



Part 4: Financial Statements

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Part 4.1: 2016-17 Financial Statements Process



The Department is required to prepare annual financial statements to comply with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). The statements must comply with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* and Australian Accounting Standards. Additional guidance is provided by the Department of Finance through Resource Management Guide No. 125.

In preparing the 2016-17 financial statements, the Department applied professional judgement to ensure that the financial statements fairly present the financial position, financial performance and cash flows.

From 2016-17, the Department has reduced disclosure of certain technical information to shorten the statements and enhance their readability. The Department has also reformatted its financial statements to increase the proximity of like disclosures and incorporate accounting policy detail with the items they describe. Items that do not add material value in separate disclosure have been disclosed in aggregate form only.

The Department has continued its practice of additional disclosures where, in the opinion of the Chief Financial Officer, these disclosures add value for the reader. In 2016-17, this includes a note specific to the Therapeutic Goods Administration special account and detailed descriptions supporting the note disclosures.

The Department's quality assurance framework applied to the financial statements includes independent advice from the Audit and Risk Committee to the Secretary on the preparation and review of the financial statements. The financial statements are audited by the Australian National Audit Office.

Readers of the financial statements will be assisted by the colour coding incorporated in the statements, notes and narrative. Expenses administered by the Department on behalf of the Government are shaded grey, unshaded items are operational in nature (departmental expenses), and accounting policy has a mauve background.

For further information, refer *Chief Operating Officer's Report* on p. 12, which contains a summary of the Department's 2016-17 financial results.

Part 4.2: 2016-17 Financial Statements

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Department of Health

Independent Auditor's Report



Auditor-General for Australia



INDEPENDENT AUDITOR'S REPORT

To the Minister for Health

Opinion

In my opinion, the financial statements of the Department of Health for the year ended 30 June 2017:

- comply with Australian Accounting Standards – Reduced Disclosure Requirements and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- present fairly the financial position of the Department of Health as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Department of Health, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

- Statement by the Secretary and Chief Financial Officer;
- Overview;
- Departmental Statement of Comprehensive Income;
- Departmental Statement of Financial Position;
- Departmental Statement of Changes in Equity;
- Departmental Cash Flow Statement;
- Administered Schedule of Comprehensive Income;
- Administered Schedule of Assets and Liabilities;
- Administered Reconciliation Schedule;
- Administered Cash Flow Statement; and
- Notes to and forming part of the financial statements, comprising significant accounting policies and other explanatory information.

Basis for Opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Department of Health in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* to the extent that they are not in conflict with the *Auditor-General Act 1997* (the Code). I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Accuracy of payments of personal benefits and subsidies

Refer to Note 18B. 'Personal benefits' and Note 18C 'Subsidies – aged care'

I focused on expenses related to health and aged care

How the audit addressed the matter

To address this key audit matter, I have:

- gained an understanding of the key business processes, controls and information technology (IT) systems related to the calculation and processing of payments;

Department of Health

Independent Auditor's Report

programs including Medicare, Pharmaceutical Benefits Scheme and Private Health Insurance Rebate because these payments are:

- calculated by multiple, complex information technology systems which have been designed to meet legislative requirements;
- based on the information provided by the payment recipients and may be significantly impacted by delays in recipients providing correct or updated information and/or provision of misleading information in order to obtain financial gain; and
- significant to the financial statements;

The Department of Health is reliant on the Department of Human Services (Human Services) for making these payments. During 2016–17 financial year, Health recognised personal benefits expenses of \$42,555,967,000 and \$12,002,391 of aged care subsidies expenses.

- assessed and tested the design and operation of the IT environment including controls related to the security, access management and unauthorised changes to the IT systems;
- assessed the internal controls related to the accreditation and registration of medical providers, pharmacies and aged care providers;
- assessed the compliance risk management processes including risk identification, risk assessment and risk prioritisation processes for a selection of payments for further evaluation; and
- tested a sample of payments to check eligibility of recipients and accuracy of payments.

Key audit matter

Valuation of personal benefits provisions and subsidies provisions

Refer to Note 18B 'Personal benefits provisions' and Note 18C 'Subsidies provisions'

I considered this area a key audit matter due to the significant judgments involved in estimating the personal benefits and subsidies provisions.

The judgements relate to the amount and timing of future cash flows, estimating the period over which these provisions are expected to be settled by the Department of Health and use of appropriate discount rate. These judgements rely on the quality of the underlying data used in the estimation process.

As at 30 June 2017, the personal benefits provisions were \$1,057,773,000 and subsidies provisions were \$450,000,000.

How the audit addressed the matter

To address this key audit matter, I have:

- evaluated the Department of Health's review and approval process to assess the reasonableness of actuarial assumptions used in the estimation of provisions;
- assessed the appropriateness of significant assumptions and judgements made during the estimation process including the timing of future cash flows and appropriateness of the discount rate used; and
- assessed the sources of data used in the estimation process for accuracy, completeness and relevance.

Key audit matter

Completeness and accuracy of Pharmaceutical Benefits Scheme recoveries

Refer to Note 21A 'Recoveries – PBS drug recoveries' and 'Accrued recoveries revenue – Pharmaceutical benefits'

I considered this area a key audit matter due to the:

- complexities involved in calculating Pharmaceutical Benefits Scheme (PBS) recovery revenue using data sourced from the Department of Human Services;
- complex risk sharing arrangements between the Department of Health and pharmaceutical companies for recovery of PBS expenditure; and
- weaknesses identified during the 2015–16

How the audit addressed the matter

To address this key audit matter, I have:

- tested a sample of invoices to assess whether invoices were raised in accordance with the recovery arrangements with pharmaceutical companies;
- assessed the sources of data used in the estimation process for accuracy, completeness and relevance.
- tested the mathematical accuracy of the model. This involved recalculating the recoveries revenue, on a sample basis, in accordance with the agreements with pharmaceutical companies; and
- on a sample basis, assessed whether invoices

Department of Health

Independent Auditor's Report

financial statements audit in the policies and procedures related to capturing and reporting the recoveries. These weaknesses were reported as a moderate risk issue in the ANAO Report No. 33 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*.

raised subsequent to year-end were recorded in the correct accounting period.

In 2016–17, \$3,267,515,000 of PBS drug recoveries revenue, including \$856,998,000 of accrued PBS recoveries revenue was recognised.

Accountable Authority's Responsibility for the Financial Statements

As the Accountable Authority of the Department of Health the Secretary is responsible under the *Public Governance, Performance and Accountability Act 2013* for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards – Reduced Disclosure Requirements and the rules made under that Act. The Secretary is also responsible for such internal control as the Secretary determines is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Secretary is responsible for assessing the Department of Health's ability to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Secretary is also responsible for disclosing matters related to going concern as applicable and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are 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 National Audit Office 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 the financial statements.

As part of an audit in accordance with the Australian National Audit Office 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 statements, 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 Accountable Authority;
- conclude on the appropriateness of the Accountable Authority'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 statements 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; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

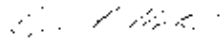
I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Department of Health

Independent Auditor's Report

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office



Grant Hehir
Auditor-General

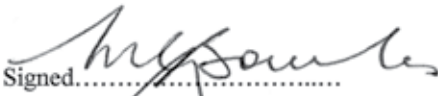
Canberra
31 August 2017

Department of Health

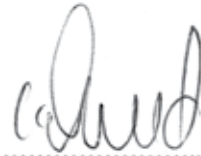
Statement by the Secretary and Chief Financial Officer

In our opinion, the attached financial statements for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Department of Health will be able to pay its debts as and when they fall due.

Signed.....

Martin Bowles PSM
Secretary
Department of Health



Signed.....

Craig Boyd
Chief Financial Officer
Department of Health

31 August 2017

31 August 2017

Department of Health

Overview

1. Objectives of the Department of Health

The Department of Health (the Department) is an Australian Government controlled entity which is a not-for-profit entity. The objective of the Department is to lead and shape Australia's health system and sporting outcomes through evidence based policy, well targeted programs and best practice regulation.

Effective 1 July 2016, the Department's Outcome and Program structure were revised and the number of Outcomes were reduced from 11 to 6. Details of the revised Outcome and Program structure are included in the 2016-17 Health Portfolio Budget Statements. The Outcomes effective for 2016-17 were:

Outcome 1	Health System Policy, Design and Innovation;
Outcome 2	Health Access and Support Services;
Outcome 3	Sport and Recreation;
Outcome 4	Individual Health Benefits;
Outcome 5	Regulation, Safety and Protection; and
Outcome 6	Ageing and Aged Care.

The continued existence of the Department in its present form and with its present programs is dependent on Government policy and on continued funding by Parliament for the Department's administration and programs.

Department activities contributing toward these outcomes are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the Department in its own right. Administered activities involve the management or oversight by the Department, on behalf of the Government, of items controlled or incurred by the Government.

The Department is responsible for the following administered activities on behalf of the Government:

- payment of subsidies for residential, aged care and community programs;
- payment of personal benefits for Medicare services, pharmaceutical services and affordability, and choice of health care initiatives; and
- payment of grants, with the majority of these made to non-profit organisations.

2. Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The financial statements and notes have been prepared in accordance with:

- Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 for reporting periods ending on or after 1 July 2015; and
- Australian Accounting Standards and Interpretations – Reduced Disclosure Requirements issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements and notes have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets held at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars.

Administered revenues, expenses, assets, liabilities and cash flows reported in the administered schedules and related notes are accounted for on the same basis and using the same policies as for Departmental items, except as otherwise stated.

Department of Health

Overview

Like items together with disclosure of the relevant accounting policy are grouped together in the notes to the financial statements. The accounting policy disclosures have been shaded mauve to distinguish them from other commentary.

The Department's financial statements include the financial statements of the Department of Health and three Departmental special accounts, the Therapeutic Goods Administration (TGA), the Office of the Gene Technology Regulator (OGTR) and the National Industrial Chemicals Notification and Assessment Scheme (NICNAS).

All transactions between the Department and the three departmental special accounts have been eliminated from the departmental financial statements.

Comparative Figures

Comparative figures have been adjusted, where required, to conform to changes in presentation of the financial statements.

3. New Australian Accounting Standards

Adoption of new Australian Accounting Standard requirements

The Department adopted all new, revised and amending standards and interpretations that were issued by the AASB prior to the sign-off date and are applicable to the current reporting period. The adoption of these standards and interpretations did not have a material effect, and are not expected to have a future material effect on the Department's financial statements.

During the period, the Department adopted AASB 124 *Related Party Transactions* which is reported in detail at Note 5: Key management personnel remuneration and Note 6: Related party transactions.

Future accounting standard requirements

The following new, revised and amending standards and interpretations were issued by the AASB prior to the signing of the statement by the Secretary and Chief Financial Officer, for which the Department is still assessing the potential impact on the financial statements:

- AASB 9 *Financial Instruments*;
- AASB 15 *Revenue from Contracts with Customers*;
- AASB 16 *Leases*; and
- AASB 1058 *Income of Not-for-Profit Entities*.

All other new, revised, and amending standards or interpretations that have been issued by the AASB prior to sign off date that are applicable to the future reporting period(s) are not expected to have a future material financial impact on the Department's financial statements.

4. Significant Accounting Judgements and Estimates

Except where specifically identified and disclosed, the Department has determined that no accounting assumptions and estimates have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

5. Transactions with the Australian Government as Owner

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Government entity under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

The Australian Digital Health Agency (Digital Health) commenced from 1 July 2016. Details of the asset transfer between the Department and Digital Health are included at Note 26: Restructuring.

Department of Health

Overview

6. Taxation

The Department is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office.

7. Correction of prior period error and changes in classification

During 2016-17 the Department determined that its administered recoveries revenue and accrued recoveries relating to Pharmaceutical Benefit Scheme listed drugs were understated in its 2015-16 financial statements. This error was corrected by restating each of the affected financial statement line items for the prior period. There was also an amount reported as recoveries receivable in 2015-16 which should have been classified as loans and receivables. The following table summarises the impact of the restatement of the Department's 2015-16 financial statements.

Administered Schedule of Comprehensive Income			
<i>for the period ended 30 June 2016</i>			
	Previous amount	Adjustments	Restated amount
	\$'000	\$'000	\$'000
Income			
Recoveries	2,556,834	130,793	2,687,627
Other revenue	274,778	-	274,778
Total income	2,831,612	130,793	2,962,405
Net cost of services	52,927,833	(130,793)	52,797,040
Administered Schedule of Assets and Liabilities			
<i>as at 30 June 2016</i>			
	Previous amount	Adjustments	Restated amount
	\$'000	\$'000	\$'000
ASSETS			
Financial assets			
Cash and cash equivalents	171,579	-	171,579
Accrued recoveries ¹	837,220	88,865	926,085
Loans and receivables	536,297	41,928	578,225
Other investments	380,117	-	380,117
Total financial assets	1,925,213	130,793	2,056,006
Total assets administered on behalf of Government	2,118,498	130,793	2,249,291
Net liabilities	1,136,461	(130,793)	1,005,668

8. Events after the reporting period

TGA special account annual charges 2016-17

Sponsors of certain products on the Australian Register of Therapeutic Goods during the 2016-17 year have until 15 September 2017 to apply for exemption from the annual charges for the year. An estimate of the value of the exemptions has been incorporated in 2016-17 revenues.

Administered Inventory

\$0.8m of administered inventory held in the National Medical Stockpile will pass its expiry date during the period July to October 2017 (2016: \$10.117m). Another \$3.3m worth of inventory is due to pass its expiry date at the end of July 2017, however an extension of useful life is possible for these items.

¹ In 2016 accrued recoveries were described as recoveries receivable.

Department of Health

Departmental statement of comprehensive income
for the period ended 30 June 2017

	Notes	ACTUAL		BUDGET ESTIMATE	
		2017 \$'000	2016 \$'000	Original 2017 \$'000	Variance 2017 \$'000
NET COST OF SERVICES					
EXPENSES					
Employee benefits	4A	557,695	464,527	583,308	(25,613)
Suppliers	7A	324,285	304,416	204,951	119,334
Depreciation and amortisation	11	26,548	23,984	28,817	(2,269)
Other expenses	7B	2,978	3,850	11,900	(8,922)
Total expenses		911,507	796,777	828,976	82,531
OWN-SOURCE INCOME					
Revenue	8A	172,247	176,624	175,581	(3,334)
Gains	8B	1,975	448	-	1,975
Total own-source income		174,222	177,072	175,581	(1,359)
Net cost of services		737,284	619,705	653,395	83,889
Revenue from Government	9A	655,162	594,997	625,680	29,482
Deficit attributable to the Australian Government		(82,122)	(24,708)	(27,715)	(54,407)
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Changes in asset revaluation surplus		4,770	-	-	4,770
Total other comprehensive income		4,770	-	-	4,770
Total comprehensive loss attributable to the Australian Government		(77,353)	(24,708)	(27,715)	(49,638)

The above statement should be read in conjunction with the accompanying notes.

Department of Health

Departmental statement of financial position
as at 30 June 2017

	Notes	ACTUAL		BUDGET ESTIMATE	
		2017	2016	Original	Variance
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Financial assets					
Cash and cash equivalents	10A	95,722	90,672	69,374	26,348
Appropriations receivable	9B	31,286	115,572	136,777	(105,491)
Trade and other receivables	8C	18,209	21,548	12,143	6,066
Accrued revenue		2,160	8,649	5,257	(3,097)
Total financial assets		147,378	236,441	223,551	(76,173)
Non-financial assets					
Land and buildings	11	54,923	53,278	52,628	2,295
Property, plant and equipment	11	5,378	6,316	10,062	(4,684)
Intangibles	11	119,147	106,146	151,860	(32,713)
Prepayments		13,149	7,834	4,788	8,361
Lease incentives		13,823	3,895	-	13,823
Total non-financial assets		206,420	177,469	219,338	(12,918)
Total assets		353,798	413,910	442,889	(89,091)
LIABILITIES					
Payables					
Supplier payables		59,416	61,620	85,930	(26,514)
Employee payables	4B	4,593	3,187	19,937	(15,344)
Other payables	7D	51,503	42,009	25,163	26,340
Total payables		115,511	106,816	131,030	(15,519)
Provisions					
Employee provisions	4C	153,207	152,143	162,835	(9,628)
Other provisions	7E	30,398	28,560	27,349	3,049
Total provisions		183,605	180,703	190,184	(6,579)
Total liabilities		299,116	287,519	321,214	(22,098)
Net assets		54,682	126,391	121,675	(66,993)
EQUITY					
Contributed equity		252,569	246,925	288,583	(36,014)
Asset revaluation reserve		35,206	30,436	30,507	4,699
Accumulated deficit		(233,092)	(150,970)	(197,415)	(35,677)
Total equity		54,682	126,391	121,675	(66,993)

The above statement should be read in conjunction with the accompanying notes.

Department of Health

Departmental statement of changes in equity
for the period ended 30 June 2017

	ACTUAL		BUDGET ESTIMATE		
	Notes	2017 \$'000	2016 \$'000	Original 2017 \$'000	Variance 2017 \$'000
ACCUMULATED DEFICIT					
Opening balance					
Balance carried forward from previous period		(150,970)	(128,775)	(169,700)	18,730
Comprehensive loss for the period		(82,122)	(24,708)	(27,715)	(54,407)
Transfers between equity components		-	2,513	-	-
Closing balance as at 30 June		(233,092)	(150,970)	(197,415)	(35,677)
ASSET REVALUATION RESERVE					
Opening balance					
Balance carried forward from previous period		30,436	30,507	30,507	(71)
Other comprehensive income		4,770	-	-	4,770
Transfers between equity components		-	(71)	-	-
Closing balance as at 30 June		35,206	30,436	30,507	4,699
CONTRIBUTED EQUITY					
Balance carried forward from previous period		246,925	217,325	263,746	(16,821)
Transfers between equity components		-	(2,442)	-	-
Transactions with Owners					
Equity injection - appropriations		6,571	20,034	18,349	(11,778)
Return of Capital					
- reduction in equity appropriations ¹		(10,755)	-	-	(10,755)
Equity injection - restructuring		-	12,256	-	-
Departmental capital budget		9,828	6,656	6,488	3,340
Departmental capital budget - restructuring		-	965	-	-
Restructuring		-	(7,869)	-	-
Total transactions with owners		5,644	32,042	24,837	(19,193)
Closing balance as at 30 June		252,569	246,925	288,583	(36,014)
TOTAL EQUITY					
Opening balance					
Balance carried forward from previous period		126,391	119,057	124,553	1,838
Comprehensive loss for the period		(77,353)	(24,708)	(27,715)	(49,638)
Transactions with owners		5,644	32,042	24,837	(19,193)
Closing balance as at 30 June		54,682	126,391	121,675	(66,993)

¹ The detail for the reduction in equity appropriation can be found in the 2016-17 Portfolio Additional Estimates Statements.

The above statement should be read in conjunction with the accompanying notes.

Department of Health

Departmental cash flow statement
for the period ended 30 June 2017

	ACTUAL		BUDGET ESTIMATE	
			Original	Variance
Notes	2017	2016	2017	2017
	\$'000	\$'000	\$'000	\$'000
OPERATING ACTIVITIES				
Cash received				
Appropriations	844,086	678,390	627,735	216,351
Sale of goods and rendering of services	181,537	161,373	217,839	(36,302)
Net GST received	28,858	25,816	24,810	4,048
Other	-	2,063	1,782	(1,782)
Total cash received	1,054,481	867,642	872,166	182,315
Cash used				
Employees	(553,374)	(471,954)	(467,646)	(85,728)
Suppliers	(360,130)	(339,331)	(311,040)	(49,090)
Net GST paid	-	-	(4,347)	4,347
Section 74 receipts transferred to the Official Public Account	(114,459)	(58,550)	(65,147)	(49,312)
Other	(526)	(1,105)	(7,932)	7,406
Total cash used	(1,028,489)	(870,940)	(856,112)	(172,377)
Net cash from/(used by) operating activities	25,993	(3,298)	16,054	9,939
	3			
INVESTING ACTIVITIES				
Cash received				
Proceeds from sales of property, plant and equipment	81	9,210	-	81
Total cash received	81	9,210	-	81
Cash used				
Purchase of property, plant, equipment and intangibles	(36,488)	(35,438)	(54,506)	18,018
Total cash used	(36,488)	(35,438)	(54,506)	18,018
Net cash used by investing activities	(36,407)	(26,228)	(54,506)	18,099
FINANCING ACTIVITIES				
Cash received				
Appropriations - Equity injection	5,321	27,341	18,349	(13,028)
Appropriations - Departmental capital budget	10,143	13,226	6,488	3,655
Total cash received	15,465	40,567	24,837	(9,372)
Net cash received from financing activities	15,465	40,567	24,837	(9,372)
Net increase/(decrease) in cash held	5,050	11,041	(13,615)	18,665
Cash and cash equivalents at the				
- beginning of the reporting period	90,672	79,631	82,989	7,683
- end of the reporting period	95,722	90,672	69,374	26,348
	10A			

The above statement should be read in conjunction with the accompanying notes.

Department of Health

Notes to and forming part of the financial statements

Note 1: Departmental operating result reconciliation

The Government funds the Department on a net cash appropriation basis, where appropriation revenue is not provided for depreciation and amortisation expenses. Depreciation and amortisation is included in the Department's cost recovered operations.

The Department's accountability for its operating result is directed at the result net of unfunded depreciation and amortisation.

	2017	2016
	\$'000	\$'000
Total comprehensive loss	(77,353)	(24,708)
Unfunded depreciation and amortisation		
Total depreciation	26,548	23,984
Less cost recovered depreciation		
NICNAS	(433)	(228)
TGA	(4,286)	(4,579)
Net unfunded depreciation	21,829	19,177
Comprehensive loss net of unfunded depreciation and amortisation	(55,524)	(5,531)

Included in the total comprehensive loss – as per the Statement of Comprehensive Income – are the following:

- The application of prevailing bond rates to the Department's employee provisions reduced expenses by \$3.190m for the year.
- The Department recognised a gain of \$1.801m related to the software for the National Complaints and Compliance Information Management System (NCCIMS). NCCIMS was transferred from the Department of Social Services during the financial year.

Department of Health

Notes to and forming part of the financial statements

Note 2: Departmental explanation of budget variances

General Commentary

AASB 1055: *Budgetary Reporting* requires explanations of major variances between the original budget as presented in the 2016-17 Portfolio Budget Statements (PBS) and the final 2017 outcome. The information presented below should be read in the context of the following:

- The original budget was prepared before the 2016 final outcome could be known. As a consequence, the opening balance of the statement of financial position was estimated and in some cases variances between the 2016 final outcome and budget estimates can in part be attributed to unanticipated movement in the prior year period figures;
- Variances attributable to factors which would not reasonably have been identifiable at the time of the budget preparation, such as revaluation or impairment of assets or reclassifications of asset reporting categories have not been included as part of the analysis;
- The Department considers that major variances are those greater than 10% of the estimate. Variances below this threshold are not included unless considered significant by their nature;
- Variances relating to cash flows are a result of the factors detailed under expenses, own source income, assets or liabilities. Unless otherwise individually significant or unusual, no additional commentary has been included;
- The departmental budget was prepared under the Commonwealth budgeting framework where revenue is not appropriated for depreciation and amortisation expenses, except as funded through cost recovered activity. For the 2016-17 financial year the Department also budgeted for an additional operating loss of \$7.6m to undertake development work in response to the review of regulation of medicines and medical devices which was to be funded through prior year surpluses held in the Therapeutic Goods Administration special account; and
- The Budget is not audited.

Net cost of services

The total variation in departmental expenses was more than \$82.5m higher than the 2016-17 PBS. The principal reason for the significantly higher levels of expenditure is due to the Department undertaking additional activities, only partly funded through the Mid-Year Economic and Fiscal Outlook (MYEFO). In addition, there was an overall increase in supplier expenses partly offset by a decrease in employee benefits.

The increase in supplier expenses is partly a result of the difference in the composition of budgeted and actual figures. This includes amounts relating to the payment of contractors which are budgeted as a component of employee benefits but which are reported as supplier expenses for the actual amounts incurred. The Department also recorded in suppliers expenses a payment of \$7.9m to the Australian Sports Commission (Sporting Grants Efficiency Dividend) which had been budgeted in other expenses.

After taking account of this difference there has been an overall increase in employee benefits of approximately \$16.8m, the majority of which relate to separation and redundancy. The Department has introduced a number of initiatives to manage staff numbers to an affordable level through control of recruitment which has seen non-ongoing engagements limited to essential positions.

Department of Health

Notes to and forming part of the financial statements

The increase in supplier expenses, again after taking into account the difference in the composition of the budget and actual expenses, is primarily due to the Department undertaking additional activities within existing resources. During the year the Department:

- integrated three state networks following the significant machinery of Government changes in the previous financial year;
- underwent organisational restructures to more effectively support its core functions while reducing its cost base;
- undertook additional activities to assist the Digital Payments Taskforce and the Major Sporting Events Support Taskforce;
- implemented the Medicare Benefits Schedule review; and
- incurred increased costs for undertaking evaluations to support the Pharmaceutical Benefits Advisory Committee.

The increase in the activities undertaken was in part offset funded through additional Revenue from Government which was up \$29.482m from the level in the 2016-17 PBS. The additional Revenue from Government was partly funded through a reduction in equity injections.

The increase in expenses being partly offset by the additional Revenue from Government resulted in the Department's comprehensive loss being \$54.407m higher than the anticipated loss in the 2016-17 PBS.

Financial assets

Total financial assets are \$76.173m lower than the budgeted amount. The principal element of this reduction is the decrease in appropriations receivable which was about \$105.491m lower as the Department drew upon the available balance to fund its activities. This reduction was in part offset by increase in both cash and cash equivalents up by \$26.348m and trade and other receivables up by \$6.066m.

Non-financial assets

Total non-financial assets are below budget by \$12.918m largely through the reductions in intangibles and property, plant and equipment offset by an increase in other non-financial assets, this being principally related to prepaid expenses and assets associated with the recognition of lease incentives.

Payables

Total payables is under budget by about \$15.519m as a result of lower supplier (\$26.514m) and employee (\$15.344m) payables. The significant increase in other payables results from unforeseen additional lease incentives as the Department has entered into new lease arrangements to meet accommodation requirements. Employee and supplier payable variances are driven by the timing of payments made by the Department at year end.

Departmental cash flows

The Department makes payments when due and obtains funds from the Official Public Account in a just-in-time manner to make these payments as they fall due. Cash receipts and payments are therefore similar. The timing of payments, particularly for suppliers, will be dependent on the receipt of the goods and services and their related invoices and so can vary between reporting periods. The variation between the initial budget estimate for operating activities is an increase in cash received and paid. This increase is attributable to the additional activities undertaken by the Department and which resulted in additional cash transactions for the year.

The cash flows from investing activities essentially relate to outflows associated with the purchase of non-financial assets being property, plant and equipment and intangibles. The level of these purchases was lower than anticipated at the time of the preparation of the budget.

The cash flows from financing activities are essentially driven by equity injections and amounts for the Departmental Capital Budget. Overall the amounts received in cash for these items was approximately \$9.372m lower than anticipated at the time of the preparation of the budget.

Department of Health

Notes to and forming part of the financial statements

Note 3: Departmental cash flow reconciliation

	2017	2016
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Report cash and cash equivalents as per		
Cash Flow Statement	95,722	90,672
Statement of Financial Position	<u>95,722</u>	<u>90,672</u>
Discrepancy	<u><u>-</u></u>	<u><u>-</u></u>
Reconciliation of net cost of services to net cash from operating activities		
Net cost of services	(737,284)	(619,705)
Add revenue from Government	655,162	594,997
Adjustment for non-cash items		
Gain on sale of assets and other gains	(1,975)	(448)
Depreciation/amortisation	26,548	23,984
Net write-down of non-financial assets	1,445	28
Decrease in net assets from restructure	-	(13,541)
Movements in assets and liabilities		
<i>Assets</i>		
Decrease/(increase) in net receivables	77,857	(19,218)
Decrease/(increase) in other financial assets	6,489	(3,144)
Decrease/(increase) in other non-financial assets	(15,243)	(7,925)
<i>Liabilities</i>		
Increase in employee provisions/payables	4,321	30,972
Increase/(decrease) in supplier payables	(2,431)	152
Increase in other payables	9,267	4,007
Increase in other provisions	<u>1,838</u>	<u>6,543</u>
Net cash from/(used by) operating activities	<u><u>25,993</u></u>	<u><u>(3,298)</u></u>

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 4: Employees

	2017	2016
	\$'000	\$'000
Note 4A: Employee benefits		
Wages and salaries	376,187	321,540
Superannuation:		
Defined contribution plans	35,183	27,876
Defined benefit plans	45,106	39,785
Leave and other entitlements	78,491	71,506
Separation and redundancies	22,728	3,820
Total employee benefits	557,695	464,527
Note 4B: Employee payables		
Wages and salaries	3,977	2,926
Superannuation	302	187
Separations and redundancies	314	-
Other employee payables	-	74
Total employee payables	4,593	3,187

All employee payables are expected to be settled within 12 months of the balance date.

Note 4C: Employee provisions

Leave	149,382	151,721
Separations and redundancies	3,825	422
Total employee provisions	153,207	152,143

Accounting policy

Liabilities for 'short-term employee benefits' (as defined in AASB 119 Employee Benefits) and termination benefits due within 12 months of the end of reporting period are measured at their nominal amounts.

Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

The liability for employee benefits includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Department is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the Department's employer superannuation contribution rates to the extent that leave is likely to be taken during service rather than paid out on termination. The liability for long service leave and annual leave expected to be settled outside of 12 months of the balance date has been determined by reference to the work of an actuary as at June 2016. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Department of Health

Notes to and forming part of the financial statements

The Department recognises a payable for separation and redundancy where an employee has accepted an offer of a redundancy benefit and agreed a termination date. A provision for separation and redundancy is recorded when the Department has a detailed formal plan for the payment of redundancy benefits. The provision is based on the discounted anticipated costs for identified employees engaged in the redundancy program.

Under the *Superannuation Legislation Amendment (Choice of Funds) Act 2004*, employees of the Department are able to become a member of any complying superannuation fund. A complying superannuation fund is one that meets the requirements under the *Income Tax Assessment Act (1997)* and the *Superannuation Industry (Supervision) Act 1993*.

The Department's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), the PSS accumulation plan (PSSap) or other compliant superannuation funds with the rates of contribution being set by the Department of Finance on an annual basis.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap and other compliant superannuation funds are defined contribution schemes. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

The Department makes employer contributions to the employee superannuation schemes at rates determined by an actuary to be sufficient to meet the current cost to the Government. The Department accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the number of days between the last pay period in the financial year and 30 June.

Department of Health

Notes to and forming part of the financial statements

Note 5: Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The Department has determined the key management personnel to be the Secretary, the Chief Medical Officer (CMO) and seven Deputy Secretaries. Key management personnel also include officers who have acted as the CMO or a Deputy Secretary and have exercised significant authority in planning, directing and controlling the activities of the Department.

Key management personnel remuneration is reported in the table below:

	2017	2016
	\$'000	\$'000
Key management personnel remuneration		
Short-term employee benefits	3,713	3,684
Post-employment benefits	551	499
Other long-term employee benefits	348	375
Termination benefits	-	152
Total key management personnel remuneration expenses ¹	4,612	4,710

The total number of key management personnel that are included in the above table is 14 (2016: 14).

Remuneration information for executives and other highly paid officials, published in accordance with the Executive Remuneration Reporting Guidelines issued by the Department of Prime Minister and Cabinet, is available on the Department's website².

¹ The above key management personnel remuneration excludes the remuneration and other benefits of the Portfolio Minister.

The Portfolio Minister's remuneration and other benefits are set by the Remuneration Tribunal and are not paid by the entity.

² Available at: <http://www.health.gov.au/internet/main/publishing.nsf/Content/executive-remuneration>.

Department of Health

Notes to and forming part of the financial statements

Note 6: Related party transactions

AASB124 *Related Party Transactions* was amended to include not-for-profit entities, including Commonwealth non-corporate entities, in the reporting requirements from 1 July 2016.

Related party relationships:

The entity is an Australian Government controlled entity. Related parties to this entity are key management personnel including the Portfolio Minister and Executive Government, and other Australian Government entities.

Transactions with related parties:

Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include receipt of a Medicare rebate, Medicare bulk billing provider payments, pharmaceutical benefits or a zero real interest loan for aged care providers. These transactions have not been separately disclosed in this note.

Significant transactions with related parties can include:

- the payments of grants or loans;
- purchases of goods and services;
- asset purchases, sales transfers or leases;
- debts forgiven; and
- guarantees.

Giving consideration to relationships with related entities and transactions entered into during the reporting period by the entity, it has been determined that there are no related party transactions to be separately disclosed.

Department of Health

Notes to and forming part of the financial statements

Note 7: Departmental suppliers, other expenses and payables

	2017	2016
	\$'000	\$'000
Note 7A: Suppliers		
Goods and services supplied or rendered		
Contractors and consultants	73,264	84,532
Information technology costs	84,671	79,888
Contracted services	33,853	25,478
Property	16,963	11,195
Travel	11,067	9,577
Training and other staff related expenses	5,095	6,646
Legal	2,308	5,920
Committees	3,632	3,967
Other	32,691	17,788
Total goods and services supplied or rendered	263,544	244,991
Other suppliers		
Operating lease rentals	55,056	52,403
Workers compensation premiums	5,686	7,022
Total other suppliers	60,741	59,425
Total suppliers	324,285	304,416
Note 7B: Other expenses		
Write-down and impairment of assets		
Impairment of financial instruments	1,007	366
Impairment of land and buildings	69	-
Impairment of property, plant and equipment	87	28
Impairment on intangibles	1,289	2,351
Payments made on behalf of Portfolio agencies ¹	525	1,077
Act of Grace payments	1	28
Total write-down and impairment of assets	2,978	3,850

¹ Payments made on behalf of Portfolio agencies are recovered, refer Note 8A.

Department of Health

Notes to and forming part of the financial statements

	2017	2016
	\$'000	\$'000
Note 7C: Commitments		
Lease commitments		
Operating leases ¹	424,041	345,780
Total commitments	424,041	345,780
Minimum lease payments expected to be settled		
Within 1 year	56,366	53,296
Between 1-5 years	227,894	188,734
More than 5 years	139,781	103,750
Total leases	424,041	345,780

¹ The operating lease commitments relate to property lease payments.

Note: Commitments are not reported in the Statement of Financial Position.

Accounting policy

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

	2017	2016
	\$'000	\$'000
Note 7D: Other payables		
Lease incentive	29,900	23,656
Unearned income	21,375	18,353
Other	227	-
Total other payables	51,503	42,009
Note 7E: Other provisions		
Provision for surplus lease space	47	-
Provision for restoration	3,002	3,079
Provision for lease straightlining	27,349	25,481
Total other provisions	30,398	28,560

Accounting policy

Lease Incentives

Lease incentives taking the form of 'free' leasehold improvements and rent holidays are recognised as liabilities. These liabilities are reduced on a straight-line basis by allocating lease payments between rental expense and reduction of the lease incentive liability.

Provision for Restoration Obligation

Where the Department has a contractual obligation to undertake remedial work upon vacating leased properties, the estimated cost of that work is recognised as a liability. An equal value asset is created at the same time and amortised over the life of the lease of the underlying leasehold property.

Department of Health

Notes to and forming part of the financial statements

	Provision for surplus lease space \$'000	Provision for restoration ¹ \$'000	Provision for lease straightlining ² \$'000	Total \$'000
As at 1 July 2016	-	3,079	25,481	28,560
Additional provisions made	47	17	2,409	2,473
Amounts used	-	(94)	(466)	(560)
Amounts reversed	-	-	(75)	(75)
Total as at 30 June 2017	47	3,002	27,349	30,398

¹ The Department currently has six (2016: seven) agreements for the leasing of premises which have provisions requiring the entity to restore the premises to their original condition at the conclusion of the lease. The Department has made a provision to reflect the present value of this obligation.

² The Department holds a provision for lease straight-lining on the existing ten leases.

Department of Health

Notes to and forming part of the financial statements

Note 8: Departmental income and receivables

	2017	2016
	\$'000	\$'000
Note 8A: Revenue		
Sale of goods and rendering of services		
Sale of goods	591	1,449
Rendering of services	170,126	173,112
Recoveries received from Portfolio entities	525	1,077
Resources received free of charge		
Financial statement audit services	850	975
Other revenue	155	11
Total own-source revenue	172,247	176,624

Financial statement audit services were provided free of charge to the Department by the Australian National Audit Office (ANAO) and are recorded at the fair value of resources received. No other services were provided by the auditors of the financial statements.

Note 8B: Gains

Gains from sale of assets

Infrastructure, Plant and Equipment		
Proceeds from sale	10	9,209
Less: Carrying value of assets sold	(8)	(9,131)
Resources received free of charge	1,801	-
Other gains	172	370
Total gains	1,975	448

Accounting policy

Revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the Department retains no managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the Department.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when the:

- amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- probable economic benefits associated with the transaction will flow to the Department.

Receivables for goods and services, which have 30 day terms or other terms in accordance with the Therapeutic Goods Regulations 1990, are recognised at the nominal amounts due less any impairment allowance account.

Collectability of the debts is reviewed at end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

On 1 July 2015 the TGA introduced the annual charges exemption scheme to provide relief from annual charges until a product on the Australian Register of Therapeutic Goods commences generating turnover. Under this scheme, which is detailed in the regulations covering therapeutic goods, some of the charges in respect of 2016-17 may not be known until the end of the declaration period on 22 July 2017. While there is some uncertainty in the revenue calculation for the financial year, the uncertainty is reducing as the scheme progresses and annual data is accumulated.

Department of Health

Notes to and forming part of the financial statements

Gains

Gains from disposal of non-current assets are recognised when control of the asset has passed to the buyer.

Resources received free of charge are recognised as gains when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense. Resources received free of charge are recorded as either revenue or gains depending on their nature.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised as gains at their fair value when the asset qualifies for recognition, unless received from another Government entity as a consequence of a restructuring of administrative arrangements.

	2017	2016
	\$'000	\$'000
Note 8C: Receivables		
Trade and other receivables		
Goods and services receivable	16,155	16,242
GST receivable from the Australian Taxation Office	3,013	5,974
Total trade and other receivables (gross)	19,168	22,216
Less impairment allowance¹	(958)	(668)
Total trade and other receivables (net)	18,209	21,548

¹ The impairment allowance relates to receivables for goods and services.

Credit terms for goods and services were within: the Department 30 days (2016: 30 days), TGA 28 days (2016: 28 days).

Reconciliation of the impairment allowance

	2017	2016
	\$'000	\$'000
Opening balance	(668)	(1,505)
Amounts written off	137	584
Amounts recovered and reversed	367	803
Increase recognised in net surplus	(794)	(550)
Closing balance	(958)	(668)

Department of Health

Notes to and forming part of the financial statements

Note 9: Departmental appropriation income and receivable

	2017	2016
	\$'000	\$'000

Note 9A: Revenue from Government

Appropriations

Departmental appropriations	655,162	594,997
Total revenue from Government	655,162	594,997

Note 9B: Appropriations receivable

Existing programs	28,611	103,076
Undrawn equity injection	2,675	12,180
Departmental capital budget	-	316
Total appropriations receivable	31,286	115,572

Appropriations receivable undrawn are appropriations controlled by the Department but held in the Official Public Account under the Government's just-in-time drawdown arrangement.

Accounting policy

Revenue from Government

Amounts appropriated for Departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the Department gains control of the appropriation, except for certain amounts that relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned. Appropriations receivable are recognised at their nominal amounts.

Department of Health

Notes to and forming part of the financial statements

Note 10: Departmental cash and other financial instruments

	2017	2016
	\$'000	\$'000
Note 10A: Cash and cash equivalents		
Cash and cash equivalents		
Cash in special accounts	82,297	83,239
Cash on hand or on deposit	<u>13,425</u>	<u>7,433</u>
Total cash and cash equivalents	<u><u>95,722</u></u>	<u><u>90,672</u></u>
Note 10B: Financial instruments (assets)		
Goods and services receivable	15,349	16,242
Less: Impairment allowance	<u>(958)</u>	<u>(668)</u>
Total financial instruments (assets)	<u><u>14,391</u></u>	<u><u>15,574</u></u>
Net gains or losses on financial assets		
Loans and receivables		
Impairment	<u>1,007</u>	<u>366</u>
Net gains or losses on financial assets	<u><u>1,007</u></u>	<u><u>366</u></u>

Note 10C: Financial instruments (liabilities)

All trade creditors are measured at their amortised cost and represent the total financial instruments (liabilities).

Accounting policy

Cash and equivalents

Cash and cash equivalents include:

- cash in special accounts includes amounts that are banked in the Australian Government's Official Public Account; and
- cash on hand or on deposit includes the amounts held in the departmental bank accounts which includes special account balances.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Financial assets are initially measured at their fair value plus transaction costs where appropriate. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

Impairment of financial assets

Financial assets are assessed for impairment at the end of each reporting period.

Loans and receivables - if there is objective evidence that an impairment loss has been incurred for loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement of comprehensive income.

Department of Health

Notes to and forming part of the financial statements

Note 10D: Risks arising from financial instruments

Credit risk

The Department is not exposed to a high level of credit risk as the majority of financial assets are in the nature of cash and receivables. These financial assets are carried at amounts not best representing maximum exposure to credit risk.

The Department has policies and procedures that outline the debt recovery techniques to be applied. The Department has assessed the risk of default on payment and has allocated \$0.958m in 2017 (2016: \$0.668m) to an impairment allowance account.

The Department held no collateral to mitigate against credit risk.

Liquidity risk

As the Department's financial liabilities are payables, the exposure to liquidity risk is based on the notion that the Department will encounter difficulty in meeting its obligations associated with financial liabilities.

This is highly unlikely due to appropriation funding and mechanisms available to the Department (e.g. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations. The Department has no prior experience of default.

The Department's supplier payables are a non-derivative financial liability; the Department has no derivative financial liabilities in either the current or prior years.

Market risk

The Department's financial instruments are of a nature that does not expose the Department to certain market risks.

The Department is not exposed to 'currency risk' or 'other price risk'.

The Department has no interest bearing items on the Statement of financial position.

Department of Health

Notes to and forming part of the financial statements

Note 11: Departmental property, plant and equipment and intangibles

Reconciliation of the opening and closing balances for 2017

	Land and buildings	Property, plant and equipment	Computer software - internally developed	Computer software - purchased	Total intangibles	Total Non-financial assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2016						
Gross book value	60,676	8,564	221,220	4,652	225,872	295,112
Accumulated depreciation/amortisation and impairment	(7,398)	(2,248)	(115,350)	(4,376)	(119,726)	(129,372)
Total as at 1 July 2016	53,278	6,316	105,870	276	106,146	165,740
Additions						
Purchase or internally developed	3,939	1,242	31,562	199	31,761	36,942
Revaluations recognised in other comprehensive income	4,770	-	-	-	-	4,770
Depreciation and amortisation	(7,107)	(1,971)	(17,114)	(357)	(17,471)	(26,548)
Reclassification	112	(112)	(1,066)	1,066	-	-
Disposals	(69)	(97)	-	-	-	(166)
Impairment	-	-	(1,261)	(28)	(1,289)	(1,289)
Total as at 30 June 2017	54,923	5,378	117,991	1,156	119,147	179,449
Total as at 30 June 2017 represented by						
Work in progress	747	-	35,833	-	35,833	36,579
Gross book value	54,176	9,221	195,314	5,412	200,726	264,123
Accumulated depreciation/amortisation and impairment	-	(3,843)	(113,155)	(4,256)	(117,411)	(121,254)
Total as at 30 June 2017	54,923	5,378	117,991	1,156	119,147	179,448

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Reconciliation of the opening and closing balances for 2016

	Land and buildings	Property, plant and equipment	Computer software - internally	Computer software - purchased	Total intangibles	Total Non-financial assets
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2015						
Gross book value	53,196	7,065	194,072	5,867	199,939	260,200
Accumulated depreciation/amortisation and impairment	(169)	-	(103,268)	(5,266)	(108,534)	(108,703)
Total as at 1 July 2015	53,027	7,065	90,804	601	91,405	151,497
Additions						
Purchase or internally developed	2,143	1,001	31,790	-	31,790	34,934
Acquisitions of entities or operations (including restructuring)	6,240	50	-	-	-	6,290
Depreciation and amortisation	(7,269)	(2,259)	(14,216)	(240)	(14,456)	(23,984)
Reclassification	(245)	487	(157)	(85)	(242)	-
Assets held for sale	-	9,131	-	-	-	9,131
Disposals	-	-	-	-	-	-
From disposal of entities or other operations (including restructuring)	(618)	-	-	-	-	(618)
Other	-	(9,131)	-	-	-	(9,131)
Impairment	-	(28)	(2,351)	-	(2,351)	(2,379)
Total as at 30 June 2016	53,278	6,316	105,870	276	106,146	165,740
Total at 30 June 2016 represented by						
Work in progress	1,170	-	49,695	-	49,695	50,865
Gross book value	59,506	8,564	171,525	4,652	176,177	244,247
Accumulated depreciation/amortisation and impairment	(7,398)	(2,248)	(115,350)	(4,376)	(119,726)	(129,372)
Total as at 30 June 2016	53,278	6,316	105,870	276	106,146	165,740

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Accounting policy

Acquisition of Assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of financial position, except for information technology equipment purchases costing less than \$500 (TGA \$2,000), leasehold improvements costing less than \$50,000 (TGA \$10,000), and all other purchases costing less than \$2,000, which are expensed in the year of acquisition (other than when they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in property leases taken up by the Department where there exists an obligation to restore the property to prescribed conditions. These costs are included in the value of the Department's leasehold improvements with a corresponding provision for the 'make good' recognised.

Revaluations

Following initial recognition at cost, property, plant and equipment are carried at latest value less subsequent accumulated depreciation and accumulated impairment losses. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

An independent valuation of all property, plant and equipment was carried out by Australian Valuation Solutions Pty Ltd (AVS) on 30 June 2015. A desktop review of assets was undertaken as at 31 March 2017 and updated for any changes to assumptions by 30 June 2017. The review indicated that the carrying value of the property, plant and equipment (leasehold improvements) as at 30 June 2017 required adjustment to align the carrying value with the fair value. No other class of departmental asset had a material difference from fair value.

Revaluation adjustments are made on a class basis. Any revaluation increment was credited to equity under the heading of Asset Revaluation Reserve except to the extent that it reversed a previous revaluation decrement of the same class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset is restated to the revalued amount.

Department of Health

Notes to and forming part of the financial statements

Depreciation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the Department using, in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease, including any applicable lease options available.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are made in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

- Buildings on freehold land: 20 to 25 years;
- Leasehold improvements: The lower of the lease term or the estimated useful life; and
- Plant and equipment: 3 to 20 years.

Impairment

All assets were assessed for impairment as at 30 June 2017. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

De-recognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Intangibles

The Department's intangibles comprise internally developed software for internal use and purchased software. These assets are carried at cost less accumulated amortisation and accumulated impairment losses. The Department recognises internally developed software costing more than \$100,000 and purchased software costing more than \$500 (TGA \$100,000).

Software is amortised on a straight-line basis over its anticipated useful life.

The useful lives of the Department's software are:

- Internally developed software two to ten years; and
- Purchased software two to seven years.

All software assets were assessed for indications of impairment as at 30 June 2017.

Department of Health

Notes to and forming part of the financial statements

Note 12: Fair value measurement

Accounting policy

The Department's assets are held for operational purposes, not for the purposes of deriving a profit. As allowed for by AASB 13 *Fair Value Measurement*, quantitative information on significant unobservable inputs used in determining fair value is not disclosed.

Assets held at fair value include leasehold improvements and property, plant and equipment but exclude assets under construction. Assets not held at fair value include intangibles and assets under construction.

The Department reviews its valuation model each year via a desktop exercise with a formal revaluation undertaken every three years: the last revaluation was undertaken in 2015. If the valuation indicators of a particular asset class change materially, that class is subject to specific valuation in the reporting period. The valuation modelling was undertaken by AVS.

The categories of fair value measurement are:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets that the entity can access at measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3: Unobservable inputs.

Departmental assets are held at fair value and are measured at category levels 2 or 3 with no fair values measured at category level 1.

Leasehold improvements are predominately measured at category level 3 and the valuation methodology used is Depreciated Replacement Cost (DRC). Under DRC the estimated cost to replace the asset is calculated, with reference to new replacement price per square metre, and then adjusted to take into account its consumed economic benefit (accumulated depreciation). The consumed economic benefit has been determined based on the professional judgement of AVS with regard to physical, economic and external obsolescence factors. For all leasehold improvement assets, the consumed economic benefit is determined based on the term of the associated lease.

Property, plant and equipment (PPE) is measured at either category level 2 or 3. The valuation methodology is either market approach or DRC, based on replacement cost for a new equivalent asset. The significant unobservable inputs used in the fair value measurement of PPE assets are the market demand and AVS professional judgement.

Department of Health

Notes to and forming part of the financial statements

Note 13: Departmental contingent assets and liabilities

	Guarantees		Claims for damages or costs		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Contingent assets						
Balance from previous period	-	-	19	238	19	238
New contingent assets recognised	-	-	142	9	142	9
Re-measurement	-	-	-	(178)	-	(178)
Rights expired	-	-	(11)	(50)	(11)	(50)
Total contingent assets	-	-	150	19	150	19
Contingent liabilities						
Balance from previous period	5,000	5,000	5,010	4,630	10,010	9,630
New	-	-	195	-	195	-
Re-measurement	-	-	(4,000)	550	(4,000)	550
Obligations expired	-	-	(560)	(170)	(560)	(170)
Total contingent liabilities	5,000	5,000	645	5,010	5,645	10,010
Net contingent liabilities	(5,000)	(5,000)	(495)	(4,991)	(5,495)	(9,991)

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the relevant notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not certain, and contingent liabilities are disclosed when settlement is greater than remote.

The Department applies Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in determining disclosure of contingent assets and liabilities.

Department of Health

Notes to and forming part of the financial statements

Quantifiable contingencies

Quantifiable contingent assets

The Department has quantifiable contingent assets as at 30 June 2017 of \$0.150m (2016: \$0.019m).

Quantifiable contingent liabilities

Claims for damages and costs

The schedule of contingencies shows contingent liabilities in respect of claims for damages/costs of \$0.645m (2016: \$5.010m). The amount represents an estimate of the Department's liability based on precedent cases. The Department is defending the claims.

Guarantees

The schedule of contingencies shows a contingent liability in respect of claims for payments for Price Disclosure services of \$5.000m (2016: \$5.000m). This represents the maximum exposure to the Commonwealth in the event that the current contractor is unable to deliver.

Unquantifiable contingencies

Unquantifiable contingent assets and liabilities

At 30 June 2017 the Department was involved in a number of litigation cases before the courts. The Department has been advised by its solicitors that it is not possible to quantify amounts relating to these cases and the information is not disclosed on the grounds that it might seriously prejudice the outcomes of these cases.

The Department has provided indemnities to its transactional bankers in relation to any claims made against the bank resulting from errors in the Department's payment files. There were no claims made during the year.

Significant remote contingencies

The Department did not have any significant remote contingencies in either reporting year.

Department of Health

Notes to and forming part of the financial statements

Note 14: Departmental appropriations

Table A: Annual and Unspent Appropriation (“Recoverable GST exclusive”)

	2017	2016
	\$'000	\$'000
DEPARTMENTAL		
Ordinary Annual Services		
Annual appropriation ^{1,2}	654,627	458,366
Capital budget ³	9,828	11,209
Receipts retained under PGPA Act - Section 74	114,459	56,407
Transfers of appropriations under PGPA Act - Section 75 - annual appropriation	-	132,036
Transfers of appropriations under PGPA Act - Section 75 - capital budget	-	965
Total appropriation	778,914	658,983
Appropriation applied (current and prior years)	(849,284)	(655,122)
Variance⁴	(70,370)	3,861
Unspent appropriations		
Own unspent appropriation balance	34,838	70,464
Prior year section 75 transfers	-	34,787
Closing unspent appropriation balance⁵	34,838	105,251
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 1) 2014-2015⁶</i>	-	33,134
<i>Appropriation Act (No. 3) 2014-2015</i>	-	6,646
<i>Appropriation Act (No. 1) 2015-2016</i>	-	38,672
<i>Appropriation Act (No. 1) 2015-2016 - Cash at bank</i>	-	1,859
<i>Appropriation Act (No. 1) 2015-2016 - Departmental Capital Budget</i>	-	316
<i>Appropriation Act (No. 3) 2015-2016</i>	-	24,624
<i>Supply Act (No. 1) 2016-2017</i>	1	-
<i>Appropriation Act (No. 1) 2016-2017</i>	-	-
<i>Appropriation Act (No. 1) 2016-2017 - Cash at bank⁷</i>	6,804	-
<i>Appropriation Act (No. 1) 2016-2017 - Departmental Capital Budget</i>	-	-
<i>Appropriation Act (No. 3) 2016-2017</i>	28,033	-
<i>Appropriation Act (No. 3) 2016-2017 - Departmental Capital Budget</i>	-	-
Total unspent appropriation - ordinary annual services	34,838	105,251

¹ There were no amounts temporarily quarantined from 2017 or 2016 departmental ordinary annual services appropriations.

² There were no amounts withheld under section 51 of the PGPA Act from 2017 or 2016 departmental ordinary annual services appropriations.

³ Departmental capital budgets are appropriated through Appropriation Acts (No. 1,3) and Supply Acts (No. 1,3). They form part of ordinary annual services and are not separately identified in the Appropriation Acts.

⁴ The variance of \$70,370,000 for departmental ordinary annual services primarily represents the timing difference of payments to suppliers or employees.

⁵ This balance is net of \$436,000 which is permanently quarantined under section 51 of the PGPA Act. This amount is detailed in footnote to the respective Act. The total unspent appropriations gross of quarantined amounts under section 51 of the PGPA Act is \$35,274,000.

⁶ An amount of \$436,000 has been withheld against this appropriation item under section 51 of the PGPA Act which represents a loss of control. Therefore, this amount has not been disclosed as available in the table above.

⁷ Cash at bank mainly relates to deposits made on 30 June, subject to Section 74 of the PGPA Act (annotated Appropriation Act No. 1.)

Department of Health

Notes to and forming part of the financial statements

	2017	2016
	\$'000	\$'000
Other Services - Equity		
Annual appropriation ^{1,2}	18,349	20,034
Transfers of appropriations under PGPA Act - Section 75	-	12,256
Total appropriation	18,349	32,290
Appropriation applied (current and prior years)	(5,321)	(27,341)
Variance³	13,028	4,949
Unspent appropriations		
Own unspent appropriation balance	2,675	12,180
Closing unspent appropriation balance⁴	2,675	12,180
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 2) 2015-2016²</i>	-	556
<i>Appropriation Act (No. 4) 2015-2016²</i>	1,425	11,624
<i>Appropriation Act (No. 2) 2016-2017²</i>	1,250	-
Total unspent appropriation - other services - equity	2,675	12,180

¹ There were no amounts temporarily quarantined from 2017 or 2016 departmental other services - equity appropriations.

² In 2017 departmental other services – equity appropriations \$6,871,000 of the Appropriation Act (No. 2) 2016-2017 and \$4,907,000 of the Supply Act (No. 2) 2016-2017 were permanently quarantined under section 51 of the PGPA Act. In 2016 departmental other services – equity appropriations \$556,000 of the Appropriation Act (No. 2) 2015-2016 and \$10,199,000 of the Appropriation Act (No. 4) 2015-2016 were permanently quarantined under section 51 of the PGPA Act. This represents a loss of control of the appropriations and therefore these amounts were not reported as available above.

³ The variance of \$13,028,000 for departmental equity primarily relates to the quarantined appropriations noted above.

⁴ This balance is net of \$22,533,000.00 which is permanently quarantined under section 51 of the PGPA Act. These amounts are detailed in footnotes to the respective Act. The total unspent appropriations gross of quarantined amounts under section 51 of the PGPA Act is \$25,208,000.00.

Department of Health

Notes to and forming part of the financial statements

Note 15: Therapeutic Goods Administration

Note 15A: Therapeutic Goods Administration overview

The Therapeutic Goods Administration (TGA) contributes to Outcome 5 - Regulation, Safety and Protection. The TGA recovers the cost of all activities undertaken within the scope of the *Therapeutic Goods Act 1989* from industry through fees and charges.

Included below is financial information for the TGA, which operates via a special account. The balance of the special account represents a standing appropriation from which payments are made for the purposes of the special account. The TGA special account is reported in Note 27: Special accounts.

Therapeutic goods are regulated to ensure that medicinal products and medical devices in Australia meet standards of safety, quality and efficacy at least equal to that of comparable countries. These products and devices should be made available in a timely manner and the regulatory impact on business kept to a minimum. This is achieved through a risk management approach to pre-market evaluation and approval of therapeutic products intended for supply in Australia, licensing of manufacturers and post market surveillance.

	2017	2016
	\$'000	\$'000
Note 15B: TGA Comprehensive income		
Expenses		
Employee benefits	78,781	66,158
Consultants and contractors	17,670	15,353
Property expenses (including lease payments)	-	509
Corporate Services ¹	36,488	35,690
Other	7,528	6,297
Depreciation and amortisation	4,286	4,672
Write-down and impairment of assets	1,961	105
Total expenses	146,715	128,784
Revenues		
Sale of goods and rendering of services	139,037	141,539
Other revenue and gains	12	148
Total own-source revenue	139,049	141,687
Revenue from Government	2,574	3,177
(Loss)/surplus on continuing operations	(5,092)	16,080

¹ While corporate services have been provided centrally by the Department since 1 July 2015 a different accounting treatment for corporate costs in 2017 has required the 2016 balances to be restated for comparative purposes. Previously corporate amounts were disaggregated across employee and supplier costs.

Department of Health

Notes to and forming part of the financial statements

	2017 \$'000	2016 \$'000
Note 15C: TGA Financial Position		
Assets		
Financial assets ¹	71,725	78,142
Non-financial assets	<u>34,850</u>	<u>25,022</u>
Total assets	<u>106,575</u>	<u>103,164</u>
Liabilities		
Payables	32,522	24,457
Provisions	<u>20,468</u>	<u>23,781</u>
Total liabilities	<u>52,990</u>	<u>48,238</u>
Equity		
Contributed equity	2,029	2,029
Asset revaluation reserve	7,968	4,217
Retained surplus	<u>43,589</u>	<u>48,680</u>
Total Equity	<u>53,585</u>	<u>54,926</u>

¹ Includes cash balance of \$62.605m which is disclosed in Note 27: Special accounts.

TGA receives payment for evaluation services in advance of service delivery, which can extend across financial years. TGA estimates the stage of service completion and recognises the matching revenue. Revenue reported for 2016-17 includes an estimate for annual charges.

Department of Health

Administered schedule of comprehensive income
for the period ended 30 June 2017

	Notes	ACTUAL		BUDGET ESTIMATE	
		2017	2016	Original	Variance
		\$'000	\$'000	\$'000	\$'000
NET COST OF SERVICES					
Expenses					
Grants	18A	7,468,532	5,818,319	8,155,592	(687,060)
Personal benefits	18B	42,555,967	39,507,641	39,790,370	2,765,597
Subsidies	18C	12,102,130	9,290,201	13,042,844	(940,714)
Suppliers	19A	807,335	676,768	539,636	267,699
Payments to corporate Commonwealth entities	20A	405,074	328,658	405,074	-
Depreciation and amortisation	23A	1,355	20,383	963	392
Other expenses	19B	60,222	117,475	30,890	29,332
Total expenses		63,400,615	55,759,445	61,965,369	1,435,246
Income					
Recoveries	21A	3,725,543	2,687,627	2,112,811	1,612,732
Other revenue	21B	255,203	274,778	113,695	141,508
Total income		3,980,746	2,962,405	2,226,506	1,754,240
Net cost of services		59,419,869	52,797,040	59,738,863	(318,994)
Deficit		(59,419,869)	(52,797,040)	(59,738,863)	318,994
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net cost of services					
Changes in asset revaluation reserves		(13,958)	9,692	-	(13,958)
Changes in administered investment reserves		57,697	(9,906)	-	57,697
Total other comprehensive income		43,739	(214)	-	43,739
Total comprehensive loss		(59,376,130)	(52,797,254)	(59,738,863)	362,733

The above schedule should be read in conjunction with the accompanying notes.

Department of Health

Administered schedule of assets and liabilities
as at 30 June 2017

	Notes	ACTUAL		BUDGET ESTIMATE	
		2017	2016	Original	Variance
		\$'000	\$'000	2017 \$'000	2017 \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	22A	146,809	171,579	336,648	(189,839)
Accrued recoveries revenue	21A	928,986	926,085	217,425	711,561
Loans and other receivables	21B	671,594	578,225	948,329	(276,735)
Investments	20B	454,972	380,117	596,242	(141,270)
Total financial assets		2,202,361	2,056,006	2,098,644	103,717
Non-financial assets					
Land and buildings	23A	-	33,197	22,542	(22,542)
Computer software	23A	-	48,823	-	-
Inventories held for distribution	23B	115,262	111,265	119,510	(4,248)
Total non-financial assets		115,262	193,285	142,052	(26,790)
Total assets administered on behalf of Government		2,317,623	2,249,291	2,240,696	76,927
LIABILITIES					
Payables					
Suppliers	19A	22,841	9,881	7,110	15,731
Subsidies	18C	51,296	263,538	153,048	(101,752)
Personal benefits	18B	975,974	898,425	984,261	(8,287)
Grants	18A	317,461	378,070	409,473	(92,012)
Total payables		1,367,572	1,549,914	1,553,892	(186,320)
Provisions					
Subsidies	18C	450,000	425,000	430,718	19,282
Personal benefits	18B	1,057,773	1,280,045	1,011,494	46,279
Total provisions		1,507,773	1,705,045	1,442,212	65,561
Total liabilities administered on behalf of Government		2,875,345	3,254,959	2,996,104	(120,759)
Net liabilities		557,722	1,005,668	755,408	(197,686)

The above schedule should be read in conjunction with the accompanying notes.

Department of Health

Administered reconciliation schedule

	2017	2016
	\$'000	\$'000
Opening assets less liabilities as at 1 July	(1,005,668)	(1,406,441)
Adjusted opening assets less liabilities	(1,005,668)	(1,406,441)
Net cost of services		
Income	3,980,746	2,962,405
Expenses		
Payments to entities other than corporate Commonwealth entities	(62,995,541)	(55,430,787)
Payments to corporate Commonwealth entities	(405,074)	(328,658)
Other comprehensive income		
Revaluations transferred to/(from) reserves	43,739	(214)
Transfers (to)/from Australian Government		
Appropriation transfers from OPA		
Administered assets and liabilities appropriations		
Payments to entities other than corporate Commonwealth entities	35,244	33,202
Payments to corporate Commonwealth entities	10,589	-
Annual appropriations		
Payments to entities other than corporate Commonwealth entities	8,253,833	6,619,347
Payments to corporate Commonwealth entities	405,074	328,658
Special appropriations (unlimited)		
Payments to entities other than corporate Commonwealth entities	55,037,751	48,149,354
Special appropriations (limited)		
Refund of receipts (section 77 of the PGPA Act)	576	7,926
Net GST appropriations	(12,748)	25,875
Appropriation transfers to OPA		
Transfers to OPA	(3,857,420)	(2,135,107)
Restructuring	(48,823)	168,773
Closing assets less liabilities as at 30 June	(557,722)	(1,005,668)

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Administered cash flow statement
for the period ended 30 June 2017

	Notes	2017 \$'000	2016 \$'000
OPERATING ACTIVITIES			
Cash received			
Recoveries		3,766,815	2,301,933
Net GST received		562,908	359,467
Health and hospital fund receipts		-	54,984
Special accounts receipts		64,870	-
Other		62,503	138,616
Total cash received		4,457,096	2,855,000
Cash used			
Grants		(8,045,959)	(6,204,054)
Subsidies		(12,234,931)	(9,180,995)
Personal benefits		(42,820,809)	(39,613,098)
Suppliers		(819,757)	(684,997)
Payments to corporate Commonwealth entities		(405,074)	(328,658)
Total cash used		(64,326,530)	(56,011,802)
Net cash used by operating activities	17	(59,869,434)	(53,156,802)
INVESTING ACTIVITIES			
Cash received			
Repayments of advances and loans		28,102	16,402
Total cash received		28,102	16,402
Cash used			
Advances and loans made		(39,180)	(22,298)
Purchase of intangible assets		-	(31,626)
Equity injections to corporate Commonwealth entities		(10,589)	-
Purchase of investments		(6,568)	-
Total cash used		(56,337)	(53,924)
Net cash used by investing activities		(28,235)	(37,522)
Net decrease in cash held		(59,897,669)	(53,194,324)
Cash and cash equivalents at the beginning of the reporting period		171,579	336,648
Cash from Official Public Account			
Appropriations		63,697,234	55,105,285
Special Accounts		8,613	10,093
Capital appropriations		45,833	33,202
Administered GST appropriations		544,762	380,296
Total cash from Official Public Account		64,296,442	55,528,876
Cash to Official Public Account			
Special Accounts		(8,613)	(10,093)
Return of GST appropriations to the Official Public Account		(557,510)	(354,421)
Other		(3,857,420)	(2,135,107)
Total cash to Official Public Account		(4,423,543)	(2,499,621)
Cash and cash equivalents at the end of the reporting period	22A	146,809	171,579

The above schedule should be read in conjunction with the accompanying notes.

Department of Health

Administered cash flow statement
for the period ended 30 June 2017

Accounting policy

Revenue collected by the Department for use by the Government rather than the Department is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriation on behalf of Government. These transfers to and from the OPA are adjustments to the administered cash held by the Department on behalf of the Government and are reported as such in the Administered cash flow statement and in the Administered reconciliation schedule.

Department of Health

Notes to and forming part of the financial statements

Note 16: Administered explanation of budget variances

Administered expenses

Total administered expenses for 2016-17 were approximately \$1,435m (2.3%) higher than the original budget. This variance was largely driven by a significant overspend in personal benefits (\$2,766m), further contributed to by the overspend against suppliers (\$268m). This was partially offset by underspends against grants (\$687m) and subsidies (\$941m).

Personal benefits expenses relate to a range of program groups, most of which are funded by significant special appropriations, including but not limited to the Pharmaceutical Benefits Scheme, Medicare Benefits Scheme, Private Health Insurance Rebate, Dental Services and Home Support and Care. The most significant elements of the 2016-17 overspend were:

- Pharmaceuticals and Pharmaceutical Services: overspending by \$1,908m;
- Home Support and Care: overspending by \$800m;
- Dental Services: overspending by \$319m; and
- Medical Benefits: overspending by \$237m.

Conversely, the following program groups reported underspends against the original budget:

- Private Health Insurance: underspending by \$255m; and
- Targeted Assistance – Aids and Appliances: underspending by \$149m.

The core reason for the overall overspend in personal benefits was the high demand for new Hepatitis C drugs since their introduction in late 2015-16. The overspend against Home Support and Care was due to the fact that the classification of this program was amended from subsidies to personal benefits from 1 February 2017 because of changes in the underlying program delivery – this overspend is therefore matched with a corresponding underspend against subsidies. The Dental Services variance was driven by another classification difference, with the budget reflecting these expenses as grants and not personal benefits – this overspend is therefore matched with a corresponding underspend against grants. The Targeted Assistance variance was also a result of a classification difference, with the budget reporting all program expenses as personal benefits, but a portion of the actuals is deemed to be grants – this underspend is matched with a corresponding overspend against grants. The variances in Medical Benefits and Private Health Insurance are the result of normal fluctuations in these large special appropriations and represent a small fraction of the total program expenditure.

The overspend in suppliers was largely attributable to the aged care programs (\$153m), which were not included in the original budget. The key driver of these expenses was the Regional Assessment Service.

The above overspends were reduced by an underspend against subsidies, due to the Home Support and Care program being reclassified to personal benefits (substantially the entire underspend), and a range of underspends in grants (\$687m in aggregate). The biggest contributors to the grants underspends included:

- Dental Services: underspending by \$416m due to the actual expenses being classified as personal benefits – this was corrected at MYEFO;
- Home Support and Care: underspending by \$209m; and
- Health Policy Research and Analysis: underspending by \$97m.

Conversely, Targeted Assistance – Aids and Appliances reported a large overspend against grants (\$197m) due to the budget being reported against personal benefits.

The remainder of the grants underspend against the original budget was spread across most grants-based program groups, and was due to savings delivered, new measures implemented and grant programs reduced or terminated post budget.

Department of Health

Notes to and forming part of the financial statements

Overall, when the effects of classification differences between various expense categories are eliminated, the \$1,435m overspend against the original budget is driven by the \$1,943m overspend in Pharmaceutical Benefits and \$261m overspend in Medical Benefits (both mostly relating to personal benefits). These were partially offset by the \$255m underspend in Private Health Insurance (personal benefits), the \$237m underspend in Home Support and Care and a range of smaller underspends against a number of grants-based program groups.

Administered revenues

Total administered revenue for 2016-17 was \$1,754m (78.8%) above the original budget. The two key contributors to this result were recoveries (\$1,613m over budget) and other revenue (\$142m over budget).

The main driver behind the increase in recoveries was the value of PBS drug recoveries (\$1,633m over budget), which are collected in accordance with cost-sharing agreements between the Commonwealth and pharmaceutical companies, with the latter required to contribute to the cost of providing certain listed drugs when specified conditions are met. Furthermore, the thresholds which must be reached before the pharmaceutical companies are liable to contribute to the costs also vary for different listed drugs and between the different agreements. As a result, actual recoveries in a given year fluctuate with no predictable patterns. However, a significant contributor to the increase in 2016-17 was the high demand for Hepatitis C drugs following their introduction in late 2015-16.

The variance in other revenue was driven by miscellaneous receipts, generally relating to the acquittal and collection of unspent grant funding. In aggregate, total other revenue is consistent with prior year.

Administered assets

Total assets administered on behalf of the Commonwealth at 30 June 2017 were \$77m (3%) greater than the original budget estimate.

The highest contributors to this variance was accrued recoveries revenue (\$712m above the budget), relating to the PBS drug recoveries. Due to the nature of these recoveries, the value of accrued revenue can fluctuate with no predictable pattern from one year to another. A significant contributor to the increase at the end of 2015-16, which was sustained into 2016-17, was the high demand for the new Hepatitis C drugs following their introduction in late 2015-16. This was not reflected in the original budget.

This variance was partially offset by cash and cash equivalents, loans and other receivables, and investments at 30 June 2017, all being significantly lower than the original budget.

Cash and cash equivalents (\$190m below the budget) and loans and other receivables (\$277m below the budget) were budgeted based on the preliminary estimates of the prior year's final outcome, and as such are subject to significant uncertainty. Concerning in particular cash and cash equivalents, while a balance of approximately \$150m is maintained to facilitate the timely payment of benefits and subsidies, the actual balance of this account fluctuates from month to month and year to year. In relation to investments (\$141m below the budget), the original budget included \$250m worth of investments in the Biomedical Translation Fund (BTF), and did not incorporate the value of portfolio agency investment in the Australian Digital Health Agency (Digital Health), established effective as of 1 July 2016. The BTF commenced operation in the last quarter of 2016-17, therefore only \$7m was capitalised as at 30 June 2017. The value of investment in Digital Health was estimated at \$92m, based on the agency's net assets as at 30 June 2017.

Administered liabilities

Total liabilities administered on behalf of the Commonwealth at 30 June 2017 were \$121m (4%) lower than the original budget estimate. Once the changes in classification between subsidies and personal benefits are taken into account, this variance is largely driven by the overall decrease in grants payable (\$92m). Grant liabilities are budgeted on the basis of estimated milestone and delivery completion and the standard payment cycles, however the actual value of grant liabilities at a point in time can fluctuate widely from month to month.

Department of Health

Notes to and forming part of the financial statements

Note 17: Administered cash flow reconciliation

	2017	2016
	\$'000	\$'000
Reconciliation of cash and cash equivalents as per Administered Schedule of Assets and Liabilities to Administered Cash Flow Statement		
Cash and cash equivalents as per:		
Administered Cash Flow Statement	146,809	171,579
Administered Schedule of Assets and Liabilities	146,809	171,579
Discrepancy	<u>-</u>	<u>-</u>
Reconciliation of net cost of services to net cash used by operating activities		
Net cost of services	(59,419,869)	(52,797,040)
Adjustment for non-cash items		
Depreciation and amortisation	1,355	20,383
Net write-down of assets	33,572	107,326
Net loss on sale of assets	17,884	-
Inventory adjustments	16	5
Foreign exchange losses (net)	-	1
Concessional loans discount and unwinding	16,112	2,552
Movements in assets and liabilities		
Assets		
Decrease/(increase) in net receivables	(113,401)	(849,421)
Decrease/(increase) in inventories	(25,487)	(6,642)
Liabilities		
Increase/(decrease) in suppliers payable	12,958	(634)
Increase/(decrease) in subsidies payable	(212,242)	111,316
Increase/(decrease) in personal benefits payable	77,549	(16,666)
Increase/(decrease) in grants payable	(60,609)	(8,533)
Increase/(decrease) in subsidies provision	25,000	12,000
Increase/(decrease) in personal benefits provision	(222,272)	268,551
Net cash used by operating activities	<u>(59,869,434)</u>	<u>(53,156,802)</u>

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 18: Administered transfer payments

	2017	2016
	\$'000	\$'000
Note 18A: Grants		
Grants paid		
Public sector		
Australian Government entities (related entities)	684,991	730,250
Health and hospital fund	-	44,391
Private sector		
Profit and non-profit organisations	6,771,706	5,025,630
Health and hospital fund	-	8,201
Overseas	11,835	9,847
Total grants paid	7,468,532	5,818,319
Grants payable		
Public sector		
Australian Government entities (related entities)	8,609	32,244
Private sector		
Profit and non-profit organisations	308,852	345,826
Total grants payable	317,461	378,070

Accounting policy

The Department administers a number of grant schemes on behalf of the Government. Grant liabilities are recognised to the extent that (i) the services required to be performed by the grantee have been performed or (ii) the grant eligibility criteria have been satisfied, but payments due have not been made. Settlement is made according to the terms and conditions of each grant. This is usually within 30 days of performance or eligibility. All grants liabilities are expected to be settled within 12 months of the balance date.

Department of Health

Notes to and forming part of the financial statements

	2017	2016
	\$'000	\$'000
Note 18B: Personal Benefits		
Personal benefits paid		
Indirect		
Medical services	22,481,669	21,428,064
Pharmaceuticals and pharmaceutical services	12,162,451	10,832,702
Private health insurance	5,994,087	5,887,067
Primary care practice incentives	341,699	340,120
Hearing services	497,825	475,905
Targeted assistance	143,886	405,287
Home support and care	886,627	-
Other	47,723	138,496
Total personal benefits paid	42,555,967	39,507,641
Personal benefits payable		
Medical services	295,793	321,172
Pharmaceuticals and pharmaceutical services	6,171	23,252
Private health insurance	478,309	476,400
Home support and care	85,189	-
Other	110,512	77,601
Total personal benefits payable	975,974	898,425
Personal benefits provisions		
Outstanding claims		
Medical services	740,223	678,452
Pharmaceuticals and pharmaceutical services	317,550	601,593
Total personal benefits provisions	1,057,773	1,280,045

Accounting policy

Personal benefits are the current transfers for the benefit of individuals or households, directly or indirectly, that do not require any economic benefit to flow back to Government. The Department administers a number of personal benefits programs on behalf of the Government that provide a range of health care entitlements to individuals. These include, but are not limited to:

- Pharmaceutical Benefits (the primary means through which the Australian Government ensures Australians have timely access to pharmaceuticals);
- Medical Benefits (provide high quality and clinically relevant medical and associated services through Medicare);
- Private Health Insurance Rebate (helps make private health insurance more affordable, provides greater choice and accessibility to private health care options, and reduces pressure on the public hospital system);
- Primary Care Practice Incentives (support activities that encourage continuing improvements, increase quality of care, enhance capacity, and improve access and health outcomes for patients);
- Targeted Assistance (support the provision of relevant pharmaceuticals, aids and appliances);
- Hearing Services (reduce the incidence and consequences of avoidable hearing loss in the community by providing access to high quality hearing services and devices); and
- Home Support and Care (providing coordinate home support and care packages tailored to meet individuals' specific care needs).

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Personal benefits are assessed, determined and paid by the Department of Human Services (DHS) in accordance with provisions of the relevant legislation under delegation from the Department. All personal benefits liabilities are expected to be settled within 12 months of the balance date. In the majority of cases the above payments are initially based on the information provided by customers and providers. Both the Department and DHS have established review mechanisms to identify overpayments made under various schemes. The recognition of receivables and recovery actions take place once the overpayments are identified.

Significant accounting judgements and estimates

Medicare payments processed by DHS on behalf of the Department are either reimbursements to patients, made after medical services have been received from a doctor, or payments made directly to doctors through the bulk billing system. At any point in time, there are thousands of cases where a medical service has been rendered, but the Medicare payment has not yet been made. The DHS has been using the ‘Winters’ methodology to estimate the value of these outstanding claims.

Under the Winters methodology, a number of models are used to estimate the outstanding Medicare claims liabilities. The model preferred by the industry, and consistently applied in past financial statements of the Department, is Model 5. Model 5 comprises two major components: chain ladder modelling and time series modelling.

Under Model 5, user defined parameters are applied to smooth the time series observations and make predictions about future payment values. As the parameters are user defined it is reasonable to assume that different users of the model may make different choices, and therefore arrive at different estimates of the outstanding liability. In order to validate the parameters used, actual payment data has been compared to previous estimates using various parameters to predict the liability. The model weights recent payment experience more heavily and is therefore self-adjusting for emerging trends.

	2017	2016
	\$'000	\$'000
Note 18C: Subsidies		
Subsidies paid		
Subsidies in connection with		
Aged care	12,002,391	9,161,229
Medical indemnity	91,301	81,517
Other	8,438	47,455
Total subsidies paid	12,102,130	9,290,201
Subsidies payable		
Subsidies in connection with		
Aged care	51,296	258,433
Mental health	-	4,167
Other	-	938
Total subsidies payable	51,296	263,538

Accounting policy

The Department administers a number of subsidy schemes on behalf of the Government. Subsidies liabilities are recognised to the extent that (i) the services required to be performed by the recipient have been performed or (ii) the eligibility criteria have been satisfied, but payments due have not been made. All subsidies liabilities are expected to be settled within 12 months of the balance date.

Department of Health

Notes to and forming part of the financial statements

Subsidies provisions				
	Balance as at 30 June 2016	Claims paid	Administered Schedule of Comprehensive Income Impact	Balance as at 30 June 2017
	\$'000	\$'000	\$'000	\$'000
Medical Indemnity Liabilities				
Incurring But Not Reported	28,000	(1,078)	(922)	26,000
High Cost Claims Scheme	316,000	(47,718)	65,718	334,000
Run-Off Cover Scheme	81,000	(4,271)	13,271	90,000
Total	425,000	(53,067)	78,067	450,000
			2017	2016
			\$'000	\$'000
Subsidies expected to be settled				
No more than 12 months			60,750	61,438
More than 12 months			389,250	363,562
Total subsidies provisions			450,000	425,000

Accounting policy

Medical Indemnity schemes are administered by the Department under the *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010*. The Department administers the following medical indemnity schemes:

- Incurred But Not Reported Scheme (IBNRS);
- High Cost Claims Scheme (HCCS);
- Exceptional Claims Scheme (ECS);
- Run-Off Cover Scheme (ROCS);
- Premium Support Scheme (PSS);
- Midwife Professional Indemnity (Commonwealth Contribution) Scheme (MPIS); and
- Midwife Professional Indemnity Run-off Cover Scheme (MPIRCS).

The payments for medical indemnity are managed by the DHS, the service delivery entity, on behalf of the Department through its Medicare program.

The Australian Government Actuary (AGA) estimated the provision for future payments for the medical indemnity schemes administered by the Department. At the reporting date, provision for future payment was recognised for IBNRS, HCCS, and ROCS. No provision was recognised for ECS, MPIS or MPIRCS as, to date, no payment has been made against these schemes, they could not be reliably measured and are reported as a contingent liability in Note 24. No provision was recognised for the PSS as the nature and timing of payments associated with this scheme are based on a relatively predictable pattern of annual payments that must be settled within 12 months of the end of a premium period.

The methods used by the AGA to estimate the liability under the different schemes are as follows:

General:

The AGA has relied on projections that have been prepared by the appointed actuaries to the five medical indemnity insurers (MIIs) and provided to the Commonwealth under the relevant provisions of the *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010*. Payment information from the Medicare program complemented the projection. Where appropriate, adjustments have been made to those projections as described below.

Department of Health

Notes to and forming part of the financial statements

The methods used by the AGA to estimate the liability under the different schemes are as follows:

IBNRS:

The IBNRS provides for payments to Avant Mutual Group for claims made in relation to its IBNR liability at 30 June 2002. Some claims that will be payable under the IBNRS may also be eligible for payment under the HCCS.

The AGA has carried out chain ladder modelling using the payments data. The results of this analysis have been compared to the projections prepared by the industry actuaries. The results closely match and, as a result, the AGA has largely relied on industry projections to estimate the liability.

ROCS:

ROCS provides free run-off cover for specific groups of medical practitioners including those retired and over 65, on maternity leave, retired for more than three years, retired due to permanent disability or the estates of those that have died. This scheme is funded through the collection of support payments imposed as a tax on MIIs.

The AGA has developed an independent ROCS actuarial model which estimates the total annual accruing ROCS cost to the Australian Government. The model output is used to check against industry actuaries' projections. For the estimate of the outstanding ROCS liability as at 30 June 2017, the AGA has relied on the projections from the actuary of each of the MIIs, but has adjusted the IBNRS component on comparison with the projections from its own ROCS internal model. Given that the majority of the claims anticipated under this scheme have not yet been made, the AGA noted a relatively high level of uncertainty in the estimate.

HCCS:

Under HCCS, the Government pays 50% of the cost of claims made to all MIIs that exceed a specified threshold, up to the limit of the practitioner's insurance. The threshold to be applied depends on the date of notification of the claim, as follows:

- from 1 January 2003 to 21 October 2003 - \$2m;
- from 22 October 2003 to 31 December 2003 - \$0.500m; and
- on or after 1 January 2004 - \$0.300m.

The AGA has relied on the projections of the industry actuaries but has made adjustments in respect of claims which are also eligible for the IBNRS and/or ROCS to ensure overall consistency of the estimates.

Significant accounting judgements and estimates

The nature of the medical indemnity liability estimates is inherently, and unavoidably, uncertain. The uncertainty arises for the following reasons:

- it is not possible to precisely model the claim process, and random variation both in past and future claims have or will have adverse consequences on the model;
- there can be a long delay between incident occurrences, to notification and to settlement, making the projection of timing very uncertain;
- the nature and cause of injury is difficult to determine and prove;
- the claims experience can be very sensitive to the surrounding factors such as technology, legislation, attitudes and the economy; and
- in general, these schemes have a small number of large claims which account for a substantial part of the overall cost. This is associated with large expected random variation. It follows that a wide range of results can be obtained with equal statistical significance which differs materially in the context of a schedule of assets and liabilities. This is a common situation with liabilities of this nature.

Department of Health

Notes to and forming part of the financial statements

The experience of the medical indemnity claims cycle indicates that claims and subsequent payments can take a number of years to mature and settle. The Department has used a 2.2% per annum discount rate in the calculation of the estimate for the current year. This discount rate was derived from the Commonwealth bonds yield curve based on the revised average observed liability duration of five years for the medical indemnity payments. This discount rate is deemed to be more appropriate than the ten year bond yield at 30 June 2017, which was 2.6%. A discount rate of 1.7% was used last year, which was derived using the same method.

A sensitivity analysis was undertaken by moving the discount rate either up or down to the nearest full percentage point. Increasing the discount rate to 3% would result in a discounted liability estimate which is about 3.3% (\$15m) less than the base estimate. On the other hand, decreasing the discount rate to 2% would result in a discounted liability estimate which is about 0.9% (\$4m) higher than base estimate.

	2016-17			2015-16
	discounted 2% \$m	discounted 2.2% ¹ \$m	discounted 3% \$m	discounted 1.7% \$m
Incurred But Not Reported	27	26	26	28
High Cost Claims Scheme	336	334	324	316
Run-Off Cover Scheme	91	90	85	81
Total	454	450	435	425

¹ 2.2% was used as the basis of estimation in 2016-17.

Department of Health

Notes to and forming part of the financial statements

Note 19: Administered suppliers and other expenses and payables

	2017	2016
	\$'000	\$'000
Note 19A: Suppliers		
Services rendered		
Consultants	20,415	16,034
Contract for services	725,253	606,068
Travel	772	653
Communications and publications	25,945	26,831
Committee related expenses	3,890	2,366
Other	31,060	24,816
Total services rendered	807,335	676,768
Suppliers payable		
Trade creditors and accruals	22,841	9,881
Total suppliers payable	22,841	9,881
Note 19B: Other Expenses		
Other expenses		
Write-down and impairment of assets		
Impairment on financial instruments	12,098	1,950
Write-off of inventories	21,474	105,376
Net loss on sale of land and buildings	17,884	-
Payments to Special Accounts	8,613	10,093
Other	153	56
Total other expenses	60,222	117,475

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 20: Administered Corporate Commonwealth Entities

	2017	2016
	\$'000	\$'000
Note 20A: Appropriations		
Appropriations transferred to corporate entities		
Australian Institute of Health and Welfare	26,918	15,625
Food Standards Australia New Zealand	17,184	17,257
Australian Sports Commission	250,669	253,646
Independent Hospital Pricing Authority	-	25,877
National Health Performance Authority	-	16,253
Australian Digital Health Agency	110,303	-
Total appropriations transferred corporate entities	405,074	328,658
Note 20B: Investments		
Investments in portfolio agencies		
Equity interest - Australian Institute of Health and Welfare (i)	30,930	6,723
Equity interest - Food Standards Australia New Zealand (ii)	7,808	7,745
Equity interest		
- Australian Commission on Safety and Quality in Health Care (iii)	2,715	2,136
Equity interest - Australian Sports Commission (iv)	302,209	310,208
Equity interest - Australian Sports Foundation Ltd (v)	3,847	4,375
Equity interest - Independent Hospital Pricing Authority (vi)	8,577	24,125
Equity interest - National Health Performance Authority	-	24,805
Equity interest - Australian Digital Health Agency (vii)	92,318	-
Total investments in portfolio agencies	448,404	380,117
Other investments		
Biomedical Translation Fund - BioScience Managers	6,568	-
Total other investments	6,568	-
Total investments	454,972	380,117

Accounting policy

Payments to corporate Commonwealth entities from amounts appropriated for that purpose are classified as administered expenses, equity injections or loans to the relevant portfolio entity. The appropriation to the Department is disclosed in Table A of Note 25A.

Department of Health

Notes to and forming part of the financial statements

- (i) The Australian Institute of Health and Welfare informs community discussion and decision making through national leadership and collaboration in developing and providing health and welfare statistics and information.
- (ii) The Food Standards Australia New Zealand protects and informs consumers through the development of effective food standards, in a way that helps stimulate and support growth and innovation in the food industry.
- (iii) The Australian Commission on Safety and Quality in Health Care works to lead and coordinate national improvements in safety and quality in health care across Australia.
- (iv) The Australian Sports Commission manages, develops and invests in sport at all levels. It works closely with a range of national sporting organisations, state and local governments, schools and community organisations to ensure sport is well run and accessible.
- (v) The Australian Sports Foundation Ltd assists sporting, community, educational and other government organisations to raise funds for the development of sports infrastructure.
- (vi) The Independent Hospital Pricing Authority was established on 1 July 2014 to contribute to significant reforms to improve Australian public hospitals. A major component of these reforms is the implementation of national Activity Based Funding (ABF) for Australian public hospitals. The implementation of ABF provides incentives for efficiency and increases transparency in the delivery and funding of public hospital services across Australia.
- (vii) The Australian Digital Health Agency was established on 1 July 2016 to improve health outcomes for Australians through the delivery of digital healthcare systems and the national digital health strategy for Australia.

Transferred entities

The National Health Performance Authority has been closed and its activities and capabilities transferred to the Australian Institute of Health and Welfare and the Australian Commission on Safety and Quality in Health Care on 1 July 2016.

Other investments

The Biomedical Translation Fund (BTF) is an equity co-investment venture capital program announced in the National Innovation and Science Agenda to support the development of biomedical ventures in Australia. The BTF Program will help translate biomedical discoveries into high growth potential companies that are improving long term health benefits and national economic outcomes. It is delivered by AusIndustry on behalf of the Department through licensed private sector venture capital fund managers.

Due to the early operational phase of the program, at 30 June 2017 these investments were measured at the value of capital funding provided to the fund managers for investment purposes.

Accounting policy

Administered investments represent corporate Commonwealth entities within the Health portfolio. Administered investments in subsidiaries, joint ventures and associates are not consolidated because their consolidation is only relevant at the whole-of-Government level.

Administered investments other than those held for sale are classified as available-for-sale and are measured at their fair value as at 30 June 2017. Fair value has been taken to be the Australian Government's proportional interest in the net assets of each organisation as at the end of the reporting period.

None of the investments are expected to be recovered within 12 months.

Department of Health

Notes to and forming part of the financial statements

Note 21: Administered income, debtors and loans

	2017	2016
	\$'000	\$'000
Note 21A: Recoveries		
Recoveries received		
Medical and pharmaceutical benefits and health rebate schemes	61,278	72,904
PBS drug recoveries	3,267,515	1,707,023
Aged care recoveries, cross-billings and budget neutrality adjustments	396,182	907,700
Other recoveries	568	-
Total recoveries received	3,725,543	2,687,627
Accrued recoveries revenue		
Personal benefits		
Pharmaceutical benefits	856,998	843,589
Home support and care	9,746	-
Medicare benefits	28,142	34,828
Other personal benefits	474	497
Subsidies		
Medical indemnity	6,494	10,933
Aged care	27,083	36,189
Other	49	49
Total accrued recoveries revenue	928,986	926,085

Accounting policy

All administered revenues are revenues relating to the course of ordinary activities performed by the Department on behalf of the Australian Government. As such, administered appropriations are not revenues of the individual entity that oversees distribution or expenditure of the funds as directed. Recoveries are recognised on an accrual basis and relate to:

- recoveries under the Medical Benefits, Pharmaceutical Benefits and Health Rebate schemes after settlement of personal injury claims;
- recoveries for services provided under the National Disability Insurance Scheme and for young people in residential care;
- rebates associated with PBS drug recoveries; and
- recoveries from the DHS Recovery of Compensation for Health Care and Other Services Special Account.

All accrued recoveries revenue is expected to be recovered within 12 months.

Department of Health

Notes to and forming part of the financial statements

	2017	2016
	\$'000	\$'000
Note 21B: Other Revenue, Receivables and Loans		
Other revenue		
Health and hospital fund	-	54,984
Special accounts revenue	64,870	-
Levies and taxes	18,932	17,799
Interest from loans	12,343	4,757
Other	159,058	197,238
Total other revenue received	255,203	274,778
Other receivables		
Trade and other miscellaneous receivables	373,903	252,510
GST receivable from the Australian Taxation Office	43,854	62,000
Total other receivables	417,757	314,510
Advances and loans		
Aged care facilities		
Nominal value	317,774	306,696
Less: Unexpired discount	(51,456)	(35,344)
Total advances and loans	266,318	271,352

Accounting policy

Loans were made to approved providers under the *Aged Care Act 1997* for an estimated period of 12 years. No security is generally required. Interest rates are linked to the Consumer Price Index. Interest payments are due on the 21st day of each calendar month.

Total loans and other receivables (gross)	684,075	585,862
Aged as follows		
Not overdue	588,431	516,314
Overdue by:		
0 to 30 days	4,148	5,797
31 to 60 days	6,624	8,596
61 to 90 days	8,794	2,774
More than 90 days	76,078	52,381
Total overdue	95,644	69,548
Total loans and other receivables (gross)	684,075	585,862
Less impairment allowance	(12,481)	(7,637)
Total loans and other receivables (net)	671,594	578,225
Loans and other receivables - past due but not impaired	83,163	61,911

Accounting Policy

Credit terms for goods and services were 30 days (2016: 30 days).

Department of Health

Notes to and forming part of the financial statements

	2017	2016
	\$'000	\$'000
Loans and other receivables (net) expected to be recovered		
No more than 12 months	433,747	299,995
More than 12 months	237,847	278,230
Total loans and other receivables (net) expected to be recovered	<u>671,594</u>	<u>578,225</u>
Reconciliation of the Impairment Allowance		
	2017	2016
	\$'000	\$'000
Opening balance	(7,637)	(7,675)
Amounts written off	4,348	1,760
Amounts recovered and reversed	2,127	362
Increase recognised in net cost of services	(11,319)	(2,084)
Closing balance	<u>(12,481)</u>	<u>(7,637)</u>

Accounting Policy

The entire impairment allowance relates to debts aged more than 90 days.

Department of Health

Notes to and forming part of the financial statements

Note 22: Administered cash and other financial instruments

	2017	2016
	\$'000	\$'000
Note 22A: Financial Assets		
Loans and receivables		
Cash and cash equivalents		
Cash on hand or on deposit	91,310	164,509
Cash in special accounts	55,499	7,070
Total cash and cash equivalents	146,809	171,579
Accrued recoveries revenue	855,485	872,047
Other receivables	361,422	244,873
Advances and loans	266,318	271,352
Total loans and receivables	1,630,034	1,559,851
Available-for-sale financial assets		
Investments in portfolio agencies	448,404	380,117
Other investments	6,568	-
Total available-for-sale financial assets	454,972	380,117
Total financial assets	2,085,006	1,939,968
Net gains or losses on financial assets		
Loans and receivables		
Interest revenue	12,343	4,757
Impairment	(12,098)	(1,950)
Net gains or losses on loans and receivables	245	2,807
Net gains or losses on financial assets	245	2,807
Note 22B: Financial Liabilities		
Financial liabilities measured at amortised cost		
Trade creditors	22,841	9,881
Grants payable	317,461	378,070
Total financial liabilities measured at amortised cost	340,302	387,951
Total financial liabilities	340,302	387,951
Net gains or losses on financial liabilities		
Financial liabilities measured at amortised cost		
Exchange loss	-	(1)
Net losses on financial liabilities measured at amortised cost	-	(1)
Net losses on financial liabilities	-	(1)

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 22C: Risks arising from financial instruments

Credit risk

The Administered activities of the Department are not exposed to a high level of credit risk as the majority of financial assets are recoveries receivable, concessional loans and other receivables, as well as investments in Government controlled and funded entities. These financial assets are carried at amounts not best representing maximum exposure to credit risk.

The Department has policies and procedures that outline the debt recovery techniques to be applied. The Department has assessed the risk of default on payment and has allocated \$12.481m in 2017 (2016: \$7.637m) to an impairment allowance account.

The Department held no collateral to mitigate credit risk.

Liquidity risk

The Department's administered financial liabilities are suppliers payable and grants payable. The exposure to liquidity risk is based on the notion that the Department will encounter difficulty in meeting its obligations associated with its administered financial liabilities. This is highly unlikely due to appropriation funding and mechanisms available to the Department (e.g. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations. The Department has no past experience of default.

All liabilities related to suppliers payable and grants payable are expected to be settled within one year.

Market risk

The Department holds financial instruments that are of a nature that do not expose the Department to certain market risks, such as currency risk or other price risk.

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The only interest bearing items in the Administered schedule of assets and liabilities were zero real interest loans, disclosed as advances and loans. These loans have an interest rate linked to Consumer Price Index and will not fluctuate for changes in market interest rates.

Department of Health

Notes to and forming part of the financial statements

Note 23: Administered non-financial assets

Note 23A: Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances for 2017

	Land	Buildings	Total land and buildings	Computer Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2016					
Gross book value	1,895	31,302	33,197	123,170	156,367
Accumulated depreciation, amortisation and impairment	-	-	-	(74,347)	(74,347)
Total as at 1 July 2016	1,895	31,302	33,197	48,823	82,020
Restructure	-	-	-	(48,823)	(48,823)
Other movements					
Expected loss on sale recognised in other comprehensive income	(895)	(13,063)	(13,958)	-	(13,958)
Expected loss on sale recognised in net cost of services	(1,000)	(16,884)	(17,884)	-	(17,884)
Assets held for sale	-	-	-	-	-
Depreciation and amortisation	-	(1,355)	(1,355)	-	(1,355)
Total as at 30 June 2017	-	-	-	-	-

Accounting policy

An independent valuation of administered land and buildings was carried out by Australian Valuation Solutions Pty Ltd on 30 June 2014. The 2016 desktop valuation of administered buildings indicated that a revaluation as at 30 June 2016 was required to align the carrying value with the fair value.

Land and buildings were transferred to the Tasmanian Government for a total consideration of \$1, effective 1 July 2017. The expected loss on sale was recognised as at 30 June 2017, and land and buildings were designated as assets held for sale. The total value of assets held for sale was \$1 as at 30 June 2017, therefore no additional disclosures associated with assets held for sale could be made.

Computer software, comprising *My Health Record*, was transferred to the Australian Digital Health Agency at cost, effective 1 July 2016. This is disclosed in Note 26: Restructuring.

Department of Health

Notes to and forming part of the financial statements

Reconciliation of the opening and closing balances for 2016					
	Land	Buildings	Total land and	Computer Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2015					
Gross book value	1,895	23,536	25,431	91,544	116,975
Accumulated depreciation, amortisation and impairment	-	(963)	(963)	(54,927)	(55,890)
Total as at 1 July 2015	1,895	22,573	24,468	36,617	61,085
Additions					
Internally developed	-	-	-	31,626	31,626
Revaluations and impairments recognised in other comprehensive income	-	9,692	9,692	-	9,692
Depreciation and amortisation	-	(963)	(963)	(19,420)	(20,383)
Total as at 30 June 2016	1,895	31,302	33,197	48,823	82,020
Total as at 30 June 2016 represented by					
Gross book value	1,895	31,302	33,197	123,170	156,367
Accumulated depreciation, amortisation and impairment	-	-	-	(74,347)	(74,347)
Total as at 30 June 2016 represented by	1,895	31,302	33,197	48,823	82,020

	2017	2016
	\$'000	\$'000
Note 23B: Inventory		
National Medical Stockpile		
Opening balance	111,265	210,005
Add purchases	25,536	6,579
Less deployment	(16)	(5)
Less impairment	(21,474)	(105,376)
Add stocktake adjustments	(49)	63
Less sale of inventory to the States and Territories	-	(1)
Closing balance	115,262	111,265

Accounting policy

The Department's inventories relate to the National Medical Stockpile (the Stockpile). The Stockpile is a strategic reserve of medicines, vaccines, antidotes and protective equipment available for use as part of the national response to a public health emergency. It is intended to augment State and Territory Government reserves of key medical items in a health emergency, which could arise from terrorist activities or natural causes.

Inventories held for distribution are valued at cost, adjusted for any loss of service potential. Not all inventories are expected to be distributed in the next 12 months.

Costs incurred in bringing each item of the Stockpile to its present location and condition include purchase cost plus other reasonably attributable costs, such as overseas shipping and handling and import duties, less any bulk order discounts and rebates received from suppliers.

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 24: Administered contingent assets and liabilities

	Indemnities		Claims for costs		Aged Care Accommodation Bond Guarantee Scheme		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Contingent assets								
Balance from previous period	-	-	-	-	-	-	-	-
New contingent assets recognised	-	-	20,000	-	-	-	20,000	-
Total contingent assets	-	-	20,000	-	-	-	20,000	-
Contingent liabilities								
Balance from previous period	60,000	52,000	90	81	208	-	60,298	52,081
New contingent liabilities recognised	-	-	20,245	22	-	208	20,245	230
Re-measurement	13,000	8,000	-	(13)	-	-	13,000	7,987
Liabilities recognised	-	-	(8)	-	(136)	-	(144)	-
Obligations expired	-	-	(82)	-	(72)	-	(154)	-
Restructure	-	-	-	-	-	-	-	-
Total contingent liabilities	73,000	60,000	20,245	90	-	208	93,245	60,298
Net contingent liabilities	(73,000)	(60,000)	(245)	(90)	-	(208)	(73,245)	(60,298)

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Quantifiable Contingent Assets

Claims for costs

The Schedule of contingencies reports contingent assets in respect of claims for costs of \$20m (2016: nil).

Quantifiable Contingent Liabilities

Indemnities

The table on the previous page reports a contingent liability in respect of medical indemnity payments under the High Cost Claims Scheme of up to \$73m (2016: \$60m).

Claims for Costs

The table also reports a contingent liability in respect of claims for costs of up to \$20.245m (2016: \$0.090m).

Aged Care Accommodation Bond Guarantee Scheme

The Department is not currently aware of the potential for the accommodation bond scheme to be activated (2016: \$0.208m).

Unquantifiable Contingent Assets

Compensation from Sanofi

The Department has initiated legal action against Sanofi to recover significant lost savings it claims were denied to it because interim injunctions granted to Sanofi in unsuccessful patent litigation delayed a generic version of clopidogrel being listed on the Pharmaceutical Benefits Scheme and thereby delayed statutory price reductions for brands of clopidogrel.

Compensation from Wyeth

The Department has initiated legal action against Wyeth to recover significant lost savings it claims were denied to it because interim injunctions granted to Wyeth in unsuccessful patent litigation delayed a generic version of venlafaxine being listed on the Pharmaceutical Benefits Scheme and thereby delayed statutory price reductions for brands of venlafaxine.

Compensation from AstraZeneca

The Department has initiated legal action against AstraZeneca to recover significant lost savings it claims were denied to it because interim injunctions granted to AstraZeneca in unsuccessful patent litigation delayed a generic version of rosuvastatin being listed on the Pharmaceutical Benefits Scheme and thereby delayed statutory price reductions for brands of rosuvastatin.

Unquantifiable Contingent Liabilities

Aged Care Accommodation Bond Guarantee Scheme

A Guarantee Scheme has been established through the *Aged Care (Accommodation Payment Security) Act 2006* and *Aged Care (Accommodation Payment Security) Levy Act 2006*. Under the Guarantee Scheme, if a provider becomes insolvent or bankrupt and is unable to repay outstanding bond balances to aged care residents, the Australian Government will step in and repay the bond balances owing to each resident. In return, the residents' rights to pursue the defaulting provider to recover the accommodation bond money transfer to the Government. In the event the Government cannot recover the full amount from the defaulting provider, it may levy all providers holding accommodation bonds to recoup the shortfall. It is not possible to quantify the Australian Government's contingent liability in the event that the Guarantee Scheme is activated. The Department has implemented risk mitigation strategies which should reduce the risk of default and thereby activation of the Guarantee Scheme.

Department of Health

Notes to and forming part of the financial statements

From the latest available information, the maximum contingent liability, in the unlikely event that all providers defaulted, is \$21.7 billion. Since the scheme was introduced it has been activated ten times requiring payment of \$42.95m. It is difficult to predict if the past patterns of payments are indicative of future payments. The scheme was not activated during the period ended 30 June 2017, but minor residual payments were made in relation to a refund owed from the previous year.

Diagnostic Products Agreement

The Australian Government has provided an indemnity to a review of certain matters in relation to the Diagnostics Products Agreement. The indemnity provides certain specified members of the review the same level of indemnity as Australian Government officers for the purpose of the review. For the period ended 30 June 2017 no claims have been made (2016: Nil).

Medical Indemnity

The Department of Human Services (DHS) delivers the Incurred But Not Reported Scheme (IBNRS) on behalf of the Australian Government. Eligibility for claim payments under this scheme is dependent on whether the Medical Indemnity Insurer (MII) is deemed to be a participating Medical Defence Organisation under the *Medical Indemnity Act 2002* and the *Midwife Professional Indemnity (Commonwealth Contribution) Scheme Act 2010*.

DHS also delivers the Exceptional Claims Scheme (ECS) on behalf of the Australian Government. Under this scheme, the Australian Government will be liable for the cost of medical indemnity claims that exceed certain thresholds. The Consolidated Revenue Fund is appropriated to make payments under this scheme. To be covered by the ECS, practitioners must have medical indemnity insurance cover to at least a threshold of \$15m for claims arising from incidents notified between 1 January to 30 June 2003 and \$20m for claims notified from 1 July 2003. At 30 June 2017, the Department had received no notification of any incidents that would give rise to claims under this scheme. However, the nature of these claims is such that there is usually an extended period between the date of the medical incident and notification to the insurer. For the period ended 30 June 2017 no claims have been made or notified (2016: Nil).

CSL Ltd

Under existing agreements, the Australian Government has indemnified CSL Ltd for certain existing and potential claims made for personal injury, loss or damage suffered through therapeutic and diagnostic use of certain products manufactured by CSL Ltd. For the period ended 30 June 2017 no claims have been made (2016: Nil).

The Australian Government has indemnified CSL Ltd for a specific range of events that occurred during the Plasma Fractionation Agreement from 1 January 1994 to 31 December 2004, where alternative cover was not arranged by CSL Ltd. For the period ended 30 June 2017 no claims have been made (2016: Nil).

Australian Red Cross Blood Service

The Deed of Agreement between the Commonwealth and the Australian Red Cross Society (ARCS) and the National Blood Authority (NBA) in relation to the operations of the Blood Service, includes certain indemnities and limited liability in favour of ARCS. These cover a defined set of potential business, product and employee risks and liabilities arising from the operation of the Blood Service. The indemnities and limitation of liability only operate in the event of the expiry and non-renewal, or the early termination of the Deed, and only within a certain scope. They are also subject to appropriate limitations and conditions including in relation to mitigation, contributory fault, and the process of handling relevant claims. For the period ended 30 June 2017 no claims have been made (2016: Nil).

Department of Health

Notes to and forming part of the financial statements

Blood and Blood Products Liability Cover

Under certain conditions the Australian Government, States and Territories jointly provide indemnity for the Blood Service through a cost-sharing arrangement in relation to the National Managed Fund claims, both current and potential, regarding personal injury and loss or damages suffered by a recipient of certain blood and blood products where other available mitigation or cover is not available. Under a Memorandum of Understanding between governments and the Blood Service, the blood and blood products liability cover for the Blood Service remains in force until all parties agree to terminate the arrangements from an agreed date. For the period ended 30 June 2017 no claims have been made (2016: Nil).

Vaccines

Under certain conditions the Australian Government has provided an indemnity for the supply of certain vaccines to the suppliers of the vaccines. The contracts under which contingent liability is recognised will expire in February 2018, October 2020 and June 2025 respectively. However, until replacement stock is sourced the contingent liability for use of the vaccine currently held remains with the Commonwealth. For the period ended 30 June 2017 no claims have been made (2016: Nil).

Human Pituitary Hormone Program

Under certain conditions the Australian Government has provided indemnity for the supply of growth hormones manufactured from human pituitary glands and human pituitary gonadotropin manufactured before 31 December 1985. For the period ended 30 June 2017 no claims have been made (2016: Nil).

The Australian Medical Association

This is an agreement between the Australian Medical Association Ltd (AMA), the Commonwealth, Australian Private Hospitals Association Ltd and Private Healthcare Australia for participation in and support of the Private Mental Health Alliance. In respect of identified information collected, held or exchanged by the parties in connection with the National Model for the Collection and Analysis of a Minimum Data Set with Outcome Measures in Private, Hospital-based Psychiatric Services each party has agreed to indemnify each other in respect of any loss, liability, cost, claim or expense, misuse of Confidential Information or breach of the Privacy Act. The AMA's liability to indemnify the other parties will be reduced proportionally to the extent that any unlawful or negligent act or omission of the other parties or their employees or agents contributed to the loss or damage. For the period ended 30 June 2017 no claims have been made (2016: Nil).

2018 Commonwealth Games

The Australian Government has provided guarantees in support of the Gold Coast bid to host the 2018 Commonwealth Games.

Significant Remote Contingencies

The Department did not have any significant remote contingencies this year or prior year.

Department of Health

Notes to and forming part of the financial statements

Note 25A: Administered appropriations

Table A: Annual and Unspent Appropriations ('Recoverable GST exclusive')

	2017	2016
	\$'000	\$'000
ADMINISTERED		
Ordinary Annual Services - Administered items		
Annual appropriation ^{1,2}	8,576,410	5,804,936
Receipts retained under PGPA Act - Section 74	43,413	107,701
Transfers of appropriations under PGPA Act - Section 75	-	1,507,863
Total appropriation	8,619,823	7,420,500
Appropriation applied (current and prior years) ⁴	(8,298,244)	(6,727,047)
Variance³	321,579	693,453
Unspent appropriations		
Own unspent appropriation balance	493,857	448,062
Prior year section 75 transfers	215,882	215,882
Closing unspent appropriation balance⁵	709,739	663,944
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 1) 2012-2013⁶</i>	3,323	3,323
<i>Appropriation Act (No. 1) 2013-2014⁶</i>	26,391	26,391
<i>Appropriation Act (No. 1) 2014-2015^{7,8}</i>	213,993	213,993
<i>Appropriation Act (No. 5) 2014-2015⁸</i>	46,689	46,689
<i>Appropriation Act (No. 1) 2015-2016^{1,2}</i>	67,448	366,133
<i>Appropriation Act (No. 3) 2015-2016</i>	-	7,415
<i>Supply Act (No. 1) 2016-2017²</i>	39,359	-
<i>Appropriation Act (No. 1) 2016-2017²</i>	235,776	-
<i>Appropriation Act (No. 3) 2016-2017</i>	76,760	-
Total unspent appropriation - ordinary annual services - administered items	709,739	663,944

¹ There were no amounts temporarily quarantined from 2017 administered ordinary annual services appropriations. In 2016 administered ordinary annual services appropriations \$25,253,000.00 of the *Appropriation Act (No. 1) 2015-2016* was temporarily quarantined. This does not represent a loss of control of the appropriations and this amount is still reported as available above.

² In 2017 administered ordinary annual services appropriations \$135,447,039.00 of the *Appropriation Act (No. 1) 2016-2017* and \$25,561,444.40 of the *Supply Act (No. 1) 2016-2017* were permanently quarantined under section 51 of the PGPA Act. In 2016 administered ordinary annual services appropriations \$542,555,073.63 of the *Appropriation Act (No. 1) 2015-2016* and \$2,391,581.98 of the *Appropriation Act (No. 3) 2015-2016* were permanently quarantined under section 51 of the PGPA Act. This represents a loss of control of the appropriations and therefore these amounts were not reported as available above.

³ The administered ordinary annual services items variance of \$321,579,000.00 relates to the utilisation of retained funding from 2016 during 2017 (the former section 11 of the Appropriation Acts).

⁴ DHS spent money from the CRF on behalf of the Department under a payment authority. The money spent has been included in the table above.

Department of Health

Notes to and forming part of the financial statements

⁵ This balance is net of \$1,330,118,322.84 which is permanently quarantined under section 51 of the PGPA Act. These amounts are detailed in footnotes to the respective Act. The total unspent appropriations gross of quarantined amounts under section 51 of the PGPA Act is \$2,039,857,322.18.

⁶ These balances have been temporarily quarantined. This does not represent a loss of control of the appropriations and therefore these amounts were reported as available above.

⁷ This balance includes temporarily quarantined amounts to the total of \$47,800,000.00. This does not represent a loss of control of the appropriations and therefore these amounts were reported as available above. Another \$618,915,913.02 was permanently quarantined against this appropriation item under section 51 of the PGPA Act. This represents a loss of control of the appropriations and therefore this amount was not reported as available above.

⁸ These balances will lapse on 1 July 2017 when the underlying Appropriation Acts are repealed.

	2017	2016
	\$'000	\$'000
Ordinary Annual Services - Payments to corporate Commonwealth entities		
Annual appropriation	405,074	346,502
Total appropriation	405,074	346,502
Appropriation applied (current and prior years)	(405,074)	(328,658)
Variance	-	17,844
Other services - Administered assets and liabilities		
Annual appropriation	150,537	156,741
Total appropriation	150,537	156,741
Appropriation applied (current and prior years)	(35,244)	(33,202)
Variance¹	115,293	123,539
Unspent appropriations		
Own unspent appropriation balance	257,381	142,087
Closing unspent appropriation balance	257,381	142,087
Balance comprises appropriations as follows:		
<i>Appropriation Act (No. 2) 2013-2014²</i>	14,226	14,226
<i>Appropriation Act (No. 2) 2014-2015³</i>	840	840
<i>Appropriation Act (No. 2) 2015-2016</i>	-	2,021
<i>Appropriation Act (No. 4) 2015-2016</i>	115,263	125,000
<i>Supply Act (No. 2) 2016-2017</i>	53,907	-
<i>Appropriation Act (No. 2) 2016-2017</i>	73,145	-
Total unspent appropriation - other services - administered assets and liabilities	257,381	142,087

¹ The administered other services assets and liabilities variance of \$115,293,000 relates largely to funding for the investment in the Biomedical Translation Fund.

² This balance has been temporarily quarantined. This does not represent a loss of control of the appropriation and therefore this amount was reported as available above.

³ This balance will lapse on 1 July 2017 when the underlying Appropriation Act is repealed.

Department of Health

Notes to and forming part of the financial statements

Other Services - Payments to corporate Commonwealth entities		
Annual appropriation	10,589	-
Total appropriation	10,589	-
Appropriation applied (current and prior years)	(10,589)	-
Variance	-	-

Table B: Special Appropriations Applied ('Recoverable GST exclusive')

Authority	Appropriation applied	
	2017 \$'000	2016 \$'000
<i>Aged Care (Accommodation Payment Security) Act 2006</i>	720	-
<i>Aged Care Act 1997</i>	12,948,343	9,831,715
<i>Health Insurance Act 1973</i>	22,039,801	21,167,610
<i>National Health Act 1953</i>	13,754,186	11,798,076
<i>Medical Indemnity Act 2002</i>	61,952	69,264
<i>Private Health Insurance Act 2007</i>	5,992,179	5,896,162
<i>Dental Benefits Act 2008</i>	319,304	312,724
<i>Health and Other Services (Compensation) Act 1995</i>	-	-
<i>Medical Indemnity Agreement (Financial Assistance - Binding Commonwealth Obligations) Act 2002</i>	-	-
<i>Midwife Professional Indemnity (Commonwealth Contribution)</i>	-	-
<i>Public Governance, Performance and Accountability Act 2013 s.77</i>	576	7,926
Total special appropriations applied	55,117,061	49,083,477

DHS drew money from the CRF on behalf of the Department against the following special appropriations:

- Aged Care Act 1997;*
- Health Insurance Act 1973;*
- National Health Act 1953;*
- Medical Indemnity Act 2002;*
- Dental Benefits Act 2008;* and
- Private Health Insurance Act 2007.*

Table C: Disclosure by Agent in Relation to Annual and Special Appropriations ('Recoverable GST exclusive')

	2017 \$'000	2016 \$'000
Department of Social Services		
Total receipts	31,507	6,127
Total payments	(31,507)	(6,127)

The Department made wage supplementation payments from the Social and Community Services Pay Equity Special Account administered by the Department of Social Services (DSS) to eligible social and community services workers during 2017 and 2016.

Department of Health

Notes to and forming part of the financial statements

Note 25B: Compliance with statutory requirement for payments from the Consolidated Revenue Fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law.

The Department has primary responsibility for administering legislation related to health care. Payments totalling approximately \$55 billion each year are authorised against Special Appropriations by the Department in accordance with a range of frequently complex legislation. Most of the payments are administered by DHS under the Medicare program on behalf of the Department. In the vast majority of cases DHS relies on information or estimates provided by customers and medical providers to calculate and pay entitlements. If an overpayment occurs a breach of section 83 could result despite future payments being adjusted to recover the overpayment. In addition, simple administrative errors can lead to breaches of section 83.

Due to the number of payments made, the reliance that must be placed on external control frameworks and the complexities of the legislation governing these payments, the risk of a section 83 breach cannot be fully mitigated. However, the reported section 83 breaches represent only a very small portion of payments, both in number and in value, and the Department is committed to implementing measures to ensure that the risk of unintentional breaches of section 83 is as low as possible.

The Department has developed an approach for assessing the alignment of payment processes with legislation. During 2016-17, the Department:

- considered processes to minimise the risk of section 83 breaches as part of any review of legislation or administrative processes;
- received assurance from DHS that action has been undertaken to detect and prevent any potential breaches of section 83;
- continued its ongoing reviews of special accounts by internal audit as part of its rolling compliance program;
- obtained legal advice, as appropriate, to resolve questions of potential non-compliance; and
- identified legislative/procedural changes to reduce the risk of non-compliance in the future.

Special Appropriations

The Department administers 11 pieces of legislation, as disclosed in Note 25A Table B, with Special Appropriations for statutory payments. Some payments under the following legislation have been identified as having either actual or potential breaches of section 83:

Health Insurance Act 1973

In 2016-17, there were three cases of non-compliance under the Chronic Disease Dental Scheme totalling \$390,981.

These breaches have been confirmed by the Australian Government Solicitor and the related debts have been partially waived on the basis that it would be inequitable to recover the debts owed by the providers of the medical services, as they received the payments in good faith and would have been eligible for the benefit had the intended amendments to the legislation been correctly implemented.

DHS have advised that during 2016-17, 168 instances under the Medicare Easyclaim Program have been identified with a total value of \$30,464 where the payment made was not authorised by section 125(1) of the *Health Insurance Act 1973*.

DHS have also advised that during 2016-17 there have been potential breaches with regards to the Stoma Appliance: Paraplegic and Quadriplegic Program. DHS have put in place remedial actions with reviews of the program's conformance assessment and risk plans.

Department of Health

Notes to and forming part of the financial statements

Special Accounts

Currently the Department has nine Special Accounts, detailed in Note 27. Eight are assessed as low risk and one, the Sport and Recreation Special Account, is assessed as medium risk for non-compliance with section 83.

Continued Focus

The Department will continue to review legislation, new policy proposals, business rules and payment processes to assess the risk of breaches of section 83. In addition, it will continue ongoing reviews of special accounts by the Department's Integrity Branch as part of its rolling compliance program.

Note 26: Restructuring

The Australian Digital Health Agency (Digital Health) commenced from 1 July 2016 to manage the governance, operation and ongoing delivery of digital health including redevelopment of the *My Health Record* software. The value of the software asset as at 1 July 2016 was \$48.823m.

Staff members transferring to the Digital Health did so through transfer under section 26 of the *Public Service Act 1999*, and are not considered to have moved under a restructure arrangement.

Department of Health

Notes to and forming part of the financial statements

Note 27: Special accounts

	Services for Other Entities and Trust Moneys Account ¹		Australian Immunisation Register Account ²		Human Pituitary Hormones Account ³		Sport and Recreation Account ⁴	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Balance brought forward from previous period	18,773	13,849	3,876	2,258	2,570	2,675	624	714
Timing adjustments related to prior years	(270)	-	-	-	-	-	-	-
Increases								
Appropriation credited to special account	10,226	11,870	6,971	7,270	-	-	-	-
Other increases	8,470	12,609	3,724	4,060	-	-	270	331
Total increases	18,696	24,479	10,695	11,330	-	-	270	331
Available for payments	37,199	38,328	14,571	13,588	2,570	2,675	894	1,045
Decreases								
Administered	-	-	9,955	9,712	199	105	298	421
Total administered decreases	-	-	9,955	9,712	199	105	298	421
Relevant Money	18,064	19,555	-	-	-	-	-	-
Total relevant money decreases	18,064	19,555	-	-	-	-	-	-
Total decreases	18,064	19,555	9,955	9,712	199	105	298	421
Total balance carried to the next period	19,135	18,773	4,616	3,876	2,371	2,570	596	624

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

- ¹ Establishing Instrument: *Public Governance, Performance and Accountability Act 2013*; section 78
 Appropriation: *Public Governance, Performance and Accountability Act 2013*; section 78
 Purpose: to disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth; disburse amounts in connection with services performed on behalf of other government bodies that are not non-corporate Commonwealth entities; to repay amounts where an Act or other law requires or permits the repayment of an amount received; to reduce the balance of the special account (and, therefore the available appropriation for the special account) without making a real or notional payment.
- ² Establishing Instrument: *Public Governance, Performance and Accountability Act 2013*; section 78
 Appropriation: *Public Governance, Performance and Accountability Act 2013*; section 78
 Purpose: for expenditure relating to the operations of the Australian Childhood Immunisation Register, including payments to providers for the provision of information. The Australian Childhood Immunisation Register Special Account ceased on 1 October 2016 under Part 6 (sunsetting) of the *Legislative Instruments Act 2003*. A new special account was established to replace it. The new special account is the Australian Immunisation Register 2016.
- ³ Establishing Instrument: *Public Governance, Performance and Accountability Act 2013*; section 78
 Appropriation: *Public Governance, Performance and Accountability Act 2013*; section 78
 Purpose: for expenditure through grants and other payments for:
- counselling and support services to recipients of pituitary-derived hormones and their families; and
 - medical and other care to people treated with pituitary-derived hormones should they contract Creutzfeldt-Jakob disease as a result of the treatment; and
 - one-off payments for recipients of pituitary-serviced hormones who can demonstrate that they have suffered a psychiatric illness prior to 1 January 1998 due to their having been informed that they are at a greater risk of contracting Creutzfeldt-Jakob disease; and
 - one-off payments for the children of recipients of pituitary-derived hormones who can demonstrate that they have suffered a psychiatric illness as a consequence of the death of their parent from Creutzfeldt-Jakob disease.
- ⁴ Establishing Instrument: *Public Governance, Performance and Accountability Act 2013*; section 78
 Appropriation: *Public Governance, Performance and Accountability Act 2013*; section 78
 Purpose: to undertake sport and recreation related projects of common interest to the Sport and Recreation Ministers' Council, its successor or subordinate bodies, and that benefit all or a majority of members.
 The Sport and Recreation Special Account ceased on 1 October 2016 under Part 6 (sunsetting) of the *Legislative Instruments Act 2003*. A new special account was established to replace it.

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

	Therapeutic Goods Administration Account ⁵		Gene Technology Account ⁶		Industrial Chemicals Account ⁷		HHF Health Portfolio Account ⁸		Medical Research Future Fund Account ⁹	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance brought forward from previous period	66,039	61,059	7,872	7,585	14,806	10,503	-	-	-	-
Timing adjustments related to prior years	-	-	60	-	(85)	-	-	-	-	-
Increases										
Appropriation credited to special account	2,574	4,177	7,641	7,734	3,762	3,874	-	-	60,876	-
Other increases	143,647	134,552	139	152	17,764	16,302	-	54,984	-	-
Total increases	146,221	138,729	7,780	7,886	21,526	20,176	-	54,984	60,876	-
Available for payments	212,260	199,788	15,712	15,471	36,247	30,679	-	54,984	60,876	-
Decreases										
Departmental	149,656	133,749	7,453	7,599	18,192	15,873	-	-	-	-
Total departmental decreases	149,656	133,749	7,453	7,599	18,192	15,873	-	-	-	-
Administered	-	-	-	-	-	-	-	54,984	12,960	-
Total administered decreases	-	-	-	-	-	-	-	54,984	12,960	-
Total decreases	149,656	133,749	7,453	7,599	18,192	15,873	-	54,984	12,960	-
Total balance carried to the next period	62,605	66,039	8,259	7,872	18,055	14,806	-	-	47,916	-

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

- ⁵ Establishing Instrument: *Therapeutic Goods Act 1989*
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: The purpose has been set out in section 45 of the *Therapeutic Goods Act 1989* and are:
- to make payments to further the objects of the Act; and
 - to enable the Commonwealth to participate in the international harmonisation of regulatory controls on therapeutic goods and other related activities.
- ⁶ Establishing Instrument: *Gene Technology Act 2000*
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: for the receipt of all moneys and payment of all expenditures and disbursements related to all operations of the Gene Technology Regulator.
- ⁷ Establishing Instrument: *Industrial Chemicals (Notification and Assessment) Act 1989*
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: for the receipt of all moneys and payment of all expenditures and disbursements related to all operations of the National Industrial Chemicals Notification and Assessment Scheme.
- ⁸ Establishing Instrument: *Nation Building Funds Act 2008*
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: the main purpose of the Health and Hospitals Fund Special Account was to make payments in relation to the creation or development of health and infrastructure. The HHF Health Portfolio Special Account ceased from 29 October 2015. The account balance was nil at the time of abolition.
- ⁹ Establishing Instrument: *Medical Research and Future Fund Act 2015*
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: to provide grants of financial assistance to support medical research and medical innovation. The Medical Research Future Fund Special Account was established on 26 August 2015.
- ¹⁰ Medicare Guarantee Fund (Health) Special Account
 Establishing Instrument: Medicare Guarantee Act 2017
 Appropriation: *Public Governance, Performance and Accountability Act 2013*, section 80
 Purpose: to secure the ongoing funding of the Medicare Benefits Schedule and the Pharmaceutical Benefits Scheme. The Medicare Guarantee Fund (Health) Special Account was established on 26 June 2017. No financial activity occurred in the 2017 financial year.

The balances and movements detailed are rounded which may result in discrepancies between totals and the sum of components.

Department of Health

Notes to and forming part of the financial statements

Note 28: Regulatory charging summary

	2017 \$'000	2016 \$'000
Amounts applied		
Departmental		
Annual appropriations	31,471	20,262
Own source revenue	164,973	147,761
Administered		
Annual appropriations	3,860	2,243
Total amounts applied	200,304	170,266
Expenses		
Departmental	195,788	164,874
Administered	3,889	2,250
Total expenses	199,677	167,124
Revenue		
Departmental	162,032	164,367
Administered	14,157	14,906
Total external revenue	176,189	179,273
Amounts written off		
Departmental	200	565
Administered	-	58
Total amounts written-off	200	623

Where appropriate, amounts applied in the prior year comparatives have been restated.

Regulatory charging activities:

The **Therapeutic Goods Administration (TGA)** undertakes cost recovered activities to evaluate the safety, quality and efficacy of medicines, medical devices and biologicals available for supply in, or export from Australia.

National Industrial Chemicals Notification and Assessment Scheme (NICNAS) charges are levied for registration or assessment of chemicals across Australia.

The **Prostheses Listing** arrangements refer to the activities involved in listing prostheses and their benefits for the purposes of private health insurance reimbursement.

The **National Joint Replacement Registry** facilitates the collection of data that provides a prospective case series on all joint replacement surgery undertaken in Australia.

Administered revenue only is recorded for the **Private Health Insurance Ombudsman Levy**.

Listing of medicines on the **Pharmaceutical Benefits Scheme** and designated vaccines on the **National Immunisation Program** are subject to regulatory charges.

Medicinal cannabis: Licence and permit applications for the cultivation and manufacture of Australian produced medicinal cannabis products.

Documentation for the above activities is available at:

<http://www.tga.gov.au/cost-recovery-implementation-statements>

<https://www.nicnas.gov.au/about-nicnas/cost-recovery/cost-recovery-impact-statement>

[http://www.health.gov.au/internet/main/publishing.nsf/Content/69F6A026037D6093CA257BF0001B5EDA/\\$File/PL-CRIS-update-2016.pdf](http://www.health.gov.au/internet/main/publishing.nsf/Content/69F6A026037D6093CA257BF0001B5EDA/$File/PL-CRIS-update-2016.pdf)

<http://www.health.gov.au/internet/main/publishing.nsf/Content/phib-njrr>

<http://www.pbs.gov.au/industry/listing/elements/fees-and-charges/cost-recovery-implementation-statement-2016-2017.pdf>

<https://www.odc.gov.au/publications/cost-recovery-implementation-statement-regulation-medicinal-cannabis>