, 4 were withdrawn)

The requirements for making a request are it should:

- be in writing
- identify as clearly as possible which document is being requested
- be accompanied by the appropriate application fee.

## The Safe Patient Care Act

The Royal Victorian Eye and Ear Hospital takes all practicable measures to ensure compliance with the *Safe Patient Care Act 2015*. The hospital has no matters to report in relation to its obligations under section 40 of the Act.

## People and culture

Since the development of our 2014 Strategic Workforce Plan, the organisation has undergone significant change. The 2016 Strategic Workforce Plan Refresh recognises that many of the targets identified in 2014 have been completed or are near completion. Therefore, updated targets, mindful of the current environment, are required to ensure the organisation progresses towards its mission, vision and strategic intent. Through this planning we can ensure our workforce is designed in a way that best promotes performance and productivity and delivers services in the most effective way.

The Eye and Ear continues to foster a culture of respect, fairness and transparency based on principles of natural justice, innovation, learning from errors and accountability for individual actions. We do this through the promotion of appropriate behaviours described in the Code of Conduct which complement our organisational values of integrity, teamwork, care and excellence. We measure the uptake of our values as part of our Reward and Recognition Program and in our People Matter Survey. Our 2016 People Matter Survey results showed an increase in employee engagement and job satisfaction levels compared with the previous year.

## Merit and equity principles

Merit and equity principles are encompassed in all employment and diversity management activities throughout the Eye and Ear. The Eye and Ear is an equal opportunity employer and is committed to providing its employees a work environment which is free of harassment or discrimination together with an environment that is safe and without risk to health. The Eye and Ear's employees are committed to our values and behaviours as the principles of employment and conduct. The Eye and Ear embraces and promotes cultural diversity and awareness in the workplace and recognises that more than a third of our workforce speak a language other than English at home.

## Recruiting staff

In 2016–17 the Eye and Ear workforce comprised over 900 staff. We recruited 178 new staff, all of whom attended an orientation program. Our turnover rate was 9.5%, which is consistent with industry average.

The Eye and Ear appreciates that its employees are its most important asset and the quality of the first six months of an employee's tenure is critical to their integration into their role and the organisation. We undertook a review to improve the experience for new staff and retain important talent or new hires and to ensure that our staff perform their role effectively and safely from day one. We will continue to roll out new initiatives to enhance the on boarding and induction experience.

## Pre-employment safety screening

The organisation continues to apply thorough credentialing and pre-employment verification checks to ensure we sustain safety and quality of health care provision. Applicable clinical staff are required to hold and maintain current registration with the relevant National Board in conjunction with the Australian Health Practitioner Regulation Agency (AHPRA) or equivalent. All staff are required to maintain a satisfactory Criminal Record Check and clinical staff are required to hold a valid Working With Children Check.

## Workforce Data by Labour Category

| Labour Category | June 2016 Current Month | June 2017 Current Month | June 2016 YTD FTE | June 2017 YTD FTE |
|---|---|---|---|---|
| Nursing | 155 | 160 | 155 | 155 |
| Administration and Clerical | 157 | 162 | 156 | 156 |
| Medical Support | 46 | 50 | 46 | 49 |
| Hotel and Allied Services | 11 | 16 | 11 | 15 |
| Medical Officers | 6 | 5 | 5 | 6 |
| Hospital Medical Officers | 43 | 56 | 51 | 55 |
| Sessional Clinicians | 37 | 37 | 37 | 37 |
| Ancillary Staff (Allied Health) | 38 | 41 | 35 | 38 |
| **Total** | **493** | **528** | **495** | **512** |

The FTE figures in the table above exclude overtime. These do not include contracted staff (for example agency staff or fee-for-service visiting medical officers) who are not regarded as employees for this purpose

### Aboriginal Employment Plan

The organisation continued activities to support the Aboriginal Employment Plan which is designed to provide practical steps to achieve increased workforce participation under Karreeta Yirramboi. The hospital is working towards setting strong foundations and developing greater cultural awareness and understanding of the Victorian Aboriginal community's needs and requirements. Having recently employed two Aboriginal Health Liaison Officers, we are implementing attraction and retention strategies to ensure Aboriginal employees are supported and engaged in sustainable and rewarding employment, both now and well into the future.

### Employee recognition programs

Our staff continue to go above and beyond to achieve excellence. We aim to provide a platform for meaningful recognition that contributes to increased staff engagement and positive workplace behaviours.

During 2016, we conducted a review of our Reward and Recognition Program. This review included consultation with key stakeholders and feedback from staff. We revamped the Reward and Recognition Program, emphasising the need to promote positive workplace behaviours, better aligning to our current priorities and ensuring all staff have access to nominate a colleague (accepting paper and digital nomination forms). The nomination form was re-designed to increase usefulness and established a process where positive patient feedback can be included as a nomination.

The winners of our 2016 Excellence Awards are listed in our Chair and CEO Report on page 3. The following were the recipients of the Values Award in 2016–17:

- Patricia McGarrity – Clinical Improvement Lead, Performance and Improvement
- Con Markopoulos – Application Support Officer, ICT
- Dr Adrian Dragovic – ENT Registrar
- The Inpatient Ward

### Employee confidential counselling program

The Employee Assistance Program is a confidential external counselling service available to staff, their family and household members. The service provides wellness at work education and awareness programs and assists in addressing personal or work related issues that have an impact on wellbeing and quality of life. The service also offers managers support and post incident debriefing in the workplace.

### Developing our workforce

We know that an increased level of clinical engagement and clinical leadership leads to safer, better patient outcomes and has a positive impact on organisational performance. The Eye and Ear Leadership Development Pathway includes a four tiered development pathway, providing opportunities for potential managers, experienced managers and current leaders to develop and enhance leadership and management capability.

Our Leading With Impact programs are facilitated off site and are mapped to our Leadership and Change Capabilities, participant needs and organisational imperatives. We have worked to implement reliable methods to measure the Leading With Impact participants' transfer of learning and outcomes of the program. The milestones included:

- Group presentation
- Continued personal goal development
- Informal forums and participant networking
- Behavioural Impact Assessment for participants and managers
- Conversation tools available online.

The second Leading With Impact program was held in 2016–17 with 29 emerging leaders, Associate Nursing Unit Managers and Team Leaders attending. The focus was building skills including communicating for success, driving change, coaching and delegating with purpose.

Annual performance and development discussions were conducted and were able to be recorded on the new online ePerformance system. These critical discussions ensure performance feedback is provided and development goals for the next 12 months are collectively developed.

Manager workshops were held to better equip managers to provide meaningful feedback and help identify staff development needs. This process provides for the review of: individual clinical scope of practice; mandatory training compliance; expectations about quality and safety responsibilities; upward feedback and feedback on quality and safety processes.

A centralised register of staff development opportunities with an online registration process was developed in response to staff suggestions.

Our in-house MyLearning portal underwent enhancements and continues to categorise training requirements by role, department and profession to ensure staff have access to maintain the knowledge and skills to perform their role safely.

### Enterprise bargaining negotiations

In 2016 enterprise agreements for nurses, allied health professionals, administrative and managerial staff all expired. Negotiations occurred to facilitate ongoing enterprise agreements and minimal industrial action occurred throughout this process. The certified agreements saw terms and conditions agreed for a four year period, provision of wage increases and the establishment of common clauses within agreements. New entitlements included: family violence leave, transition to retirement, and a framework on the management of occupational violence and aggression management. People and Culture commenced working with managers and unions to implement and educate staff on the changes to entitlements.

### Health and wellbeing initiatives

The Eye and Ear recognises that employee wellbeing increases engagement and our ability to deliver high quality patient care. Our wellness@work program's priority areas are: mental health at work, physical activity, nutrition, quit smoking, safe alcohol use and financial health. We continued to focus on education and awareness activities and held the following initiatives:

- Forums with an international expert speaker on mindfulness and its health benefits
- Short mindfulness sessions held in local departments
- Workplace yoga classes
- Coordination of team participation in Premiers' Active April
- Nutrition Australia onsite sessions
- Office ergonomic information sessions
- Financial planning for retirement
- Tracking achievements in the State Governments' Healthy Together Victoria Achievement Programs for Workplaces

### Occupational Health and Safety (OHS)

To minimise risk and promote staff safety, the following programs and activities were provided:

- zero tolerance for inappropriate behaviour at work including bullying, harassment and occupational violence and aggression
- raising awareness of appropriate behaviours and encouraging staff to report concerns through online education and staff forums, and
- ensuring People and Culture staff are able to respond to complaints and are adequately skilled in conducting workplace investigations.

In 2016–17, the Health, Safety and Environment Committee met regularly to discuss and address safety issues. Other committees with key roles in addressing safety include the Laser and Radiation Safety and Emergency Management Committees. Staff and safety representatives were involved in health and safety decisions through consultation and regular meetings.

Our OHS training includes: bullying and harassment awareness and prevention training for all managers; occupational violence and aggression management for clinical and front line staff; manual handling 'train the trainer' training for Clinical and Allied Health staff; OHS education at orientation and local induction; laser and radiation safety for clinical and non- clinical staff working in clinical areas; and, emergency response training for emergency coordinators and area wardens.

### Workers Compensation

We operate in accordance with the *Victorian OHS Act 2004*, OHS Regulations 2017, the *Workplace Injury Rehabilitation and Compensation Act 2013* and other relevant legislation.

The total number of WorkCover claims lodged in 2016–17 increased from four to seven claims; this included five standard 'time lost' claims and two 'medical expenses only' claims.

## Occupational Violence

Occupational violence is any incident where an employee is abused, threatened or assaulted in circumstances arising out of, or in the course of their employment. The Health, Safety and Environment Committee have oversight of occupational violence and aggression issues across the organisation and have developed a plan to address specific occupational violence needs and promote staff safety.

The Eye and Ear can report the following occupational violence statistics for 2016–17:

| Occupational violence statistics | |
|---|---|
| Workcover accepted claims with an occupational violence per 100 FTE | 0 |
| Number of accepted Workcover claims with lost time injury with an occupational violence cause per 1,000,000 hours worked | 0 |
| Number of occupational violence incidents reported | 51 |
| Number of occupational violence incidents reported per 100 FTE | 9.96 |
| Percentage of occupational violence incidents resulting in a staff injury, illness or conditio | 3.92% |

## Building and maintenance compliance

During the financial year, it has been practice to obtain building permits for building projects and certificates of occupancy or certificates of final inspection for all completed projects. Registered building practitioners have been engaged for all building projects, new or major refurbishments. To ensure buildings are maintained in a safe and functional condition, ongoing maintenance programs are in place. There is a requirement under the *Building Act 1993* (Building Regulations 2006, rr. 1209, 1215) for the hospital to establish comprehensive management of the Essential Safety Measures (ESM).

In 2017, the hospital once again achieved 100% compliance with mandatory ESM inspections, testing, maintenance and documentation in relation to building safety. The hospital has established a comprehensive management of the Essential Safety Measures (ESM). All ESM are annually audited and identified on the Certificate of Occupancy issued by the building surveyor with each ESM maintained as per certified maintenance agreements at the specified time intervals. The ESM compliance certificates can be located on display at the main entrance of the hospital.

## Car parking fees

The Eye and Ear complies with the DHHS hospital circular on car parking fees and details of car parking fees and concession benefits can be viewed at: www.eyeandear.org.au/page/News_and_Events/Latest_News/Car_parking_for_Eye_and_Ear_patients_and_visitors/

## Information and Communication Technology (ICT) expenditure

The total ICT expenditure incurred during 2016–17 is $3,706,000 (excluding GST) with the details shown below.

| ($ millions) | | |
|---|---|---|
| **Business As Usual (BAU) ICT expenditure** | (Total) (excluding GST) | **$3.06** |
| **NonBusiness As Usual (nonBAU) ICT expenditure** | (Total=Operational expenditure and Capital Expenditure) (excluding GST) | **$0.7** |
| **Operational expenditure (excluding GST)** | | **$0** |
| **Capital expenditure (excluding GST)** | | **$0.7** |

## Environmental achievements

During 2016–17, our hospital's redevelopment project has presented some challenges, especially with the relocation of services to Eye and Ear on the Park. During this time of change, consideration has been given to our energy and water consumption, as well as improving and sustaining our waste management.

In the past year the Eye and Ear has:

- continued with the recycling program, including introducing the Little Blue Towels project (towels which are usually discarded after a single use are now collected, expertly laundered and sold, with proceeds going to the OTIS Foundation).
- worked with other partners such as: recyclers, universities, other health services to assess redundant and obsolete goods, which has provided some challenges during this redevelopment phase.
- promoted World Environmental Day.

## Health Purchasing Victoria Purchasing Policies

The Eye and Ear has attested to compliance with these policies.

## Victorian Industry Participation Policy Disclosure

The Eye and Ear complies with the *Victorian Industry Participation Policy Act 2003*. The Act requires, wherever possible, local industry participation in supplies, taking into consideration the principle of value for money and transparent tendering processes. No contracts commenced in 2016–17 for which compliance with this Act was necessary (nil).

## National Competition Policy

In accordance with the Competition Principles Agreement (CPA), Victoria is obliged to apply competitive neutrality policy and principles to all significant business activities undertaken by government agencies and local authorities. The Victorian Government's competitive neutrality policy commits public health services to apply this policy to all dealings. This includes the adoption of pricing principles to take account of the full cost attribution

for net competitive advantages conferred by government ownership. The policy gives direction that where the government's business activities involve it in competition with private sector business activities, the net advantages that accrue to a government business are offset.

*Competitive Neutrality Policy Victoria 2000* sets out the Victorian approach to competitive neutrality. The Eye and Ear complies with this policy in all relevant business activities.

## Disclosure of Ex-Gratia Payments

The Eye and Ear made no ex-gratia payments for the year ending 30 June 2017.

## Consultancies less than $10k

In 2016–17, the Eye and Ear engaged six consultants where the total fees payable to the consultant were less than $10,000, with a total expenditure of $34,678 (excluding GST).

## Consultancies more than $10k

In 2016–17, the Eye and Ear engaged two consultants where the total fees payable to the consultant was in excess of $10,000 (excluding GST). The total expenditure incurred during 2016–17 in relation to these consultancies is $126,461 (excl. GST). Details of individual consultancies can be viewed on their web sites.

**($ thousand)**

| **Consultant** | PWC Australia | Vincent Chrisp |
|---|---|---|
| **Purpose of consultancy** | Professional fees to assist in the preparation of an Electronic Medical Record Concept Brief | Feasibility study to assess viable sites for a new cochlear implant centre |
| **Start date** | August 2016 | February 2017 |
| **End date** | September 2016 | July 2017 |
| **Total approved project fee (excluding GST)** | $82,181 | $49,200 |
| **Expenditure 2016–17 (excluding GST)** | $82,181 | $44,280 |
| **Future expenditure (excluding GST)** | $0 | $4,920 |

## Additional Information Available on Request (FRD 22H Appendix)

In compliance with the requirements of FRH 22H Standard Disclosures in the Report of Operations, details in respect of the items listed below have been retained by The Royal Victorian Eye and Ear 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):

- Declarations of pecuniary interests have been duly completed by all relevant officers;
- Details of shares held by senior officers as nominee or held beneficially;
- Details of publications produced by the entity about itself, and how these can be obtained
- Details of changes in prices, fees, charges, rates and levies charged by The Royal Victorian Eye and Ear Hospital;
- Details of any major external reviews carried out on The Royal Victorian Eye and Ear Hospital;
- Details of major research and development activities undertaken by The Royal Victorian Eye and Ear Hospital that are not otherwise covered either in the report of operations or in a document that contains the financial statements and report of operations;
- Details of overseas visits undertaken including a summary of the objectives and outcomes of each visit;
- Details of major promotional, public relations and marketing activities undertaken by the Health Service to develop community awareness of The Royal Victorian Eye and Ear Hospital and its services;
- Details of assessments and measures undertaken to improve the occupational health and safety of employees;
- General statement on industrial relations within The Royal Victorian Eye and Ear Hospital and details of time lost through industrial accidents and disputes, which is not otherwise detailed in the report of operations;
- A list of major committees sponsored by The Royal Victorian Eye and Ear Hospital, the purposes of each committee and the extent to which those purposes have been achieved;
- Details of all consultancies and contractors including consultants/contractors engaged, services provided, and expenditure committed for each engagement.

# Key Financial and Service Performing Reporting





## Part A: Strategic Priorities

| Domain | Action | Deliverables | Outcomes |
|---|---|---|---|
| **Quality and safety** | Implement systems and processes to recognise and support person-centred end of life care in all settings, with a focus on providing support for people who choose to die at home. | Monitor adherence to Eye and Ear Resuscitation Choices Procedure with Advanced Care data collected at pre- admission and entered as a patient alert. | **Achieved**<br>Procedures in place to support Advanced Care directives |
| | Advance care planning is included as a parameter in an assessment of outcomes including: mortality and morbidity review reports, patient experience and routine data collection. | Review audit of Advance care planning as part of the Code Blue / Respond Met debriefs. | **Achieved**<br>Ongoing audits are in place. |
| | Progress implementation of a whole-of- hospital model for responding to family violence. | Include Family Violence / Vulnerable people in the Business Plan (with reference to Strengthening Hospital Responses to Family Violence service model) including establishment of a whole of hospital governance structure. | **In progress**<br>Organisational Procedure for staff has been developed in consultation with stakeholders and implemented. Manager awareness has been undertaken. |
| | | Improve patient data collection with regard to victims of family violence in order to improve strategic planning and reporting in this area | **Achieved**<br>Process to capture data and administer the procedure has been reviewed to ensure alignment with industry practice. |
| | Use patient feedback, including the Victorian Healthcare Experience Survey to drive improved health outcomes and experiences through a strong focus on person and family centred care in the planning, delivery and evaluation of services, and the development of new models for putting patients first. | In partnership with consumers, establish effective way-finding processes for patients to access non-admitted and day surgery services located at Eye and Ear on the Park site. | **Achieved**<br>Representatives from Vision Australia and volunteers completed way finding exercises, walk rounds and signage reviews which led to improvements in accessibility and navigation of the Eye and Ear on the Park site. |
| | | Review of VHES data to determine success of the "Hello My Name is" program which was established in response to patient feedback in the VHES survey. | **Achieved**<br>VHES data demonstrates that the 'staff treating and examining patients introduced themselves and their role' increased from 81% to 92% post implementation. |
| **Access and timeliness** | Ensure the development and implementation of a plan in specialist clinics to: (1) optimise referral management processes and improve patient flow through to ensure patients are seen in turn and within time; and (2) ensure Victorian Integrated Non-admitted Health data accurately reflects the status of waiting patients. | Embed specialist clinic waiting list validation processes as per Specialist Clinic Access Policy to ensure waiting lists are accurate and up to date and patients are removed via treat in turn principles. | **Achieved**<br>Regular validation of waiting lists (new and review) across all Specialist Clinics now occurs and is governed by the Specialist Clinics Waiting List management Procedure. |
| | | Rules engine and audit viewer implemented into PIMs with enhanced reporting. | **Achieved**<br>Rules engine and audit viewer implemented |
| | Ensure the implementation of a range of strategies (including processes and service models) to improve patient flow, transfer times and efficiency in the emergency department, with particular focus on patients who did not wait for treatment and/or patients that re- presented within 48 hours. | Undertake post-commission review of the redeveloped ED (including new model of care) by March 2017 and begin implementing agreed recommendations by June 2017. | **Achieved**<br>Review completed and recommendations actioned |

| | | | |
|---|---|---|---|
| | Identify opportunities and implement pathways to aid prevention and increase care outside hospital walls by optimising appropriate use of existing programs (i.e. the Health Independence Program or telemedicine). | Fully implement the Eye Connect Telehealth service model by March 2017 and ensure ongoing sustainability. | **In progress**<br>EyeConnect devices installed at 10 locations with further 5 devices to be completed. Full implementation scheduled for August 2017. |
| | Increase the proportion of patients (locally and across the state) who receive treatment within the clinically recommended time for surgery and implement ongoing processes to ensure patients are treated in turn and within clinically recommended timeframes. | Deliver 800 additional surgeries as per extra 2016-17 elective surgery funding. | **In progress**<br>Additional operating theatre commissioned in February 2017 (slightly delayed) which enabled 455 additional surgeries to be undertaken. |
| | | Develop and implement plan for this increased activity which utilises multi- campus efficiencies and optimised surgery sessions. | **Achieved**<br>Theatre schedule re-designed to align clinical specialties to the appropriate hospital site.<br><br>Day Stay Model of Care implemented for identified ENT cases which 30% increase in day stay patient numbers. |
| | Develop and implement a strategy to ensure the preparedness of the organisation for the National Disability and Insurance Scheme and Home and Community Care program transition and reform, with particular consideration to service access, service expectations, workforce and financial management. | Develop and implement a strategy to ensure eligible NDIS clients are provided with appropriate statements of functional impairment and ensure care is coordinated for people who are NDIS participants who require services provided by both the Eye and Ear and NDIS services. | **Achieved**<br>Reviewed; no impact noted. |
| **Supporting healthy populations** | Support shared population health and wellbeing planning at a local level - aligning with the Local Government Municipal Public Health and Wellbeing plan and working with other local agencies and Primary Health Networks. | Actively participate with primary health network in development of referral and discharge pathways. | **In progress**<br>Working with primary health network to develop discharge pathways. |
| | | Foster working relationships with Vision 2020 and Better Hearing Victoria on prevention and intervention strategies promoting better health outcomes. | **In progress**<br>Working with Vision Initiative Steering Committee (several partners) to implement Early Diagnosis kits for patients with Diabetic Retinopathy and Macular Degeneration. |
| | Focus on primary prevention, including suicide prevention activities, and aim to impact on large numbers of people in the places where they spend their time adopting a place based, whole of population approach to tackle the multiple risk factors of poor health. | Using learning from Barwon region pilot to establish outreach services for cochlear habilitation with new regional partners. | **In progress**<br>Barwon project on hold. Plans in place to support Tasmania pilot for cochlear service. |

| | | |
|---|---|---|
| Develop and implement strategies that encourage cultural diversity such as partnering with culturally diverse communities, reflecting the diversity of your community in the organisational governance, and having culturally sensitive, safe and inclusive practices. | Implementation of the Partnering with Consumers and Community Plan 2016–19, which incorporates the Community Participation Plan, Aboriginal Health Plan, Cultural Responsiveness Plan and Disability Action Plan. | **Achieved**<br>The four year plan has been implemented and outcomes from year one achieved. |
| | Actions include reviewing requests for translated information in formats suitable for Culturally And Linguistically Diverse (CALD) audiences. | **Achieved**<br>A 'language line' has been finalised which allows consumers to phone and receive information on common conditions and general information about the Eye and Ear in six languages. |
| Improve the health outcomes of Aboriginal and Torres Strait Islander people by establishing culturally safe practices which recognise and respect their cultural identities and safely meets their needs, expectations and rights. | Develop sustainable process to identify Aboriginal and Torres Strait Islander Patients on surgical pathway and review surgical options to reduce the health gap. | **In progress**<br>Outpatient referral form under review and survey of administrative staff to ascertain knowledge of why identification is important.<br><br>Aboriginal patients for cataract surgery are having surgery within 30 days. |
| | Develop reporting to analyse any variance in ED DNW rates between Aboriginal and Torres Strait Islander identified patients and others. | **Achieved**<br>Reports are analysed to understand variance |
| Drive improvements to Victoria's mental health system through focus and engagement in activity delivering on the 10 Year Plan for Mental Health and active input into consultations on the Design, Service and infrastructure Plan for Victoria's Clinical mental health system. | Application of the Procedure for Accessing Psychiatric Support Services from St Vincent's Hospital, including the use of the Clinical Risk Assessment tool; and review of results. | **Achieved**<br>Arrangements in place with St Vincent's Hospital |
| Using the Government's Rainbow eQuality Guide, identify and adopt 'actions for inclusive practices' and be more responsive to the health and wellbeing of lesbian, gay, bisexual, transgender and intersex individuals and communities. | Review Eye and Ear policies and procedures to ensure they comply with the Rainbow eQuality Guide to promote an inclusive culture by June 2017. | **Achieved**<br>Review of recruitment and on boarding processes completed in June 2017. |
| Further engagement with relevant academic institutions and other partners to increase participation in clinical trials. | Review whether Eye and Ear should participate in the National Mutual Acceptance Program (NMAP) for single ethical review of multicentre research by March 2017. | **Achieved**<br>Agreement to proceed with becoming NMA acceptance site; MOU signed with DHHS |

| | | | |
|---|---|---|---|
| **Governance and leadership** | Demonstrate implementation of the Victorian Clinical Governance Policy Framework: Governance for the provision of safe, quality healthcare at each level of the organisation, with clearly documented and understood roles and responsibilities. Ensure effective integrated systems, processes and leadership are in place to support the provision of safe, quality, accountable and person centred healthcare. It is an expectation that health services implement to best meet their employees' and community's needs, and that clinical governance arrangements undergo frequent and formal review, evaluation and amendment to drive continuous improvement. | Review Eye and Ear Clinical Governance Framework, Quality Improvement Framework and Quality Plan to ensure compliance with VCGPF. Review recommendations of the Review of Quality and Safety and implement as appropriate. | **Achieved**<br>Quality plan is developed annually and has been reviewed by Board, Executive and Clinical Quality Committee. Clinical Governance Framework reviewed and is compliant with Victorian Clinical Governance Policy Framework. Quality & Improvement policy is reviewed biennially by Board; it describes the mechanisms by which the hospital meets the requirements of the National Safety and Quality Health Service standards and aligns initiatives to meet recommendations from Targeting Zero. |
| | | Review the outcomes of the People Matter Survey 2016 in relation to safety at work and clinical safety and quality and develop an action plan as appropriate. | **Achieved**<br>Results of People Matter Survey reviewed and communicated. Action plan implemented and results are being used to inform workforce planning process. |
| | Ensure that an anti-bullying and harassment policy exists and includes the identification of appropriate behaviour, internal and external support mechanisms for staff and a clear process for reporting, investigation, feedback, consequence and appeal and the policy specifies a regular review schedule. | Review recommendations of the VAGO report and conduct a gap analysis against Eye and Ear current policies. | **Achieved**<br>Gap analysis completed. Implementation plan finalised. |
| | | Complete biennial review of the Prevention of Bullying Procedure and the Bullying and Harassment Policy to ensure articulation of the responsibilities and accountabilities of employees, managers, human resources and contact officers within the organisation. | **Achieved**<br>Policies reviewed and updated. |
| | Board and senior management ensure that an organisational wide occupational health and safety risk management approach is in place which includes: (1) A focus on prevention and the strategies used to manage risks, including the regular review of these controls; (2) Strategies to improve reporting of occupational health and safety incidents, risks and controls, with a particular focus on prevention of occupational violence and bullying and harassment, throughout all levels of the organisation, including to the board; and (3) Mechanisms for consulting with, debriefing and communicating with all staff regarding outcomes of investigations and controls following occupational violence and bullying and harassment incidents. | Conduct OH&S Internal Audit review of Bullying and Harassment Policies and Procedures in February 2017. Internal Audit will look at risk management approach to OH&S including Bullying and Harassment, with a focus on identification, recording, monitoring, awareness and training. | **Achieved**<br>Internal Audit OHS staff safety (including bullying and harassment) audit complete and recommendations being implemented.<br><br>OHS risks in addition to Bullying/ harassment complaints are reported to Executive and Board via quarterly OHS Scorecard. |
| | | Acknowledge staff safety as a risk on the Enterprise Risk Register and conduct risk assessments taking into account organisational and psychological hazards. | **Achieved**<br>Staff safety is identified on enterprise risk register and appropriate actions to mitigate risks identified and being implemented |

| | | | |
|---|---|---|---|
| | Implement and monitor workforce plans that: improve industrial relations; promote a learning culture; align with the Best Practice Clinical Learning Environment Framework; promote effective succession planning; increase employment opportunities for Aboriginal and Torres Strait Islander people; ensure the workforce is appropriately qualified and skilled; and support the delivery of high- quality and safe person centred care. | Continued implementation of workforce plan, including continued delivery of the Eye and Ear Aboriginal Employment Plan which aims to increase the participation rate of Aboriginal employees; and building leadership capability through the implementation of the Leadership and Change Capability Framework. | **Achieved**<br>Implementation plan in progress for Aboriginal employment plan.<br><br>Second Leading with Impact program for mangers is complete with excellent feedback.<br><br>Course tailored to organisation leadership and change capability framework. |
| | Create a workforce culture that: (1) includes staff in decision making; (2) promotes and supports open communication, raising concerns and respectful behaviour across all levels of the organisation; and (3) includes consumers and the community. | Review results of People Matter Survey<br><br>2016 by December 2016 and develop action plans as appropriate to the outcomes of the review. | **Achieved**<br>Action plan developed and implemented. |
| | | Deliver change management tools to support managers and staff through change and support their involvement in decision making by June 2017. | **Achieved**<br>Change consultation obligations articulated and manager toolkit finalised. |
| | Ensure that the Victorian Child Safe Standards are embedded in everyday thinking and practice to better protect children from abuse, which includes the implementation of: strategies to embed an organisational culture of child safety; a child safe policy or statement of commitment to child safety; a code of conduct that establishes clear expectations for appropriate behaviour with children; screening, supervision, training and other human resources practices that reduce the risk of child abuse; processes for responding to and reporting suspected abuse of children; strategies to identify and reduce or remove the risk of abuse and strategies to promote the participation and empowerment of children. | Review Eye and Ear policies to ensure they comply with the Victorian Child Safe Standards by Dec 2016. | **Achieved**<br>Gap analysis against Victorian Child Safe Standards completed and action plan has been developed. |
| | | Include Family Violence / Vulnerable people in the 2016-17 Business Plan, including establishment a whole of hospital governance structure | **Achieved**<br>Family Violence program for staff incorporated in Business Plan and progress is overseen by Workplace Implementation Committee; held monthly with unions and staff. |
| | | Review patient data collection with regard to child victim of family violence in order to improve strategic planning and reporting in this area by June 2017. | **Achieved**<br>Data collection method reviewed and new recording mechanism implemented. |
| | Implement policies and procedures to ensure patient facing staff have access to vaccination programs and are appropriately vaccinated and/or immunised to protect staff and prevent the transmission of infection to susceptible patients or people in their care. | Reinforce our comprehensive, streamlined immunisation procedure to ensure optimal patient and staff health and aim to meet 75% target for health care worker immunisation. Program includes a marketing campaign to encourage all staff to participate in seasonal influenza program; an accredited nurse immuniser to optimise opportunities for administration of seasonal vaccinations; a robust process for staff declination and tracking of immunisation provided at other healthcare facilities. | **Achieved**<br>2016 vaccination program complete with flu vaccination targets achieved |

| | | | |
|---|---|---|---|
| **Financial sustainability** | Further enhance cash management strategies to improve cash sustainability and meet financial obligations as they are due. | Review and improve financial reporting package to Executive and Finance Committee to enhance visibility and forecasting of cashflows; and to establish and report on additional financial KPIs such as debtor collections. | **Achieved**<br>The financial reporting package provided to Executive and Finance Committee has been updated, including the reporting of financial KPI's that include available cash, debtor and creditor performance and asset replenishment. |
| | Actively contribute to the implementation of the Victorian Government's policy to be net zero carbon by 2050 and improve environmental sustainability by identifying and implementing projects, including workforce education, to reduce material environmental impacts with particular consideration of procurement and waste management, and publicly reporting environmental performance data, including measureable targets related to reduction of clinical, sharps and landfill waste, water and energy use and improved recycling. | Continue to monitor and report on key environmental performance indicators such as electricity use, gas consumption, water use, paper use, fuel use and waste. | **Achieved**<br>Independent review of energy systems at Eye and Ear on the Park undertaken and confirmed no further opportunities for reduced energy usage without significant investment. Utility use is monitored across both campuses. Unused floors and spare infrastructure at Eye and Ear on the Park has been turned off to ensure systems efficiency. |
| | | During redevelopment phases, assess redundant and obsolete goods and partner with organisations such as recyclers, universities, other health services and charities to minimise waste. | **In progress**<br>The redevelopment reports on the recycling efforts which can be up to 15t of material being recycled per month. This will be ongoing until the end of the redevelopment project. |

# Part B: Performance Priorities

| Key performance indicator | Target | Result |
|---|---|---|
| **Safety and Quality** | | |
| Compliance with NSQHS Standards accreditation | Full compliance | Achieved |
| **Infection prevention and control** | | |
| Compliance with cleaning standards | Full compliance | Achieved |
| Compliance with the Hand Hygiene Australia Program | 80% | 81% |
| Percentage of health care workers immunised for influenza | 75% | 77% |
| **Patient experience** | | |
| Victorian Healthcare Experience Survey – data submission | Full compliance | Achieved |
| Victorian Healthcare Experience Survey – patient experience Quarter 1 | 95% positive experience | 98% |
| Victorian Healthcare Experience Survey – patient experience Quarter 2 | 95% positive experience | 94% |
| Victorian Healthcare Experience Survey – patient experience Quarter 3 | 95% positive experience | 94% |
| Victorian Healthcare Experience Survey – discharge care Quarter 1 | 75% very positive response | 82% |
| Victorian Healthcare Experience Survey – discharge care Quarter 2 | 75% very positive response | 84% |
| Victorian Healthcare Experience Survey – discharge care Quarter 3 | 75% very positive response | 76% |
| SAB rate per occupied bed days | <2/10,000 | Achieved |
| **Governance and leadership** | | |
| People Matter Survey – percentage of staff with a positive response to safety culture questions | 80% | 94% |

| | | |
|---|---|---|
| **Access and timelines** | | |
| Percentage of ambulance patients transferred within 40 minutes | 90% | 100% |
| 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% | 76% |
| Percentage of emergency patients with a length of stay less than 4 hours | 81% | 81% |
| Number of patients with length of stay in the Emergency Department greater than 24 hours | 0 | 0 |
| **Elective surgery** | | |
| Percentage of Urgency Category 1 elective patients removed within 30 days | 100% | 100% |
| Percentage of Urgency Category 1, 2 and 3 elective patients admitted within clinically recommended timeframes | 94% | 92% |
| 20% longest waiting Category 2 and 3 removals from the elective surgery waiting list | 100% | 99% |
| Number of patients on the elective surgery waiting list | 2995 | 2409 |
| Number of hospital initiated postponements per 100 scheduled admissions | <8/100 | 2.9 |
| Number of patients admitted from the elective surgery waiting list – annual total | 12,547 | 12,284 |
| **Specialist clinics** | | |
| Percentage of urgent patients referred by a GP or external specialist who attended a first appointment within 30 days | 100% | 71% |
| Percentage of routine patients referred by GP or external specialist who attended a first appointment within 365 days | 90% | 85% |

## Financial sustainability performance

| Key performance indicator | Target | Result |
|---|---|---|
| Operating Result ($m) | 0 | 0.13 |
| Trade creditors | <60 days | 42.90 |
| Patient fee debtors | <60 days | 26.97 |
| **WIES activity performance** | | |
| Public and private WIES performance to target | 100% | 92.74% |
| **Asset management** | | |
| Adjusted current asset ratio | 0.70 | 4.76 |
| Days of available cash | 14 days | 145 days |
| Asset management plan | Full compliance | Full compliance |

# Part C: Activity and Funding

| Funding type | Activity achievement |
|---|---|
| **Acute Admitted** | |
| WIES DVA | 38 |
| WIES Private | 2,715 |
| WIES Public | 8,125 |
| WIES TAC | 7 |
| Health Workforce | 6 |

# Summary of Financial Results



| | 2017 $'000 | 2016 $'000 | 2015 $'000 | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|---|
| Operating Revenue | 101,535 | 94,509 | 91,933 | 86,537 | 81,605 |
| Operating Expense | (101,405) | (94,423) | (91,876) | (86,465) | (81,568) |
| **Operating Result** | **130** | **86** | **57** | **72** | **37** |
| | | | | | |
| Total Revenue | 131,775 | 120,679 | 122,986 | 101,389 | 85,797 |
| Total Expense | (113,123) | (104,644) | (100,638) | (94,225) | (91,005) |
| **Net Result for the Year** | **18,652** | **16,035** | **22,348** | **7,164** | **(5,208)** |
| | | | | | |
| Total Assets | 285,370 | 251,205 | 229,302 | 197,001 | 184,623 |
| Total Liabilities | (25,612) | (21,576) | (20,209) | (21,082) | (19,334) |
| Net Assets | 259,758 | 229,629 | 209,093 | 175,919 | 165,289 |
| **Total Equity** | **259,758** | **229,629** | **209,093** | **175,919** | **165,289** |

* Adjustments have been made to the 2014, 2015 and 2016 figures in relation to Capital Purpose Income totalling $5,254,000 that was incorrectly reported as a reduction in Total Assets.

Total Revenue, Net Result for the Year, Total Assets, Net Assets and Total Equity have been adjusted accordingly for each of these years

The operating result, before capital and specific items, was a surplus of $130,000, a slight increase on the $86,000 surplus for the year ended 30 June 2016. The net result, which includes capital purpose income such as grants, interest and donations specifically for equipment, less depreciation on assets was a surplus of $18,652,000 with Government funding of the Redevelopment project the main contributor to the positive result.

## Significant Changes in Financial Position During 2016–17

There were no significant changes in the financial position during 2016–17.

## Summary of Major Changes or Factors which have Affected the Achievement of Operational Objectives for the Year

There were no major changes or factors that affected the achievement of operational objectives for 2016–17.

## Events Subsequent to Balance Date, which may have a Significant Effect on the Operations of the Entity in Subsequent Years

There have been no significant events subsequent to balance date affecting the operations of the hospital.

# Attestations





## Attestation for compliance with the Ministerial Standing Direction 3.7.1 – Risk Management Framework and Processes

I, Mark Petty certify that The Royal Victorian Eye and Ear Hospital has complied with Ministerial Direction 3.7.1 – Risk Management Framework and Processes. The Royal Victorian Eye and Ear Hospital Audit Committee has verified this.

Mark Petty
Accountable Officer
The Royal Victorian Eye and Ear Hospital
29 August 2017

## Attestation on Compliance with Health Purchasing Victoria (HPV) Health Purchasing Policies

I, Mark Petty, certify that The Royal Victorian Eye and Ear Hospital has put in place appropriate internal controls and processes to ensure that it has complied with all requirements set out in the HPV Health Purchasing Policies including mandatory HPV collective agreements as required by the *Health Services Act 1988* (Vic) and has critically reviewed these controls and processes during the year.

Mark Petty
Accountable Officer
The Royal Victorian Eye and Ear Hospital
29 August 2017

## Responsible Bodies Declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present the Report of Operations for The Royal Victorian Eye and Ear Hospital for the year ending 30 June 2017.

Dr Sherene Devanesen
Chair, Board of Directors
29 August 2017

# Disclosure Index



The annual report of The Royal Victorian Eye and Ear 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.

## Ministerial Directions

| Legislation | Requirement | Page reference |
|---|---|---|
| **Charter and purpose** | | |
| FRD 22H | Manner of establishment and the relevant Ministers | 11 |
| FRD 22H | Purpose, functions, powers and duties | 11 |
| FRD 22H | Initiatives and key achievements | 11 |
| FRD 22H | Nature and range of services provided | 11 |
| **Management and structure** | | |
| FRD 22H | Organisational structure | 8 |
| **Financial and other information** | | |
| FRD 10A | Disclosure index | 27 |
| FRD 11A | Disclosure of ex gratia expenses | 16 |
| FRD 21C | Responsible person and executive officer disclosures | 79 |
| FRD 22H | Application and operation of *Protected Disclosure 2012* | 11 |
| FRD 22H | Application and operation of *Carers Recognition Act 2012* | 12 |
| FRD 22H | Application and operation of *Freedom of Information Act 1982* | 12 |
| FRD 22H | *Compliance with building and maintenance provisions of Building Act 1993* | 15 |
| FRD 22H | Details of consultancies over $10,000 | 16 |
| FRD 22H | Details of consultancies under $10,000 | 16 |
| FRD 22H | Employment and conduct principles | 12 |
| FRD 22H | Information and Communication Technology Expenditure | 15 |
| FRD 22H | Major changes or factors affecting performance | 25 |
| FRD 22H | Occupational violence | 15 |
| FRD 22H | Operational and budgetary objectives and performance against objectives | 18 |
| FRD 24C | Reporting of office-based environmental impacts | 15 |
| FRD 22H | Significant changes in financial position during the year | 25 |
| FRD 22H | Statement on National Competition Policy | 15 |
| FRD 22H | Subsequent events | 25 |
| FRD 22H | Summary of the financial results for the year | 25 |
| **Legislation Requirement** | | |
| FRD 22H | Additional information available on request | 17 |
| FRD 22H | Workforce Data Disclosures including a statement on the application of employment and conduct principles | 13 |
| FRD 25C | Victorian Industry Participation Policy disclosures | 15 |
| FRD 29B | Workforce Data disclosures | 13 |
| FRD 103F | Non-Financial Physical Assets | 52 |
| FRD 110A | Cash flow Statements | 32 |
| FRD 112D | Defined Benefit Superannuation Obligations | 43 |
| SD 5.2.3 | Declaration in report of operations | 26 |
| SD 3.7.1 | Risk management framework and processes. | 26 |
| **Other requirements under Standing Directions 5.2** | | |
| SD 5.2.2 | Declaration in financial statements | 87 |
| SD 5.2.1(a) | Compliance with Australian accounting standards and other authoritative pronouncements | 33, 82, 85, 87 |
| SD 5.2.1(a) | Compliance with Ministerial Directions | 26 |
| **Legislation** | | |
| *Freedom of Information Act 1982* | | 12 |
| *Protected Disclosure Act 2012* | | 11 |
| *Carers Recognition Act 2012* | | 12 |
| *Victorian Industry Participation Policy Act 2003* | | 15 |
| *Building Act 1993* | | 15 |
| *Financial Management Act 1994* | | 3, 26, 33, 79, 87 |
| *Safe Patient Care Act 2015* | | 12 |

# Financial Statements

# The Royal Victorian Eye and Ear Hospital
# Comprehensive Operating Statement
## For the Year Ended 30 June 2017

| | Note | 2017 $'000 | 2016 * $'000 |
|---|---|---|---|
| Revenue from Operating Activities | 2.1 | 98,466 | 92,243 |
| Revenue from Non-Operating Activities | 2.1 | 3,069 | 2,266 |
| Employee Expenses | 3.1 | (61,990) | (57,315) |
| Non Salary Labour Costs | 3.1 | (1,498) | (1,590) |
| Supplies and Consumables | 3.1 | (25,632) | (25,352) |
| Administrative Costs | 3.1 | (4,717) | (4,715) |
| Other Expenses | 3.1 | (7,568) | (5,205) |
| **Net Result Before Capital and Specific Items** | | **130** | **332** |
| Capital Purpose Income | 2.1 | 30,023 | 20,331 |
| Net Gain/(Loss) on Disposal of Non-Financial Assets | 2.1 | (17) | (124) |
| Net Gain/(Loss) on Sale of Financial Instruments | 2.1 | - | 5,832 |
| Specific Income | 2.2 | 234 | 131 |
| Impairment of Financial Assets | 3.1 | - | (352) |
| Assets Provided Free of Charge | 3.1 | (203) | - |
| Expenditure for Capital Purpose | 3.1 | (706) | (2) |
| Depreciation and Amortisation | 4.3 | (11,066) | (9,867) |
| **Net Result After Capital and Specific Items** | | **18,395** | **16,281** |
| **Other Economic Flows Included In Net Result** | | | |
| Movement in Provision for Doubtful Debts | 3.1 | (14) | 2 |
| Revaluation of Long Service Leave | 3.1 | 271 | (248) |
| **Total Other Economic Flows Included In Net Result** | | **257** | **(246)** |
| **Net Result For The Year** | | **18,652** | **16,035** |
| **Other Comprehensive Income:** | | | |
| **Items that Will Not Be Reclassified to Net Result** | | | |
| Changes in Physical Asset Revaluation Surplus | 8.1(a) | 9,371 | 10,255 |
| **Items that May Be Reclassifed Subsequently to Net Result** | | | |
| Gain/(Loss) on Available-for-Sale Financial Assets taken to Equity | 8.1(a) | 2,106 | 78 |
| **Total Other Comprehensive Income** | | **11,477** | **10,333** |
| **Comprehensive Result** | | **30,129** | **26,368** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

**This Statement should be read in conjunction with the accompanying Notes.**

# The Royal Victorian Eye and Ear Hospital
# Balance Sheet
## As at 30 June 2017

| | Note | 2017 $'000 | 2016 * $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and Cash Equivalents | 6.2 | 6,676 | 1,606 |
| Receivables | 5.1 | 2,227 | 2,129 |
| Investments and Other Financial Assets | 4.1 | 64,754 | 63,647 |
| Inventories | 5.2 | 397 | 151 |
| Prepayments and Other Assets | 5.4 | 836 | 918 |
| **Total Current Assets** | | **74,890** | **68,451** |
| **Non-Current Assets** | | | |
| Receivables | 5.1 | 1,942 | 1,801 |
| Property, Plant and Equipment | 4.2 | 192,467 | 178,027 |
| Intangible Assets | 4.4 | 2,526 | 1,690 |
| Investment Properties | 4.5 | 13,545 | 1,236 |
| **Total Non-Current Assets** | | **210,480** | **182,754** |
| **Total Assets** | | **285,370** | **251,205** |
| **Current Liabilities** | | | |
| Payables | 5.5 | 7,594 | 4,809 |
| Provisions | 3.3 | 14,994 | 13,928 |
| Other Current Liabilities | 5.3 | 49 | 116 |
| **Total Current Liabilities** | | **22,637** | **18,853** |
| **Non-Current Liabilities** | | | |
| Provisions | 3.3 | 2,975 | 2,723 |
| **Total Non-Current Liabilities** | | **2,975** | **2,723** |
| **Total Liabilities** | | **25,612** | **21,576** |
| **Net Assets** | | **259,758** | **229,629** |
| **Equity** | | | |
| Property, Plant and Equipment Revaluation Surplus | 8.1(a) | 89,773 | 80,402 |
| Financial Asset Available-for-Sale Revaluation Surplus | 8.1(a) | 2,106 | - |
| General Purpose Surplus | 8.1(a) | 3,678 | 1,734 |
| Restricted Specific Purpose Surplus | 8.1(a) | 30,257 | 27,908 |
| Contributed Capital | 8.1(b) | 51,568 | 51,568 |
| Accumulated Surpluses/(Deficits) | 8.1(c) | 82,376 | 68,017 |
| **Total Equity** | | **259,758** | **229,629** |
| Commitments | 6.3 | | |
| Contingent Assets and Contingent Liabilities | 7.3 | | |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

**This Statement should be read in conjunction with the accompanying Notes.**

# The Royal Victorian Eye and Ear Hospital
## Statement of Changes in Equity
### For the Year Ended 30 June 2017

| | Note | Property, Plant and Equipment Revaluation Surplus $'000 | Financial Asset Available-for-Sale Revaluation Surplus $'000 | General Purpose Surplus $'000 | Restricted Specific Purpose Surplus $'000 | Contributed Capital $'000 | Accumulated Surpluses/ (Deficits) $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 30 June 2015** | | **70,147** | **5,754** | **22,252** | **36,935** | **51,568** | **19,237** | **205,893** |
| Effects of Correction of Errors | 8.9 | - | - | - | - | - | 3,200 | 3,200 |
| **Restated Balance at 30 June 2015** | | **70,147** | **5,754** | **22,252** | **36,935** | **51,568** | **22,437** | **209,093** |
| Net Result for the Year | | - | - | - | - | - | 16,035 | 16,035 |
| Other Comprehensive Income for the Year | 8.1(a) | 10,255 | 78 | - | - | - | - | 10,333 |
| Net (gain) / loss transferred to Operating Statement | | - | (5,832) | - | - | - | - | (5,832) |
| Transfer between General Purpose Surplus and Restricted Purpose Surplus | 8.1(a) | - | - | 1,734 | (1,734) | - | - | - |
| Transfer to / (from) Accumulated Surpluses | 8.1(a), 8.1(c) | - | - | (22,252) | (7,293) | - | 29,545 | - |
| **Balance at 30 June 2016 *** | | **80,402** | **-** | **1,734** | **27,908** | **51,568** | **68,017** | **229,629** |
| Net Result for the Year | | - | - | - | - | - | 18,652 | 18,652 |
| Other Comprehensive Income for the Year | 8.1(a) | 9,371 | 2,106 | - | - | - | - | 11,477 |
| Transfer to / (from) Accumulated Surpluses | 8.1(a), 8.1(c) | - | - | 1,944 | 2,349 | - | (4,293) | - |
| **Balance at 30 June 2017** | | **89,773** | **2,106** | **3,678** | **30,257** | **51,568** | **82,376** | **259,758** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

**This Statement should be read in conjunction with the accompanying Notes.**

# The Royal Victorian Eye and Ear Hospital
# Cash Flow Statement
## For the Year Ended 30 June 2017

| | Note | 2017 $'000 | 2016 $'000 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Operating Grants from Government | | 87,112 | 78,950 |
| Patient Fees Received | | 4,644 | 4,837 |
| Private Practice Fees Received | | 2,034 | 1,496 |
| Donations and Bequests Received | | 1,218 | 1,133 |
| GST Received from / (Paid to) ATO | | 2,910 | 2,698 |
| Interest Received | | - | 980 |
| Dividend Received | | 1,906 | 153 |
| Other Receipts | | 7,122 | 7,616 |
| **Total Receipts** | | **106,946** | **97,863** |
| Employee Expenses Paid | | (60,671) | (56,742) |
| Non Salary Labour Costs | | (1,648) | (1,750) |
| Payments for Supplies and Consumables | | (28,198) | (26,597) |
| Other Payments | | (12,680) | (10,503) |
| **Total Payments** | | **(103,197)** | **(95,592)** |
| **Cash Generated from Operations** | | **3,749** | **2,271** |
| Capital Grants from Government | | 8,198 | 1,735 |
| Capital Donations and Bequests Received | | 2,209 | 886 |
| Capital Interest Received | | 620 | 2,743 |
| Capital Dividend Received | | - | 97 |
| Other Capital Receipts | | 2,016 | 85 |
| Capital Expenses | | (449) | (2) |
| **Net Cash Flow From/(Used In) Operating Activities** | 8.2 | **16,343** | **7,815** |
| **Cash Flows From Investing Activities** | | | |
| Purchase of Investments | | (7,000) | (174,550) |
| Proceeds from Sale of Investments | | 8,000 | 179,987 |
| Payments for Non-Financial Assets | | (12,273) | (14,606) |
| Proceeds from Sale of Non-Financial Assets | | - | 7 |
| **Net Cash Flow From/(Used In) Investing Activities** | | **(11,273)** | **(9,162)** |
| **Net Increase/(Decrease) In Cash And Cash Equivalents Held** | | **5,070** | **(1,347)** |
| **Cash and Cash Equivalents at Beginning of Financial Year** | | **1,606** | **2,953** |
| **Cash And Cash Equivalents At End Of Financial Year** | 6.2 | **6,676** | **1,606** |

**This Statement should be read in conjunction with the accompanying Notes.**

# Note 1: Summary of Significant Accounting Policies

These annual financial statements represent the audited general purpose financial statements for The Royal Victorian Eye and Ear Hospital ("the hospital") for the period ending 30 June 2017. The report provides users with information about the hospital's stewardship of resources entrusted to it.

## (a) Statement of Compliance

These financial statements are general purpose financial statements 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 & Finance, and relevant Standing Directions (SDs) authorised by the Minister for Finance.

The Royal Victorian Eye and Ear Hospital is a not-for profit entity and therefore applies the additional Aus paragraphs applicable to "not-for-profit" hospitals under the AASBs.

The annual financial statements were authorised for issue by the Board of The Royal Victorian Eye and Ear Hospital on 29 August 2017.

## (b) Reporting Entity

The financial statements include all the controlled activities of The Royal Victorian Eye and Ear Hospital.

Its principal address is:
32 Gisborne Street
East Melbourne
Victoria 3002

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

**Objectives and Funding**

The Royal Victorian Eye and Ear Hospital's overall objective is to improve the quality of life to Victorians through caring for the senses.

The Royal Victorian Eye and Ear Hospital is predominantly funded by accrual based grant funding for the provision of outputs.

## (c) 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 2017, and the comparative information presented in these financial statements for the year ended 30 June 2016.

The going concern basis was used to prepare the financial statements.

These financial statements are presented in Australian dollars, the functional and presentation currency of the hospital.

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

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

- non-current physical assets, which subsequent to acquisition, are measured at a revalued amount being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are made and are re-assessed when new indices are published by the Valuer General to ensure that the carrying amounts do not materially differ from their fair values;
- investment properties after initial recognition, which are measured at fair value with changes reflected in the comprehensive operating statement (fair value through profit or loss);
- available-for-sale investments which are measured at fair value with movements reflected in equity until the asset is derecognised (ie. other comprehensive income – items that may be reclassified subsequent to net result); and
- the fair value of assets other than land is generally based on their depreciated replacement value.

Judgements, estimates and assumptions are required to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The 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 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:

- the fair value of land, buildings, infrastructure, plant and equipment, (refer Note 4.2(e));
- superannuation expense (refer Note 3.4); and
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer Note 3.3).

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

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

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

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

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

The Valuer-General Victoria (VGV) is the hospital's independent valuation agency.

The hospital, in conjunction with VGV monitors the 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, relate to:

- the fair value of land, buildings, infrastructure, plant and equipment (refer Note 4.2(e));
- superannuation expense (refer Note 3.4); and
- actuarial assumptions for employee benefit provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer Note 3.3).

## (d) Scope and Presentation of Financial Statements

**Fund Accounting**

The hospital operates on a fund accounting basis and maintains three funds: Operating, Specific Purpose and Capital Funds. The hospital's Capital and Specific Purpose Funds include unspent capital donations and receipts from fundraising activities conducted solely in respect of these funds.

**Services Supported By Health Services Agreement and Services Supported By Hospital and Community Initiatives**

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

**Comprehensive Operating Statement**

The Comprehensive Operating Statement includes the subtotal entitled 'Net Result before Capital & Specific Items' to enhance the understanding of the financial performance of the hospital. This subtotal reports the result excluding items such as capital grants, assets received or provided free of charge, depreciation, expenditure using capital purpose income and items of an unusual nature and amount such as specific income and expenses. The exclusion of these items is made to enhance matching of income and expenses so as to facilitate the comparability and consistency of results between years and Victorian public hospitals. The 'Net Result before Capital & Specific Items' is used by the management of the hospital, the Department of Health and Human Services and the Victorian Government to measure the ongoing operating performance of hospitals.

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

- capital purpose income, which comprises all tied grants, donations and bequests received for the purpose of acquiring non-current assets, such as capital works, plant and equipment or intangible assets. Consequently the recognition of revenue as capital purpose income is based on the intention of the provider of the revenue at the time the revenue is provided.
- specific income/expense, comprises the following items, where material:
    - non-current asset revaluation increments/decrements
- impairment of financial and non-financial assets, includes all impairment losses (and reversal of previous impairment losses), which have been recognised in accordance with Note 7.1
- depreciation and amortisation, as described in Note 4.3
- assets provided or received free of charge
- expenditure using capital purpose income, comprises expenditure which either falls below the asset capitalisation threshold or doesn't meet asset recognition criteria and therefore does not result in the recognition of an asset in the balance sheet, where funding for that expenditure is from capital purpose income.

Other economic flows; are changes arising from market re-measurements. They include:

- gains and losses from disposals of non-financial assets;
- revaluations and impairments of non-financial physical and intangible assets; and
- fair value changes of financial instruments.

**Balance Sheet**

Assets and liabilities are categorised either as current or non-current in accordance with the relevant AASBs.

**Statement of Changes in Equity**

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

**Cash Flow Statement**

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

**Goods and Services Tax (GST)**

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

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

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

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

**Rounding**

All amounts shown in the financial statements are expressed to the nearest $1,000 unless otherwise stated.

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

# Note 2: Funding the Delivery of Services

The hospital'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:

2.1 Analysis of Revenue by Source

2.2 Specific Income

## Note 2.1: Analysis of Revenue by Source

| | Admitted Patients 2017 $'000 | Non-Admitted 2017 $'000 | EDs 2017 $'000 | Other 2017 $'000 | Total 2017 $'000 |
|---|---|---|---|---|---|
| Government Grants | 52,040 | 26,357 | 6,164 | - | 84,561 |
| Indirect Contributions by Department of Health and Human Services | 133 | 62 | 27 | - | 222 |
| Patient Fees | 3,814 | 179 | 476 | 68 | 4,537 |
| Recoupment from Private Practice for Use of Hospital Facilities | - | 1,161 | - | 873 | 2,034 |
| Other Revenue from Operating Activities | 2,433 | 3,619 | 318 | 742 | 7,112 |
| **Total Revenue from Operating Activities** | **58,420** | **31,378** | **6,985** | **1,683** | **98,466** |
| Dividends | - | - | - | 1,851 | 1,851 |
| Donations and Bequests | - | - | - | 1,218 | 1,218 |
| **Total Revenue from Non-Operating Activities** | **-** | **-** | **-** | **3,069** | **3,069** |
| Capital Grants | - | - | - | 25,190 | 25,190 |
| Capital Donations and Bequests | - | - | - | 2,209 | 2,209 |
| Other Capital Purpose Income | - | - | - | 1,967 | 1,967 |
| Capital Interest | - | - | - | 657 | 657 |
| Net Gain / (Loss) on Disposal of Non-Financial Assets (refer Note 7.2) | - | - | - | (17) | (17) |
| **Total Capital Purpose Income** | **-** | **-** | **-** | **30,006** | **30,006** |
| Specific Income (refer Note 2.2) | - | - | - | 234 | 234 |
| **Total Revenue** | **58,420** | **31,378** | **6,985** | **34,992** | **131,775** |

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

Revenues and expenses of Support Services are distributed to source categories using a number of allocation bases including estimated usage, percentage of total revenue and full time equivalent (FTE) staff.

## Note 2.1: Analysis of Revenue by Source (continued)

| | Admitted Patients 2016 $'000 | Non-Admitted 2016 $'000 | EDs 2016 $'000 | Other 2016 $'000 | Total 2016 * $'000 |
|---|---|---|---|---|---|
| Government Grants | 47,602 | 26,048 | 5,623 | - | 79,273 |
| Indirect Contributions by Department of Health and Human Services | 161 | 75 | 32 | - | 268 |
| Patient Fees | 2,806 | 1,911 | 31 | 69 | 4,817 |
| Recoupment from Private Practice for Use of Hospital Facilities | - | 497 | - | 1,000 | 1,497 |
| Other Revenue from Operating Activities | 1,781 | 3,795 | 348 | 464 | 6,388 |
| **Total Revenue from Operating Activities** | **52,350** | **32,326** | **6,034** | **1,533** | **92,243** |
| Interest | 44 | 20 | 9 | 907 | 980 |
| Dividends | 92 | 43 | 18 | - | 153 |
| Donations and Bequests | - | - | - | 1,133 | 1,133 |
| **Total Revenue from Non-Operating Activities** | **136** | **63** | **27** | **2,040** | **2,266** |
| Capital Grants | - | - | - | 18,413 | 18,413 |
| Capital Donations and Bequests | - | - | - | 886 | 886 |
| Other Capital Purpose Income | - | - | - | 85 | 85 |
| Capital Interest | - | - | - | 850 | 850 |
| Capital Dividends | - | - | - | 97 | 97 |
| Net Gain/(Loss) on Disposal of Non-Financial Assets (refer Note 7.2) | - | - | - | (124) | (124) |
| Net Gain/(Loss) on Sale of Financial Instruments | - | - | - | 5,832 | 5,832 |
| **Total Capital Purpose Income** | **-** | **-** | **-** | **26,039** | **26,039** |
| Specific Income (refer Note 2.2) | - | - | - | 131 | 131 |
| **Total Revenue** | **52,486** | **32,389** | **6,061** | **29,743** | **120,679** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

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

Revenues and expenses of Support Services are distributed to source categories using a number of allocation bases including estimated usage, percentage of total revenue and full time equivalent (FTE) staff.

**Income from Transactions**

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

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

**Government Grants and Other Transfers of Income (other than Contributions by Owners)**

In accordance with AASB1004 *Contributions*, government grants and other transfers of income (other than contributions by owners) are recognised as income when the hospital gains control of the underlying assets irrespective of whether conditions are imposed on the hospital's use of the contributions.

Contributions are reported as a payable when the hospital has 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 is 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.

**Patient Fees**

Patient fees are recognised as revenue at the time the service is provided.

**Private Practice Fees**

Private practice fees are recognised as revenue at the time the service is provided.

**Revenue from Commercial Activities**

Revenue from commercial activities is recognised at the time the goods or services are provide.

**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 the 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 hospital'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 the sale of investments is recognised when the investment is realised.

**Other Revenue**

Other revenue includes property rental and sales of goods and services.

### Category Groups

The hospital has used the following category groups for reporting purposes for the current and previous financial years:

**Admitted Patient Services (Admitted Patients)** comprises all acute and subacute admitted patient services, where services are delivered in public hospitals.

**Non Admitted Services (Non-Admitted)** 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.

**Other Services not reported elsewhere - (Other)** comprises services not separately classified above, including diagnostic services. Health and Community Initiatives also falls in this category group.

## Note 2.2: Specific Income

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Specific Income** | | |
| Revaluation Increment/(Decrement) on Investment Properties | 234 | 131 |
| **TOTAL** | **234** | **131** |

# Note 3: The Cost of Delivering Services

This section provides an account of the expenses incurred by the hospital in delivering services and outputs. In Note 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:

3.1 Analysis of Expenses by Source

3.2 Analysis of Expense and Revenue by Internally Managed and Restricted Specific Purpose Funds

3.3 Employee Benefits in the Balance Sheet

3.4 Superannuation

## Note 3.1: Analysis of Expenses by Source

| | Admitted Patients 2017 $'000 | Non-Admitted 2017 $'000 | EDs 2017 $'000 | Other 2017 $'000 | Total 2017 $'000 |
|---|---|---|---|---|---|
| Employee Expenses | 37,834 | 15,893 | 7,285 | 978 | 61,990 |
| Non Salary Labour Costs | 1,139 | 246 | 110 | 3 | 1,498 |
| Supplies and Consumables | 18,026 | 6,156 | 1,416 | 34 | 25,632 |
| Administrative Costs | 2,500 | 1,276 | 532 | 409 | 4,717 |
| Other Expenses | 4,329 | 1,823 | 781 | 635 | 7,568 |
| **Total Expenditure from Operating Activities** | **63,828** | **25,394** | **10,124** | **2,059** | **101,405** |
| Expenditure for Capital Purposes | - | - | - | 706 | 706 |
| Depreciation and Amortisation (refer Note 4.3) | - | - | - | 11,066 | 11,066 |
| Assets Provided Free of Charge | - | - | - | 203 | 203 |
| Movement in Provision for Doubtful Debts | - | - | - | 14 | 14 |
| (Gain) / Loss on Revaluation of Long Service Leave | - | - | - | (271) | (271) |
| **Total Other Expenses** | **-** | **-** | **-** | **11,718** | **11,718** |
| **Total Expenses** | **63,828** | **25,394** | **10,124** | **13,777** | **113,123** |

| | Admitted Patients 2016 $'000 | Non-Admitted 2016 $'000 | EDs 2016 $'000 | Other 2016 $'000 | Total 2016 $'000 |
|---|---|---|---|---|---|
| Employee Expenses | 35,262 | 14,500 | 6,737 | 816 | 57,315 |
| Non Salary Labour Costs | 1,160 | 275 | 136 | 19 | 1,590 |
| Supplies and Consumables | 12,111 | 11,826 | 1,371 | 44 | 25,352 |
| Administrative Costs | 2,485 | 1,194 | 523 | 513 | 4,715 |
| Other Expenses | 3,081 | 1,462 | 557 | 105 | 5,205 |
| **Total Expenditure from Operating Activities** | **54,099** | **29,257** | **9,324** | **1,497** | **94,177** |
| Expenditure for Capital Purposes | - | - | - | 2 | 2 |
| Impairment of Financial Assets | - | - | - | 352 | 352 |
| Depreciation and Amortisation (refer Note 4.3) | - | - | - | 9,867 | 9,867 |
| Movement in Provision for Doubtful Debts | - | - | - | (2) | (2) |
| (Gain) / Loss on Revaluation of Long Service Leave | - | - | - | 248 | 248 |
| **Total Other Expenses** | **-** | **-** | **-** | **10,467** | **10,467** |
| **Total Expenses** | **54,099** | **29,257** | **9,324** | **11,964** | **104,644** |

Revenues and expenses of Support Services are distributed to source categories using a number of allocation bases including estimated usage, percentage of total revenue and full time equivalent (FTE) staff.

**Expense Recognition**

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

**Cost of Goods Sold**

Costs of goods sold are recognised when the sale of an item occurs by transferring the cost or value of the item/s from inventories.

**Employee Expenses**

Employee expenses include:

- wages and salaries;
- fringe benefits 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.

**Other Operating Expenses**

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

**Supplies and Consumables**

Supplies and services costs 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 and 5.1 Receivables.

**Fair Value of Assets Provided Free of Charge or for Nominal Consideration**

Contributions 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.

**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 physical assets (refer Note 4.2); and
- Net gain/(loss) on disposal of non-financial assets (any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is the difference between the proceeds and the carrying amount of the asset at the time).

**Net gain/(loss) on Financial Instruments**

Net gain/(loss) on financial instruments includes:

- realised and unrealised gains and losses from revaluations of financial instruments at fair value;
- impairment and reversal of impairment for financial instruments at amortised cost (refer Notes 4.1 and 7.1); and
- disposals of financial assets and derecognition of financial liabilities.

**Amortisation of Non-Produced Intangible Assets**

Intangible non-produced assets with finite lives are amortised as an 'other economic flow' on a systematic 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.

**Revaluations of Financial Instruments at Fair Value**

Refer to Note 7.1 Financial Instruments.

**Other Gains/(Losses) from Other Economic Flows**

Other gains/(losses) include:

- the movement in provision for doubtful debts (refer Notes 4.1 and 5.1(a)); and
- the revaluation of the present value of the long service leave liability due to changes in the bond rate movements, inflation rate movements and the impact of changes in probability factors.

## Note 3.2: Analysis of Expense and Revenue by Internally Managed and Restricted Specific Purpose Funds

| | Expense | | Revenue | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **Commercial Activities** | | | | |
| Private Practice and Other Patient Activities | 770 | 954 | 822 | 967 |
| Pharmacy Services | 54 | 88 | 101 | 176 |
| Car Park | 68 | - | 239 | - |
| Property | - | - | 237 | 261 |
| Other | - | 38 | - | 32 |
| **Other Activities** | | | | |
| Fundraising and Community Support | 949 | 380 | 1,394 | 1,670 |
| Research and Scholarship | 218 | 283 | 330 | 464 |
| Investments | - | - | 1,627 | - |
| Education | - | - | 2 | 3 |
| **Total Expense / Revenue** | **2,059** | **1,743** | **4,752** | **3,573** |

## Note 3.3: Employee Benefits in the Balance Sheet

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current Provisions** | | |
| **Employee Benefits** [i] | | |
| Annual Leave | | |
| - Unconditional and expected to be settled wholly within 12 months [ii] | 4,378 | 3,590 |
| - Unconditional and expected to be settled wholly after 12 months [iii] | 226 | 570 |
| Long Service Leave | | |
| - Unconditional and expected to be settled wholly within 12 months [ii] | 851 | 566 |
| - Unconditional and expected to be settled wholly after 12 months [iii] | 5,650 | 5,745 |
| Other Employee Benefits | | |
| - Unconditional and expected to be settled wholly within 12 months [ii] | 2,723 | 2,352 |
| | 13,828 | 12,823 |
| Provisions related to Employee Benefit On-Costs for Annual Leave | | |
| - Unconditional and expected to be settled within 12 months [ii] | 462 | 390 |
| - Unconditional and expected to be settled after 12 months [iii] | 22 | 53 |
| Provisions related to Employee Benefit On-Costs for Long Service leave | | |
| - Unconditional and expected to be settled within 12 months [ii] | 89 | 138 |
| - Unconditional and expected to be settled after 12 months [iii] | 593 | 525 |
| | 1,166 | 1,105 |
| **Total Current Provisions** | **14,994** | **13,928** |
| **Non-Current Provisions** | | |
| Employee Benefits (LSL) [i] | 2,692 | 2,464 |
| Provisions related to Employee Benefits (LSL) On-Costs | 283 | 259 |
| **Total Non-Current Provisions** | **2,975** | **2,723** |
| **Total Provisions** | **17,969** | **16,651** |

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **(a) Employee Benefits and Related On-Costs** | | |
| **Current Employee Benefits including Related On-Costs** | | |
| Unconditional LSL Entitlement | 7,183 | 6,974 |
| Annual Leave Entitlements | 5,088 | 4,602 |
| Accrued Wages and Salaries | 2,551 | 2,228 |
| Accrued Days Off | 172 | 124 |
| **Non-Current Employee Benefits including Related On-Costs** | | |
| Conditional Long Service Leave Entitlements [ii] | 2,975 | 2,723 |
| **Total Employee Benefits** | **17,969** | **16,651** |
| **On-Costs included in Total Employee Benefits above** | | |
| Current On-Costs | 1,166 | 1,105 |
| Non-Current On-Costs | 283 | 259 |
| **Total On-Costs included in Total Employee Benefits above** | **1,449** | **1,364** |
| **(b) Movements in provisions** | | |
| **Movement in Long Service Leave:** | | |
| **Balance at Start of Year** | **9,697** | **9,118** |
| Provision made during the year | | |
| - Revaluations | (271) | 248 |
| - Expense recognising Employee Service | 1,534 | 1,201 |
| Settlement made during the year | (802) | (870) |
| **Balance at End of Year** | **10,158** | **9,697** |

[i] Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, not including on-costs.
[ii] The amounts disclosed are nominal amounts.
[iii] The amounts disclosed are discounted to present values.

**Provisions**

Provisions are recognised when the hospital has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

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

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

**Employee Benefits**

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

**Wages and Salaries, Annual Leave, Sick Leave and Accrued Days Off**

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accrued days off are all recognised in the provision for employee benefits as 'current liabilities', because the hospital does not have an unconditional right to defer settlements of these liabilities.

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

- Undiscounted value – if the liability is expected to wholly settle within 12 months; or
- Present value – if the liability is not expected to wholly settle within 12 months.

**Long Service Leave (LSL)**

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 hospital 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. Unconditional LSL arises after a qualifying period.

The components of this current LSL liability are measured at:

- Undiscounted value – if the liability is expected to wholly settle within 12 months; or
- Present value – if the liability is not expected to wholly settle within 12 months.

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

Any gain or loss on revaluation of the present value of LSL liability is recognised as a transaction, except to the extent that the gain or loss arises due to changes in the bond rate movements, inflation rate movements and the impact of changes in probability factors which are recognised as other economic flows.

**On-Costs Related to Employee Expense**

Provision for on-costs, such as workers compensation insurance premium and superannuation are recognised together with provisions for employee benefits.

## Note 3.4: Superannuation

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

The hospital does not recognise any defined benefit liability in respect of the plans because the entity 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 discloses the State's defined benefit liabilities in its disclosure for administered items.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the hospital.

The name, details and amounts expense in relation to the major employee superannuation funds and contributions made by the hospital are as follows:

| | Paid Contribution for the Year | | Contribution Outstanding at Year End | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| **[(i)] Defined benefit plans:** | | | | |
| First State Super | 191 | 109 | - | 2 |
| **Defined contribution plans:** | | | | |
| First State Super | 3,692 | 3,145 | - | 37 |
| HESTA | 1,430 | 1,121 | - | 91 |
| Other | 410 | 118 | - | 22 |
| **Total Superannuation** | 5,723 | 4,493 | - | 152 |

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

**Defined Contribution Superannuation Plans**

In relation to defined contribution (ie. 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 superannuation plans represents the contributions made by the hospital to the superannuation plans in respect of the services of current hospital staff during the reporting period. Superannuation contributions are made to the plans based on the relevant rules of the plan, and are based upon actuarial advice.

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

**Superannuation Liabilities**

The hospital does not recognise any unfunded defined benefit liability in respect of the superannuation plan because the hospital has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due.

# Note 4: Key Assets to Support Service Delivery

The hospital 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:

4.1 Investments and Other Financial Assets
4.2 Property, Plant and Equipment
4.3 Depreciation and Amortisation
4.4 Intangible Assets
4.5 Investment Properties

## Note 4.1: Investments and Other Financial Assets

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| **Loans and Receivables** | | |
| Term Deposit | | |
| Aust. Dollar Term Deposits > 3 months [(i)] | 21,000 | 22,000 |
| **Available for Sale** | | |
| Managed Investment Schemes | 43,754 | 41,647 |
| **Total Current** | 64,754 | 63,647 |
| **Total Investments and Other Financial Assets** | **64,754** | **63,647** |
| **Represented by:** | | |
| Hospital Investments | 64,754 | 63,647 |
| **Total Investments and Other Financial Assets** | **64,754** | **63,647** |

[(i)] Term deposits under Investments and Other Financial Assets class include only term deposits with maturity greater than 90 days.

**(a) Ageing analysis of investments and other financial assets**

Refer Note 7.1 for the ageing analysis of Investments and Other Financial Assets.

**(b) Nature and extent of risk arising from investments and other financial assets**

Refer Note 7.1 for the nature and extent of credit risk arising from Investments and Other Financial Assets.

**Investments and Other Financial Assets**

Hospital investments must be in accordance in Standing Direction 3.7.2 – Treasury and Investment 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 hospital classifies its other financial assets between current and non-current assets based on the purpose for which the assets were acquired. Management determines the classification of its other financial assets at initial recognition.

The hospital assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

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

**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 hospital retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the hospital 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 hospital has neither transferred nor retained substantially all the risks and rewards or transferred control, the asset is recognised to the extent of the hospital's continuing involvement in the asset.

**Impairment of Financial Assets**

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

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

**Doubtful Debts**

Receivables are assessed for bad and doubtful debts on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. Bad debts not written off by mutual consent and the allowance for doubtful debts are classified as other economic flows in the net result.

## Note 4.2: Property, Plant and Equipment

### (a) Gross Carrying Amount and Accumulated Depreciation

| | 2017 $'000 | 2016 * $'000 |
|---|---|---|
| **Land** | | |
| Land at Fair Value | 49,396 | 47,959 |
| **Total Land** | **49,396** | **47,959** |
| **Buildings** | | |
| Buildings at Fair Value | 119,282 | 72,871 |
| less Accumulated Depreciation | (22,321) | (13,891) |
| **Total Buildings** | **96,961** | **58,980** |
| **Plant and Equipment** | | |
| Plant and Equipment at Fair Value | 8,057 | 7,356 |
| less Accumulated Depreciation | (5,620) | (4,985) |
| **Total Plant and Equipment** | **2,437** | **2,371** |
| **Medical Equipment** | | |
| Medical Equipment at Fair Value | 19,734 | 18,211 |
| less Accumulated Depreciation | (13,647) | (12,957) |
| **Total Medical Equipment** | **6,087** | **5,254** |
| **Assets Under Construction** | | |
| PP&E Assets Under Construction | 37,586 | 63,463 |
| **Total Assets Under Construction** | **37,586** | **63,463** |
| **Total Property, Plant & Equipment** | **192,467** | **178,027** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

## Note 4.2: Property, Plant and Equipment (continued)

### (b) Reconciliations of the carrying amounts of each class of asset

| | Land $'000 | Buildings $'000 | Plant & Equipment $'000 | Medical Equipment $'000 | Assets Under Construction $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 July 2015** | **37,704** | **52,317** | **2,406** | **4,956** | **45,685** | **143,068** |
| Effects of Correction of Errors | - | - | - | - | 3,200 | 3,200 |
| **Restated Balance at 30 June 2015** | **37,704** | **52,317** | **2,406** | **4,956** | **48,885** | **146,268** |
| Additions | - | - | 400 | 1,355 | 29,198 | 30,953 |
| Disposals | - | - | (7) | (119) | - | (126) |
| Assets Written Back and Transferred to Expense | - | 1 | 2 | - | - | 3 |
| Revaluation Increments/(Decrements) | 10,255 | - | - | - | - | 10,255 |
| Net Transfers between Classes | - | 14,577 | 15 | 28 | (14,620) | - |
| Depreciation (Note 4.3) | - | (7,915) | (445) | (966) | - | (9,326) |
| **Balance at 1 July 2016 *** | **47,959** | **58,980** | **2,371** | **5,254** | **63,463** | **178,027** |
| Additions | - | 1,097 | 713 | 1,854 | 23,865 | 27,529 |
| Disposals | - | - | - | (17) | - | (17) |
| Revaluation Increments/(Decrements) | 7,877 | 1,494 | - | - | - | 9,371 |
| Net Transfers between Classes | - | 49,750 | (8) | - | (49,742) | - |
| Transfers to Investment Properties | (6,440) | (5,635) | - | - | - | (12,075) |
| Depreciation (Note 4.3) | - | (8,725) | (639) | (1,004) | - | (10,368) |
| **Balance at 30 June 2017** | **49,396** | **96,961** | **2,437** | **6,087** | **37,586** | **192,467** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

**Land and Buildings Carried at Valuation**

An independent valuation of the hospital's land and buildings was performed 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. Indices provide by the Valuer-General Victoria led to a management revaluation of land effective 30 June 2016. A revaluation of land was performed by the Valuer-General Victoria effective 30 June 2017.

## Note 4.2: Property, Plant and Equipment (continued)

### (c) Fair value measurement hierarchy for assets

| | 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 |
| **Land** | | | | |
| Land at Fair Value | 49,396 | - | 4,505 | 44,891 |
| **Buildings** | | | | |
| Buildings at Fair Value | 96,961 | - | 2,502 | 94,459 |
| **Plant and Equipment** | | | | |
| Plant and Equipment at Fair Value | 2,437 | - | - | 2,437 |
| **Medical Equipment** | | | | |
| Medical Equipment at Fair Value | 6,087 | - | - | 6,087 |
| **Assets Under Construction** | | | | |
| Assets Under Construction | 37,586 | - | - | 37,586 |
| **Total Property, Plant and Equipment At Fair Value** | **192,467** | **-** | **7,007** | **185,460** |

| | Carrying Amount as at 30 June 2016 * $'000 | Fair Value Measurement at End of Reporting Period using: | | |
|---|---|---|---|---|
| | | Level 1 [(i)] $'000 | Level 2 [(i)] $'000 | Level 3 [(i)] $'000 |
| **Land** | | | | |
| Land at Fair Value | 47,959 | - | 10,532 | 37,427 |
| **Buildings** | | | | |
| Buildings at Fair Value | 58,980 | - | 6,871 | 52,109 |
| **Plant and Equipment** | | | | |
| Plant and Equipment at Fair Value | 2,371 | - | - | 2,371 |
| **Medical Equipment** | | | | |
| Medical Equipment at Fair Value | 5,254 | - | - | 5,254 |
| **Assets Under Construction** | | | | |
| Assets Under Construction | 63,463 | - | - | 63,463 |
| **Total Property, Plant and Equipment At Fair Value** | **178,027** | **-** | **17,403** | **160,624** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

[(i)] Classified in accordance with the fair value hierarchy.

**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 fair value measurement 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 the principal market), either of which must be accessible to the hospital at the measurement date; and
- that the hospital 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 must 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 probably best placed to determine highest and best use (HBU) in consultation with hospitals. Hospitals and their valuers therefore need to have a shared understanding of the circumstances of the assets. A hospital has to form its own view about a valuer's determination, as it is ultimately responsible for what is presented in its audited financial statements.

In accordance with paragraph AASB 13.29, hospitals 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, hospitals are required to engage with Valuer-General Victoria or other independent valuers for formal HBU assessment.

These indicators, as a minimum, include:

- 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 suggests the current use of an asset is no longer core to requirements to deliver a hospital's service obligation;
- Evidence that suggests that the asset might be sold or demolished at reaching the late stage of an asset's life cycle.

In addition, hospitals need 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**

Hospitals need 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, 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.

## Note 4.2: Property, Plant and Equipment (continued)

### (d) Reconciliation of Level 3 fair value

| | Land | Buildings | Plant and Equipment | Medical Equipment | Assets Under Construction | Total |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **30 June 2017** | | | | | | |
| **Opening Balance** | 37,427 | 52,109 | 2,371 | 5,254 | 63,463 | 160,624 |
| Purchases (Sales) | - | 1,097 | 713 | 1,837 | 23,865 | 27,512 |
| Transfers In (Out) of Asset Classes | - | 49,750 | (8) | - | (49,742) | - |
| Gains or Losses Recognised in Net Result | | | | | | |
| - Depreciation | - | (8,497) | (639) | (1,004) | - | (10,140) |
| **Subtotal** | 37,427 | 94,459 | 2,437 | 6,087 | 37,586 | 177,996 |
| Items Recognised in Other Comprehensive Income | | | | | | |
| - Revaluation | 7,464 | - | - | - | - | 7,464 |
| **Subtotal** | 7,464 | - | - | - | - | 7,464 |
| **Closing Balance** | **44,891** | **94,459** | **2,437** | **6,087** | **37,586** | **185,460** |
| **30 June 2016 *** | | | | | | |
| **Opening Balance** | 25,044 | 45,712 | 2,406 | 4,956 | 48,885 | 127,003 |
| Purchases (Sales) | - | - | 395 | 1,236 | 29,198 | 30,829 |
| Transfers In (Out) of Level 3 | 4,380 | (265) | - | - | - | 4,115 |
| Transfers In (Out) of Asset Classes | | 14,577 | 15 | 28 | (14,620) | - |
| Gains or Losses Recognised in Net Result | | | | | | |
| - Depreciation | - | (7,915) | (445) | (966) | - | (9,326) |
| **Subtotal** | 29,424 | 52,109 | 2,371 | 5,254 | 63,463 | 152,621 |
| Items Recognised in Other Comprehensive Income | | | | | | |
| - Revaluation | 8,003 | - | - | - | - | 8,003 |
| **Subtotal** | 8,003 | - | - | - | - | 8,003 |
| **Closing Balance** | **37,427** | **52,109** | **2,371** | **5,254** | **63,463** | **160,624** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

## Note 4.2: Property, Plant and Equipment (continued)

**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, that is, 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.

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, that is, 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 when compared with normal market activity for the asset or liability or similar assets or liabilities, and the hospital has determined that the transaction price or quoted price does not represent fair value.

A hospital shall develop unobservable inputs using the best information available in the circumstances, which might include the hospital's own data. In developing unobservable inputs, a hospital may begin with its own data, but it shall adjust this data if reasonably available information indicates that other market participants would use different data or there is something particular to the hospital that is not available to other market participants. A hospital need not undertake exhaustive efforts to obtain information about other market participant assumptions. A hospital shall, however, take 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 and Non-Specialised Buildings**

Non-specialised land and non-specialised buildings 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 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 for non-specialised buildings and 30 June 2017 for non-specialised land.

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

An independent valuation of the hospital's specialised land and specialised buildings was performed by the Valuer-General Victoria. The valuation was performed using the market approach adjusted for CSO. The effective date of the valuation is 30 June 2014 for specialised buildings and 30 June 2017 for specialised land.

**Vehicles**

The hospital acquires new vehicles and at times disposes of them before completion of their economic life. The process of acquisition, use and disposal in the market is managed by the hospital who set relevant depreciation rates during use to reflect the consumption of the vehicles. As a result, the fair value of vehicles does not differ materially from the carrying amount (depreciated cost).

**Plant and Equipment**

Plant and equipment is held at carrying amount (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 2017.

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

### (e) Description of Significant Unobservable Inputs to Level 3 Valuations:

| | Valuation technique | Significant unobservable inputs |
|---|---|---|
| **Specialised Land** | Market approach | Community Service Obligation (CSO) adjustment |
| **Specialised Buildings** | Depreciated replacement cost | Direct cost per square metre<br>Useful life of specialised buildings |
| **Plant and Equipment at Fair Value** | Depreciated replacement cost | Cost per unit<br>Useful life of PPE |
| **Medical Equipment at Fair Value** | Depreciated replacement cost | Cost per unit<br>Useful life of medical equipment |
| **Assets Under Construction at Fair Value** | Depreciated replacement cost | Cost per unit |

**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. Assets transferred as part of a merger/machinery of government are transferred at their carrying amount.

**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 physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset. Theoretical opportunities that may be available in relation to the asset(s) 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 recognised initially at cost and subsequently measured at fair value less accumulated depreciation and accumulated impairment loss. Depreciated historical cost is generally a reasonable proxy for fair value because of the short lives of the assets concerned.

**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 amount 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' to the extent that a credit balance exists in the asset revaluation surplus in respect of the same class of property, plant and equipment.

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

Revaluation surplus is not normally transferred to accumulated funds on derecognition of the relevant asset.

In accordance with FRD 103F, the hospital'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

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Depreciation** | | |
| Buildings | 8,725 | 7,915 |
| Plant and Equipment | 639 | 445 |
| Medical Equipment | 1,004 | 966 |
| **Total Depreciation** | **10,368** | **9,326** |
| **Amortisation** | | |
| Intangible Assets | 698 | 541 |
| **Total Depreciation and Amortisation** | **11,066** | **9,867** |

**Depreciation**

All infrastructure assets, buildings, plant and equipment and other non-financial physical assets that have finite useful lives are depreciated (excludes 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.

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, residual value and depreciation method for all 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. 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.

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

| | 2017 | 2016 |
|---|---|---|
| Buildings | | |
| - Structure Shell Building Fabric | 2 to 60 years | 2 to 40 years |
| - Site Engineering Services and Central Plant | 2 to 15 years | 2 to 15 years |
| Central Plant | | |
| - Fit Out | 2 to 15 years | 2 to 15 years |
| - Trunk Reticulated Building Systems | 2 to 15 years | 2 to 15 years |
| Plant & Equipment | 5 to 20 years | 5 to 20 years |
| Medical Equipment | 4 to 10 years | 4 to 10 years |
| Computers and Communication | 3 to 10 years | 3 to 10 years |
| Furniture and Fitting | 10 to 13 years | 10 to 13 years |
| Motor Vehicles | 4 years | 4 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.

## Note 4.4: Intangible Assets

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Computer Software | 8,413 | 7,055 |
| Less Accumulated Amortisation | (6,325) | (5,627) |
| | **2,088** | **1,428** |
| Computer Software - Work in Progress | 438 | 262 |
| **Total Intangible Assets** | **2,526** | **1,690** |

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

| | Computer Software $'000 | Computer Software Work in Progress $'000 | Total $'000 |
|---|---|---|---|
| **Balance at 1 July 2015** | **1,687** | **220** | **1,907** |
| Additions | 59 | 265 | 324 |
| Assets transferred between Classes | 223 | (223) | - |
| Amortisation (Note 4.3) | (541) | - | (541) |
| **Balance at 1 July 2016** | **1,428** | **262** | **1,690** |
| Additions | 1,358 | 176 | 1,534 |
| Amortisation (Note 4.3) | (698) | - | (698) |
| **Balance at 30 June 2017** | **2,088** | **438** | **2,526** |

**Intangible Assets**

Intangible assets represent identifiable non-monetary assets without physical substance such as patents, trademarks, and computer software and development costs (where applicable).

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 hospital.

Expenditure on research activities is recognised as an expense in the period on which it is incurred.

When the recognition criteria in AASB 138 *Intangible Assets* are met, internally generated intangible assets are recognised and measured at cost less accumulated depreciation/amortisation and impairment.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

a. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b. an intention to complete the intangible asset and use or sell it;
c. the ability to use or sell the intangible asset;
d. the intangible asset will generate probable future economic benefits;
e. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
f. the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

**Amortisation**

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

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

Intangible assets with finite useful lives are amortised between 2 and 10 years (2016: 2 and 10 years).

## Note 4.5: Investment Properties

### (a) Movements in carrying value for investment properties as at 30 June 2017

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Balance at Beginning of Period** | 1,236 | 1,105 |
| Net Gain/(Loss) from Fair Value Adjustments | 234 | 131 |
| Transfers from Property, Plant and Equipment | 12,075 | - |
| **Balance at End of Period** | **13,545** | **1,236** |

### (b) Fair value measurement hierarchy for investment properties

| | Carrying amount as at 30 June 2017 | Fair Value Measurement at End of Reporting Period using: | | |
|---|---|---|---|---|
| | | Level 1 [(i)] | Level 2 [(i)] | Level 3 [(i)] |
| Investment properties | 13,545 | - | 13,545 | - |
| | **13,545** | **-** | **13,545** | **-** |

| | Carrying amount as at 30 June 2016 | Fair Value Measurement at End of Reporting Period using: | | |
|---|---|---|---|---|
| | | Level 1 [(i)] | Level 2 [(i)] | Level 3 [(i)] |
| Investment properties | 1,236 | - | 1,236 | - |
| | **1,236** | **-** | **1,236** | **-** |

[(i)] classified in accordance with the fair value hierarchy.

There have been no transfers between levels during the period. There were no changes in valuation techniques throughout the period to 30 June 2017.

For investment properties measured at fair value, the current use of the asset is considered the highest and best use.

The fair value of the hospital's investment properties at 30 June 2017 have been arrived at the basis of an independent valuation carried out by the Valuer-General Victoria. The valuation was determined by reference to market evidence of transaction process for similar properties with no significant unobservable adjustments, in the same location and condition and subject to similar lease and other contracts.

**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 hospital.

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 hospital.

Subsequent to initial recognition at cost, investment properties are revalued to fair value, determined annually by independent valuers and/or reference to Valuer-General Victoria indices. Fair values are determined based on a market comparable approach that reflects recent transaction prices for similar properties. Investment properties are neither depreciated nor tested for impairment.

Rental revenue from 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.

# Note 5: Other Assets and Liabilities

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

Structure:

5.1 Receivables
5.2 Inventories
5.3 Other Liabilities
5.4 Prepayments and Other Assets
5.5 Payables

## Note 5.1: Receivables

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| **Contractual** | | |
| Inter Hospital Debtors | 368 | 131 |
| Trade Debtors | 619 | 853 |
| Patient Fees | 288 | 382 |
| Accrued Revenue - Other | 776 | 563 |
| Less Allowance for Doubtful Debts: | | |
| - Trade Debtors | (44) | (43) |
| - Patient Fees | (53) | (40) |
| **Total Contractual** | **1,954** | **1,846** |
| **Statutory** | | |
| GST Receivable | 273 | 283 |
| **Total Statutory** | **273** | **283** |
| **Total Current Receivables** | **2,227** | **2,129** |
| **Non-Current** | | |
| **Statutory** | | |
| Long Service Leave - Department of Health and Human Services | 1,942 | 1,801 |
| **Total Non-Current Receivables** | **1,942** | **1,801** |
| **Total Receivables** | **4,169** | **3,930** |
| **(a) Movement in the Allowance for Doubtful Debts** | | |
| Balance at Beginning of Year | 83 | 85 |
| Amounts Written Off During the Year | (41) | (52) |
| Amounts Recovered During the Year | (42) | (33) |
| Increase/(Decrease) in Allowance Recognised in Net Result | 97 | 83 |
| **Balance at End of Year** | **97** | **83** |

**(b) Ageing analysis of receivables**
Refer Note 7.1 for the ageing analysis of contractual receivables.

**(c) Nature and extent of risk arising from receivables**
Refer Note 7.1 for the nature and extent of credit risk arising from contractual receivables.

Receivables consist of:

- contractual receivables, which includes mainly debtors in relation to goods and services; and
- statutory receivables, which includes 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 and bad debts are written off when identified.

## Note 5.2: Inventories

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Pharmaceuticals At Cost | 296 | 151 |
| eyeConnect Devices At Cost | 101 | - |
| **Total Inventories** | **397** | **151** |

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.

Inventories acquired for no cost or nominal consideration are measured at current replacement cost at the date of acquisition.

The bases 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 inventory is measured on the basis of weighted average cost.

## Note 5.3: Other Liabilities

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Income in Advance | 40 | 59 |
| Bond Money | 9 | 9 |
| Patient Fees | - | 48 |
| **Total Current** | **49** | **116** |
| **Total Other Liabilities** | **49** | **116** |

## Note 5.4: Prepayments and Other Assets

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Current** | | |
| Prepayments | 749 | 818 |
| Accrued Investment Interest | 87 | 100 |
| **Total Other Assets** | **836** | **918** |

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

## Note 5.5: Payables

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **CURRENT** | | |
| **Contractual** | | |
| Trade Creditors [(i)] | 1,406 | 1,627 |
| Accrued Expenses | 3,506 | 3,051 |
| | **4,912** | **4,678** |
| **Statutory** | | |
| Department of Health and Human Services [(ii)] | 2,682 | 131 |
| | **2,682** | **131** |
| **Total Current** | **7,594** | **4,809** |
| **Total Payables** | **7,594** | **4,809** |

[(i)] The average credit period is 30 days. No interest is charged on payables.

[(ii)] Terms and conditions of amounts payable to the Department of Health and Human Services vary according to the particular agreement with the Department.

**(a) Maturity analysis of payables**
Refer Note 7.1 for the ageing analysis of contractual payables.

**(b) Nature and extent of risk arising from payables**
Refer Note 7.1 for the nature and extent of risks arising from contractual payables.

Payables consist of:

- contractual payables which consist predominantly of accounts payable representing liabilities for goods and services provided to the hospital prior to the end of the financial year that are unpaid, and arise when the hospital becomes obliged to make future payments in respect of the purchase of those goods and services. The normal credit terms for accounts payable are usually nett 30 days from end of month of invoice.
- statutory payables, such as goods and services tax and fringe benefits tax 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: Operational Financing

This section provides information on the sources of finance utilised by the hospital 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, specific financial instrument disclosures.

Structure:

6.1 Leases

6.2 Cash and Cash Equivalents

6.3 Commitments for Expenditure

## Note 6.1: Leases

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

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

All other leases are classified as operating leases.

**Operating Leases:**

**Entity as Lessor**

Rental income from operating lease is recognised on a straight-line basis over the term of the relevant lease.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives are given to the lessee, the aggregate cost of incentives are recognised as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is more appropriate of the time pattern over which the economic benefit of the leased asset is diminished.

| | 2017<br>$'000 | 2016<br>$'000 |
|---|---|---|
| **Non-Cancellable Operating Lease Receivables:** | | |
| Not later than one year | 388 | 276 |
| Later than 1 year and not later than 5 years | 524 | 899 |
| Later than 5 years | 106 | 119 |
| **Total Cash and Cash Equivalents** | **1,018** | **1,294** |

## Note 6.2: Cash and Cash Equivalents

For the purposes of the cash flow statement, cash assets include cash on hand and in banks, and short-term deposits which are readily convertible to cash on hand, and are subject to an insignificant risk of change in value, net of outstanding bank overdrafts.

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Cash on Hand | 3 | 2 |
| Cash at Bank | 104 | 110 |
| Deposits at Call | 6,569 | 1,494 |
| **Total Cash and Cash Equivalents** | **6,676** | **1,606** |
| **Represented by:** | | |
| Cash for Hospital Operations (per Cash Flow Statement) | 6,676 | 1,606 |
| **Total Cash and Cash Equivalents** | **6,676** | **1,606** |

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 with an insignificant risk of changes in value.

## Note 6.3: Commitments for Expenditure

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Capital Expenditure Commitments** | | |
| Land and Buildings | 32,123 | 26,977 |
| Plant and Equipment | 335 | - |
| Intangible Assets | 3 | - |
| **Total Capital Expenditure Commitments** | **32,461** | **26,977** |
| Land and buildings | | |
| Not later than one year | 9,342 | 8,388 |
| Later than 1 year and not later than 5 years | 23,119 | 18,589 |
| **Total** | **32,461** | **26,977** |
| **Other Expenditure Commitments** | | |
| Consumables/Supplies | 11,051 | 12,962 |
| Maintenance | 270 | 286 |
| **Total Other Expenditure Commitments** | **11,321** | **13,248** |
| Not later than one year | 7,963 | 8,994 |
| Later than 1 year and not later than 5 years | 3,358 | 4,254 |
| **TOTAL** | **11,321** | **13,248** |
| **Total Commitments (inclusive of GST)** | **43,782** | **40,225** |
| less GST Recoverable from the Australian Tax Office | (1,060) | (1,240) |
| **Total Commitments (exclusive of GST)** | **42,722** | **38,985** |

All amounts shown in the commitments note are nominal amounts inclusive of GST.

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed by way of a note at their nominal value and are inclusive of the 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 hospital 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 hospital is related mainly to fair value determination.

Structure:

7.1 Financial Instruments

7.2 Net Gain/ (Loss) on Disposal of Non-Financial Assets

7.3 Contingent Assets and Contingent Liabilities

7.4 Fair Value Determination

## Note 7.1: Financial Instruments

### (a) Financial Risk Management Objectives and Policies

The hospital's principal financial instruments comprise of:

- cash assets
- term deposits
- receivables (excluding statutory receivables)
- investment in managed investment schemes
- payables (excluding statutory payables)

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

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

The hospital 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 Audit Committee of the hospital.

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

**Categorisation of Financial Instruments**

| | Contractual Financial Assets - Loans and Receivables $'000 | Contractual Financial Assets - Available for Sale $'000 | Contractual Financial Liabilities at Amortised Cost $'000 | Total $'000 |
|---|---|---|---|---|
| **2017** | | | | |
| **Contractual Financial Assets** | | | | |
| Cash and Cash Equivalents | 6,676 | - | - | 6,676 |
| Receivables | | | | |
| - Trade Debtors | 987 | - | - | 987 |
| - Other Receivables | 1,064 | - | - | 1,064 |
| Other Financial Assets | | | | |
| - Term Deposit | 21,000 | - | - | 21,000 |
| - Managed Investment Schemes | - | 43,754 | - | 43,754 |
| **Total Financial Assets [(i)]** | **29,727** | **43,754** | **-** | **73,481** |
| **Financial Liabilities** | | | | |
| Payables | - | - | 4,912 | 4,912 |
| Other Financial Liabilities | | | | |
| - Other | - | - | 49 | 49 |
| **Total Financial Liabilities [(ii)]** | **-** | **-** | **4,961** | **4,961** |

[(i)] The total amount of financial assets disclosed here excludes statutory receivables.

[(ii)] The total amount of financial liabilities disclosed here excludes statutory payables (ie. Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (Continued)

| | Contractual Financial Assets - Loans and Receivables $'000 | Contractual Financial Assets - Available for Sale $'000 | Contractual Financial Liabilities at Amortised Cost $'000 | Total $'000 |
|---|---|---|---|---|
| **2016** | | | | |
| **Contractual Financial Assets** | | | | |
| Cash and Cash Equivalents | 1,606 | - | - | 1,606 |
| Receivables | | | | |
| - Trade Debtors | 984 | - | - | 984 |
| - Other Receivables | 945 | - | - | 945 |
| Other Financial Assets | | | | |
| - Term Deposit | 22,000 | - | - | 22,000 |
| - Managed Investment Schemes | - | 41,647 | - | 41,647 |
| **Total Financial Assets [(i)]** | **25,535** | **41,647** | **-** | **67,182** |
| **Financial Liabilities** | | | | |
| Payables | - | - | 4,678 | 4,678 |
| Other Financial Liabilities | | | | |
| - Other | - | - | 116 | 116 |
| **Total Financial Liabilities [(ii)]** | **-** | **-** | **4,794** | **4,794** |

[(i)] The total amount of financial assets disclosed here excludes statutory receivables.

[(ii)] The total amount of financial liabilities disclosed here excludes statutory payables (ie. Department of Health and Human Services payable).

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

| | Net Holding Gain/(Loss) $'000 | Total Interest Income / (Expense) $'000 | Total $'000 |
|---|---|---|---|
| **2017** | | | |
| **Financial Assets** | | | |
| Cash and Cash Equivalents [(i)] | - | 90 | 90 |
| Loans and Receivables [(i)] | - | 567 | 567 |
| Available for Sale [(i)] | 2,106 | 1,851 | 3,957 |
| **Total Financial Assets** | **2,106** | **2,508** | **4,614** |
| **2016** | | | |
| **Financial Assets** | | | |
| Cash and Cash Equivalents [(i)] | - | 65 | 65 |
| Loans and Receivables [(i)] | - | 1,765 | 1,765 |
| Available for Sale [(i)] | (274) | 250 | (24) |
| **Total Financial Assets** | **(274)** | **2,080** | **1,806** |

[(i)] For cash and cash equivalents, loans or receivables and available-for-sale financial assets, the net gain or loss is calculated by taking the movement in the fair value of the asset, 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.

## Note 7.1: Financial Instruments (continued)

### (c) Credit risk

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

Credit risk associated with the hospital's contractual financial assets is minimal because the main debtor is the Victorian Government. For debtors other than the Government, it is the hospital's policy to only deal with entities with high credit ratings of a minimum Triple-B rating and to obtain sufficient collateral or credit enhancements, where appropriate.

In addition, the hospital does not engage in hedging for its contractual financial assets and mainly obtains contractual financial assets that are on fixed interest, except for cash assets, which are mainly cash at bank. As with the policy for debtors, the hospital's policy is to only deal with banks with high credit ratings.

Provision of impairment for contractual financial assets is recognised when there is objective evidence that the hospital will not be able to collect a receivable. Objective evidence includes financial difficulties of the debtor, default payments, debts which are more than 30 days overdue, and changes in debtor credit ratings.

Except as otherwise detailed in the following table, the carrying amount of contractual financial assets recorded in the financial statements, net of any allowances for losses, represents hospital's maximum exposure to credit risk without taking account of the value of any collateral obtained.

**Credit quality of contractual financial assets that are neither past due nor impaired**

| | Financial institutions (AA credit rating) $'000 | Other (min BBB credit rating) $'000 | Total $'000 |
|---|---|---|---|
| **2017** | | | |
| **Financial Assets** | | | |
| Cash and Cash Equivalents | 6,676 | - | 6,676 |
| Loans and Receivables | | | |
| - Trade Debtors | - | 987 | 987 |
| - Other Receivables [(i)] | - | 1,064 | 1,064 |
| - Term Deposits | 21,000 | - | 21,000 |
| Available for Sale | | | |
| - Managed Investment Schemes | 43,754 | - | 43,754 |
| **Total Financial Assets** | **71,430** | **2,051** | **73,481** |
| **2016** | | | |
| **Financial Assets** | | | |
| Cash and Cash Equivalents | 1,606 | - | 1,606 |
| Loans and Receivables | | | |
| - Trade Debtors | - | 984 | 984 |
| - Other Receivables [(i)] | - | 945 | 945 |
| - Term Deposits | 22,000 | - | 22,000 |
| Available for sale | | | |
| - Managed Investment Schemes | 41,647 | - | 41,647 |
| **Total Financial Assets** | **65,253** | **1,929** | **67,182** |

[(i)] The total amounts disclosed here exclude statutory amounts (eg. amounts owing from GST input tax credit recoverable).

## Note 7.1: Financial Instruments (continued)

**Ageing analysis of Financial Assets as at 30 June**

| | Carrying Amount | Not Past Due and Not Impaired | Past Due But Not Impaired | | | Impaired Financial Assets |
|---|---|---|---|---|---|---|
| | | | Less than 1 Month | 1 to 3 Months | 3 months to 1 Year | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2017** | | | | | | |
| **Financial Assets** | | | | | | |
| Cash and Cash Equivalents | 6,676 | 6,676 | - | - | - | - |
| Loans and Receivables | | | | | | |
| - Trade Debtors | 987 | 808 | 90 | 45 | - | 44 |
| - Other Receivables | 1,064 | 886 | 106 | 19 | - | 53 |
| - Term Deposits | 21,000 | 21,000 | - | - | - | - |
| Available for Sale | | | | | | |
| - Managed Investment Schemes | 43,754 | 43,754 | - | - | - | - |
| **Total Financial Assets** | **73,481** | **73,124** | **196** | **64** | **-** | **97** |
| **2016** | | | | | | |
| Cash and Cash Equivalents | 1,606 | 1,606 | - | - | - | - |
| Loans and Receivables | | | | | | |
| - Trade Debtors | 984 | 853 | 69 | 18 | 1 | 43 |
| - Other Receivables | 945 | 818 | 46 | 36 | 5 | 40 |
| - Term Deposits | 22,000 | 22,000 | - | - | - | - |
| Available for Sale | | | | | | |
| - Managed Investment Schemes | 41,647 | 41,647 | - | - | - | - |
| **Total Financial Assets** | **67,182** | **66,924** | **115** | **54** | **6** | **83** |

**Contractual Financial Assets that are either Past Due or Impaired**

There are no material financial assets which are individually determined to be impaired. Currently the hospital does not hold any collateral as security nor credit enhancements relating to its financial assets.

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

## Note 7.1: Financial Instruments (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the hospital would be unable to meet its financial obligations as and when they fall due. The hospital operates under the Government's fair payments policy of settling financial obligations within 30 days from the end of the month of invoice and in the event of a dispute, making payments within 30 days from the date of resolution.

The hospital's maximum exposure to liquidity risk is the carrying amounts of financial liabilities as disclosed in the face of the balance sheet.

The following table discloses the contractual maturity analysis for the hospital's financial liabilities. For interest rates applicable to each class of liability refer to individual notes to the financial statements.

**Maturity analysis of Financial Liabilities as at 30 June**

| | Carrying Amount | Nominal Amount | Maturity Dates | | | |
|---|---|---|---|---|---|---|
| | | | Less than 1 Month | 1 to 3 Months | 3 months to 1 Year | 1-5 Years |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2017** | | | | | | |
| **Financial Liabilities** | | | | | | |
| At Amortised Cost | | | | | | |
| Payables | 4,912 | 4,912 | 4,912 | - | - | - |
| Other Financial Liabilities [(i)] | | | | | | |
| - Other | 49 | 49 | 29 | 11 | - | 9 |
| **Total Financial Liabilities** | **4,961** | **4,961** | **4,941** | **11** | **-** | **9** |
| **2016** | | | | | | |
| **Financial Liabilities** | | | | | | |
| At Amortised Cost | | | | | | |
| Payables | 4,678 | 4,678 | 4,629 | 49 | - | - |
| Other Financial Liabilities [(i)] | | | | | | |
| - Other | 116 | 116 | 69 | 14 | 24 | 9 |
| **Total Financial Liabilities** | **4,794** | **4,794** | **4,698** | **63** | **24** | **9** |

[(i)] Ageing analysis of financial liabilities excludes the types of statutory financial liabilities (ie. Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

### (e) Market Risk

The hospital's exposures to market risk are primarily through interest rate risk with only insignificant exposure to foreign currency and other price risks. Objectives, policies and processes used to manage each of these risks are disclosed in the paragraph below.

**Currency Risk**

The hospital is exposed to insignificant foreign currency risk through its payables relating to purchases of supplies and consumables from overseas. This is because of a limited amount of purchases denominated in foreign currencies and a short timeframe between commitment and settlement.

**Interest Rate Risk**

Exposure to interest rate risk might arise primarily through the hospital's interest bearing liabilities. Minimisation of risk is achieved by mainly undertaking fixed rate or non-interest bearing financial instruments. For financial liabilities, the hospital mainly undertakes financial liabilities with relatively even maturity profiles.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The hospital has minimal exposure to cash flow interest rate risks through its cash and deposits, term deposits and bank overdrafts that are at floating rate.

The hospital manages this risk by mainly undertaking fixed rate or non-interest bearing financial instruments with relatively even maturity profiles, with only insignificant amounts of financial instruments at floating rate. Management has concluded for cash at bank and bank overdraft, as financial assets that can be left at floating rate without necessarily exposing the hospital to significant bad risk, management monitors movement in interest rates on a daily basis.

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

| | Weighted Average Effective Interest Rate (%) | Carrying Amount $'000 | Interest Rate Exposure | | |
|---|---|---|---|---|---|
| | | | Fixed Interest Rate $'000 | Variable Interest Rate $'000 | Non-Interest Bearing $'000 |
| **2017** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents | 1.48 | 6,676 | - | 6,676 | - |
| Loans and Receivables [(i)] | | | | | |
| - Trade Debtors | - | 987 | - | - | 987 |
| - Other Receivables | - | 1,064 | - | - | 1,064 |
| - Term Deposit | 2.03 | 21,000 | 21,000 | - | - |
| Available for Sale | | | | | |
| - Managed Investment Schemes | - | 43,754 | - | - | 43,754 |
| | | **73,481** | **21,000** | **6,676** | **45,805** |
| **Financial Liabilities** | | | | | |
| At Amortised Cost | | | | | |
| Payables[(i)] | - | 4,912 | - | - | 4,912 |
| Other Financial Liabilities | | | | | |
| - Other | - | 49 | - | - | 49 |
| | | **4,961** | **-** | **-** | **4,961** |

[(i)] The carrying amount disclosed excludes statutory financial assets and liabilities (ie. GST input tax credit and Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

| | Weighted Average Effective Interest Rate (%) | Carrying Amount $'000 | Interest Rate Exposure | | |
|---|---|---|---|---|---|
| | | | Fixed Interest Rate $'000 | Variable Interest Rate $'000 | Non-Interest Bearing $'000 |
| **2016** | | | | | |
| **Financial Assets** | | | | | |
| Cash and Cash Equivalents | 1.70 | 1,606 | - | 1,606 | - |
| Loans and Receivables [(i)] | | | | | |
| - Trade Debtors | - | 984 | - | - | 984 |
| - Other Receivables | - | 945 | - | - | 945 |
| - Term Deposit | 2.70 | 22,000 | 22,000 | - | - |
| Available for Sale | | | | | |
| - Managed Investment Schemes | - | 41,647 | - | - | 41,647 |
| | | **67,182** | **22,000** | **1,606** | **43,576** |
| **Financial Liabilities** | | | | | |
| At Amortised Cost | | | | | |
| Payables[(i)] | - | 4,678 | - | - | 4,678 |
| Other Financial Liabilities | | | | | |
| - Other | - | 116 | - | - | 116 |
| | | **4,794** | **-** | **-** | **4,794** |

[(i)] The carrying amount disclosed excludes statutory financial assets and liabilities (ie. GST input tax credit and Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

**Sensitivity Disclosure Analysis**

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the hospital believes the following movements are 'reasonably possible' over the next 12 months (Base rates are sourced from the Reserve Bank of Australia).

- A shift of 100 basis points up and down in market interest rates (AUD) from year-end rates of 1.50% (2016: 100 basis points); and
- A parallel shift of +1% and -1% in inflation rate from year-end rates of 1.9% (2016: +1% and -1%).

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

| | Carrying Amount | Interest Rate Risk | | | | Other Price Risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -1% | | +1% | | -1% | | +1% | |
| | | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **2017** | | | | | | | | | |
| **Financial Assets** | | | | | | | | | |
| Cash and Cash Equivalents | 6,676 | (67) | (67) | 67 | 67 | - | - | - | - |
| Loans and Receivables [(i)] | | | | | | | | | |
| - Trade Debtors | 987 | - | - | - | - | - | - | - | - |
| - Other Receivables | 1,064 | - | - | - | - | - | - | - | - |
| - Term Deposit | 21,000 | (210) | (210) | 210 | 210 | - | - | - | - |
| Available for Sale | | | | | | | | | |
| - Managed Investment Schemes | 43,754 | - | - | - | - | (438) | (438) | 438 | 438 |
| | **73,481** | **(277)** | **(277)** | **277** | **277** | **(438)** | **(438)** | **438** | **438** |
| **Financial Liabilities** | | | | | | | | | |
| At Amortised Cost | | | | | | | | | |
| Payables | 4,912 | - | - | - | - | (49) | (49) | 49 | 49 |
| Other Financial Liabilities[(i)] | | | | | | | | | |
| - Other | 49 | - | - | - | - | - | - | - | - |
| | **4,961** | **-** | **-** | **-** | **-** | **(49)** | **(49)** | **49** | **49** |

[(i)] The carrying amount disclosed excludes statutory financial assets and liabilities (ie. GST input tax credit and Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

| | Carrying Amount | Interest Rate Risk | | | | Other Price Risk | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | -1% | | +1% | | -1% | | +1% | |
| | | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 | Profit $'000 | Equity $'000 |
| **2016** | | | | | | | | | |
| **Financial Assets** | | | | | | | | | |
| Cash and Cash Equivalents | 1,606 | (16) | (16) | 16 | 16 | - | - | - | - |
| Loans and Receivables [(i)] | | | | | | | | | |
| - Trade Debtors | 984 | - | - | - | - | - | - | - | - |
| - Other Receivables | 945 | - | - | - | - | - | - | - | - |
| - Term Deposit | 22,000 | (220) | (220) | 220 | 220 | - | - | - | - |
| Available for Sale | | | | | | | | | |
| - Managed Investment Schemes | 41,647 | - | - | - | - | (416) | (416) | 416 | 416 |
| | **67,182** | **(236)** | **(236)** | **236** | **236** | **(416)** | **(416)** | **416** | **416** |
| **Financial Liabilities** | | | | | | | | | |
| At Amortised Cost | | | | | | | | | |
| Payables | 4,678 | - | - | - | - | (47) | (47) | 47 | 47 |
| Other Financial Liabilities[(i)] | | | | | | | | | |
| - Other | 116 | - | - | - | - | - | - | - | - |
| | **4,794** | **-** | **-** | **-** | **-** | **(47)** | **(47)** | **47** | **47** |

[(i)] The carrying amount disclosed excludes statutory financial assets and liabilities (ie. GST input tax credit and Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

### (f) Fair Value

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:
• Level 1 - the fair value of financial instrument with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
• Level 2 - the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and
• Level 3 - the fair value is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using unobservable market inputs.

The hospital considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

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

**Comparison between Carrying Amount and Fair Value**

| | Carrying Amount 2017 $'000 | Fair value 2017 $'000 | Carrying Amount 2016 $'000 | Fair value 2016 $'000 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash and Cash Equivalents | 6,676 | 6,676 | 1,606 | 1,606 |
| Loans and Receivables [(i)] | | | | |
| - Trade Debtors | 987 | 987 | 984 | 984 |
| - Other Receivables | 1,064 | 1,064 | 945 | 945 |
| - Term Deposit | 21,000 | 21,000 | 22,000 | 22,000 |
| Available for Sale | | | | |
| - Managed Investment Schemes | 43,754 | 43,754 | 41,647 | 41,647 |
| **Total Financial Assets** | **73,481** | **73,481** | **67,182** | **67,182** |
| **Financial Liabilities** | | | | |
| At Amortised Cost | | | | |
| Payables | 4,912 | 4,912 | 4,678 | 4,678 |
| Other Financial Liabilities[(i)] | | | | |
| - Other | 49 | 49 | 116 | 116 |
| **Total Financial Liabilities** | **4,961** | **4,961** | **4,794** | **4,794** |

[(i)] The carrying amount disclosed excludes statutory financial assets and liabilities (ie. GST input tax credit and Department of Health and Human Services payable).

## Note 7.1: Financial Instruments (continued)

**Financial assets measured at fair value**

| | Carrying Amount as at 30 June | Fair value measurement at end of reporting period using: | | |
|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 |
| | $'000 | $'000 | $'000 | $'000 |
| **2017** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Available-for-Sale Securities | | | | |
| - Managed Investment Schemes | 43,754 | - | 43,754 | - |
| **Total Financial Assets** | **43,754** | **-** | **43,754** | **-** |
| **2016** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Available-for-Sale Securities | | | | |
| - Managed Investment Schemes | 41,647 | - | 41,647 | - |
| **Total Financial Assets** | **41,647** | **-** | **41,647** | **-** |

There have been no transfers between levels during the period.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate fair value:

**Managed Investment Schemes**

The hospital invests in managed funds which are not quoted in an active market and which may be subject to restrictions on redemptions. The hospital considers the valuation techniques and inputs used in valuing these funds as part of its due diligence prior to investment, to ensure they are reasonable and appropriate and therefore the net asset value of these funds may be used as an input into measuring their fair value. In measuring this fair value, the net asset value of the funds is adjusted, as necessary, to reflect restrictions and redemptions, future commitments and other specific factors of the funds. In measuring fair value, consideration is also paid to any transaction in the shares of the fund. Depending on the nature and level of adjustments needed to the net asset value and the level of trading of the hospital, the hospital classifies these funds as Level 2 or Level 3.

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

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

The following refers to financial instruments unless otherwise stated.

**Categories of Non-Derivative Financial Instruments:**

**Financial Assets and Liabilities at Fair Value through Profit or Loss**

Financial assets are categorised as fair value through profit or loss at trade date if they are classified as held for trading or designated as such upon initial recognition. Financial instrument assets are designated at fair value through profit or loss on the basis that the financial assets form part of a group of financial assets that are managed by the hospital based on their fair values, and have their performance evaluated in accordance with documented risk management and investment strategies.

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

Financial assets and liabilities at fair value through profit or loss include the majority of the hospital's equity investments, debt securities and borrowings.

**Loans and Receivables**

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

Loans and receivables category includes cash and deposits (refer Note 6.2), term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

**Held-to-Maturity Investments**

If the hospital has the positive intent and ability to hold nominated investments to maturity, then such financial assets may be classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses.

The hospital makes limited use of this classification because any sale or reclassification of more than an insignificant amount of held-to-maturity investments not close to their maturity, would result in the whole category being reclassified as available-for-sale. The hospital would also be prevented from classifying investment securities as held-to-maturity for the current and the following two financial years.

**Available-for-Sale Financial Assets**

Available-for-sale financial instrument assets are those designated as available-for-sale or not classified in any other category of financial instrument asset. Such assets are initially recognised at fair value. Subsequent to initial recognition, gains and losses arising from changes in fair value are recognised in other comprehensive income until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net result for the period. Fair value is determined in the manner described in Note 7.1(f).

**Financial Liabilities at Amortised Cost**

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

Financial instrument liabilities measured at amortised cost include all of the hospital's contractual payables, deposits held and advances received.

**Net Gain/(Loss) on Financial Instruments**

Net gain/(loss) on financial instruments includes:

- realised and unrealised gains and losses from revaluations of financial instruments at fair value;
- impairment and reversal of impairment for financial instruments at amortised cost; and
- disposals of financial assets and derecognition of financial liabilities.

**Revaluations of Financial Instrument at Fair Value**

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

## Note 7.2: Net Gain/(Loss) on Disposal of Non-Financial Assets

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Proceeds from Disposals of Non-Current Assets** | | |
| Medical Equipment | - | 7 |
| **Less: Written Down Value of Non-Current Assets Sold** | | |
| Plant and Equipment | - | (5) |
| Medical Equipment | (17) | (126) |
| **Net Gain/(Loss) on Disposal of Non-Financial Assets** | **(17)** | **(124)** |

**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**

Intangible assets with indefinite lives (and intangible assets not yet available for use) are tested annually for impairment (as described below) and whenever there is an indication that the asset may be impaired.

All other 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 amount 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.

The Royal Victorian Eye and Ear Hospital has Nil contingent assets or contingent liabilities at 30 June 2017. (30 June 2016: Nil).

## Note 7.4 Fair Value Determination

| Asset Class | Examples of Types of Assets | Expected Fair Value Level | Likely Valuation Approach | Significant Inputs (Level 3 only) |
|---|---|---|---|---|
| Non-Specialised Land | In areas where there is an active market:<br>- vacant land<br>- land not subject to restrictions as to use or sale | Level 2 | Market approach | N/A |
| Specialised Land | Land subject to restrictions as to use and/or sale | Level 3 | Market approach | CSO adjustments |
| Non-Specialised Buildings | For general/commercial buildings that are just built | Level 2 | Market approach | N/A |
| Specialised Buildings | Specialised buildings with limited alternative uses and/or substantial customisation eg. hospitals | Level 3 | Depreciated replacement cost approach | Cost per square metre<br>Useful life |
| Dwellings | Social/public housing/employee housing | Level 2, where there is an active market in the area | Market approach | N/A |
| | | Level 3, where there is no active market in the area | Depreciated replacement cost approach | Cost per square metre<br>Useful life |
| Infrastructure | Any type | Level 3 | Depreciated replacement cost approach | Cost per square metre<br>Useful life |
| Plant and Equipment | Any type | Level 3 | Depreciated replacement cost approach | Cost per square metre<br>Useful life |
| Vehicles | If there is an active resale market available | Level 2 | Market approach | N/A |

# Note 8: Other Disclosures

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

Structure:

8.1 Equity
8.2 Reconciliation of Net Result for the Year to Net Cash Inflow/(Outflow) from Operating Activities
8.3 Operating Segments
8.4 Responsible Persons Disclosures
8.5 Executive Officer Disclosures
8.6 Related Parties
8.7 Remuneration of Auditors
8.8 Events Occurring After the Balance Sheet Date
8.9 Correction of Prior Period Error
8.10 AASBs Issued that are Not Yet Effective
8.11 Alternate Presentation of Comprehensive Operating Statement

## Note 8.1: Equity

| | 2017 $'000 | 2016 * $'000 |
|---|---|---|
| **(a) Surpluses** | | |
| **Property, Plant and Equipment Revaluation Surplus** | | |
| Balance at the beginning of the reporting period | 80,402 | 70,147 |
| Revaluation Increment/(Decrements) | | |
| - Land | 7,877 | 10,255 |
| - Buildings | 1,494 | - |
| **Balance at the End of the Reporting Period *** | **89,773** | **80,402** |
| * Represented by: | | |
| - Land | 45,747 | 37,870 |
| - Buildings | 44,026 | 42,532 |
| | **89,773** | **80,402** |
| **Financial Assets Available-for-Sale Revaluation Surplus** | | |
| Balance at the Beginning of the Reporting Period | - | 5,754 |
| Valuation Gain / (Loss) Recognised | 2,106 | 78 |
| Cumulative (Gain) / Loss transferred to Operating Statement on Sale of Financial Assets | - | (5,832) |
| **Balance at the End of the Reporting Period** | **2,106** | **-** |
| **General Purpose Surplus** | | |
| Balance at the Beginning of the Reporting Period | 1,734 | 22,252 |
| Transfer To and From General Surplus: | | |
| - Restricted Specific Purpose Surplus | - | 1,734 |
| - Accumulated Surplus / (Deficits) | 1,944 | (22,252) |
| **Balance at the End of the Reporting Period** | **3,678** | **1,734** |
| **Restricted Specific Purpose Surplus** | | |
| Balance at the Beginning of the Reporting Period | 27,908 | 36,935 |
| Transfer To and From Restricted Surplus: | | |
| - General Purpose Surplus | - | (1,734) |
| - Accumulated Surplus / (Deficits) | 2,349 | (7,293) |
| **Balance at the End of the Reporting Period** | **30,257** | **27,908** |
| **Total Surpluses** | **125,814** | **110,044** |

| | | |
|---|---|---|
| **(b) Contributed Capital** | | |
| Balance at the Beginning of the Reporting Period | 51,568 | 51,568 |
| **Balance at the End of the Reporting Period** | **51,568** | **51,568** |
| | | |
| **(c) Accumulated Surpluses/(Deficits)** | | |
| Balance at the Beginning of the Reporting Period | 68,017 | 19,237 |
| Adjustments Resulting from Correction of Errors (refer Note 8.9) | - | 3,200 |
| Net Result for the Year | 18,652 | 16,035 |
| Transfers (To) and From: | | |
| - General Purpose Surplus Reserve | (1,944) | 22,252 |
| - Restricted Specific Purpose Surplus Reserve | (2,349) | 7,293 |
| **Balance at the End of the Reporting Period** | **82,376** | **68,017** |
| | | |
| **Total Equity at End of the Financial Year** | **259,758** | **229,629** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

**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 to or distributions by owners that have been designated as contributed capital are also treated as contributed capital.

**Property, Plant & Equipment Revaluation Surplus**

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

**Financial Asset Available-for-Sale Revaluation Surplus**

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

**General Purpose Surplus**

A specific general purpose surplus is established where the hospital Board has placed restrictions on the use of funds, for example, for capital or research projects.

**Specific Restricted Purpose Surplus**

A specific restricted purpose surplus is established where the hospital has possession or title to the funds but has no discretion to amend or vary the restriction and/or condition underlying the funds received.

## Note 8.2: Reconciliation of Net Result for the Year to Net Cash Inflow/(Outflow) from Operating Activities

| | 2017 $'000 | 2016 * $'000 |
|---|---|---|
| **Net Result for the Period** | 18,652 | 16,035 |
| **Non-Cash Movements:** | | |
| Depreciation and Amortisation | 11,066 | 9,867 |
| Impairment of Financial and Non-Financial Assets | - | 352 |
| Valuation of Investment Properties | (234) | (131) |
| Provision for Doubtful Debts | 14 | (2) |
| Non-Cash DHHS Government Grants | (16,994) | (16,679) |
| Resources/Assets Provided Free of Charge | 203 | - |
| **Movements Included in Investing and Financing Activities:** | | |
| Net (Gain)/Loss from Disposal of Non-Financial Physical Assets | 17 | 124 |
| Net (Gain)/Loss from Disposal of Financial Assets | - | (5,832) |
| **Movements in Assets and Liabilities:** | | |
| Change in Operating Assets and Liabilities | | |
| (Increase)/Decrease in Receivables | (241) | 2,680 |
| (Increase)/Decrease in Prepayments | 69 | (409) |
| Increase/(Decrease) in Payables | 2,784 | 1,083 |
| Increase/(Decrease) in Provisions | 1,319 | 821 |
| Increase/(Decrease) in Other Liabilities | (67) | (537) |
| Change in Inventories | (245) | 443 |
| **Net Cash Inflow / (Outflow) from Operating Activities** | **16,343** | **7,815** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

## Note 8.3: Operating Segments

The Royal Victorian Eye and Ear Hospital derives all its revenue from the Acute Health Programs Services.

**Geographical Segment**
The Royal Victorian Eye and Ear Hospital operates predominantly in Melbourne, Victoria. More than 90% of revenue, net surplus from ordinary activities and assets relate to operations in Melbourne, Victoria. The hospital has spoke services at Blackburn.

## Note 8.4: Responsible Persons Disclosures

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

| | Period |
|---|---|
| **Relevant Minister:** | |
| The Honourable Jill Hennessy, Minister for Health, Minister for Ambulance Services | 1/7/2016 - 30/6/2017 |
| **Governing Board:** | |
| Dr Sherene Devanesen | 1/7/2016 - 30/6/2017 |
| Dr Malcolm Brown | 1/7/2016 - 30/6/2017 |
| Mr Roger Greenman AM | 1/7/2016 - 30/6/2017 |
| Dr Sandra Mercer Moore AM | 1/7/2016 - 30/6/2017 |
| Mr Andrew Porter | 1/7/2016 - 30/6/2017 |
| Ms Llewellyn Prain | 1/7/2016 - 30/6/2017 |
| Mr David Anderson | 1/7/2016 - 30/6/2017 |
| Associate Professor Deborah Colville | 1/7/2016 - 30/6/2017 |
| Ms Linda Hornsey | 2/8/2016 - 30/6/2017 |
| **Accountable Officer:** | |
| Mr Mark Petty | 1/7/2016 - 30/6/2017 |

**Remuneration of Responsible Persons**

The number of Responsible Persons are shown in their relevant income bands:

| Income Band | 2017 Number | 2016 Number |
|---|---|---|
| $0 - $9,999 | 1 | 1 |
| $10,000 - $19,999 | 1 | - |
| $20,000 - $29,999 | 6 | 7 |
| $40,000 - $49,999 | - | 1 |
| $50,000 - $59,999 | 1 | - |
| $60,000 - $69,999 | - | 1 |
| $260,000 - $269,999 | - | 1 |
| $320,000 - $329,999 | 1 | - |
| **Total Numbers** | **10** | **11** |
| **Total remuneration received or due and receivable by Responsible Persons from the reporting entity amounted to:** | **$ 543,328** | **$ 547,288** |

Amounts relating to Responsible Ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of ministers, the register of members' interests is publicly available from: www.parliament.vic.gov.au/publications/register of interests.

## Note 8.5: Executive Officer Disclosures

### Executive Officer Remuneration

The number of executive officers (other than Ministers and Accountable Officers), their total remuneration and annualised employee equivalent during the reporting period are shown in the table below. Remuneration under FRD 21C is disaggregated and separately disclosed according to the nature of the payment, consistent with the requirements of AASB 124.

A number of executive officers left employment at the hospital during 2016 elevating the head count. A restructure of executive positions during 2016 has reduced the total remuneration and annualised employee equivalents in 2017.

| **Remuneration** | **2017** | **2016** |
|---|---|---|
| Short Term Employee Benefits | $ 786,621 | $ 898,553 |
| Post-Employment Benefits | $ 94,625 | $ 96,338 |
| Other Long-Term Benefits | $ 21,156 | $ 23,279 |
| **Total Remuneration** | **$ 902,402** | **$ 1,018,170** |
| **Total Number of Executives** | 4 | 8 |
| **Total Annualised Employee Equivalents (AEE) [(i)]** | 3.80 | 4.32 |

[(i)] Annualised employee equivalent is based on paid working hours of 38 ordinary hours per week over the 52 weeks for a reporting period.

## Note 8.6: Related Parties

The hospital 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 (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.

KMP determined by the hospital comprise the following Responsible Persons (Note 8.4) and Executive Officers (Note 8.5):

- Dr Sherene Devanesen, Chair Board of Directors;
- Dr Malcolm Brown, Non-Executive Director;
- Mr Roger Greenman AM, Non-Executive Director;
- Dr Sandra Mercer Moore AM, Non-Executive Director;
- Mr Andrew Porter, Non-Executive Director;
- Ms Llewellyn Prain, Non-Executive Director;
- Mr David Anderson, Non-Executive Director;
- Associate Professor Deborah Colville, Non-Executive Director;
- Ms Linda Hornsey, Non-Executive Director;
- Mr Mark Petty, Chief Executive Officer and Accountable Officer;
- Dr Caroline Clarke, Executive Director Medical Services and Chief Medical Officer;
- Ms Jenni Bliss, Executive Director Chief Operating Officer and Chief Nursing Officer;
- Mr Ian Leong, Executive Director Redevelopment, Planning and Infrastructure; and
- Mr Danny Mennuni, Executive Director Finance and Corporate Services and Chief Finance and Accounting Officer.

| Compensation | 2017 | 2016 |
|---|---|---|
| Short Term Employee Benefits | $ 1,281,348 | $ 1,394,557 |
| Post-Employment Benefits [(i)] | $ 135,801 | $ 140,489 |
| Other Long-Term Benefits | $ 28,581 | $ 30,412 |
| **Total Compensation** | **$ 1,445,730** | **$ 1,565,458** |

[(i)] Employer superannuation contributions disclosed for members of defined benefit plans represents the total expense recognised by the hospital for the period. The Victorian Government is committed to fully funding the plan for existing members by 2035, and the contributions to meet this commitment are paid at the Whole of State level and have not been included in this disclosure.

**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, for example 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 hospital, there were no related party transactions that involved key management personnel and their close family members. No provision has been required, nor any expense recognised, for impairment of receivables from related parties.

**Significant Transactions with Government Related Entities**

The Royal Victorian Eye and Ear Hospital received funding from the Department of Health and Human Services of $107 million (2016: $92 million).

During the year, the hospital had the following government-related entity transactions:

- Supplies and consumables purchased from Melbourne Health at a cost of $5,753,854 ($584,850 payable at 30 June 2017);
- Payroll and supply services purchased from Melbourne Health at a cost of $677,471 ($195,679 payable at 30 June 2017);
- Insurance purchased from Victorian Managed Insurance Authority at a cost of $1,105,665;
- Purchases of various other services from Victorian public health services at a collective cost of $741,138 ($94,500 payable at 30 June 2017);
- Sales of various services to Victorian public health services at a collective amount of $995,596 ($553,550 receivable at 30 June 2017);
- Contribution from University of Melbourne towards the hospital redevelopment of $2,000,000;
- $43,754,079 of Managed Investment Schemes were held with Victorian Funds Management Corporation at 30 June 2017 (Note 4.1); and
- $19,000,000 in Term Deposits (Note 4.1) and $6,550,000 Deposits at Call (Note 6.2) were held with Treasury Corporation Victoria at 30 June 2017.

## Note 8.7: Remuneration of Auditors

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| **Victorian Auditor-General's Office** | | |
| Audit of Financial Statements | 46 | 49 |
| **Fees Paid to Ernst & Young** | | |
| Internal Audits | 123 | 100 |
| **Total Auditor Remuneration** | **169** | **149** |

## Note 8.8: Events Occurring After the Balance Sheet Date

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between the hospital and other parties, the transactions are only recognised when the agreement is irrevocable at or before the end of the reporting period.

Adjustments are made to amounts recognised in the financial statements for events which occur between the end of the reporting period and the date when the financial statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the end of the reporting period and the date the financial statements are authorised for issue where the events relate to conditions which arose after the end of the reporting period that are considered to be of material interest.

The Royal Victorian Eye and Ear Hospital had no significant events that occurred after the reporting date.

## Note 8.9: Correction of Prior Period Error

There were errors in the reporting of funding from the Department of Health and Human Services for the hospital redevelopment project in the 2014, 2015 and 2016 financial years.

In the 2014 and 2015 financial years $3,200,000 in funding was incorrectly reported as a reduction in Assets Under Construction; this funding should have been reported as Capital Purpose Income.

As a result of this error, Accumulated Surpluses/(Deficits) and Assets Under Construction were both understated by $3,200,000 at 30 June 2015.

The error has been corrected by increasing Accumulated Surpluses/(Deficits) by $3,200,000 at 30 June 2015 (refer Note 8.1(c)) and increasing Assets Under Construction by the same amount (Note 4.2).

In the 2016 financial year $2,054,000 in funding was incorrectly reported as a reduction in Assets Under Construction; this funding should have been reported as Capital Purpose Income.

As a result of this error, Capital Purpose Income, the Net Result For The Year and Comprehensive Result were understated by $2,054,000 for the 2016 financial year. Accumulated Surpluses/(Deficits) and Assets Under Construction were both understated by $2,054,000 at 30 June 2016.

The error has been corrected by increasing the amount of Capital Purpose Income reported for the 2016 financial year by $2,054,000 (refer Note 2.1) and increasing Assets Under Construction by the same amount (Note 4.2).

## Note 8.10: AASBs Issued that are Not Yet Effective

Certain new Australian accounting standards have been published that are not mandatory for the 30 June 2017 reporting period. Department of Treasury and Finance assesses the impact of all these new standards and advises the hospital of their applicability and early adoption where applicable.

As at 30 June 2017, 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 hospital has not and does not intend to adopt these standards early.

| Standard / Interpretation | Summary | Applicable for Annual Reporting Periods Beginning | Impact on Financial Statements |
|---|---|---|---|
| AASB 9 *Financial Instruments* | 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.<br>While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed. |

| Standard / Interpretation | Summary | Applicable for Annual Reporting Periods Beginning | Impact on Financial Statements |
|---|---|---|---|
| AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) | The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:<br>• The change in fair value attributable to changes in credit risk is presented in other comprehensive income (OCI); and<br>• Other fair value changes are presented in profit and loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. | 1 Jan 2018 | The assessment has identified that the financial impact of available for sale (AFS) assets will now be reported through other comprehensive income (OCI) and no longer recycled to the profit and loss.<br>Changes in own credit risk in respect of liabilities designated at fair value through profit and loss will now be presented within other comprehensive income (OCI).<br>Hedge accounting will be more closely aligned with common risk management practices making it easier to have an effective hedge. |
| AASB 2014-1 *Amendments to Australian Accounting Standards [Part E Financial Instruments]* | Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements. | 1 Jan 2018 | This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements. |
| AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9* | Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9. | 1 Jan 2018 | The assessment has indicated that there will be no significant impact for the public sector. |
| AASB 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. | 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. |

| Standard / Interpretation | Summary | Applicable for Annual Reporting Periods Beginning | Impact on Financial Statements |
|---|---|---|---|
| AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15* | Amends the measurement of trade receivables and the recognition of dividends.<br>Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition.<br>Dividends are recognised in the profit and loss only when:<br>• the entity's right to receive payment of the dividend is established;<br>• it is probable that the economic benefits associated with the dividend will flow to the entity; and<br>• 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 the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require:<br>• A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation;<br>• 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<br>• 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. |

| Standard / Interpretation | Summary | Applicable for Annual Reporting Periods Beginning | Impact on Financial Statements |
|---|---|---|---|
| AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities* | 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. The amendments:<br>• require non-contractual receivables arising from statutory requirements (i.e. taxes, rates and fines) to be initially measured and recognised in accordance with AASB 9 as if those receivables are financial instruments; and<br>• clarifies circumstances when a contract with a customer is within the scope of AASB 15. | 1 Jan 2019 | The assessment has indicated that there will be no significant impact for the public sector, other than the impacts identified for AASB 9 and AASB 15 above. |
| 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 as most operating leases will come on balance sheet, recognition of the right-of-use assets and lease liabilities will cause net debt to increase.<br>Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.<br>No change for lessors. |
| AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities* | The standard amends AASB 136 Impairment of Assets to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities. | 1 Jan 2019 | The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 Fair Value Measurement is the same as the depreciated replacement cost concept under AASB 136. |
| 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 assessment has indicated that revenue from capital grants that are provided under an enforceable agreement that have sufficiently specific obligations, will now be deferred and recognised as performance obligations are satisfied. As a result, the timing recognition of revenue will change. |

## Note 8.11: Alternate Presentation of Comprehensive Operating Statement

| | Note | 2017 $'000 | 2016 * $'000 |
|---|---|---|---|
| Grants: | | | |
| Operating | 2.1 | 84,783 | 79,541 |
| Capital | 2.1 | 25,190 | 18,413 |
| Interest and Dividends: | | | |
| Operating | 2.1 | 1,851 | 1,133 |
| Capital | 2.1 | 657 | 947 |
| Sales of Goods and Services | 2.1 | 13,683 | 12,702 |
| Donations and Bequests: | | | |
| Operating | 2.1 | 1,218 | 1,133 |
| Capital | 2.1 | 2,209 | 886 |
| Other Income: | | | |
| Other Capital Income | 2.1 | 1,967 | 85 |
| Net Gain/(Loss) on Sale of Financial Instruments | 2.1 | - | 5,832 |
| Net Gain/(Loss) on Disposal of Non-Financial Assets | 2.1 | (17) | (124) |
| Specific Income | 2.2 | 234 | 131 |
| **Revenue from Transactions** | | **131,775** | **120,679** |
| Employee Expenses | 3.1 | (61,990) | (57,315) |
| Operating Expenses: | | | |
| Supplies and consumables | 3.1 | (25,632) | (25,352) |
| Non salary labour costs | 3.1 | (1,498) | (1,590) |
| Other | 3.1 | (12,285) | (9,920) |
| Non-Operating Expenses: | | | |
| Impairment of financial assets | 3.1 | - | (352) |
| Assets provided free of charge | 3.1 | (203) | - |
| Expenditure for Capital Purpose | 3.1 | (706) | (2) |
| Depreciation and Amortisation | 4.3 | (11,066) | (9,867) |
| **Expenses from Transactions** | | **(113,380)** | **(104,398)** |
| **Net Result from Transactions** | | **18,395** | **16,281** |
| **Other Economic Flows Included In Net Result** | | | |
| Movement in Doubtful Debts Provision | 3.1 | (14) | 2 |
| Revaluation of Long Service Leave | 3.1 | 271 | (248) |
| **Total Other Economic Flows Included In Net Result** | | **257** | **(246)** |
| **Net Result For The Year** | | **18,652** | **16,035** |
| **Other Comprehensive Income:** | | | |
| **Items that Will Not Be Reclassified to Net Result** | | | |
| Changes in Physical Asset Revaluation Surplus | 8.1(a) | 9,371 | 10,255 |
| **Items that May Be Reclassified Subsequently to Net Result** | | | |
| Gain/(Loss) on Available-for-Sale Financial Assets taken to Equity | 8.1(a) | 2,106 | 78 |
| **Total Other Economic Flows Included in Net Result** | | **11,477** | **10,333** |
| **Comprehensive Result** | | **30,129** | **26,368** |

* Due to prior period errors the 2016 figures have been restated (refer Note 8.9).

# The Royal Victorian Eye and Ear Hospital

## Board member's, accountable officer's and chief finance & accounting officer's declaration

The attached financial statements for *The Royal Victorian Eye and Ear Hospital* 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 2017 and the financial position of *The Royal Victorian Eye and Ear Hospital* at 30 June 2017.

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 29 August 2017

Dr Sherene Devanesen
Chair, Board of Directors
29 August 2017

Mark Petty
Accountable Officer
29 August 2017

Danny Mennuni
Chief Finance & Accounting Officer
29 August 2017

# Independent Auditor's Report

Victorian Auditor-General's Office

***To the Board of The Royal Victorian Eye and Ear Hospital***

| | |
|---|---|
| **Opinion** | I have audited the financial report of The Royal Victorian Eye and Ear Hospital (the health service) which comprises the:<br>• balance sheet as at 30 June 2017<br>• comprehensive operating statement for the year then ended<br>• statement of changes in equity for the year then ended<br>• cash flow statement for the year then ended<br>• notes to the financial statements, including a summary of significant accounting policies<br>• board member's, accountable officer's and chief finance & accounting officer's declaration.<br>In my opinion the financial report presents fairly, in all material respects, the financial position of the health service as at 30 June 2017 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. My responsibilities under the Act are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report.<br>My independence is established by the *Constitution Act 1975.* My staff and I are independent of the health service 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 Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.<br>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. |
| **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.<br>In preparing the financial report, the Board is responsible for assessing the health service's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so. |

**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 our 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'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'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 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.

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
1 September 2017

Charlotte Jeffries
*as delegate for the Auditor-General of Victoria*

# Affiliations and Memberships





**The Royal Victorian Eye and Ear Hospital is affiliated with:**

Bionic Vision Technologies
Lions Eye Donations Service Melbourne
The HEARing CRC
The Bionics Institute
The Centre for Eye Research Australia
The University of Melbourne
Australian College of Optometry

**The Royal Victorian Eye and Ear Hospital is a member of:**

**The World Association of Eye Hospitals**

Members: Singapore National Eye Centre (Singapore); Moorfields Eye Hospital (London, UK); The Rotterdam Eye Hospital (Rotterdam, The Netherlands); Tun Hussein On National Eye Hospital (Kuala Lumpur, Malaysia); Royal Victorian Eye and Ear Hospital (Melbourne, Australia); Rutnin Eye Hospital (Bangkok, Thailand); St. Erik Eye Hospital (Stockholm, Sweden); The Royal Victoria Eye and Ear Hospital (Dublin, Ireland); Jakarta Eye Center (Jakarta, Indonesia); Tianjin Medical University Eye Hospital (Tianjin, China); Sydney Eye Hospital (Sydney, Australia); Kim's Eye Hospital (Seoul, South Korea); St. John of Jerusalem Eye Hospital; Kellogg Eye Center (Ann Arbor, USA); Fondation Asile des Aveugles (Lausanne, Switzerland); The Metta Eye Hospital (Mettapracharak (Wat Rai Khing) Hospital) (Bangkok – Thailand); Ispahani Islamia Eye Institute & Hospital (Bangladesh); Bascom Palmer Eye Institute (USA); Massachusetts Eye and Ear Infirmary (USA); Phillips Eye Institute (USA); Wilmer Eye Institute at Johns Hopkins (USA); Emory Eye Center (USA); New York Eye and Ear Infirmary (USA); Wills Eye Hospital (USA); Turin Ophthalmic Hospital (Italy); Hoftalon Eye Hospital (Brasil); Eye & Ent Hospital Fudan University (China).

**The American Association of Eye and Ear Centers of Excellence**

Members: Bascom Palmer Eye Institute, Florida, USA; Emory Eye Centre, Georgia, USA; Massachusetts Eye and Ear Infirmary, Massachusetts, USA; Moorfields Eye Hospital, London, UK; New York Eye and Ear Infirmary, New York, USA; Phillips Eye Institute, Minnesota, USA; The Royal Victorian Eye and Ear Hospital, Melbourne, Australia; Rutnin Eye Hospital, Bangkok, Thailand; Show Chwan Health Care System, Taiwan; Singapore National Eye Centre, Singapore; St Eriks Eye Hospital, Stockholm, Sweden; Wills Eye Hospital, Pennsylvania, USA; Wilmer Eye Institute, Maryland, USA; King Khaled Eye Specialist Hospital, Riyadh, Saudi Arabia.

**Victorian Healthcare Association**

Melbourne Academic Centre for Health

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