



2017-18

Annual Report



Advancing safe, affordable
and sustainable healthcare

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REPORT FROM HPV BOARD CHAIR AND ACTING CHIEF EXECUTIVE

In implementing a five-year strategic plan and detailed procurement strategy during 2017-18, Health Purchasing Victoria (HPV) is driving the broader benefits of efficiency and productivity, increased sustainability and improved care outcomes.

Working with the sector, with the shared aim of improving capacity to **deliver best value healthcare outcomes**, HPV continued to promote a collaborative partnership with health services to best address the needs of providers. The approach recognises variations across Victoria's health sector to adopt more fit-for-purpose strategic sourcing that better aligns with rural, regional and metropolitan health service objectives.

Pilot initiatives, such as regional cluster sourcing projects, have increased opportunities for local business engagement, while projects which help regional health services reduce energy costs and lift resource recovery have set a new benchmark.

Papers presented by HPV in 2017-18 outlined the importance of pharmaceutical and clinical data in optimising patient safety and value in procurement. These are precursors to the HPV clinical roadmap to be implemented in the next financial year.

Delivering financial value to health services remains a key indicator. During the year, HPV delivered \$121 million in benefits for Victoria's health sector – exceeding its \$100 million target – and a total \$921 million in value under contract.

To measure non-financial benefits more effectively, HPV has consulted with health services to develop a new benefits management framework which will change the way HPV validates benefits and captures the full value of collective purchasing.

The aim to **increase customer engagement** has seen HPV focus on face-to-face meetings to deliver improved health service customer satisfaction, including an overall improvement of 24% in measured customer satisfaction compared to the previous year.

Successful initiatives included a Gippsland regional forum to help improve suppliers' understanding of health sector opportunities, collaborative clinical support workshops co-hosted by the Department of Health and Human Services, and a supplier briefing event. In 2017 HPV was a finalist in Procurement and Supply Australasia's 'Best Collaboration Initiative' category in its annual awards.

HPV has updated its approach to **support procurement and probity practice improvement** to significantly change its health service compliance requirements. HPV has adopted a modular approach recognising the capacity of rural health services, the requirements of regional health services, and the complexities of metropolitan health services to reduce reporting requirements and increase health service discretion to delegate approvals.

The first half of 2018 saw HPV launch a new online probity training platform, delivering more convenient training for health services with around-the-clock access.

HPV has made significant progress to **improve the integrity and availability of information** that is essential in driving supply chain decisions, working with health services and suppliers to capture and maintain data. New tools provide health services with better access to required information, ensuring HPV and health services can better manage contract performance.

To further **enhance capability and capacity**, HPV expanded its strategic plan to reinforce organisational values which reflect the principles of customer-focus, collaboration, confidence, simplicity, and responsibility.

The support of Victoria's public health services and hospitals, and the many suppliers, was significant in ensuring that HPV delivered an effective and positive impact on the sector in 2017-18. We are particularly grateful to the dedicated experts from the health sector who contributed their valuable experience to HPV reference groups in the past 12 months, particularly in the development of the procurement strategy and the benefits management framework.

HPV acknowledges the commitment of our key stakeholders, led by the Victorian Minister for Health and Minister for Ambulance Services, the Hon. Jill Hennessy MP, and including the Department of Health and Human Services, and other government and health sector agencies and stakeholders.

We also recognise the dedication and commitment of the HPV Board, its Committees and HPV employees, without whose time, effort and energy we could not have progressed our mission to advance safe, affordable and sustainable healthcare.

REPORT FROM HPV BOARD CHAIR AND ACTING CHIEF EXECUTIVE

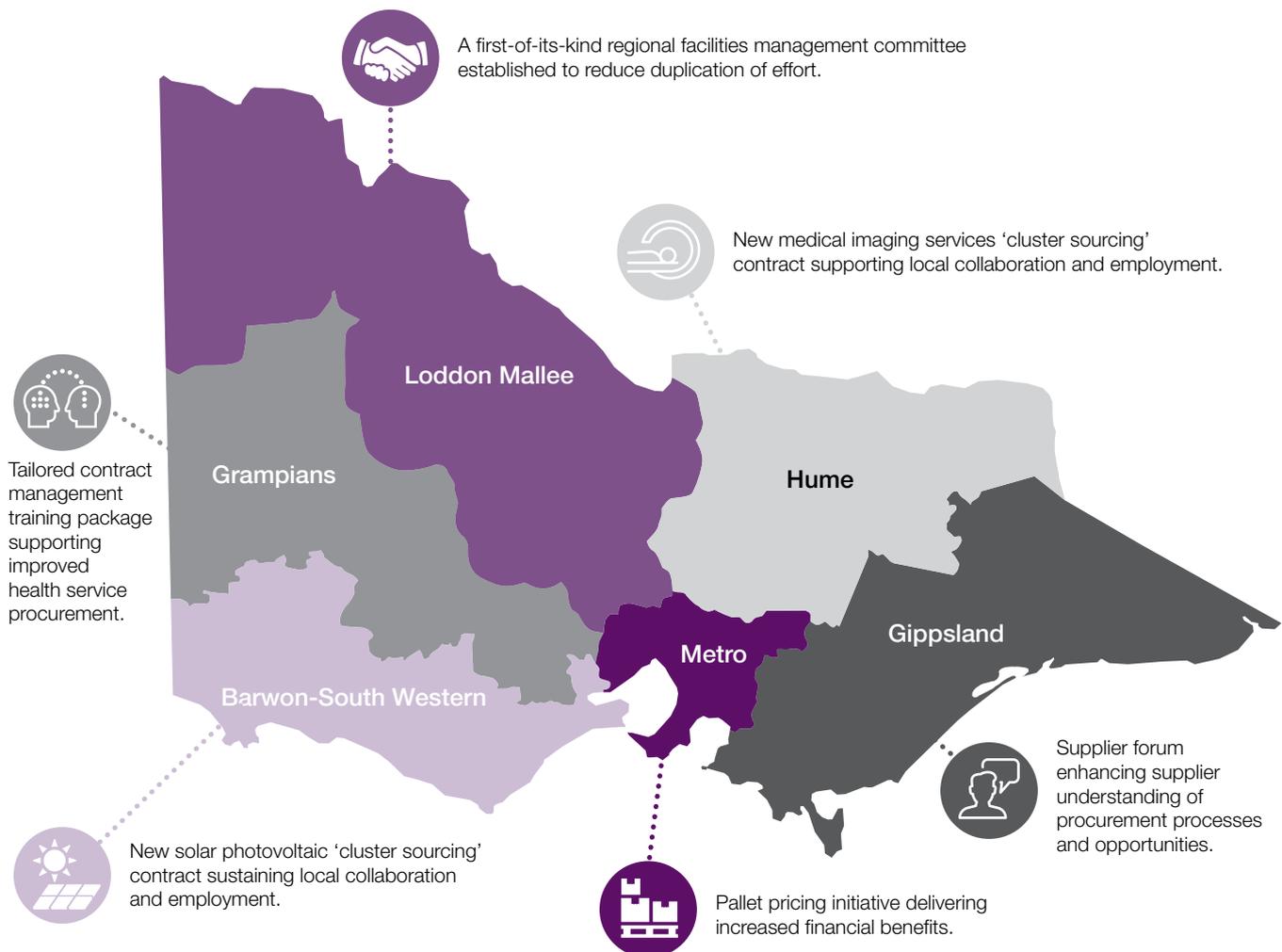
2017-18 BENEFITS ACHIEVED FOR THE HEALTH SECTOR AS AT 30 JUNE 2018

In 2017-18, HPV introduced a new procurement strategy, placing greater focus on the non-financial benefits it delivers to Victoria's health sector.

From 2018-19, HPV will be implementing the new benefits management framework to improve the methodologies used to calculate quantifiable direct and indirect benefits.

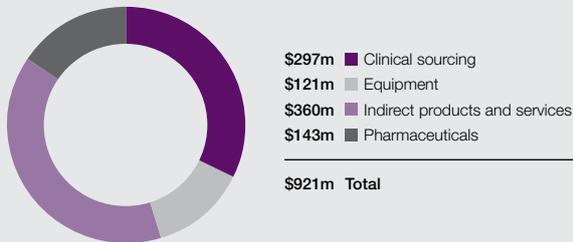
This framework features patient outcomes-focused benefit categories such as improved clinical healthcare and objectives aligned to the government's social procurement framework.

2017-18 AT A GLANCE

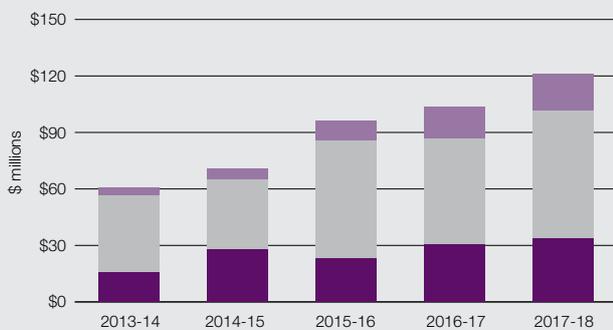


2017-18 FINANCIAL BENEFITS ACHIEVED FOR VICTORIA'S PUBLIC HEALTH SECTOR AT 30 JUNE 2018

TOTAL VALUE UNDER HPV CONTRACT (MILLIONS)



TOTAL HPV FINANCIAL BENEFITS ACHIEVED FOR VICTORIA'S PUBLIC HEALTH SECTOR



■ Cost reduction* ■ Cost avoidance** ■ Further opportunities***

* Cost Reduction is measured for the first 12 months of a contract.

** Cost Avoidance is measured by costs that are avoided, such as by fixing prices for a period of time.

*** Further Opportunity refers to further opportunities identified to generate additional cost reduction by analysing 'best value' products or services on the contract.

2017-18 IN NUMBERS



551

health service staff completed face-to-face probity training

53

additional health service procurement staff trained in the Victorian Product Catalogue System, up from 34 in 2016-17



96%

health service compliance to Health Purchasing Policies

98%

non-mandated health service compliance to the HPV Collective Agreements



150,000 km

covered by HPV's customer engagement team in visiting Victoria's metropolitan, regional and rural health services



Over 50

collective contracts under HPV responsibility

RESPONSIBLE BODIES' DECLARATION

In accordance with the *Financial Management Act 1994*, we are pleased to present HPV's Report of Operations for the year ending 30 June 2018.



Felix Pintado

Felix Pintado
Chair
Melbourne
16 August 2018



Trudy Hart

Trudy Hart
Acting Chief Executive
Melbourne
16 August 2018

ABOUT HPV

ESTABLISHMENT

Health Purchasing Victoria (HPV) was established in 2001 and is an independent statutory authority under Section 129 of the *Health Services Act 1988*. HPV is responsible to the Minister for Health and works closely with the Department of Health and Human Services (DHHS).

HPV's purpose is to improve the collective purchasing power of Victorian public health services and hospitals by achieving 'best value' outcomes in the procurement of health-related goods, services and equipment. HPV works closely with health services to achieve high-performing supply chains.

FUNCTIONS

HPV works in collaborative partnership with public hospitals and health services to understand their requirements, facilitate large-scale collective tenders and manage common-use contracts on behalf of the state.

HPV policies aim to guide strong governance and foster fair and equitable procurement practices, increasing value-for-money outcomes and supporting health services to understand and meet these requirements.

HPV applies the Code of Conduct for the Victorian Public Sector issued by the Victorian Public Sector Commission.

HPV STRATEGIC GOALS

HPV's business plan will continue to focus on the following key strategic goals:

- Deliver best-value healthcare outcomes.
- Increase customer engagement.
- Support procurement and probity practice improvement.
- Improve the integrity and availability of information used to drive supply chain decisions.
- Enhance capability and capacity.

OUR VALUES

HPV's growth is guided by the following values:



WE ARE CUSTOMER-FOCUSED

- We focus on customer and patient outcomes.



WE KEEP IT SIMPLE

- We strive for efficient and effective ways to achieve our goals.



WE ARE COLLABORATIVE

- We work as a team toward common goals.



WE TAKE RESPONSIBILITY

- We challenge the status quo. We are responsible for our behaviours, actions and results.



WE INSPIRE CONFIDENCE

- We do the right thing. We are open, honest and trustworthy.

GOVERNANCE

BOARD MEMBERS

The Governor in Council, on the advice of the Minister for Health, appoints the Board of HPV. The Board reflects a mix of skills and experience with strong representation by health service executives. HPV Board composition during 2017-18 was as follows:

MR FELIX PINTADO

Board Chair, Chair of Board Executive Committee

FCHSM, CHE, FAIM, MAICD, MHA, GDHSM, DipEd, BTheol

Appointed as an HPV Board member in 2001 and Deputy Chair from 2001-2007, Felix Pintado has chaired the HPV Board since July 2007. He is Chief Executive of Royal Freemasons Ltd, one of Victoria's longest-standing and most respected aged care and senior living providers. Felix previously held executive positions in specialist and general hospitals in Victoria and New Zealand.

Felix holds a Master of Health Administration, a Bachelor of Theology and a Diploma of Education. He is a Fellow of the Australian Institute of Management and of the Australasian College of Health Service Management. In 2014, Felix was appointed Honorary Consul-General of the Republic of The Philippines in Victoria.

MR CHRIS BARRETT

B. Labour Studies, FAICD

Chris Barrett was appointed to the HPV Board in July 2017. Chris is an experienced company director with board experience on superannuation funds and a range of public sector boards in Queensland. Chris's background includes extensive director experience on audit and risk, insurance claims, investment committees and TAFE regulatory authorities.

Chris's senior-level experience in finance sector product management includes product development and procurement frameworks. Chris also has recent corporate and public affairs experience as well as a long career in industrial relations.

MS ANNA BURGESS

BA (Hons), BSc (Hons), GDHSM, Grad Dip Economics and Health Policy, FACHSM, FIPAA (Vic)

Anna Burgess was appointed to the HPV Board in July 2014. Anna is currently Director Cancer, Specialty Programs, Medical Research and International Health in the Health and Wellbeing Division of the Victorian Department of Health and Human Services.

Anna has 30 years' experience in the health system, including executive roles at a number of public health services and 10 years' experience as a board director of three community health services.

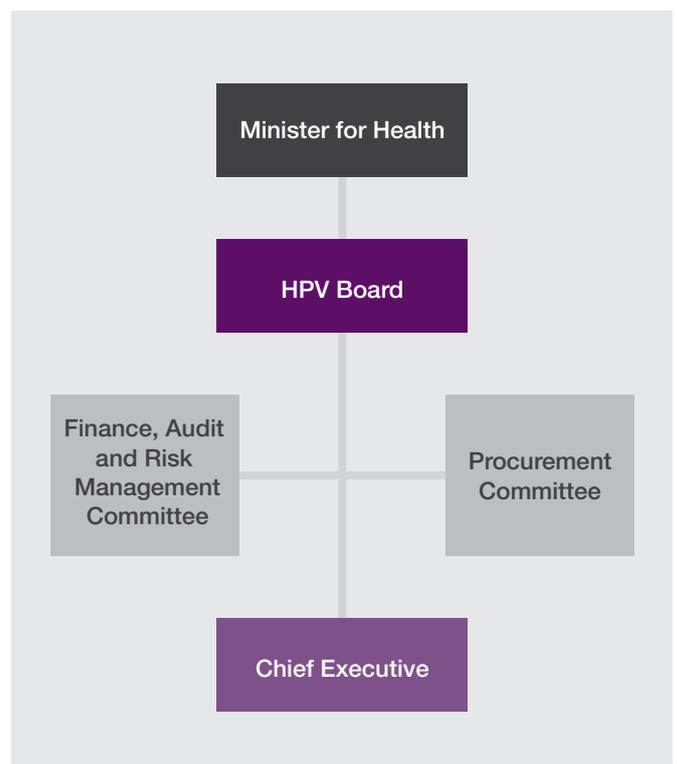
MS TERESA FELS

BCom (Hons)/LLB, MCom (Hons), MA (Hons)

Teresa Fels was appointed to the HPV Board in July 2015. Teresa is an Executive Director in the Economic Division of the Victorian Department of Treasury and Finance.

Teresa's career at the Department of Treasury and Finance spans the Budget Division, with responsibility for Department of Health and Human Services portfolios and earlier work in the Economic Policy Division on revenue and intergovernmental matters. Prior to this, Teresa worked in the UK as a consultant on economic and industry matters in the field of competition policy. Teresa commenced her career as a lawyer at national law firm Freehills.

Teresa holds a Master of Arts (honours) degree from Kings College London, and economics and law degrees from the University of Melbourne.



GOVERNANCE

MR DALE FRASER

BBus, MBA, FCPA, FHSM

Dale Fraser was appointed to the HPV Board in July 2015. Dale is CEO of Ballarat Health Services and responsible to the Board of Directors for the efficient and effective management of Ballarat Health Services. His prime responsibilities include the development and implementation of operational and strategic planning, maximising service efficiency, quality improvement and minimising risk.

Dale has worked within the regional Victorian healthcare sector for more than 20 years. He commenced his health career at Lakeside Psychiatric Hospital, then advanced through management roles including more recently as CEO of Goulburn Valley Health. Dale has held senior executive roles primarily in finance, and also has extensive experience in managing clinical care services.

Dale holds a Master of Business Administration and is a graduate of the Department of Health and Human Service's Executive Link program.

DR ROBYN MASON

MBBS, MAdmin, FRACMA, FAICD

Appointed to the HPV Board in August 2011, Robyn Mason has an extensive background in health service management and has held senior leadership positions in the public and private sectors, including the roles of Secretary General of the Australian Medical Association (AMA) and CEO of AMA Victoria. Robyn is also a director of the Melbourne Primary Care Network, a sessional member of the Victorian Civil and Administrative Tribunal, and was the former chair of the Victorian Doctors' Health Program.

Robyn has a degree in Medicine, a Master of Business Administration and Fellowships of the Royal Australasian College of Medical Administrators and the Australian Institute of Company Directors.

MR MARK PERICA

BJuris, LLB MA, LLM

Appointed to the HPV Board in July 2016, Mark has practised as a lawyer specialising in labour law for 30 years. Mark has practised in Western Australia and Victoria, has appeared in most Australian jurisdictions and in international forums, creating and enforcing international labour rights.

Over his career Mark has held directorships in industry super funds and community organisations and has advised on matters of corporate governance, risk management and compliance.

MR PAUL SLAPE

Appointed to the Board in September 2015, Paul Slape has a strong industrial relations background and has served on the Board of the Royal Women's Hospital. Prior, he was Chairman of the Victoria Grants Commission. Currently Paul consults to local government authorities on the investigation and mediation of complex HR and industrial relations issues.

MR GEOFF SWIER

MCom (Econ)

Geoff Swier was appointed to HPV's Board in July 2014.

Geoff is an experienced economic consultant and company director, and has extensive experience in the electricity, gas, water and transport industries. He also has experience in health sector reform.

Currently Geoff is a Director of Trustpower, Tilt Renewables and Farrier Swier Consulting.

Previously Geoff was Policy Director of the National Interim Provider Board established by the New Zealand Government in 1992 to oversee reform of the New Zealand public hospital system. Other previous roles include as member of the Australian Energy Regulator, director of VENCORP, and as economic adviser to the New Zealand Minister of State-Owned Enterprises (1990) and the New Zealand Minister of Finance (1984-87).

MR TERRY WELCH

MBA, GAICD

Terry Welch was appointed to the HPV Board in May 2017. Terry is a Registered Nurse with over 20 years' health service experience, including extensive emergency nursing experience.

Terry commenced as CEO of the Maryborough District Health Service in January 2015. His previous roles include CEO of Yarrawonga Health from 2010-2015, which was named Rural Health Service of the Year in 2014.

Terry holds a Master of Business Administration, and is a graduate of the Australian Institute of Company Directors (AICD).

BOARD ATTENDANCE 2017-18

There were seven Board meetings held between 1 July 2017 and 30 June 2018.

| BOARD MEMBER | NUMBER OF MEETINGS ELIGIBLE TO ATTEND | NUMBER ATTENDED |
|--------------------------|---------------------------------------|-----------------|
| Mr Felix Pintado (Chair) | 7 | 7 |
| Mr Chris Barrett | 7 | 7 |
| Ms Anna Burgess | 7 | 5 |
| Ms Teresa Fels | 7 | 5 |
| Mr Dale Fraser | 7 | 5 |
| Dr Robyn Mason | 7 | 7 |
| Mr Mark Perica | 7 | 5 |
| Mr Paul Slape | 7 | 7 |
| Mr Geoff Swier | 7 | 7 |
| Mr Terry Welch | 7 | 5 |

BOARD SUB-COMMITTEES

The following Committees provided advice to the HPV Board during 2017-18:

BOARD EXECUTIVE

Chair: Mr Felix Pintado (*HPV Board Chair*)

Members: Ms Anna Burgess, Dr Robyn Mason, Mr Mark Perica, Mr Geoff Swier

The Board Executive facilitates Board operational effectiveness and efficiency for items that may require urgent attention – usually between regular Board meetings – and is responsible for executive remuneration.

PROCUREMENT COMMITTEE

Chair: Dr Robyn Mason

Ex Officio: Mr Felix Pintado (*HPV Board Chair*)

Members: Ms Kim Bennetts, Mr Mark Berryman, Ms Anna Burgess, Mr Jim Kirkup, Mr David Ray, Mr Neil Sigamoney, Mr Paul Slape, Mr Geoff Swier, Ms Kim Wheeler

The Procurement Committee (PC) advises the Board in achieving its fiduciary duty through the execution of the sourcing program while maintaining appropriate segregation of powers. The PC provides independent review and makes recommendations to the Board regarding HPV's sourcing activities and category management program.

FINANCE, AUDIT AND RISK MANAGEMENT COMMITTEE

Chair: Mr Mark Perica (*independent*)

Ex Officio: Mr Felix Pintado (*HPV Board Chair*)

Members: Ms Maria Di Gregorio (*independent, appointed April 2018*), Mr Peter Doughty (*independent, appointed April 2018*), Mr Dale Fraser (*CEO regional hospital*), Ms Bronwyn Malignaggi (*independent, appointed April 2018*), Mr Mark Perica (*independent*), Mr John Sutherland (*independent*)

The Finance, Audit and Risk Management Committee (FARMC) advises the Board in key areas of governance. The FARMC ensures that accurate, timely and relevant reports are produced on HPV's financial operations. It advises the Board on matters relating to financial strategies, the internal audit function, and also oversees the risk management framework and effectiveness of internal control systems in maintaining legislative compliance.

RISK MANAGEMENT

HPV's risk management framework is fundamental to its operations, governance and organisational culture. A philosophy of risk management is embedded into everyday practice as 'everyone's business', incorporating the 'three lines of defence' principles of ownership, oversight and assurance to support HPV in effectively identifying and responding to key risks.

In 2017-18, HPV continued to enhance its risk management framework by developing a comprehensive crisis management plan that establishes an effective strategy, process and structure for anticipating and responding to critical incidents.

HPV crisis management plan procedures are regularly reviewed and tested by employees, who also undertake regular fraud and corruption training as part of HPV's robust risk management framework.

This year HPV provided specific advice to Victoria's public hospitals that may be undertaking sourcing activities as part of a group to achieve economies of scale. HPV's advice clarifies requirements under the *Competition and Consumer Act 2010* (the Act) relating to collective procurement.

Remedies available to health services to mitigate the risk of breaching the Act through collective procurement include:

- Undertaking 'cluster sourcing' activities in partnership with HPV.
- Seeking protection by requesting that HPV issue a Direction to collectively procure, as allowed under the Act.
- Requesting authorisation from the Australian Competition and Consumer Commission.

HPV also provides a risk assessment tool to assist health services in understanding whether they are exposed to a breach under the Act in undertaking a particular collective sourcing activity.

New Probity, Integrity and Ethics for Procurement Professionals training launched via HPV's ECHO (eLearning Centre for Health Outcomes) learning management system will help health services manage their procurement risks while increasing capability.

The ECHO platform offers a number of benefits, including convenient access to training from any computer that allows participants to work around their commitments. The platform also provides a hard copy reference guide of all content for future reference.

All HPV policies are reviewed annually and HPV's risk management framework is underpinned by the Australian Standards/New Zealand Standards International Standards Organisation (ISO) 31000:2018 Risk Management – Principles and Guidelines.

ADDITIONAL INFORMATION AVAILABLE ON REQUEST

Consistent with Financial Reporting Direction (FRD) 22H, the Report of Operations confirms that details in respect of the items listed below have been retained by HPV and are available to the relevant Ministers, Members of Parliament and the public on request, subject to Freedom of Information requirements as 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 overseas visits undertaken including a summary of the objectives and outcomes of each visit.
- Details of major promotional, public relations and marketing activities undertaken to develop community awareness of HPV and its services.

STRATEGIC OBJECTIVES PERFORMANCE SUMMARY

The following summary aligns with the Statement of Priorities between HPV and the Minister for Health and provides an overview of the strategic deliverables achieved in 2017-18.

| 2017-18 DELIVERABLES | KEY ACHIEVEMENTS |
|--|--|
| Strategic Objective 1: Deliver best value healthcare outcomes | |
| <p>Achieve financial benefit of \$100 million* from HPV agreements covering \$950 million of health service expenditure (excluding electricity and gas contracts).</p> <p><i>* incorporating cost reduction, cost avoidance and further opportunities.</i></p> | <p>Partially achieved. HPV has achieved financial benefits of \$121 million and a total value under contract of \$921 million at 30 June 2018. The value under contract target was not fully achieved due to not progressing with a proposed Master Orthopaedic Agreement. HPV's decision followed legal advice that the agreement would present a high risk of exposure for health services due to the large number of terms and conditions outside the standard agreement involving many suppliers and a broad range of orthopaedic products.</p> |
| <p>Implement benefits management framework to measure non-financial benefits, including patient or clinical outcomes.</p> | <p>Achieved. HPV has developed and independently validated a framework to measure both financial (direct) and non-financial (indirect) benefits.</p> |
| <p>Complete three-year supply chain efficiency roadmap and deliver a minimum of \$1 million of initiatives in Year One.</p> | <p>Partially achieved. HPV achieved \$198,000 in productivity efficiencies through bulk pricing, order rebates, operational efficiencies, cost avoidance opportunities and e-commerce. HPV continues to work with larger-spend metropolitan health services to deliver further efficiencies, with approximately \$520,000 in savings improvements currently underway or planned.</p> |
| <p>Commence five pilot cluster sourcing projects to support rural and regional collaborations that encourage opportunities for local content and employment.</p> | <p>Achieved. HPV has completed five cluster sourcing pilot projects:</p> <ul style="list-style-type: none"> • Gippsland audit services contract. • Gippsland solar photovoltaic (PV) contract. • Barwon-South Western solar PV contract. • Medical imaging external contracted services, involving implementation of open panel arrangements for each region to establish a more inclusive approach for local businesses and improve market competitiveness. • Gippsland compounder chemotherapy contract. |
| <p>Develop roadmap to demonstrate how HPV can change clinical practice to derive value from existing contracts, reduce variation and increase the safety and quality of patient care.</p> | <p>Achieved. HPV completed a clinical roadmap to include consideration of clinician experience in procurement initiatives, which was endorsed by HPV's Procurement Committee. Roadmap implementation timelines continue into 2018-19 and will support HPV's ongoing objective to deliver best-value healthcare outcomes.</p> |
| Strategic Objective 2: Increase customer engagement | |
| <p>100% of health services engaged bi-monthly.</p> | <p>Achieved. All HPV Customer Relationship Managers across the six Victorian regions engaged with 100% of health services at least once every two months.</p> |
| <p>80% of urgent enquiries closed with three business days. 95% of complex queries closed within 15 business days.</p> | <p>Partially achieved. HPV closed 93% of urgent enquiries and 75% of complex enquiries within the target periods. A required extended process involving a contract variation submission from a supplier is the primary factor in HPV not meeting the complex queries Key Performance Indicator (KPI).</p> |

STRATEGIC OBJECTIVES PERFORMANCE SUMMARY

| 2017-18 DELIVERABLES | KEY ACHIEVEMENTS |
|--|---|
| Strategic Objective 3: Support procurement and probity practice improvement | |
| Provide HPV probity training program to 250 participants at face-to-face sessions and 300 online participants from metropolitan and regional health services. | Achieved. HPV delivered probity training to more than 550 face-to-face participants across Board and executive, clinical operations, and procurement professionals categories. HPV's online Probity, Integrity and Ethics for Procurement Professionals course was launched in May 2018 and is available to both health service and HPV employees. |
| Develop plan to address non-compliance issues and recommendations for identified improvements from: <ul style="list-style-type: none"> • 2016-17 health service compliance audits. • Victorian Auditor-General's Office (VAGO) compliance audit. | Achieved. HPV implemented its plan in March 2018 by presenting and consulting with regional Chief Procurement Officers (CPOs) across all regions in Victoria, covering more than 3,000 kilometres and reaching more than 50 senior executives, resulting in positive outcomes for overall health service compliance. |
| 90% of mandated health services compliant with the Health Purchasing Policies. | Achieved. HPV supported health services in achieving 96% compliance with the Health Purchasing Policies. |
| 95% of health services using each HPV Collective Agreement are compliant. | Achieved. HPV supported health services in achieving 98% compliance with the HPV Collective Agreements. |
| Strategic Objective 4: Improve the integrity and availability of information used to drive supply chain decisions | |
| Common Catalogue delivered to pilot site by 30 June 2018. | Partially achieved. Configuration and customisation of Oracle Product Hub completed. HPV is on track to deploy the Common Catalogue at Melbourne Health in November 2018, following the end of financial year blackout period planned by the Department of Health and Human Services, explaining why the June 2018 target was not met. |
| Business cases developed for Bravo implementation at 20 health services. | Partially achieved. HPV influenced successful business case submissions to adopt the Bravo procurement portal at 17 health services. Thirteen of these health services are now in the process of implementing Bravo to go live. |
| Business intelligence dashboard rolled out to a pilot health service to assist with spend analysis. | Achieved. HPV has implemented the spend analysis tool at pilot health services, enabling them to make better procurement decisions with increased visibility of their spend profile. |
| Strategic Objective 5: Enhance capability and capacity | |
| HPV Strategic Plan 2018-2022 developed. | Achieved. HPV has developed and communicated its Strategic Plan to all stakeholders and cascaded it throughout the business. |

FUTURE DIRECTION

In 2018-19, HPV is continuing to implement its five-year strategy to 2022, which is focused on expanding the definition of best value beyond cost in line with its strategic vision to advance safe, affordable and sustainable healthcare.

2018-19 will see HPV implementing additional initiatives including a clinical roadmap and the benefits management framework, as well as consolidating

customer engagement and data strategies and improving its health service compliance framework.

HPV will continue to embed its organisational values throughout the business to support greater alignment with the strategic goals.

ATTESTATIONS

ATTESTATION ON FINANCIAL MANAGEMENT COMPLIANCE

I, Felix Pintado, on behalf of the Responsible Body, certify that Health Purchasing Victoria has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.



Mr Felix Pintado
Board Chair

Melbourne
16 August 2018

ATTESTATION ON DATA INTEGRITY

I, Trudy Hart, certify that Health Purchasing Victoria has put in place appropriate internal controls and processes to ensure that reported data reasonably reflects actual performance. Health Purchasing Victoria has critically reviewed these controls and processes during the year.



Ms Trudy Hart
Acting Chief Executive and Accountable Officer

Melbourne
16 August 2018

ATTESTATION ON CONFLICT OF INTEREST

I, Trudy Hart, certify that Health Purchasing Victoria has put in place appropriate internal controls and processes to ensure that it has complied with the requirements of hospital circular 07/2017 Compliance reporting in health portfolio entities (Revised) and has implemented a 'Conflict of Interest' policy consistent with the minimum accountabilities required by the Victorian Public Sector Commission. Declaration of private interest forms have been completed by all executive staff within Health Purchasing Victoria and members of the Board, and all declared conflicts have been addressed and are being managed. Conflict of interest is a standard agenda item for declaration and documenting at each executive and Board meeting.



Ms Trudy Hart
Acting Chief Executive and Accountable Officer

Melbourne
16 August 2018

ATTESTATION ON COMPLIANCE WITH HEALTH PURCHASING VICTORIA (HPV) HEALTH PURCHASING POLICIES

I, Trudy Hart, certify that Health Purchasing Victoria 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 and has critically reviewed these controls and processes during the year.



Ms Trudy Hart
Acting Chief Executive and Accountable Officer

Melbourne
16 August 2018

COMPLIANCE

This summary is provided in accordance with the Directions of the Minister for Finance. HPV is an incorporated body established under Section 129 of the *Health Services Act 1988* (the Act) and is regulated by the Act.

FREEDOM OF INFORMATION ACT 1982

HPV complies with all sections of the Victorian *Freedom of Information Act 1982*. One request for information under the Act was received in 2017-18.

PROTECTED DISCLOSURE ACT 2012

There were no matters referred to the Independent Broad-based Anti-corruption Commission (IBAC) under the *Protected Disclosure Act 2012*. IBAC is a public body that can receive and investigate protected disclosures. Information on how to access procedures established under IBAC has been provided to HPV employees.

BUILDING ACT 1993

HPV leases office space in the Casselden building via a sub-lease arrangement with DHHS and complies with all building and maintenance provisions of the *Building Act 1993*. HPV's facilities are managed through site inspections, risk assessments, and independent annual compliance reporting by auditors appointed by DHHS.

As part of the tenancy arrangement, third-party contracts implemented by ISPT Facilities Management are in place to maintain and test all essential safety measures to ensure compliance with relevant regulations. Casselden undergoes an Annual Essential Safety Measures Audit/Report (*Building Act 1993*, Building Regulations 2006, Regulations 1209 and 1215).

SAFE PATIENT CARE ACT 2015

HPV has no matters to report in relation to its obligations under Section 40 of the *Safe Patient Care Act 2015*. HPV plays a key role in driving supply chain improvements, and supports Recall Health as a critical patient safety initiative that facilitates electronic therapeutic goods recall notifications. Recall Health is also supported by the Therapeutic Goods Administration.

NATIONAL COMPETITION POLICY

The guiding legislative principle of the National Competition Policy is that legislation should not restrict competition unless it can be demonstrated that:

- The benefits to the community of the restriction as a whole outweigh the costs; and
- The objectives of the legislation can only be achieved by restricting competition.

HPV was established to complement the aims of the National Competition Policy by increasing competition amongst suppliers.

Section 134O of the *Health Services Act 1988* authorises HPV for the purposes of Part IV of the *Competition and Consumer Act 2010* to allow Victorian public hospitals and health services to tender as a single entity.

In 2017-18, HPV provided information to clarify health service obligations under the Act, including remedies to mitigate risks in breaching it.

IMPLEMENTATION OF THE VICTORIAN INDUSTRY PARTICIPATION POLICY

HPV remains committed to pursuing procurement outcomes that provide local industry fair opportunity to compete against foreign suppliers. HPV's procurement strategy aligns to government social procurement objectives, which aim with deliver social, economic and environmental outcomes that benefit the Victorian community.

These outcomes are redefined in HPV's new Benefits Management Framework, encompassing both direct and indirect benefits.

During 2017-18, HPV entered into contracts for nine categories subject to Victorian Industry Participation Policy (VIPP) principles, two of which were greenfields categories, four were re-sourcing and three were supplementary tenders. These categories totalled approximately \$613 million in value over the full contract term, which equates to \$228 million over the first 12 months of the categories, excluding GST.

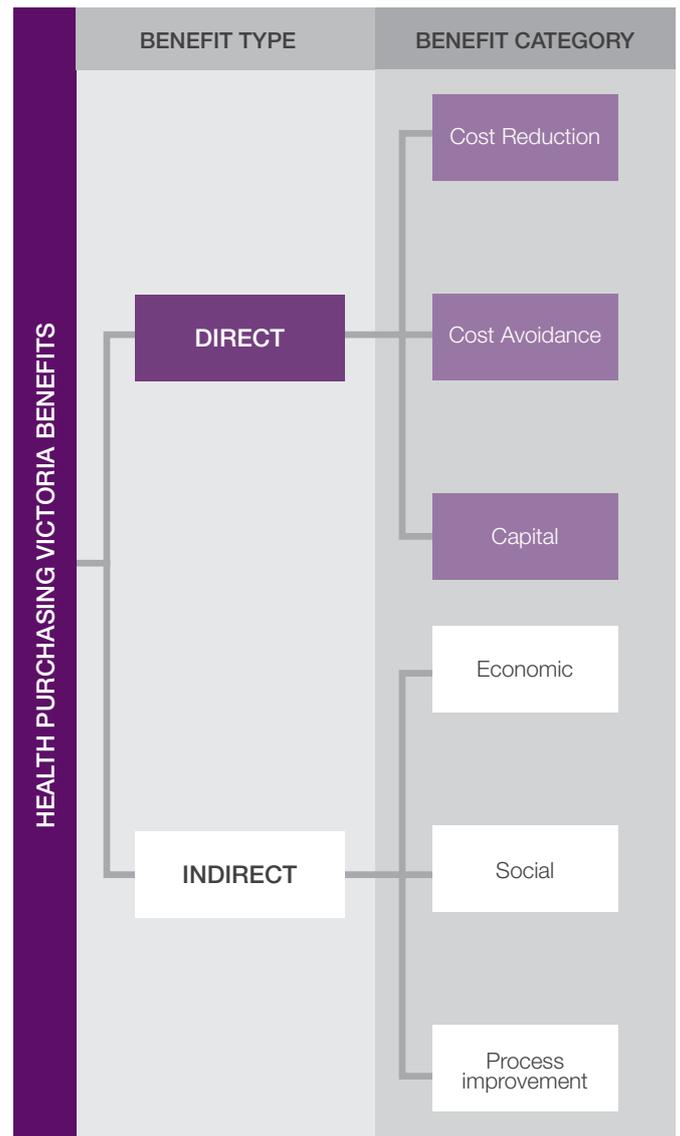
One of these categories required VIPP plans to be submitted and assessed, placing a 10% weighting for local support for that category. Three categories were provided by local suppliers and involved limited contestability; two additional categories and the three supplementary tenders were assessed by Industry Capability Network (ICN) as not contestable as they were for medical devices and pharmaceuticals for which there is no local manufacturing. These categories were panel listed with an average local content commitment of 40% through logistics and support.

HPV has lodged a further eight categories with ICN for sourcing events currently underway, only one of which has been assessed as contestable and requiring VIPP plans to be submitted.

HPV also established a pre-qualified panel of 18 service providers, 14 of which were local suppliers.

In 2017-18, HPV completed nine contracts across two categories to which VIPP principles applied. These categories were for the provision of services and supplied by local suppliers.

HPV BENEFITS MANAGEMENT FRAMEWORK



HPV ANNUAL COMPLIANCE STATEMENT

HPV'S PURCHASING POLICY AND COMPLIANCE FRAMEWORK

HPV has functions under the *Health Services Act 1988* (Vic) to develop and implement policies and practices to promote best value and probity, and to monitor the compliance of Schedule 1 and 5 health services with the policies. HPV also has a role to ensure that probity is maintained in public hospitals' purchasing, tendering and contracting activities.

The HPV Policy Compliance Framework outlines HPV's approach to monitoring compliance and supporting health services to implement the HPV Health Purchasing Policies effective from 26 June 2016.

HPV's three-year rolling audit program is a key aspect of its Policy Compliance Framework, involving a third of Victoria's public health services completing an audit to HPV's policies each year and reporting the outcomes to HPV.

In 2017-18, responding to a risk assessment of health services' self-audits, HPV implemented a range of improvements to its tools and resources to better support health service compliance with the Health Purchasing Policies. The main focus areas were in procurement governance and contract management outcomes.

The more collaborative and pragmatic approach adopted by HPV recognises the variation across Victoria's public hospitals to provide more concise, scalable materials and guidelines that better support smaller health services with their compliance audit requirements while maintaining an appropriate level at larger metropolitan services.

Initiatives to better support diverse health service requirements include:

- Six-monthly progress reporting on audit issues arising from compliance audits.
- Requiring that recommended actions only in response to high-risk issues be reported to HPV.
- Providing health service CEOs with an option to delegate self-assessment approvals for both Health Purchasing Policies and collective agreements.
- Moving away from a requirement for health services to provide HPV with on-selling and contract registers or Procurement Activity Plans.
- Introducing a new e-learning system known as ECHO to deliver probity training and better cater to the individual needs of health services.
- Improvements to simplify the contract exemption process and make it more transparent and support a greater level of compliance with HPV collective agreements.

In addition, HPV has in place a purchasing policy relating to the supply of pre-prepared patient food which gives effect to the Patient Food Preparation and Distribution Metropolitan Melbourne Strategy (Central Production Unit (CPU)). This policy, administered by HPV, requires each of the health services named in the policy to purchase its pre-prepared patient food from one of two CPUs unless an exemption is granted.

HEALTH SERVICE POLICY COMPLIANCE

Victoria's public health services recorded their highest level of compliance with HPV's collective agreements in the 2017-18 financial year, reporting almost 98% compliance with collective agreements, and over 96% compliance with Health Purchasing Policies.

These results reflect the twin factors of health services' commitment to policy compliance, and HPV's focus on improving compliance support in the areas of governance and contract management. Specifically, the individual support provided by HPV's customer engagement team and the new ECHO learning management system launched in 2017-18 have assisted hospitals in improving their understanding of probity requirements.

Prior to the launch of the new ECHO platform, more than 500 health service participants at all levels completed face-to-face probity training.

HPV PROBITY TRAINING PARTICIPATION

| | Barwon -South Western | Gippsland | Grampians | Hume | Loddon Mallee | Metro | Total |
|--------------------------------|-----------------------------|-----------|-----------|------------|------------------|------------|------------|
| Board and executive staff | 26 | 21 | 40 | 71 | 21 | 18 | 197 |
| Clinical and operational staff | 20 | 11 | 46 | 17 | 2 | 49 | 145 |
| Procurement professionals | 66 | 23 | 9 | 13 | 11 | 87 | 209 |
| Total | 112 | 55 | 95 | 101 | 34 | 154 | 551 |

Great engagement in probity training by health services, notably from Board members and executives, reflects the value that can be achieved through good procurement practice. The training highlights the important role clinical and operational employees play within the health service procurement function.

| Collective Agreement Compliance | 2015-16 Totals | 2015-16 % | 2016-17 Totals | 2016-17 % | 2017-18 Totals | 2017-18 % |
|---------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| Compliant | 2843 | 97.5% | 2801 | 97.0% | 2419 | 97.6% |
| Non-compliant | 53 | 2.1% | 73 | 2.5% | 39 | 1.6% |
| Exemption | 13 | 0.4% | 14 | 0.5% | 21 | 0.8% |

Acknowledging an increase in the number of contract exemptions, HPV continues to enhance its Policy Compliance Framework in response to health services' local supplier and clinical preferences to ensure high levels of compliance.

| 2017-18 Purchasing Policy Compliance | Policy 1 | Policy 2 | Policy 3 | Policy 4 | Policy 5 | Total |
|--------------------------------------|----------|----------|----------|----------|----------|-------|
| Compliant | 94.7% | 96.1% | 97.4% | 94.7% | 98.7% | 96.3% |
| Non-compliant | 5.3% | 3.9% | 2.6% | 5.3% | 1.3% | 3.7% |

| 2016-17 Purchasing Policy Compliance | Policy 1 | Policy 2 | Policy 3 | Policy 4 | Policy 5 | Total |
|--------------------------------------|----------|----------|----------|----------|----------|-------|
| Compliant | 89.3% | 93.3% | 96.0% | 92.0% | 96.0% | 93.3% |
| Non-compliant | 10.7% | 6.7% | 4.0% | 8.0% | 4.0% | 6.7% |

NON-MANDATED POLICY COMPLIANCE

Non-mandated health services are defined by Section 3 of the *Health Services Act 1988* and are approved by the HPV Board to access one or more HPV collective agreements.

Non-mandated health services have maintained a strong level of compliance. In 2017-18, HPV has approved five additional services to access its collective agreements, bringing the total to 40 services.

| Collective Agreement Compliance | 2015-16 Totals | 2015-16 % | 2016-17 Totals | 2016-17 % | 2017-18 Totals | 2017-18 % |
|---------------------------------|-------------------|--------------|-------------------|--------------|-------------------|--------------|
| Compliant | 118 | 98.3% | 144 | 97.3% | 156 | 98.1% |
| Non-compliant | 2 | 1.7% | 4 | 2.7% | 3 | 1.9% |

MANAGEMENT AND ORGANISATION

MS ELAINE KO*

MBA, BSc, BEng

Chief Executive

Elaine was appointed Chief Executive in August 2016. Before joining HPV Elaine was a senior executive at Mondelez International where she led a multidisciplinary team in developing and implementing an Asia Pacific regional sourcing strategy fully integrated with logistics and business operations. Elaine brings more than 16 years of international leadership experience in food and fast-moving consumer goods companies and expertise in business strategy, leadership, planning, strategic sourcing, marketing and brand management.

Elaine is APICS certified and has Lean Six Sigma Black Belt accreditation.

MS TRUDY HART*

MBA, BCom, CPA

Acting Chief Executive

Trudy joined HPV in December 2017 as Acting Chief Executive.

Prior to commencing with HPV, Trudy was Director of Revenue in the Victorian Department of Treasury and Finance, responsible for Tax and Gambling Policy, Revenue Forecasting and Intergovernmental Relations.

Trudy has significant expertise and experience as a senior government executive, with over 20 years in the Victorian and Commonwealth governments. Trudy has established multiple teams, led strategic policy development across commercial, budget and social policy areas and driven a number of financial management reforms.

Trudy holds a Master of Business Administration from the University of Melbourne, a Bachelor of Commerce from the Australian National University and is a Certified Practising Accountant. Trudy was on the Land Tax Hardship Relief Board from 2012 to 2017 and received the Dean's Women and Management scholarship from Melbourne Business School in 2013.

MR JOE NEILL*

DipBus (IntTrade), MCIPS

Director Procurement and Value Delivery

Joe joined HPV in October 2017 and brings more than 35 years of procurement experience across diverse industries in both public and private sectors, together with a deep understanding of Victoria's health industry gained over two decades.

Joe's experience over the past 18 years includes senior positions at Melbourne Health and Austin Health, where as Director Supply and Contracts he was responsible for the hospital's total procurement budget.

Originally hailing from Dunfermline in Scotland, Joe is a member of the Chartered Institute of Purchasing Supply (MCIPS) and holds a Diploma of Business in International Trade.

MR ALFRED MATTHEWS*

MBA, BA, CIPS

Director Customer Engagement

Alfred joined HPV in September 2016, commencing in procurement. As Head of Indirect Products and Services, Alfred implemented strategies to improve collaboration and deliver financial and service quality outcomes, resulting in HPV's nomination as a 2017 national finalist by Procurement and Supply Australasia. Alfred was appointed HPV Director Customer Engagement in November 2017.

Prior to joining HPV, Alfred spent more than 10 years at Monash Health managing non-clinical support services teams including in food, cleaning, waste, the customer contact centre, retail and security, and leading tenders for service contract categories. Alfred was a member of a range of inter-professional teams within Monash Health to lead service initiatives. Alfred was part of a project team which managed Monash Health's central production kitchen, implementing innovative cleaning methods across the service and new meal models to improve patient satisfaction and drive efficiencies.

* Ms Trudy Hart was appointed Acting Chief Executive in December 2017 to cover Chief Executive Ms Elaine Ko's parental leave.

* Mr Joe Neill was appointed Director Procurement and Value Delivery in October 2017.

* Mr Alfred Matthews was appointed Director Customer Engagement in November 2017.

MR JOHN DELINAOUM

BBus, FCPA, Grad Dip (Marketing), Grad Cert (Health Systems), ACFE, GAICD

Director Finance, Risk and Governance (CFO)

John commenced at HPV as the Director Finance, Strategy and Governance in March 2015. Having been in the health sector for almost 20 years John has held senior leadership roles in finance within public, private and aged care services.

John's most recent role prior to joining HPV was as Director Finance Services at Northern Health.

With extensive experience in business planning, systems technology design and implementation, John is also a Board member of the Healthcare Financial Management Association, supporting professional development within the health sector. John is a member of the Australian College of Optometry's Finance and Risk Committee.

MR ROB SETINA

MBA, BCom, LLB, Grad Dip (Applied Finance), AAICD

Director Data and Systems

Rob is a senior IT manager with over 15 years of consulting experience with Accenture, responsible for business development, solution architecture and delivery.

Most recently IT program manager at Telstra, Rob oversaw the delivery of more than 10 IT projects simultaneously. Rob holds bachelor degrees in Commerce and Law, a graduate diploma of Applied Finance and an executive MBA, and is also an affiliate of the Australian Institute of Company Directors.

MS ANGELA MALONE

DipAppSc, Cert Training&Assessment, Cert OHPrac, Lean Six Sigma Green Belt

Director People and Culture

Angela joined HPV in March 2014 following an extensive career in human resources and industrial relations management. Angela's recruitment and consulting experience includes senior roles across the commercial and not-for-profit sectors, including as Human Resources Manager at Ford Australia's Melbourne head office.

Across her career, Angela has a consistent record of success in working closely with management and other stakeholders to develop and implement effective human resource solutions. Angela's collaborative approach, strong business acumen and focus on strategic HR planning, often in complex and challenging environments, has been key to organisations achieving their business objectives.

Angela has qualifications in Applied Science, and has completed a range of management programs and Six Sigma Green Belt accreditation.

ORGANISATION CHART

The following chart shows HPV's key organisational structure comprising the following functional divisions: Office of the Chief Executive, Procurement and Value Delivery, Customer Engagement, Finance, Risk and Governance, Data and Systems, and People and Culture.



OUR PEOPLE: HUMAN RESOURCES AND DEVELOPMENT

WORKFORCE DATA

At 30 June 2018, 90 people were employed by HPV. This marks a 13% reduction in HPV's head count for the 2017-18 year. A summary of HPV's workforce composition is detailed below.

| | FY average 2016-17 | FY average 2017-18 | June 2017 | June 2018 | June 2017 | June 2018 |
|----------------------------------|-----------------------|-----------------------|----------------------|-------------|------------|-----------|
| | FULL-TIME EQUIVALENT | | FULL-TIME EQUIVALENT | | HEAD COUNT | |
| Full-time | 78.7 | 82.7 | 86.2 | 74.8 | 87 | 77 |
| Part-time | 2.1 | 1.3 | 1.7 | 1.6 | 3 | 2 |
| Agency/casual* | 9.6 | 5.5 | 11.1 | 8.9 | 13 | 11 |
| Total full-time employees | 90.3 | 89.5 | 99 | 85.3 | 103 | 90 |

* Secondees are included in the agency/casual figures.

SECONDMENTS

During 2017-18, HPV engaged six secondees from government departments and across Victoria's metropolitan and regional health services.

Secondees include HPV's Acting Chief Executive from the Department of Treasury and Finance, who has brought valuable financial expertise and leadership to enhance HPV's capability in 2018.

Appointed to HPV in a part-time capacity, three practising pharmacists seconded from Monash Health have enabled HPV to benefit from their working knowledge of contemporary market issues.

Further subject matter expertise in the medical devices, imaging and pathology equipment category, and in procurement efficiency has been provided through secondments from South West Healthcare.

Supplementary benefits of HPV's secondment arrangements include improved health service relationships and collaboration, and effective stakeholder management to support HPV's operational environment.

OCCUPATIONAL HEALTH AND SAFETY

HPV is proactive in supporting occupational health and safety (OH&S) initiatives through its employee-focused OH&S Committee. The committee has contributed to the development of HPV's new five-year OH&S strategy, enhanced the OH&S risk management plan to support HPV's enterprise risk management framework, and manages educational, administrative and audit requirements to comply with relevant legislation.

| OCCUPATIONAL HEALTH AND SAFETY MATTERS | HPV UPDATE |
|---|---|
| a) The number of reported hazards/incidents for the year per 100 full-time equivalent employee members. | One minor incident was reported in 2017-18, reflecting HPV employees' proactive approach to OH&S matters. Two suggestions to improve regionally-based HPV employees' office environments and ergonomics were addressed. |
| b) The number of 'lost time' standard claims for the year per 100 full-time equivalent employee members. | There was one 'lost time' standard claim reported in the 2017-18 year. A second claim did not require weekly compensation and therefore was not reported as a 'lost time' claim. |
| c) The average cost per claim for the year (including payments to date and an estimate of outstanding claim costs as advised by WorkSafe). | The average cost per claim for 2017-18 was \$16,784, including payments to date and estimated outstanding claim costs. |
| d) A minimum of two years' data on these indicators and explanations for significant variations from one year to the next. | There were no claims reported during the 2015-16 and 2016-17 reporting periods. Two claims made during 2017-18 relate to hand and arm injuries and are attributed to desk-bound duties. |
| e) In the event of a fatality, a discussion of the circumstances that led to the fatality and the preventative measures that have been taken to prevent recurrence. If the fatality is under investigation or subject to an inquiry, a statement to that effect should be included. | There have been no fatalities. |

CARERS' RECOGNITION ACT 2012

HPV is compliant with the *Carers' Recognition Act 2012* (Commonwealth) as per the HPV Enterprise Agreement 2013 and management of leave entitlements.

DISABILITY POLICY AND ACTION PLAN

HPV is committed to supporting a culture of diversity and respect for all employees in the workplace.

HPV's Disability Policy and Disability Action Plan (DAP) reflects this commitment, and recognises that people with disabilities, like all members of the community, should have access to programs, services, facilities and employment opportunities that support individual choices in enhancing quality of life.

HPV reviewed its DAP in 2017-18 to ensure all criteria meet current legislative requirements under the *Disability Act 2006*. The DAP is next due to be updated in 2019.

All actions listed within the DAP have been completed and ongoing actions are monitored and updated. Completed actions include:

- The annual accessibility audit of HPV's office floor and Casselden premises.
- Upgrading HPV's website to conform to W3C Web Content Accessibility Guidelines Version 2.0 (WCAG2), Level AA.

Disability awareness is promoted within internal diversity and workplace respect training that is compulsory for all new employees to attend.

HPV's Disability Action Plan is registered with the Australian Human Rights Commission, and is available on the HPV website.

OCCUPATIONAL VIOLENCE

HPV reports nil occupational violence incidents for the 2017-18 period. Occupational violence is defined as any incident in which an employee is abused, threatened or assaulted in circumstances arising out of, or in the course of, their employment.

HUMAN RESOURCE COMPLIANCE

Following a full review of all human resource policies and procedures in 2016-17, HPV continues to maintain appropriate legislative obligations, while streamlining processes and requirements in the best interest of HPV employees.

PEOPLE MATTER SURVEY

HPV participated in the Victorian Public Sector Commission People Matter Survey 2018 with a 74% response rate from employees. The employee engagement index was 63% in 2018.

These results show that employees value HPV as a place to work, highlighting positive responses on service and public trust, human rights, respect and customer satisfaction.

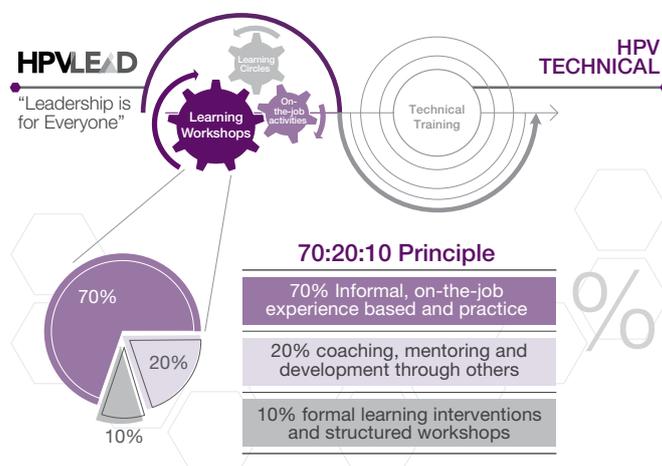
HPV uses the survey results as a tool to better understand employee views, and undertakes ongoing activities to improve workplace conditions, including through employee training, learning and development initiatives, and health and well-being activities.

LEARNING AND DEVELOPMENT

With the successful introduction of the HPV LEAD program – a two-year leadership initiative developed as a key part of HPV's learning and development strategy – HPV employees have successfully completed modules designed to meet HPV's strategic requirements in accordance with best-practice adult learning methodologies.

HPV employees have completed five modules covering self-development, effective communication, capability development, internal relationships, and customer focus in line with the 70: 20: 10 principle.

HPV LEARNING AND DEVELOPMENT PROGRAM HIGH LEVEL DESIGN



SUSTAINABILITY

HPV'S OFFICE-BASED ENVIRONMENTAL IMPACTS

ENVIRONMENTAL DATA

As a statutory authority, HPV reports on operational environmental impacts consistent with FRD 24C requiring a summary of the entity's environmental performance. HPV collects relevant data, where available, for reporting. Available data is provided in detail below.

ENERGY USE

HPV occupies office space in Casselden, a Melbourne CBD-based building, as a tenancy with shared services. The key environmental attributes of Casselden are:

- 4.5-star NABERS Energy base building certification.
- 3.5 star NABERS Water certification.
- 5-star Green Star – Office Design v3 certified rating.

The 5-star Green Star design rating for Casselden is equivalent to current best practice in office design. Casselden's 4.5-star NABERS Energy base building certification corresponds with a rating of between 'Good' and 'Excellent' performance for an Australian office building.

Electricity is supplied under HPV's lease arrangement; the percentage of electricity purchased under a government-accredited Green Power scheme is 0%. Data on the greenhouse gas emissions associated with HPV's electricity use are not available.

All computer monitors and laptops purchased by HPV are ENERGY STAR® certified, which prevent greenhouse gas emissions by meeting strict energy efficiency guidelines.

WASTE DISPOSAL AND RECYCLING

Waste disposal and recycling collections are primarily provided by Casselden building management as part of its shared service, which includes online training to improve tenant understanding of waste recycling activities. Individual tenancy waste volumes and data for the percentage of materials that are recycled are currently not available for reporting.

Recycling collections occur for:

- Co-mingled paper and packaging.
- Food organics for off-site composting.
- Clean paper.
- Secure documents.
- Batteries.
- Mobile phones.
- Printer toners.
- E-waste.

In addition, HPV auctions obsolete mobile phones for reuse by employees.

In addition, recycling company Close the Loop collected and recycled 8.42 kg of HPV's consumable waste in 2017-18, reflecting a reduction in the volume of waste generated, in line with the principle of 'reduce, reuse, recycle'.

PAPER USE

HPV commenced tracking its office paper use via printer data in 2015-16. For the 2017-18 reporting period, 352 reams of A4-equivalent copy paper were used, which equates to 3.9 reams per full-time equivalent employee.

| | A4-EQUIVALENT COPY PAPER USAGE (REAMS) | NUMBER OF REAMS USED PER FULL-TIME EQUIVALENT EMPLOYEE |
|----------------|--|--|
| 2015-16 | 683 | 8.5 |
| 2016-17 | 364 | 4.0 |
| 2017-18 | 352 | 3.9 |

HPV's ongoing reduction in the number of print copies reflects its commitment to reducing its environmental impact including initiatives such as providing Board papers in electronic form, and switching to on-demand printing.

WATER CONSUMPTION

As HPV is a tenancy within an office building with shared services, it is not possible to report on individual tenants' water use. Casselden has a NABERS 3.5-star Water rating and provides onsite sewage water recovery for re-use in toilets, and high-efficiency water fixtures and fittings.

TRANSPORTATION

HPV's office location is readily accessible by public transport. The Casselden building provides excellent end-of-trip facilities to support employee commuter cycling, including secure undercover bicycle storage.

HPV has web-based video conferencing capability to facilitate remote access to meetings, particularly for regional stakeholders.

As at 30 June 2018, HPV has a fleet comprising 10 vehicles, including six used for customer engagement activity, for which it monitors fuel card usage and odometer readings.

For 2017-18, HPV reports the following aggregated environmental data:

2017-18 HPV Vehicle Fleet

| | TOTAL ENERGY | DISTANCE TRAVELLED | GREENHOUSE GAS EMISSIONS | EMISSIONS INTENSITY: AVERAGE TONNES CO ₂ -e PER 1,000 KM |
|---------|--------------|--------------------|---------------------------|---|
| | (MJ) | (KM) | TONNES CO ₂ -e | |
| 2015-16 | 340,285 | 111,284 | 23.34 | 0.210 |
| 2016-17 | 351,061 | 121,273 | 22.19 | 0.183 |
| 2017-18 | 484,161 | 175,468 | 32.88 | 0.187 |

2017-18 HPV Business Flights

| | DISTANCE TRAVELLED | GREENHOUSE GAS EMISSIONS | EMISSIONS INTENSITY |
|---------|--------------------|---------------------------|--|
| | (KM) | TONNES CO ₂ -e | TONNES CO ₂ -e PER 1,000 KM |
| 2015-16 | 62,812 | 8.26 | 0.132 |
| 2016-17 | 76,676 | 10.48 | 0.137 |
| 2017-18 | 13,050 | 2.06 | 0.158 |

SUSTAINABLE PROCUREMENT AT HPV

Procurement projects facilitated by HPV are expected to identify, where feasible, opportunities to reduce environmental impacts, and increase positive social benefits. In 2017-18 HPV has been notably active in the procurement of solar power installations, assisting health services under the Victorian Government's Regional Health Solar Program.

HPV continues to focus on improving the implementation of sustainable procurement objectives within its collective contracts. HPV has also been active throughout the year in developing customer-focused information on solar power options to assist health services in considering alternative energy sources.

Renewable certificate purchasing sourced from a whole-of-government contract with the Kiata and Mt Gellibrand wind farms is now part of HPV's 'large sites' electricity contract. This initiative not only directly supports Victoria's Renewable Energy Plan, but has delivered cost savings to hospitals during 2017-18 that will continue across future years.

In 2017-18, HPV participated in a sustainability panel discussion led by DHHS highlighting organisational initiatives to drive improved sustainability outcomes. The session included reflections from UK-based National Health Service Sustainable Development Unit Director Dr David Pencheon on the opportunities and challenges to increase sustainability in the health sector.

HPV'S SUSTAINABLE PROCUREMENT PROCESS

HPV is committed to embedding sustainable practices into health procurement to deliver social and economic benefits. The healthcare sector's environmental impact can be primarily attributed to the materials and manufacturing processes which occur in the upstream supply chain, and through product distribution and disposal after use.

HPV adopts the following process when considering these factors:

| | |
|-------------------|---|
| ANALYSIS | What are the key impacts and risks that should be considered within the life cycle of a procurement project? |
| TENDERING | HPV evaluates, as part of its best value methodology, environmental management by respondents. |
| REPORTING | Managing Victorian health sector environmental impacts is assisted by consumption data and trend analysis. |
| ENGAGEMENT | To advise health services on sustainable procurement and managing related supply chain environmental issues and social impacts. |

DISCLOSURE OF CONSULTANCIES

CONSULTANCIES GREATER THAN \$10,000 IN VALUE DURING 2017-18

| CONSULTANT | PURPOSE OF CONSULTANCY | START DATE | END DATE | TOTAL APPROVED PROJECT FEE (EX GST) | EXPENDITURE 2017-18 (EX GST) | FUTURE EXPENDITURE |
|------------------------|--|--------------|--------------|-------------------------------------|------------------------------|--------------------|
| Infosys Portland Group | HPV has revised its Benefits Management Framework by re-engineering the principles and methodologies used to calculate quantifiable financial benefits of total value under contract. Infosys Portland Group delivered a report reviewing the appropriateness of the framework. | April 2018 | May 2018 | \$39,420 | \$39,420 | \$0 |
| Deloitte Consulting | HPV has developed the common catalogue to improve the integrity and availability of information used to drive supply chain decisions. HPV engaged Deloitte Consulting to validate the business requirements, map business processes, undertake a gap analysis, and develop a solution design and specifications. | March 2018 | June 2018 | \$196,000 | \$196,000 | \$0 |
| Nous Group | HPV has redeveloped the Strategic Plan for the period 2018-22. The Nous Group facilitated a Board workshop to support the conceptual build of the strategic goals for the period. | October 2017 | October 2017 | \$12,750 | \$12,750 | \$0 |
| RSM Australia | As HPV plays a pivotal role in Victoria's public health sector, its ability to continue effective operations in a crisis situation is critical for business confidence. HPV has acknowledged the potential risk by developing and testing a Crisis Management Plan with the support of RSM Australia. | April 2018 | June 2018 | \$18,000 | \$18,000 | \$0 |

In 2017-18, HPV engaged one consultant where the total fees payable to the consultant were less than \$10,000. This had a total expenditure of \$2,500 (exclusive of GST).

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) DISCLOSURE

Consistent with FRD 22H (Section 6.18) the Report of Operations presents disclosure relating to information and communication technology (ICT) expenditure.

ICT expenditure represents an entity's costs in providing business-enabling ICT services and consists of the following cost elements:

- Operating and capital expenditure (including depreciation).
- ICT services (both internally and externally sourced).
- Cost in providing ICT services (including personnel and facilities) across the agency, whether funded through a central ICT budget or through other budgets.
- Cost in providing ICT services to other organisations.

- (a) Business-as-usual (BAU) expenditure includes all remaining ICT expenditure other than non-BAU expenditure and typically relates to ongoing activities to operate and maintain the current ICT capability.
- (b) Non-business-as-usual (non-BAU) expenditure is a subset of ICT expenditure that relates to extending or enhancing current ICT capabilities, usually run as projects.

The total ICT expenditure incurred during 2017-18 is \$5.28 million (excluding GST), with the details shown below:

| Business as usual (BAU) ICT expenditure (Total) (excluding GST) | Non-Business as usual (non-BAU) ICT expenditure (Total = operational expenditure and capital expenditure) (excluding GST) | Total operational expenditure (excluding GST) | Total capital expenditure (excluding GST) |
|---|---|---|---|
| \$3.46 million | \$1.82 million | \$0.67 million | \$1.15 million |

SUMMARY OF FINANCIAL RESULTS

SUMMARY OF FINANCIAL RESULTS AND COMPARISON TO THE LAST FOUR REPORTING PERIODS

| YEAR | 2017-18 \$'000 | 2016-17 \$'000 | 2015-16 \$'000 | 2014-15 \$'000 | 2013-14 \$'000 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total revenue | 16,283 | 16,334 | 13,837 | 11,935 | 9,162 |
| Total expenses | 16,261 | 16,312 | 13,812 | 11,908 | 9,437 |
| Operating surplus/(deficit)* | 22 | 22 | 25 | 27 | (275) |
| Capital and Other economic flows** | (629) | (480) | (356) | 1,327 | 841 |
| Net surplus (deficit) | (607) | (458) | (331) | 1,354 | 566 |
| Total assets | 6,358 | 7,581 | 7,413 | 7,373 | 5,413 |
| Total liabilities | 2,695 | 3,311 | 2,685 | 2,313 | 1,708 |
| Net assets | 3,663 | 4,270 | 4,728 | 5,060 | 3,705 |
| Total equity | 3,663 | 4,270 | 4,728 | 5,060 | 3,705 |

* The operating surplus/(deficit) is the financial result monitored in the Statement of Priorities, also referred to as the net result before capital and specific items.

** Capital and other economic flows represent the cost of depreciation, any capital revenue for the purchase of assets or the impact of changes in bond and inflation factors related to the long service leave liability.

SUMMARY OF SIGNIFICANT CHANGES IN HPV'S FINANCIAL POSITION

The 2017-18 financial year was a period of consolidation for HPV in which strengthened processes to improve service delivery across a number of initiatives have contributed to improved health service outcomes.

The focus for the current reporting period has been on investing in the following initiatives:

- HPV Strategic Plan 2018-22.
- Information consolidation.
- Compliance and probity.
- Customer engagement.
- Building capacity.

HPV's Strategic Plan 2018-22 focuses on creating capacity internally and increasing value externally at health services. These objectives have been advanced through the delivery of a range of procurement models, including collaborative, collective and cluster sourcing, which recognise and harness the skill and expertise that exists in health service procurement teams. In launching the new Benefits Management Framework to redefine the benefits it delivers to the sector, HPV has expanded its value proposition to encompass both direct and indirect benefits.

Recognising the value of the data it collects from health services, HPV has introduced Qlik Sense to improve its analytical and sharing capability. The Qlik Sense platform provides a flexible dashboard approach for analytics, and enables health services to extract and customise this data for their own reporting requirements.

Progress in the development of a Common Catalogue during 2017-18 to support health service e-procurement will achieve standardised reporting of expenditure. This development will eliminate 'cost leakage' resulting from inconsistent pricing, and allow increased data transparency to identify further procurement opportunities to deliver savings.

Having consulted with the sector, HPV undertook a 'mini reform' of its policy and compliance program to evolve a more agile attestation system featuring a 'fit for purpose' approach and ultimately reducing reporting requirements. HPV continued to invest in support and prevention activities, including education, training, advice and guidance through a probity training program that reached an audience of approximately 550 health service staff across various disciplines. HPV's new online learning management system recognises the 24-7 nature of health services.

HPV's first full year of customer engagement team operations has delivered significant benefits, increasing overall compliance with both HPV Health Purchasing Policies and collective agreements. The team travelled 150,000 kilometres across all regions of Victoria. The team also assisted health services in transitioning to collective agreements, supporting increased value and health service benefits.

In the 2017-18 year there was a continued focus on improving business-as-usual activities. This objective was supported by the HPV LEAD program to build the capability and capacity of HPV employees and ensure all staff have the necessary skills to deliver on the business plan.

The financial performance of HPV during the 2017-18 financial year reflects an operating surplus of \$0.02 million, consistent with 2016-17 as unspent funds are subject to recall. The net deficit of \$0.61 million is predominantly the result of depreciation, which is not funded by DHHS.

HPV's performance against its Statement of Priorities and strategic objectives is reported earlier in this Annual Report.

DISCLOSURE INDEX

The annual report of HPV is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of DHHS compliance with statutory disclosure requirements.

| LEGISLATION REQUIREMENT | | PAGE REF. |
|--|--|-----------|
| Ministerial Financial Reporting Directions (FRDs) | | |
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FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

BOARD CHAIR'S, ACCOUNTABLE OFFICER'S AND CHIEF FINANCE AND ACCOUNTING OFFICER'S DECLARATION

We certify that the attached financial report for Health Purchasing Victoria, has been prepared in accordance with Standing Direction 5.2 of the *Financial Management Act 1994*, applicable *Financial Reporting Directions*, Australian Accounting Standards, including Australian Accounting Interpretations and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and notes forming part of the financial report, presents fairly the financial transactions during the year ended 30 June 2018 and financial position of Health Purchasing Victoria at 30 June 2018.

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

The Board of Health Purchasing Victoria adopted the financial report on this day and authorised the named persons to sign the report on behalf of the entity and to authorise the attached financial report for issue on this day.



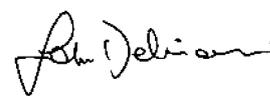
Mr Felix Pintado
Board Chair

Health Purchasing Victoria
16 August 2018



Ms Trudy Hart
Acting Chief Executive

Health Purchasing Victoria
16 August 2018



Mr John Delinaoum
Chief Financial and Accounting
Officer

Health Purchasing Victoria
16 August 2018

Independent Auditor's Report

To the Board of Health Purchasing Victoria

| | |
|--|---|
| Opinion | <p>I have audited the financial report of Health Purchasing Victoria (the entity) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2018 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • board chair, accountable officer's and chief finance and accounting officer's declaration. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the entity as at 30 June 2018 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p> |
| Basis for Opinion | <p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p> |
| Board's responsibilities for the financial report | <p>The Board of the entity is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, 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.</p> <p>In preparing the financial report, the Board is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p> |

Auditor's responsibilities for the audit of the financial report

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

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

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

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
20 August 2018



Ron Mak
as delegate for the Auditor-General of Victoria

COMPREHENSIVE OPERATING STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | NOTE | 2018 \$ | 2017 \$ |
|--|------|------------------|------------------|
| Revenue from Operating Activities | 2.1 | 16,283,019 | 16,333,609 |
| Employee Expenses | 3.1 | (10,536,512) | (9,639,662) |
| Non Salary Labour Costs | 3.1 | (2,148,090) | (3,040,847) |
| Other Expenses | 3.1 | (3,576,713) | (3,631,300) |
| Net result before capital and specific items | | 21,704 | 21,800 |
| Capital Purpose Income | 2.1 | - | 6,000 |
| Loss on disposal of non-financial assets | 3.1 | - | (3,733) |
| Depreciation and Amortisation | 4.4 | (628,267) | (516,732) |
| Net result after capital and specific items | | (606,563) | (492,665) |
| Other economic flows included in net result | | | |
| Revaluation of Long Service Leave | 3.2 | (333) | 34,314 |
| Total other economic flows included in net result | | (333) | 34,314 |
| NET RESULT FOR THE YEAR | | (606,896) | (458,351) |
| Other Comprehensive Income | | - | - |
| COMPREHENSIVE RESULT | | (606,896) | (458,351) |

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

BALANCE SHEET

AS AT 30 JUNE 2018

| | NOTE | 2018 \$ | 2017 \$ |
|--|------|------------------|------------------|
| Current Assets | | | |
| Cash and Cash Equivalents | 6.1 | 1,214,811 | 2,074,875 |
| Trade and Other Receivables | 5.1 | 176,723 | 285,028 |
| Prepayments | 5.2 | 492,502 | 344,615 |
| Other Financial Assets | 4.1 | 3,000,000 | 3,000,000 |
| Total Current Assets | | 4,884,036 | 5,704,518 |
| Non-Current Assets | | | |
| Property, Plant and Equipment | 4.2 | 371,635 | 531,350 |
| Intangible Assets | 4.3 | 1,102,075 | 1,345,433 |
| Total Non-Current Assets | | 1,473,710 | 1,876,783 |
| TOTAL ASSETS | | 6,357,746 | 7,581,301 |
| Current Liabilities | | | |
| Trade and Other Payables | 5.3 | 892,212 | 1,402,156 |
| Provisions | 3.2 | 1,385,543 | 1,456,642 |
| Total Current Liabilities | | 2,277,755 | 2,858,798 |
| Non-Current Liabilities | | | |
| Provisions | 3.2 | 416,884 | 452,500 |
| Total Non-Current Liabilities | | 416,884 | 452,500 |
| TOTAL LIABILITIES | | 2,694,639 | 3,311,298 |
| NET ASSETS | | 3,663,107 | 4,270,003 |
| EQUITY | | | |
| Capital Projects Reserve | 8.1 | - | - |
| Contributed Capital | 8.1 | 31,570 | 31,570 |
| Accumulated Surplus | 8.1 | 3,631,537 | 4,238,433 |
| TOTAL EQUITY | | 3,663,107 | 4,270,003 |
| Commitments for Expenditure | 6.2 | | |
| Contingent Assets and Contingent Liabilities | 7.2 | | |

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | NOTE | CAPITAL PROJECTS RESERVE \$ | CONTRIBUTED CAPITAL \$ | ACCUMULATED SURPLUS/ (DEFICIT) \$ | TOTAL \$ |
|--|------|--------------------------------------|------------------------------|--|-------------|
| Balance at 30 June 2016 | | - | 31,570 | 4,485,934 | 4,517,504 |
| Net result for the year | 8.1 | - | - | (458,351) | (458,351) |
| Transfer from Capital Projects Reserve | 8.1 | - | - | - | - |
| Transfer to Accumulated Surplus | 8.1 | - | - | 210,850 | 210,850 |
| Balance at 30 June 2017 | | - | 31,570 | 4,238,433 | 4,270,003 |
| Net result for the year | 8.1 | - | - | (606,896) | (606,896) |
| Transfer from Capital Projects Reserve | 8.1 | - | - | - | - |
| Transfer to Accumulated Surplus | 8.1 | - | - | - | - |
| | | - | - | (606,896) | (606,896) |
| Balance at 30 June 2018 | | - | 31,570 | 3,631,537 | 3,663,107 |

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

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

| | NOTE | 2018 \$ | 2017 \$ |
|--|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Operating Grants from Government | | 15,168,129 | 15,080,999 |
| Capital Grants from Government | | - | 6,000 |
| Interest Received | | 119,994 | 101,834 |
| GST Received from ATO | | 207,548 | 258,879 |
| Other Receipts | | 223,392 | 200,292 |
| Total Receipts | | 15,719,063 | 15,648,004 |
| Employee Benefits Paid | | (12,728,492) | (11,975,670) |
| Payments for Supplies | | (3,625,439) | (2,999,065) |
| Total Payments | | (16,353,931) | (14,974,735) |
| NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES | 8.2 | (634,868) | 673,269 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | | (51,342) | (123,060) |
| Payments for Intangible assets | | (173,854) | (682,755) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (225,196) | (805,815) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS HELD | | (860,064) | (132,546) |
| Cash and cash equivalents at beginning of financial year | | 2,074,875 | 2,207,421 |
| CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR | 6.1 | 1,214,811 | 2,074,875 |

This Statement should be read in conjunction with the accompanying notes

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements represent the audited general purpose financial statements for Health Purchasing Victoria for the financial year ended 30 June 2018.

Health Purchasing Victoria (HPV; the Authority) is an independent statutory authority established on 1 July 2001 to implement centralised procurement arrangements on behalf of health services. The *Health Services Act 1988* establishes HPV as a separate entity and outlines the functions, powers and membership criteria of HPV. The purpose of this report is to provide users with information about the Authority'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 Australian Accounting Standards (AASs), including interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 101 *Presentation of Financial Statements*.

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

HPV is a not-for-profit entity and therefore applies the additional Aus paragraphs applicable to "not-for-profit" entities under AASs.

The annual financial statements were authorised for issue by the Board of Health Purchasing Victoria on 16 August 2018.

(B) BASIS OF ACCOUNTING PREPARATION AND MEASUREMENT

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

The accounting policies set in the notes have been applied in preparing the financial statements for the year ended 30 June 2018, and the comparative information presented in these financial statements for the year ended 30 June 2017. Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

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

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

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 definition 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; and
- the fair value of assets is based on their depreciated replacement value.

Judgements, estimates and assumptions are required to be made about the carrying values 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(C) REPORTING ENTITY

The financial statements include all the controlled activities of Health Purchasing Victoria.

Health Purchasing Victoria's principal address is:
Health Purchasing Victoria
Level 34, Casselden
2 Lonsdale Street
Melbourne Vic 3000

A description of the nature of HPV'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

HPV is predominantly funded by cash-based grant funding for the provision of outputs.

NOTE 2: FUNDING DELIVERY OF OUR SERVICES

Established in 2001, Health Purchasing Victoria helps Victorian health services and hospitals deliver high-quality patient care by ensuring they have a reliable and agile supply chain. HPV partners with health services to facilitate collective contracts for the goods and services they purchase; providing advice and education on how to get their supply chain working at its best and ensuring Health Purchasing Policy compliance.

To enable HPV to fulfil its objectives it receives income based on parliamentary appropriations. HPV also receives a small amount of income from investments and the supply of services.

Structure

2.1 Revenue

NOTE 2.1: REVENUE

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| Revenue from Operating Activities | | |
| Government Grants - DHHS | 15,318,129 | 15,331,000 |
| Interest | 118,327 | 125,063 |
| Other Income | 124,140 | 180,731 |
| Indirect Contributions by Department of Health and Human Services ⁽ⁱ⁾ | | |
| - Insurance | 11,855 | 12,923 |
| - Office Lease | 710,568 | 683,892 |
| Total Revenue from Operating Activities | 16,283,019 | 16,333,609 |
| Capital Purpose Income | | |
| Capital Government Grant - DHHS | | |
| - Environmental Sustainability Grant | - | 6,000 |
| Total Revenue from Capital Purposes | - | 6,000 |
| Total Revenue | 16,283,019 | 16,339,609 |

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

Income is recognised in accordance with AASB 118 *Revenue* and is recognised as to the extent that it is probable that the economic benefits will flow to Health Purchasing Victoria and the income can be reliably measured at fair value.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 2.1: REVENUE (CONTINUED)

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

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

Contributions are deferred as income in advance when Health Purchasing Victoria 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.

Office lease rent 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 Department of Health and Human Services Circular 04/2017.

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.

Other Income

Other income is reflective of cost recoveries of staff on secondment or shared resources.

NOTE 3: THE COST OF DELIVERING SERVICES

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

Structure

3.1 Expenses

3.2 Provisions

3.3 Superannuation

NOTE 3.1: EXPENSES

| | 2018 \$ | 2017 \$ |
|--------------------------------------|-------------------|------------------|
| Employee Expenses | | |
| Salaries and Wages | 9,040,036 | 8,246,356 |
| Superannuation | 948,520 | 885,724 |
| Workcover | 27,410 | 37,244 |
| Payroll Tax | 520,546 | 470,338 |
| Total Employee Expenses | 10,536,512 | 9,639,662 |
| Non Salary Labour Costs | | |
| Agency Costs | 735,067 | 1,357,074 |
| Long Service Leave Provision | 42,585 | 297,694 |
| Annual Leave Provision | 896,787 | 923,357 |
| Accrued Days Off Provision | 473,651 | 462,722 |
| Total Non Salary Labour Costs | 2,148,090 | 3,040,847 |
| Other Expenses | | |
| Accounting | - | 150 |
| Advertising | 19,487 | 71,817 |
| Software Licence and Support | 1,150,967 | 988,559 |
| Insurance | 11,855 | 12,923 |
| Legal Fees | 183,202 | 144,018 |
| Probity Audit Fees | 23,002 | 64,000 |
| Office Outgoings | 56,525 | 131,020 |
| Printing and stationery | 41,324 | 47,877 |
| Subscriptions | 82,658 | 74,055 |
| Rent | 710,568 | 683,892 |
| Recruitment | 110,437 | 121,098 |
| Consultant and Professional Fees | 690,927 | 680,216 |
| Telecommunication Costs | 49,015 | 54,995 |
| Vehicle and Travel Costs | 180,045 | 145,239 |
| Staff Development and Seminars | 158,117 | 290,824 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 3.1: EXPENSES (CONTINUED)

| | 2018 \$ | 2017 \$ |
|--|-------------------|-------------------|
| Audit Fees | | |
| - Victorian Auditor-General's Office | 31,500 | 26,750 |
| - Internal Audit | 42,960 | 40,750 |
| Bank Charges | 1,505 | 643 |
| Other | 32,619 | 52,474 |
| Total Other Expenses | 3,576,713 | 3,631,300 |
| Capital Expenses | | |
| Depreciation and Amortisation (note 4.4) | 628,267 | 516,732 |
| Loss on disposal of non-financial assets | - | 3,733 |
| Total Capital Expenses | 628,267 | 520,465 |
| Total Expenses | 16,889,582 | 16,832,274 |

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

Employee expenses

Salaries and wages expenses include:

- ordinary wages and salaries;
- annual leave;
- accrued days off;
- sick leave;
- long service leave; and
- other leave entitlements.

Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and includes supplies and services costs recognised as an expense in the reporting period in which they are incurred.

Other economic flows included in the net result

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

Net gain/(loss) on non-financial assets

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

Revaluation gains/(losses) of non-financial physical assets

Refer to Note 4.2 *Property Plant and Equipment*.

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

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is the difference between the proceeds and the carrying value of the asset at the time.

NOTE 3.1: EXPENSES (CONTINUED)

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes:

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

Other gains/(losses) from other comprehensive income

Other gains/(losses) include:

- 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; and
- transfer of amounts from the reserves to accumulated surplus or net result due to disposal or derecognition or reclassification.

NOTE 3.2: PROVISIONS

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Current Provisions | | |
| Employee Benefits | | |
| Annual Leave | | |
| - Unconditional and expected to be settled within 12 months | 525,400 | 535,466 |
| - Unconditional and expected to be settled after 12 months | 85,280 | 87,301 |
| Long Service Leave | | |
| - Unconditional and expected to be settled within 12 months | 37,902 | 108,916 |
| - Unconditional and expected to be settled after 12 months | 235,266 | 189,199 |
| Accrued Days Off | | |
| - Unconditional and expected to be settled within 12 months | 101,153 | 95,406 |
| - Unconditional and expected to be settled after 12 months | 16,418 | 15,555 |
| Accrued Wages and Salaries | 230,324 | 266,321 |
| | 1,231,743 | 1,298,164 |
| Provisions related to employee benefit on-costs | | |
| - Unconditional and expected to be settled within 12 months (nominal value) | 102,005 | 113,591 |
| - Unconditional and expected to be settled after 12 months (present value) | 51,795 | 44,887 |
| | 153,800 | 158,478 |
| Total Current Provisions | 1,385,543 | 1,456,642 |
| Non-Current Provisions | | |
| Conditional Long Service Leave entitlements | 361,313 | 392,182 |
| Provisions related to employee benefit on-costs | 55,571 | 60,318 |
| Total Non-Current Provisions | 416,884 | 452,500 |
| Total Provisions | 1,802,427 | 1,909,142 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 3.2: PROVISIONS (CONTINUED)

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| (a) Employee Benefits and Related On-Costs | | |
| Current Provisions | | |
| Unconditional Long Service Leave entitlements | 315,181 | 343,966 |
| Annual Leave entitlements | 704,420 | 718,362 |
| Accrued Wages and Salaries | 230,324 | 266,321 |
| Accrued Days Off | 135,618 | 127,993 |
| | 1,385,543 | 1,456,642 |
| Non Current Provisions | | |
| Conditional Long Service Leave entitlements (present value) | 416,884 | 452,500 |
| | 416,884 | 452,500 |
| Total Employee Benefits and Related On-Costs | 1,802,427 | 1,909,142 |
| (b) Movements in provisions | | |
| Movement in Long Service Leave: | | |
| Balance at start of year | 796,466 | 535,335 |
| Provision made during the year | | |
| - Revaluations | 333 | (34,314) |
| - Expense recognising employee service | 42,585 | 297,694 |
| Settlement made during the year | (107,319) | (2,249) |
| Balance at end of year | 732,065 | 796,466 |

Provisions

Provisions are recognised when Health Purchasing Victoria 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 recognised in the provision for employee benefits as 'current liabilities', because Health Purchasing Victoria does not have an unconditional right to defer settlement of these liabilities.

NOTE 3.2: PROVISIONS (CONTINUED)

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

- undiscounted value – if Health Purchasing Victoria expects to wholly settle within 12 months; or
- present value – if Health Purchasing Victoria does not expect to wholly settle within 12 months.

Long service leave

Liability for Long Service Leave (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 Health Purchasing Victoria does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months. An unconditional right arises after a qualifying period.

The components of this current LSL liability are measured at:

- undiscounted value – if Health Purchasing Victoria expects to wholly settle within 12 months; or
- present value – if Health Purchasing Victoria does not expect to wholly settle within 12 months.

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

Termination benefits

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

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

On-costs

Provision for on-costs, such as workers compensation, payroll tax and superannuation, are recognised together with the provision for employee benefits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 3.3: SUPERANNUATION

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| Total payments towards defined contribution plans. | 948,520 | 885,724 |

Health Purchasing Victoria has an unpaid superannuation liability as at 30 June 2018 of \$103,263 (2017: \$110,855).

Details in relation to superannuation funds are as follows:

- Health Purchasing Victoria contributed on behalf of its employees and directors eligible for remuneration during the year ended 30 June 2018 to complying funds under the *Superannuation Industry (Supervision) Act 1993*.
- No loans exist between Health Purchasing Victoria and these superannuation funds.
- The total contributions paid by Health Purchasing Victoria exclude amounts paid under salary sacrifice arrangements.
- The basis for the calculation of superannuation contributions in accordance with the employer statutory requirements specify that contributions of Health Purchasing Victoria are based on a percentage of the employee's salary. During the period these contributions were at the rate of 9.5% of gross salaries. Contributions made by Health Purchasing Victoria are in accordance with employer obligations and exclude salary sacrifice arrangements to the major employee superannuation funds are as reported.

Defined contribution superannuation plans

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

NOTE 4: KEY ASSETS TO SUPPORT SERVICE DELIVERY

HPV 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 HPV to be utilised for delivery of those outputs.

Structure

4.1 Other Financial Assets

4.2 Property, Plant and Equipment

4.3 Intangible Assets

4.4 Depreciation and Amortisation

NOTE 4.1: OTHER FINANCIAL ASSETS

| | 2018 \$ | 2017 \$ |
|---------------------------|------------------|------------------|
| CURRENT | | |
| Bank Term Deposits | 3,000,000 | 3,000,000 |
| Total Other Assets | 3,000,000 | 3,000,000 |

Bank Term Deposits under the 'Other assets' class include only term deposits with maturity greater than 90 days.

Investments and other financial assets

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.

Health Purchasing Victoria 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.

Health Purchasing Victoria assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. All financial assets are subject to annual review for impairment.

Impairment of financial assets

At the end of each reporting period Health Purchasing Victoria assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets are subject to annual review for impairment.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT

(a) Gross carrying amount and accumulated depreciation

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| Computer Equipment | | |
| Computer Equipment at Fair Value | 286,013 | 265,123 |
| Less Acc'd Depreciation | (226,781) | (169,693) |
| Total Computer Equipment | 59,232 | 95,430 |
| Furniture and Fittings | | |
| Furniture and Fittings at Fair Value | 114,411 | 87,614 |
| Less Acc'd Depreciation | (42,890) | (23,574) |
| Total Furniture and Fittings | 71,521 | 64,040 |
| Leasehold Improvements | | |
| Leasehold Improvements at Fair Value | 918,111 | 918,111 |
| Less Acc'd Depreciation | (677,229) | (546,231) |
| Total Leasehold Improvements | 240,882 | 371,880 |
| Total Property Plant and Equipment | 371,635 | 531,350 |

(b) Reconciliations of the carrying amounts of each class of asset for the entity at the beginning and end of the previous and current financial year are set out below.

| | AT FAIR VALUE (LEVEL 3) COMPUTER EQUIPMENT ⁽ⁱ⁾ \$ | AT FAIR VALUE (LEVEL 3) FURNITURE AND FITTINGS ⁽ⁱ⁾ \$ | AT FAIR VALUE (LEVEL 3) LEASEHOLD IMPROVEMENTS ⁽ⁱ⁾ \$ | TOTAL \$ |
|---|--|--|--|----------------|
| Balance at 1 July 2016 | 74,359 | 26,368 | 502,877 | 603,604 |
| Additions | 73,909 | 49,152 | - | 123,061 |
| Assets transferred as capital contributions | - | - | - | - |
| Depreciation (Note 4.4) | (52,838) | (11,480) | (130,997) | (195,315) |
| Balance at 1 July 2017 | 95,430 | 64,040 | 371,880 | 531,350 |
| Additions | 24,543 | 26,798 | - | 51,340 |
| Depreciation (Note 4.4) | (60,741) | (19,316) | (130,998) | (211,055) |
| Balance at 30 June 2018 | 59,232 | 71,522 | 240,882 | 371,635 |

Note:

(i) Plant and equipment is held at carrying value (depreciated cost). Unless there is market evidence that current replacement costs are significantly different from the original acquisition cost, it is considered unlikely that depreciated replacement cost will be materially different from the existing carrying value.

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

There have been no transfers between levels during the current or prior period.

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

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment

All non-current physical assets are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. 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 change are transferred at their carrying amount.

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

Leasehold improvements

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

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.

All other non-financial assets are also assessed annually for indications of impairment.

If there is an indication of impairment, the asset concerned is tested as to whether its carrying value exceeds its possible recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an expense except to the extent that the write-down can be debited to an asset revaluation reserve 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 to sell. The 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 assets and fair value less costs to sell.

(c) Description of significant unobservable inputs to Level 3 valuations:

| PLANT AND EQUIPMENT AT FAIR VALUE | VALUATION TECHNIQUE | SIGNIFICANT UNOBSERVABLE INPUTS |
|-----------------------------------|------------------------------|---------------------------------|
| Office Equipment | Depreciated replacement cost | Useful life of PPE |
| Computer Equipment | Depreciated replacement cost | Useful life of PPE |
| Furniture Fixtures and Fittings | Depreciated replacement cost | Useful life of PPE |
| Leasehold Improvements | Depreciated replacement cost | Useful life of PPE |
| Assets Under Construction | Depreciated replacement cost | Useful life of PPE |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 4.2: PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 AASs that have significant effect on the financial statements and estimates relate to:

- the fair value of office equipment, computer equipment, furniture and fittings and leasehold improvements;
- assumptions for employee benefit provision are based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer to Note 3.2).

Consistent with AASB 13 *Fair Value Measurement*, Health Purchasing Victoria determines the policies and procedures for recurring fair value measurements such as plant and equipment, 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; and
- 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, Health Purchasing Victoria 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, Health Purchasing Victoria 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.

NOTE 4.3: INTANGIBLE ASSETS

| | 2018 \$ | 2017 \$ |
|--|------------------|------------------|
| Intangible Assets | | |
| Software at Cost | 2,238,215 | 1,782,995 |
| Less Acc'd Amortisation | (1,165,040) | (747,829) |
| Total Software Costs | 1,073,175 | 1,035,166 |
| Intangible Assets under Construction at cost | 28,900 | 310,267 |
| Total Intangible Assets | 1,102,075 | 1,345,433 |

NOTE 4.3: INTANGIBLE ASSETS (CONTINUED)

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

| | SOFTWARE \$ | ASSETS UNDER CONSTRUCTION \$ | TOTAL \$ |
|--------------------------------|------------------|------------------------------------|------------------|
| Balance at 1 July 2016 | 980,264 | 55,565 | 1,035,829 |
| Additions | 324,487 | 310,267 | 634,754 |
| Net Transfers Between Classes | 55,565 | (55,565) | - |
| Assets Expensed | (3,733) | - | (3,733) |
| Amortisation (Note 4.4) | (321,417) | - | (321,417) |
| Balance at 1 July 2017 | 1,035,166 | 310,267 | 1,345,433 |
| Additions | 144,954 | 28,900 | 173,854 |
| Net Transfers Between Classes | 183,277 | (310,267) | (126,990) |
| Assets Expensed | 126,990 | - | 126,990 |
| Amortisation (Note 4.4) | (417,212) | - | (417,212) |
| Balance at 30 June 2018 | 1,073,175 | 28,900 | 1,102,075 |

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 Health Purchasing Victoria.

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:

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 4.4: DEPRECIATION AND AMORTISATION

| | 2018 \$ | 2017 \$ |
|--|----------------|----------------|
| Depreciation | | |
| Computer Equipment | 60,741 | 52,838 |
| Furniture and Fittings | 19,316 | 11,480 |
| Leasehold Improvements | 130,998 | 130,997 |
| Total Depreciation | 211,055 | 195,315 |
| Amortisation | | |
| Intangible Assets | 417,212 | 321,417 |
| Total Amortisation | 417,212 | 321,417 |
| Total Depreciation and Amortisation | 628,267 | 516,732 |

Depreciation

All plant and equipment and other non-financial physical assets that have finite useful lives are depreciated. 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.

| | 2018 | 2017 |
|------------------------|-----------|-----------|
| Computer Hardware | 2.5 Years | 2.5 Years |
| Furniture and Fittings | 5.3 Years | 5.3 Years |
| Office Equipment | 2.5 Years | 2.5 Years |
| Leasehold Improvements | 7 Years | 7 Years |

Amortisation

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

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

Intangible assets with finite useful lives are amortised over 3-5 years (2017: 3-5 years).

NOTE 5: OTHER ASSETS AND LIABILITIES

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

Structure

5.1 Trade and Other Receivables

5.2 Prepayments

5.3 Trade and Other Payables

NOTE 5.1: TRADE AND OTHER RECEIVABLES

| | 2018 \$ | 2017 \$ |
|--|----------------|----------------|
| CURRENT | | |
| Contractual | | |
| Other Receivables | 49,304 | 127,080 |
| Trade Debtors | 6,438 | - |
| | 55,742 | 127,080 |
| Statutory | | |
| GST Receivable | 120,979 | 157,948 |
| | 120,979 | 157,948 |
| Total Trade and Other Receivables | 176,723 | 285,028 |

(a) Ageing analysis of receivables

Please refer to Note 7.1 for the ageing analysis of receivables.

(b) Nature and extent of risk arising from receivables

Please refer to Note 7.1 for the nature and extent of credit risk arising from receivables.

Receivables consist of:

- contractual receivables, which includes mainly debtors in relation to goods and services, accrued investment income; and
- statutory receivables, which includes amounts being the net of Goods and Services Tax (GST) recoverable.

Receivables that are contractual are classified as financial instruments and categorised as 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.

NOTE 5.2: PREPAYMENTS

| | 2018 \$ | 2017 \$ |
|--------------------------|----------------|----------------|
| CURRENT | | |
| Prepayments | 492,502 | 344,615 |
| Total Prepayments | 492,502 | 344,615 |

Prepayments 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 5.3: TRADE AND OTHER PAYABLES

| | 2018 \$ | 2017 \$ |
|---|----------------|------------------|
| CURRENT | | |
| Contractual | | |
| Trade Creditors ⁽ⁱ⁾ | 583 | 188,970 |
| Accrued Expenses | 368,919 | 489,821 |
| Salaries and Wages Related Creditors | 213,375 | 252,213 |
| | 582,877 | 931,004 |
| Statutory | | |
| Payroll Tax | 51,835 | 60,430 |
| Fringe Benefits Tax | 7,500 | 10,722 |
| Department of Health and Human Services ⁽ⁱⁱ⁾ | 250,000 | 400,000 |
| | 309,335 | 471,152 |
| TOTAL CURRENT | 892,212 | 1,402,156 |
| Total Trade and Other Payables | 892,212 | 1,402,156 |

(i) The average credit period is 30 days.

(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

Please refer to Note 7.1 for the ageing analysis of payables.

(b) Nature and extent of risk arising from Payables

Please refer to Note 7.1 for the nature and extent of risks arising from payables.

Payables consist of:

- contractual payables which consist predominantly of accounts payable representing liabilities for goods and services provided to Health Purchasing Victoria prior to the end of the financial year that are unpaid, and arise when Health Purchasing Victoria becomes obliged to make future payments in respect of the purchase of those goods and services. The credit terms for accounts payable are usually Nett 30 days.
- statutory payables, such as payroll 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 are not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

NOTE 6: HOW WE FINANCE OUR OPERATIONS

This section provides information on the sources of finance utilised by HPV during its operations, along with other information related to financing activities of HPV.

This section includes disclosures of balances that are financial instruments, such as cash balances. Note: 7.1 provides additional, specific financial instrument disclosures.

Structure

6.1 Cash and Cash Equivalents

6.2 Commitments for Expenditure

NOTE 6.1: CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement, cash assets includes 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. (Note that Health Purchasing Victoria does not maintain an overdraft facility.)

| | 2018 \$ | 2017 \$ |
|--|------------------|------------------|
| Cash at Bank | 1,214,811 | 2,074,875 |
| Total Cash and Cash Equivalents | 1,214,811 | 2,074,875 |

Cash and cash equivalents recognised 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, and which are readily convertible to known amounts of cash with an insignificant risk of changes in value.

NOTE 6.2: COMMITMENTS FOR EXPENDITURE

| | 2018 \$ | 2017 \$ |
|---|----------------|----------------|
| Capital Expenditure Commitments | | |
| Intangibles | 17,875 | 59,598 |
| Total Capital Expenditure Commitments | 17,875 | 59,598 |
| Not later than one year | 17,875 | 59,598 |
| Total | 17,875 | 59,598 |
| Other Expenditure Commitments | | |
| IT Services | 372,973 | 611,004 |
| Pool Cars | 156,986 | 252,046 |
| Internal Audit Services | 170,720 | - |
| Total Other Expenditure Commitments | 700,679 | 863,050 |
| Not later than one year | 518,129 | 504,812 |
| Later than one year and not later than five years | 182,550 | 358,238 |
| Total | 700,679 | 863,050 |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 6.2: COMMITMENTS FOR EXPENDITURE (CONTINUED)

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Lease Commitments | | |
| Operating Leases ⁽ⁱ⁾ | 2,526,387 | 3,207,945 |
| Total Lease Commitments | 2,526,387 | 3,207,945 |
| Not later than one year | 692,593 | 690,259 |
| Later than one year and not later than five years | 1,833,794 | 2,517,686 |
| Total Operating Commitments | 2,526,387 | 3,207,945 |
| Total Commitments for expenditure (inclusive of GST) | 3,244,941 | 4,130,593 |
| Less GST recoverable from the Australian Tax Office | (65,323) | (83,877) |
| Total commitments for expenditure (exclusive of GST) | 3,179,618 | 4,046,716 |

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 it provides additional relevant information to users, the net present value of significant individual projects is stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

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.

For service concession arrangements, the commencement of the lease term is deemed to be the date the asset is commissioned.

All other leases are classified as operating leases.

Finance leases

Health Purchasing Victoria does not hold any finance lease arrangements with other parties as a lessor or lessee.

Operating leases

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

(i) The property lease is a non-cancellable lease and expires 28 February 2022. Rent is payable to the Department Health and Human Services (sub-lease arrangement).

NOTE 7: RISKS, CONTINGENCIES AND VALUATION UNCERTAINTIES

HPV is exposed to risk from its activities and outside factors. It is required 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 HPV is related mainly to fair value determination.

Structure

7.1 Financial Instruments

7.2 Contingent Assets and Contingent Liabilities

NOTE 7.1: FINANCIAL INSTRUMENTS

(a) Financial Risk Management Objectives and Policies

Health Purchasing Victoria's principal financial instruments comprise:

- Cash Assets
- Receivables (excluding statutory receivables)
- 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 and financial liability, are disclosed in this note.

HPV's main financial risks include credit risk, liquidity risk and interest rate risk. HPV manages these financial risks in accordance with its risk management policy.

Categorisation of financial instruments

| | NOTE | Carrying Amount 2018 \$ | Carrying Amount 2017 \$ |
|--|------|-------------------------------|-------------------------------|
| Contractual Financial Assets | | | |
| Cash and cash equivalents | 6.1 | 1,214,811 | 2,074,875 |
| Trade and other receivables | 5.1 | 55,742 | 127,080 |
| Other Financial Assets | 4.1 | 3,000,000 | 3,000,000 |
| Total Contractual Financial Assets ⁽ⁱ⁾ | | 4,270,553 | 5,201,955 |
| Contractual Financial Liabilities | | | |
| Trade and other payables | 5.3 | 582,877 | 931,004 |
| Total Contractual Financial Liabilities ⁽ⁱⁱ⁾ | | 582,877 | 931,004 |

(i) The total amount of financial assets disclosed here excludes statutory receivables (i.e. GST input tax credit recoverable).

(ii) The total amount of financial liabilities disclosed here excludes statutory payables (i.e. Taxes payable).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

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

| | Net holding gain / (loss) 2018 \$ | Net holding gain / (loss) 2017 \$ |
|--|--|--|
| Contractual Financial Assets | | |
| Cash and cash equivalents ⁽ⁱ⁾ | 48,349 | 51,175 |
| Trade and other receivables ⁽ⁱ⁾ | - | - |
| Other Financial Assets ⁽ⁱ⁾ | 69,978 | 73,888 |
| Total Contractual Financial Assets | 118,327 | 125,063 |
| Contractual Financial Liabilities | | |
| Interest Bearing Liabilities ⁽ⁱⁱ⁾ | - | - |
| Total Contractual Financial Liabilities | - | - |

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

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

(b) Credit Risk

Credit risk arises from the contractual financial assets of Health Purchasing Victoria, which comprise cash and deposits, and non-statutory receivables. Health Purchasing Victoria's exposure to credit risk arises from the potential default of a counterparty on their contractual obligations resulting in financial loss to Health Purchasing Victoria. Credit risk is measured at fair value and is monitored on a regular basis.

Health Purchasing Victoria 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. It is Health Purchasing Victoria's policy to only deal with banks with a credit rating of A1+ or greater.

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 Health Purchasing Victoria's maximum exposure to credit risk without taking account of the value of any collateral obtained.

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

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

| | Financial institutions (A1+ credit rating) \$ | Government agencies (AAA credit rating) \$ | Government agencies (BBB credit rating) \$ | Other (non-rated Health Services) \$ | Total \$ |
|---|---|---|---|---|------------------|
| 2018 | | | | | |
| Contractual Financial Assets | | | | | |
| Cash and Cash Equivalents | 1,214,811 | - | - | - | 1,214,811 |
| Receivables | | | | | |
| - Trade debtors | - | - | - | 6,438 | 6,438 |
| - Other receivables | 49,304 | - | - | - | 49,304 |
| Other financial assets | 3,000,000 | - | - | - | 3,000,000 |
| Total Contractual Financial Assets | 4,264,115 | - | - | 6,438 | 4,270,553 |
| 2017 | | | | | |
| Contractual Financial Assets | | | | | |
| Cash and Cash Equivalents | 2,074,875 | - | - | - | 2,074,875 |
| Receivables | | | | | |
| - Other receivables | 50,971 | - | - | 76,109 | 127,080 |
| Other financial assets | 3,000,000 | - | - | - | 3,000,000 |
| Total Contractual Financial Assets | 5,125,846 | - | - | 76,109 | 5,201,955 |

The total amounts disclosed above exclude statutory amounts (e.g. amounts owing from the Victorian Government and GST input tax credits recoverable).

It is impractical for Health Purchasing Victoria to disclose credit ratings in respect of receivables. Consequently receivables are disclosed under the "Other" category.

Ageing analysis of financial asset as at 30 June

| | Carrying Amount \$ | Not Past Due and Not Impaired \$ | Past Due But Not Impaired | | | | Impaired Financial Assets \$ |
|---|-----------------------|-------------------------------------|---------------------------|------------------|-------------------------|-----------------|---------------------------------|
| | | | Less than 1 Month \$ | 1-3 Months \$ | 3 months - 1 Year \$ | 1-5 Years \$ | |
| 2018 | | | | | | | |
| Contractual Financial Assets | | | | | | | |
| Cash and Cash Equivalents | 1,214,811 | 1,214,811 | - | - | - | - | - |
| Receivables | | | | | | | |
| - Trade debtors | 6,438 | 6,438 | - | - | - | - | - |
| - Other receivables | 49,304 | 49,304 | - | - | - | - | - |
| Other financial assets | 3,000,000 | 3,000,000 | - | - | - | - | - |
| Total Contractual Financial Assets | 4,270,553 | 4,270,553 | - | - | - | - | - |
| 2017 | | | | | | | |
| Contractual Financial Assets | | | | | | | |
| Cash and Cash Equivalents | 2,074,875 | 2,074,875 | - | - | - | - | - |
| Receivables | | | | | | | |
| - Other receivables | 127,080 | 127,080 | - | - | - | - | - |
| Other financial assets | 3,000,000 | 3,000,000 | - | - | - | - | - |
| Total Contractual Financial Assets | 5,201,955 | 5,201,955 | - | - | - | - | - |

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

Ageing analysis of financial assets excludes statutory financial assets (i.e. GST input tax credit).

There are no material financial assets which are individually determined to be impaired. Currently Health Purchasing Victoria does not hold any collateral as security nor credit enhancements relating to any of 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 the carrying amounts as indicated. The ageing analysis table above discloses the ageing only of contractual financial assets that are past due but not impaired.

(c) Liquidity Risk

Liquidity risk is the risk that Health Purchasing Victoria would be unable to meet its financial obligations as and when they fall due.

Health Purchasing Victoria's maximum exposure to liquidity risk is the carrying amount of financial liabilities as disclosed in the face of the balance sheet.

The following table discloses the contractual maturity analysis for Health Purchasing Victoria'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 | Contractual Cash Flows | Maturity Dates | | | |
|--|-----------------|------------------------|-------------------|----------------|-------------------|-----------|
| | | | Less than 1 Month | 1-3 Months | 3 months - 1 Year | 1-5 Years |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| 2018 | | | | | | |
| Contractual Financial Liabilities | | | | | | |
| Payables | 582,877 | 582,877 | 213,375 | 369,502 | - | - |
| Total Contractual Financial Liabilities | 582,877 | 582,877 | 213,375 | 369,502 | - | - |
| 2017 | | | | | | |
| Contractual Financial Liabilities | | | | | | |
| Payables | 931,004 | 931,004 | 252,213 | 678,791 | - | - |
| Total Contractual Financial Liabilities | 931,004 | 931,004 | 252,213 | 678,791 | - | - |

Ageing analysis of financial liabilities excludes statutory financial liabilities (i.e. GST payable).

(d) Fair Value

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

The aggregate net fair value of financial assets and liabilities, both recognised and unrecognised, at the balance date is equal to their carrying amount as per the balance sheet.

(e) Market Risk

Health Purchasing Victoria'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 Rate Risk

Health Purchasing Victoria 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.

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

Interest Rate Risk

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.

Health Purchasing Victoria has minimal exposure to cash flow interest rate risks through its cash and deposits that are at floating rate.

Health Purchasing Victoria 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 that for cash at bank, financial assets can be left at floating rate without necessarily exposing Health Purchasing Victoria to significant negative risk, management monitors movement in interest rates on a daily basis.

Other Price Risk

Health Purchasing Victoria's exposure to 'Other Price Risk' arises from its current investment portfolio. The investment portfolio has experienced a reduction in value due to the volatility of the global financial markets and there is an increasing expectation that due to the nature of these investments the original face value may not be realised on maturity.

As a consequence of these events, Health Purchasing Victoria has taken all possible steps to strengthen its financial policies and internal controls relating to the investment of surplus funds.

Interest Rate Exposure of Financial Assets and Liabilities as at 30 June

| | Weighted Average Effective Interest Rate (%) | Carrying Amount \$ | Interest Rate Exposure | | |
|--|--|-----------------------|---------------------------|------------------------------|----------------------------|
| | | | Fixed Interest Rate \$ | Variable Interest Rate \$ | Non-Interest Bearing \$ |
| 2018 | | | | | |
| Contractual Financial Assets | | | | | |
| Cash and Cash Equivalents | 1.72 | 1,214,811 | - | 1,214,811 | - |
| Receivables ⁽ⁱ⁾ | | | | | |
| - Trade debtors | 0.00 | 6,438 | - | - | 6,438 |
| - Other receivables | 0.00 | 49,304 | - | - | 49,304 |
| Other financial assets | 2.33 | 3,000,000 | 3,000,000 | - | - |
| | | 4,270,553 | 3,000,000 | 1,214,811 | 55,742 |
| Contractual Financial Liabilities | | | | | |
| Payables ⁽ⁱ⁾ | 0.00 | 582,877 | - | - | 582,877 |
| | | 582,877 | - | - | 582,877 |
| 2017 | | | | | |
| Contractual Financial Assets | | | | | |
| Cash and Cash Equivalents | 1.52 | 2,074,875 | - | 2,074,875 | - |
| Receivables ⁽ⁱ⁾ | | | | | |
| - Other receivables | 0.00 | 127,080 | - | - | 127,080 |
| Other financial assets | 2.42 | 3,000,000 | 3,000,000 | - | - |
| | | 5,201,955 | 3,000,000 | 2,074,875 | 127,080 |
| Contractual Financial Liabilities | | | | | |
| Payables ⁽ⁱ⁾ | 0.00 | 931,004 | - | - | 931,004 |
| | | 931,004 | - | - | 931,004 |

(i) The carrying amount excludes statutory financial assets and liabilities (i.e. GST input tax credit and GST payable)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

(e) Market Risk (cont)

Sensitivity Disclosure Analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, Health Purchasing Victoria 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 +1% and -1% in market interest rates (AUD) from year-end rates of 1.50%
- A parallel shift of +1% and 1% in inflation rate from year-end rates of 3.81%

The following table discloses the impact on net operating result and equity for each category of financial instrument held by Health Purchasing Victoria 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% | | -5% | | +10% | |
| | | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ | Profit \$ | Equity \$ |
| 2018 | | | | | | | | | |
| Contractual Financial Assets | | | | | | | | | |
| Cash and Cash Equivalents ⁽ⁱ⁾ | 1,214,811 | (12,148) | (12,148) | 12,148 | 12,148 | - | - | - | - |
| Other financial assets | 3,000,000 | (30,000) | (30,000) | 30,000 | 30,000 | - | - | - | - |
| | 4,214,811 | (42,148) | (42,148) | 42,148 | 42,148 | - | - | - | - |
| 2017 | | | | | | | | | |
| Contractual Financial Assets | | | | | | | | | |
| Cash and Cash Equivalents ⁽ⁱ⁾ | 2,074,875 | (20,749) | (20,749) | 20,749 | 20,749 | - | - | - | - |
| Other financial assets | 3,000,000 | (30,000) | (30,000) | 30,000 | 30,000 | - | - | - | - |
| | 5,074,875 | (50,749) | (50,749) | 50,749 | 50,749 | - | - | - | - |

(i) e.g. Sensitivity of cash and cash equivalents to +1% movement in interest rates: [$\$4,214,811 \times 0.02$]- $[\$4,214,811 \times 0.01]$ = \$42,148.
Similarly -1% movement in interest rate impact = \$(42,148).

The carrying amount excludes statutory financial assets and liabilities (i.e. GST input tax credit and GST payable).

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 Health Purchasing Victoria'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*.

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.

NOTE 7.1: FINANCIAL INSTRUMENTS (CONTINUED)

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 Health Purchasing Victoria based on their fair value, 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. Any dividend or interest on a financial asset is recognised in the net result for the year.

Receivables

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, receivables are measured at amortised cost using the effective interest method, less any impairment.

Receivables category includes cash and deposits, term deposits with maturity greater than three months, trade receivables, and other receivables, but not statutory receivables.

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 and loss over the period of the interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include Health Purchasing Victoria's contractual payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

NOTE 7.2: CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Health Purchasing Victoria is not aware of any contingent assets as at 30 June 2018. (2017: Nil)

Health Purchasing Victoria is not aware of any contingent liabilities as at 30 June 2018. (2017: Nil)

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 Ex gratia expenses
- 8.9 Events occurring after the balance sheet date
- 8.10 Economic dependency
- 8.11 AASBs issued that are not yet effective
- 8.12 Glossary of terms and style conventions

NOTE 8.1: EQUITY

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| (a) Capital Projects Reserve | | |
| Balance at the beginning of the reporting period | - | 210,850 |
| Transfer to/(from) Capital Projects Reserve | - | (210,850) |
| Balance at the end of the reporting period | - | |
| (b) Contributed Capital | | |
| Balance at the beginning of the reporting period | 31,570 | 31,570 |
| Balance at the end of the reporting period | 31,570 | 31,570 |
| (c) Accumulated Surplus | | |
| Balance at the beginning of the reporting period | 4,238,433 | 4,485,934 |
| Net Result for the Year | (606,896) | (458,351) |
| Transfer to and from Capital Projects Reserve Surplus | - | 210,850 |
| Balance at the end of the reporting period | 3,631,537 | 4,238,433 |
| Total Equity at end of financial year | 3,663,107 | 4,270,003 |

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.

Transfers of net assets arising from administrative restructurings are treated as contributions by owners. Transfers of net liabilities arising from administrative restructures go through the comprehensive operating statement.

NOTE 8.1: EQUITY (CONTINUED)

Capital projects reserve

A capital projects reserve is established where Health Purchasing Victoria has possession or title to 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

| | 2018 \$ | 2017 \$ |
|---|------------------|------------------|
| Net Result for the Year | (606,896) | (458,351) |
| Non cash movements | | |
| Depreciation and Amortisation | 628,267 | 516,732 |
| Movements included in investing and financing activities | | |
| Net (Gain)/Loss from Plant and Equipment | - | 3,733 |
| Movements in assets and liabilities | | |
| Change in Operating Assets and Liabilities | | |
| (Increase)/Decrease in Current Receivables | 108,309 | (57,426) |
| (Increase)/Decrease in Non Current Receivables | - | - |
| (Increase)/Decrease in Prepayments | (147,887) | (5,374) |
| Increase/(Decrease) in Payables | (610,408) | 300,726 |
| Increase/(Decrease) in Employee Benefits | (6,253) | 373,229 |
| Net Cash Inflow From Operating Activities | (634,868) | 673,269 |

NOTE 8.3: OPERATING SEGMENTS

Health Purchasing Victoria's functions as described in Section 131 of the *Health Services Act 1988* on behalf of the Victorian public health sector and operates in one sector being procurement and supply chain support for the health sector.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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 |
|---|------------------------|
| Responsible Ministers | |
| The Honourable Jill Hennessy, Minister of Health, Minister for Ambulance Services | 1/07/2017 - 30/06/2018 |
| Governing Board | |
| Mr Felix Pintado (Chair) | 1/07/2017 - 30/06/2018 |
| Ms Anna Burgess | 1/07/2017 - 30/06/2018 |
| Dr Robyn Mason | 1/07/2017 - 30/06/2018 |
| Ms Teresa Fels | 1/07/2017 - 30/06/2018 |
| Mr Paul Slape | 1/07/2017 - 30/06/2018 |
| Mr Dale Fraser | 1/07/2017 - 30/06/2018 |
| Mr Mark Perica | 1/07/2017 - 30/06/2018 |
| Mr Geoff Swier | 1/07/2017 - 30/06/2018 |
| Mr Terry Welch | 1/07/2017 - 30/06/2018 |
| Mr Chris Barrett | 1/07/2017 - 30/06/2018 |
| Ms Julie Fahey | 1/07/2017 - 30/06/2018 |
| Accountable Officers: | |
| Ms Elaine Ko (Chief Executive) | 1/07/2017 - 24/12/2018 |
| Ms Trudy Hart (Acting Chief Executive) | 4/12/2017 - 30/06/2018 |

Remuneration of Responsible Persons

The number of Responsible Persons is shown in their relevant income bands;

| | 2018 No. | 2017 No. |
|--|------------------|------------------|
| Income Band | | |
| Nil | 4 | 4 |
| \$0 - \$9,999 | 0 | 1 |
| \$10,000 - \$19,999 | 5 | 5 |
| \$20,000 - \$29,999 | 2 | 2 |
| \$80,000 - \$89,999 | 0 | 0 |
| \$110,000 - \$119,999 | 0 | 0 |
| \$170,000 - \$179,999 | 1 | 0 |
| \$270,000 - \$279,999 | 1 | 1 |
| Total Numbers | 13 | 13 |
| Total remuneration received or due and receivable by Responsible Persons from the reporting entity amounted to: | \$573,513 | \$436,253 |

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 OFFICERS' DISCLOSURES

Executive Officers' Remuneration

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

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

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

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

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

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

Share-based payments are cash or other assets paid or payable as agreed between the health service and the employee, provided specific vesting conditions, if any, are met.

Several factors affected total remuneration payable to executives over the year. A number of resignations and vacancies had a significant impact on total remuneration.

Remuneration of Executive Officers

| | 2018 \$ | 2017 \$ |
|---|----------------|------------------|
| Short-term employee benefits | 801,225 | 934,836 |
| Post-employment benefits | 74,508 | 124,078 |
| Other long-term benefits | 21,220 | 39,385 |
| Total remuneration ⁽ⁱ⁾ | 896,953 | 1,098,299 |
| Total Number of Executives | 6 | 6 |
| Total annualised employee equivalent (AEE) ⁽ⁱⁱ⁾ | 4.06 | 4.76 |

(i) Total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (Note 8.6).

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 8.6: RELATED PARTIES

HPV is a wholly-owned and controlled entity of the State of Victoria. Related parties of HPV include:

- all key management personnel and their close family members;
- all Cabinet Ministers and their close family members; and
- all 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.

Significant transactions with government-related entities

HPV received funding of \$16,040,552 from the Department of Health and Human Services.

Key management personnel (KMP) of HPV include the Portfolio Ministers and Cabinet Ministers, Members of the Governing Board (refer Note 8.4) and the Accountable Officer. The compensation detailed below excludes the salaries and benefits the Portfolio Ministers receive. The Minister's remuneration and allowances is set by the *Parliamentary Salaries and Superannuation Act 1968*, and is reported within the Department of Parliamentary Services' Financial Report.

Compensation

| | 2018 \$ | 2017 \$ |
|------------------------------|----------------|----------------|
| Short-term employee benefits | 565,080 | 393,687 |
| Post-employment benefits | 31,906 | 34,598 |
| Other long-term benefits | 3,812 | 7,968 |
| Total | 600,798 | 436,253 |

Transactions with key management personnel and other related parties

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

NOTE 8.7: REMUNERATION OF AUDITORS

| | 2018 \$ | 2017 \$ |
|---|---------------|---------------|
| Victorian Auditor-General's Office | | |
| - Audit and review of financial statement | 31,500 | 26,750 |
| RSM Australia Pty Ltd | | |
| - Internal Audit Services | 42,960 | 40,750 |
| Total Remuneration of Auditors | 74,460 | 67,500 |

NOTE 8.8: EX GRATIA EXPENSES

| | 2018 \$ | 2017 \$ |
|--|---------------|------------|
| HPV has made the following ex gratia expenses: | | |
| Compensation for economic loss | 16,808 | - |
| Total ex gratia expenses | 16,808 | - |

NOTE 8.9: 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 Health Purchasing Victoria 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 and are considered to be of material interest.

Health Purchasing Victoria is not aware of any events occurring after reporting date that would have a material impact on the financial statements.

NOTE 8.10: ECONOMIC DEPENDENCY

The financial statements have been prepared on a going concern basis as at 30 June 2018. Health Purchasing Victoria has:

- A deficit from ordinary activities of **\$0.61 million** for the year ended 30 June 2018 (deficit of \$0.46 million for the year ended 30 June 2017).
- A working capital surplus of **\$2.61 million** as at 30 June 2018 (\$2.85 million as at 30 June 2017).

Health Purchasing Victoria is dependent on appropriations from the Department of Health and Human Services for its continued operations and ability to carry out its activities as defined within the *Health Services Act 1988*.

Going Concern

The going concern basis was used to prepare the financial statements. The Department of Health and Human Services has provided assurances to support the ongoing operations and financial requirements of Health Purchasing Victoria and to provide Health Purchasing Victoria with adequate cash flow support to enable Health Purchasing Victoria to meet its current and future obligations as and when these fall due.

NOTE 8.11: AASs ISSUED THAT ARE NOT YET EFFECTIVE

Certain new Australian accounting standards have been published that are not mandatory for the 30 June 2018 reporting period. The Department of Treasury and Finance (DTF) assesses the impact of these new standards and advises Health Purchasing Victoria of their applicability and early adoption where applicable.

As at 30 June 2018, the following standards and interpretations had been issued by the AASB but were not yet effective. They become effective for the first financial statements for reporting periods commencing after the stated operative dates as detailed in the table below. Health Purchasing Victoria has not and does not intend to adopt these standards early.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 8.11: AASs ISSUED THAT ARE NOT YET EFFECTIVE (CONTINUED)

| Standard / Interpretation | Summary | Applicable for annual reporting periods beginning on: | Impact on Financial Statements |
|---|---|---|---|
| AASB 9 <i>Financial Instruments</i> | 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 January 2018 | While there will be no significant impact arising from AASB 9, there will be a change to the way financial instruments are disclosed. |
| AASB 15 <i>Revenue from Contracts with Customers</i> | 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 January 2018 | The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications. |
| AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i> | This Standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019. | 1 January 2019 | This amending standard will defer the application period of AASB 15 for not-for-profit entities to the 2019-20 reporting period. |
| AASB 2016-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i> | 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: <ul style="list-style-type: none"> 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 clarifies circumstances when a contract with a customer is within the scope of AASB 15. | 1 January 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. |

NOTE 8.11: AASs ISSUED THAT ARE NOT YET EFFECTIVE (CONTINUED)

| Standard / Interpretation | Summary | Applicable for annual reporting periods beginning on: | Impact on Financial Statements |
|--|--|---|---|
| AASB 16 <i>Leases</i> | The key changes introduced by AASB 16 include the recognition of operating leases (which are currently not recognised) on balance sheet. | 1 January 2019 | The assessment has indicated that most operating leases, with the exception of short-term and low value leases, will come on to the balance sheet and will be recognised as right of use assets with a corresponding lease liability. In the operating statement, the operating lease expense will be replaced by depreciation expense of the asset and an interest charge. |
| AASB 1058 <i>Income of Not-for-Profit Entities</i> | This Standard will replace the majority of income recognition in relation to government grants and other types of contributions requirements relating to public sector not-for-profit entities, previously in AASB 1004 <i>Contributions</i> . AASB 1058 establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objective. | 1 January 2019 | The current revenue recognition for grants is to recognise revenue up front upon receipt of the funds. This may change under AASB 1058, as capital grants for the construction of assets will need to be deferred. Income will be recognised over time, upon completion and satisfaction of performance obligations for assets being constructed, or income will be recognised at a point in time for acquisition of assets. The revenue recognition for operating grants will need to be analysed to establish whether the requirements under other applicable standards need to be considered for recognition of liabilities (which will have the effect of deferring the income associated with these grants). Only after that analysis would it be possible to conclude whether there are any changes to operating grants. The impact on current revenue recognition of the changes is the phasing and timing of revenue recorded in the profit and loss statement. |

Health Purchasing Victoria has also considered the impact of other Australian Accounting Standards (AASs), namely AASB 2017-2 *Amendments to AASs – Further Annual improvements 2014-16 Cycle* and AASB 2016-8 *Amendments to AASs – Australian implementation guidance for Not-for-Profit Entities*.

When considering the application of the introduction of these standards, Health Purchasing Victoria has currently assessed these not to be relevant when they become operative.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 8.12: GLOSSARY OF TERMS AND STYLE CONVENTIONS

Amortisation

Amortisation is the expense which results from the consumption, extraction or use over time of a non-produced physical or intangible asset.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense reduces the 'net result for the year'.

Effective interest method

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

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

Ex gratia expenses

Ex gratia expenses mean the voluntary payment of money or other non-monetary benefit (e.g. a write-off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability, or claim against the entity.

Contractual financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual or statutory right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

NOTE 8.12: GLOSSARY OF TERMS AND STYLE CONVENTIONS (CONTINUED)

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

Financial liability

A financial liability is any liability that is:

- (a) A contractual obligation:
 - (i) to deliver cash or another financial asset to another entity; or
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- (b) A contract that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Contractual financial statements

A complete set of financial statements comprises:

- (a) Balance sheet as at the end of the period;
- (b) Comprehensive operating statement for the period;
- (c) A statement of changes in equity for the period;
- (d) Cash flow statement for the period;
- (e) Notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) Comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
- (g) A statement of financial position at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

Grants and other transfers

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. Grants can be paid as general purpose grants which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 8.12: GLOSSARY OF TERMS AND STYLE CONVENTIONS (CONTINUED)

General government sector

The general government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those which are largely for collective consumption by the community and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

Intangible produced assets

Refer to produced assets in this glossary.

Intangible non-produced assets

Refer to non-produced asset in this glossary.

Interest expense

Costs incurred in connection with the borrowing of funds includes interest on bank overdrafts and short-term and long-term liabilities, amortisation of discounts or premiums relating to liabilities, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Interest income

Interest income includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

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 State of Victoria.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. A joint arrangement has the following characteristics:

- (a) The parties are bound by a contractual arrangement.
- (b) The contractual arrangement gives two or more of those parties joint control of the arrangement.

A joint arrangement is either a joint operation or a joint venture.

Liabilities

Liabilities refers to interest-bearing liabilities mainly raised from public liabilities raised through the Treasury Corporation of Victoria, finance leases and other interest-bearing arrangements. Liabilities also include non-interest-bearing advances from government that are acquired for policy purposes.

Net acquisition of non-financial assets (from transactions)

Purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. It includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write-offs, impairment write-downs and revaluations.

NOTE 8.12: GLOSSARY OF TERMS AND STYLE CONVENTIONS (CONTINUED)

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other comprehensive income'.

Net result from transactions/net operating balance

Net result from transactions or net operating balance is a key fiscal aggregate and is income from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, investment properties, cultural and heritage assets, intangible and biological assets.

Non-produced assets

Non-produced assets are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

Non-profit institution

A legal or social entity that is created for the purpose of producing or distributing goods and services but is not permitted to be a source of income, profit or other financial gain for the units that establish, control or finance it.

Payables

Includes short- and long-term trade debt and accounts payable, grants, taxes and interest payable.

Produced assets

Produced assets include buildings, plant and equipment, inventories, cultivated assets and certain intangible assets. Intangible produced assets may include computer software, motion picture films, and research and development costs (which does not include the startup costs associated with capital projects).

Receivables

Includes amounts owing from government through appropriation receivable, short- and long-term trade credit and accounts receivable, accrued investment income, grants, taxes and interest receivable.

Sales of goods and services

Refers to income from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods and services, fees from regulatory services and work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services income.

Supplies and services

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of the department.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

NOTE 8.12: GLOSSARY OF TERMS AND STYLE CONVENTIONS (CONTINUED)

Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

zero, or rounded to zero

(xxx) negative numbers

201x year period

201x-1x year period





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