



# Management Discussion and Analysis

(unaudited)

For the year ended March 31, 2021



## Management Discussion and Analysis (unaudited) for the year ended March 31, 2021

The objective of the Management Discussion and Analysis is to help readers of the Financial Statements of Kingston Health Sciences Centre (KHSC) understand the financial position and operating activities for the fiscal year ended March 31, 2021. The analysis should be read in conjunction with the audited financial statements and the accompanying notes to the statements.

The management of KHSC acknowledges that it is our responsibility to provide appropriate information systems, procedures, and controls to ensure that the information in the financial statements and this report is complete and reliable. This is done under the oversight of the Board of Directors and the People, Finance & Audit Committee of the hospital.

### Overview

Kingston Health Sciences Centre is the legal entity that represents the integration of the operations of Hotel Dieu Hospital (HDH) and Kingston General Hospital (KGH). Respectful of the history and legacies of each hospital site, KHSC provides compassionate, patient and family-centred care by partnering with patients, embracing education, and supporting research. KHSC serves a catchment of almost 500,000 people through the two hospital sites and several regional affiliated and community locations.

Our KGH site is southeastern Ontario's leading centre for complex-acute and specialty care, and home to the Cancer Centre of Southeastern Ontario. Complex-acute and specialty care is provided 24/7 for a number of tertiary clinical services including cardiac surgery, critical care, dialysis, neurosurgery, stem cell transplants, cancer care and specialized imaging. KGH's Emergency Department is open 24 hours a day and the hospital also serves as the regional trauma service and Regional Stroke Centre. In addition, our KGH site serves as a local community hospital, caring for the less acute needs of the residents of greater Kingston.

Our HDH hospital site is leading the transformation of ambulatory care by providing access to specialized programs including pediatrics, medicine (multiple specialties), ophthalmology, surgery (multiple subspecialties), mental health, urology, and oncology. An Urgent Care Centre operates from this site for patient care needs requiring less acute care than provided at our KGH Emergency Department.

The hospital reported a surplus of revenue over expenses before building amortization of approximately \$12 million. This favourable fiscal result was provisioned in the operating budget to provide for capital expenditure. In addition to the budgeted capital expenditures, prior year volume-based activity was settled in the fiscal year adding additional surplus to the bottom line.<sup>1</sup>

### COVID Impact on Clinical Services

In mid-2020, COVID-19 was declared a world-wide pandemic. With the arrival of the global pandemic, KHSC Incident Command structure was implemented in March 2020 and carried on throughout the fiscal year. The ongoing pandemic-related interventions required frequent rebalancing of urgent clinical activity and patient safety against constant COVID-19 surge readiness, collaboration in a regional Incident Management System (IMS), supporting Provincial overflow, and responding well to the frequent internal and external COVID-19 reporting requirements.

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<sup>1</sup> Details in section: **COVID Impact on Financial Results**

As part of our pandemic clinical response, with Ministry of Health funding support for both operational and capital needs, we created new inpatient beds at the HDH site, built an Alternate Health Facility, multiplied our critical care capacity, broadly implemented virtual care and meetings, and developed a leading COVID-19 lab testing facility for exponential increases in PCR testing, and a COVID-19 assessment centre.

With three waves of COVID-19 during fiscal 2021, the hospital experienced ebbs and flow within all patient services in response to Ministry of Health directives to reduce clinical activity to manage bed availability within our community as well as to support regions more severely impacted by COVID-19.

Despite the pandemic, we made good progress on some of our plans around quality-of-care improvement and pressure ulcer reduction, implementation of unit scorecards, cardiac program growth and inpatient bed realignment.

For the upcoming year we will focus on surgical & procedure backlog management as well as collaborating on a regional and provincial pandemic recovery plan.

### **Ontario Health Teams (OHT)**

Ontario Health Teams are being introduced to provide a new way of organizing and delivering services in local communities. Under Ontario Health Teams, the health care providers (including hospitals, doctors and home and community care providers) will work as one coordinated team – no matter where they provide care. Kingston Health Sciences Centre is part of an Ontario Health Team 'In Development' with health care partners throughout the counties of Frontenac, Lennox and Addington (FLA). A Progress Report on our work to form an OHT was submitted in January 2020 in partnership with organizations in the area that provide primary care, hospital care, home and community care, social services, mental health, and addiction services, among other services. This work to become an Ontario Health Team builds on existing partnerships in the region, and we have been actively building on these collaborations so that our patients will be the beneficiaries of a stronger, more connected health care system as soon as possible. In July 2020, our OHT group was asked to submit a full application to become an OHT based on the progress we demonstrated in our January report to the ministry.

In Q3, we were approved to become the FLA-OHT together with our partners across the system based on the application we submitted to MOH in Q2. Our application demonstrated that we have the right partners and plans in place to create a fully integrated health care system for the attributed population in FLA, and that we are well-positioned to leverage the lessons learned from our regional response to the COVID-19 pandemic, which will continue to be a focus in the coming year. Throughout Q3 and Q4, we conducted extensive stakeholder engagement with all sectors represented in our OHT to socialize our model and structure, while soliciting participants for our year-1 working groups and supporting structures. As of Q4, provided leadership to the development of the year-1 organization structure for the OHT, signed onto the Collaborative Decision-Making Arrangement and provided leadership and structure to key FLA-OHT working groups, which are now fully operational.

## Financial Analysis of the Hospital

The assets of the hospital exceeded its liabilities at the end of the most recent fiscal year by \$118 million (net assets). The analysis below focuses on the change in net assets during fiscal 2021.

(\$000's)	Unrestricted	Invested in Capital Assets	Internally Restricted	Total
Balance, beginning of year	34,677	43,862	29,000	107,539
Excess of revenue over expenses	20,371	(9,515)	-	10,856
Appropriated for capital projects	(3,000)	-	3,000	-
Net change in investment in capital assets	(19,207)	19,207	-	-
Balance, end of year	32,841	53,554	32,000	118,395

Total net assets increased during the year primarily due to the impact of the hospital's overall surplus position. The net change in investment in capital assets corresponds to the increase in capital asset expenditures less the increase in amortization, repayment of long-term debt, and items funded by deferred contributions. It reflects the hospital's strategic decision to invest operating funds for the ongoing replacement of patient care equipment, technology and building infrastructure upgrades. During the year, the Hospital Board approved the use of internally restricted funds for the implementation of a Regional Health Information System (HIS).

## Working Capital

Working capital is one measure of an organization's ability to meet its short-term financial obligations and is defined as an excess of current assets over current liabilities. As at March 31, 2021 the hospital's total working capital position was positive at approximately \$111 million; an increase of \$6 million from the beginning of the year position.

The total portion of current assets restricted for approved capital expenditures is \$77.7 million. An additional amount of \$46.5 million is provisioned for specific operational liabilities and \$3.2 million is held aligned to specific externally restricted funds.

The audited Statement of Cash Flows reflects the changes in the cash components of working capital. Changes in non-cash working capital items are detailed in Note 14 of the accompanying Notes to Financial Statements.

The hospital did not draw upon its operating line of credit in fiscal 2021 (\$35 million borrowing capacity).

## Long-term Debt

Included in the total long-term debt outstanding of approximately \$5.0 million as at March 31, 2021 is \$3.0 million representing the outstanding portion of debt incurred in 2012 (\$7.8 million) to support an energy retrofit project at the Kingston General Hospital site. Similarly, \$1.4 million of debt is outstanding for a project undertaken in 2015 (\$2.1 million) at the Hotel Dieu Hospital site to ensure self-sufficiency for heating. The payments on these debts are supported by contractual guarantees of reductions in energy costs over the amortization period of the loans. The planned energy savings are being achieved.

The remaining portion of long-term debt is aligned to borrowing undertaken for the purchase of medical equipment.

### Investment in Capital Assets

Funding for this capital expenditure is provisioned within the annual operating budget and augmented by the Ministry's Health Infrastructure Renewal Fund (HIRF) and Cancer Care Ontario. Capital funding support is also received from donors to the University Hospitals Kingston Foundation (including the KHSC Volunteer Services to Hotel Dieu Hospital Site) and from the Kingston General Hospital Auxiliary (refer to Note 15 in the accompanying Notes to Financial Statements).

The hospital achieved a capacity for capital expenditure in fiscal 2021 of approximately \$25.7 million. This capacity was augmented by an additional \$13 million of one-time Ministry funding to support COVID capital needs and \$1M to support a regional IT Wait-list project. The Redevelopment Project and the purchase of land was supported using approximately \$7 million dollars of working capital, with anticipated Ministry cashflows and loans to be forthcoming in F2022. Cash to complete all capital expenditures approved as at March 31, 2021, but not completed, has been internally restricted for this purpose.

During the fiscal year, the hospital purchased \$38.6 million of capital assets (approved in previous and current year). Expenditures occurred in the following major categories:

Patient care and non-clinical equipment	\$ 9.7 million
Information management systems	\$ 3.1 million
Facilities infrastructure/renovations	\$ 5.4 million
Redevelopment	\$ 6.4 million
Land	\$ 1.3 million
COVID (equipment and facilities)	\$12.7 million

During the year, \$20.9 million of the above capital expenditures were reported as funded through the use of deferred capital contributions (donations or grants).

### COVID Impact on Financial Results

As described previously, substantial Ministry funding investments were made for the COVID-19 response for the Hospital to expand inpatient acute and critical care beds, alternative health facilities beds, COVID assessment centre funding, and polymerase chain reaction (PCR) lab testing expansion.

Hospitals submitted incremental COVID operational and capital costs on a monthly basis to the Ministry. These incremental expenditures included staffing and operational costs related to patient screening, environmental services, expanded Emergency Department services, implementation of virtual visits software, COVID vaccine clinic, minor equipment purchases to expand bed capacity, personal protective equipment, additional technology equipment, COVID assessment centre and laboratory PCR testing (April to September), and third-party contracts for community beds (April to October). In order to ensure no working capital deficits to hospitals, the Ministry provided cash for all COVID incremental submissions from March 2020 to November 30, 2020. In preparation for year end audit, the Ministry also provided a letter for COVID incremental funding letter for the period December 2020 to March 31, 2021.

Through Ontario Hospital Association (OHA) support, the Ministry recognized that Hospital non-Ministry revenues were significantly impacted as a result of COVID, including revenue streams such as parking, cafeteria sales, investment income, lost OHIP revenues, among others. Funding letters were provided to Hospitals with respect to lost revenues.

With multiple revenue streams available to Hospitals, the Ministry provided a Broad-based reconciliation process for Hospitals to recognize revenues to offset various COVID expenses. Step one: recognize revenue from incurred eligible incremental COVID-19 expenses. Step two: recognize unearned revenue from select Hospital Programs and apply to remaining fund type 1 pressures, up to a balanced position. Step three: Recognize lost non-Ministry revenue.

The Hospital determined a reasonable Fiscal 2021 surplus based on the following components: The HAPS re-submission surplus, prior year settlement revenues received in fiscal 2021 whereby expenses were incurred in the prior fiscal year, and the net margin on the funded rate activity related to \$38 per test activity for the COVID assessment centre and laboratory PCR testing.

The following summary outlines the Ministry of Health COVID 19 revenue from all sources recognized in the fiscal year (in 000s):

Funding for Incremental COVID-19 operating expenses	\$ 12,143
Funding for non-Ministry revenue losses due to COVID-19	105
Funding for all bed capacity	9,180
Funding for pandemic pay	7,619
Funding for assessment centre and lab services at \$38	7,153
Funding for temporary wage enhancement	453
Funding for temporary physician funding	354
Funding for other pandemic initiatives	132
	\$ 37,139

In addition to the above, the Hospital has also recognized \$13,235 in Ministry funding for COVID-19 related capital expenditures, which has been recorded as an addition to deferred capital contributions during the year.

These funds have been recognized in our audited financial statements and are based on the best available data at the time of statement preparation. All of our submissions for COVID incremental revenue and non-Ministry revenue losses due to COVID-19 are subject to Ministry review and approval. Any discrepancies will be accounted for in the year of settlement.

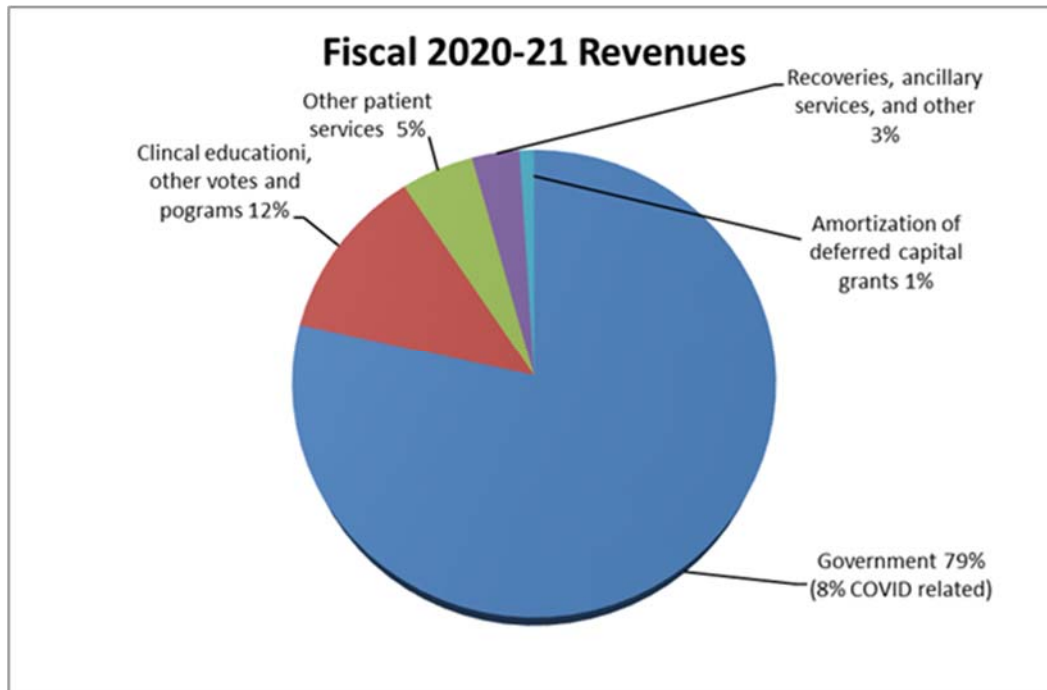
## Operating Revenues

Kingston Health Sciences Centre is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health, Cancer Care Ontario, and the Ontario Health.

The hospital is required to annually execute the Hospital Services Accountability Agreement (H-SAA) and the Multi-Sector Accountability Agreement (M-SAA) with the SE-LHIN. These agreements set out the rights and obligations of the two parties and sets standards, targets and performance expectations for the funding provided. If the hospital does not meet certain performance standards or obligations, the SE-LHIN has the right to adjust some funding streams received by the hospital.

Given that all funding adjustments are not finalized until after the submission of year-end data, the amount of revenue recognized in the financial statements includes management's best estimates of amounts that may become payable.

Hospitals generate the remaining funding needed to support the provision of patient care from other revenue sources such as semi-private and private accommodation charges, parking fees, and the provision of retail services.



Revenues (in thousands of dollars)

Government (includes \$37,139 of COVID revenue)	\$514,167
Clinical education, other votes, and programs	79,763
Other patient services	32,999
Recoveries, ancillary, and other	21,483
Amortization of deferred capital grants	6,525
<b>Total revenues</b>	<b>\$654,937</b>

At approximately \$514 million (including significant one-time COVID funding), funding from provincial government sources is the hospital's most significant source of income, representing 78 per cent of total operating revenue in fiscal 2021.

Funding for programs operated on behalf of the Province of Ontario (e.g. other votes) and other community-based programs not part of regular hospital services, totalled approximately \$80 million.

Approximately \$33 million is classified as other patient services revenue. This funding source includes revenue from diagnostic imaging billings (through the Ontario Health Insurance Plan – OHIP), preferred accommodation charges, co-payment fees (for patients designated as alternate level of care (ALC)), and revenue generated from the provision of services to patients not covered by OHIP.

Recoveries, ancillary and other revenue generated to support the provision of patient care, includes amounts derived from investment income (approximately \$1.4 million), services such as parking and occupancy rental fees for third-party operated services (approximately \$1.8 million), and one-time non-recurring revenues. Recoveries for supplies and services provided to parties external to the hospital contributed approximately \$14 million.

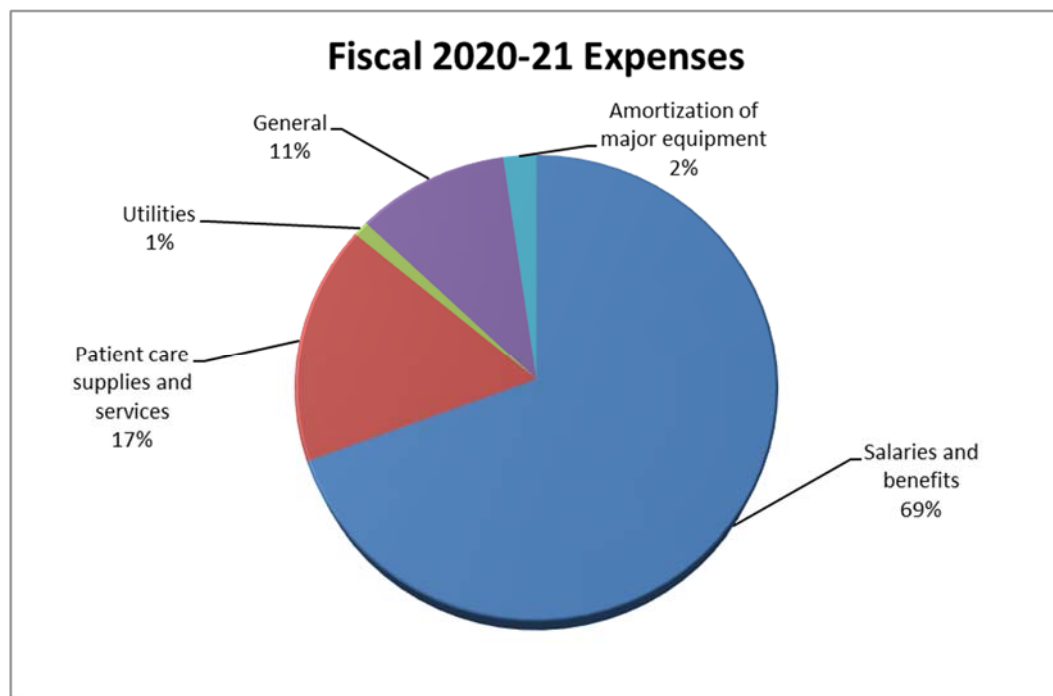
Amortization of deferred capital grants contributes the balance of total revenue.

## Operating Expenditures

At KHSC, staff is empowered to improve the patient care experience through a focus on compassion and excellence. Payment for compensation related expenses accounted for approximately 70 per cent of the total operating expenditures in fiscal 2021. At approximately \$446 million, this expense included accommodating inflationary increases for salary and benefits costs for hospital employees and medical residents, and additional staffing resources required to offset higher than budgeted levels of patient care activity throughout the year.

Patient care supplies and services expense totaled approximately \$107 million for fiscal 2021. This expense includes costs for medical and surgical supplies and drugs.

General expenses included professional fees, office supplies, insurance premiums, rental costs of leased equipment and space, and facilities related operating costs. Also reported in this category are \$216 thousand of interest expense on long-term debt obligations, and \$992 thousand bad debts expense.



Expenses (in thousands of dollars)

Salaries and benefits	\$445,852
Patient care supplies and services	107,268
General	68,071
Utilities	6,850
Amortization of major equipment	14,732
<b>Total expenses</b>	<b>\$642,773</b>



## Human Resources

At KHSC we are developing an integrated engagement strategy that supports a safe, healthy, and caring environment. We strive for everyone who provides and supports care, learns, researchers and volunteers at our hospitals to be inspired and proud to be part of the KSHC community.

As at March 31, 2021, the hospital employed 4,902 (permanent employees) and 348 (temporary employees). The workforce total increases to 5,740 when including medical residents. Union organizations represented 89.7% per cent of individuals. Staff employed fulltime represented 59.5% per cent of the workforce.

Employees are not the only ones helping our patients and their families. At KHSC we also rely on our physicians, Patient Experience Advisors, and over 113 people who volunteer their time and talents.

## Operational Efficiency

KHSC has a robust process for ongoing monitoring of the financial position to ensure the budgeted surplus position is achieved. Achieving our planned surplus is critical to ensure that we have sufficient funds to support our debt repayment and replacement of patient, technology, and infrastructure capital needs.

The fiscal 2021 H-SAA included two financial performance indicators.

The current ratio is a measure of the organization's ability to meet its current liabilities utilizing its short-term assets (the sum of cash, accounts receivable, inventory, etc.) and is calculated by dividing the total of current assets by the total of current liabilities. A current ratio less than 1.0:1 could signal issues, such as an inability to meet commitments as they come due and/or ability to meet emerging operational pressures. The acceptable Ministry target for this ratio is between 0.8:1 and 2.0:1. The hospital exceeded the current ratio target for fiscal 2021. The approximate \$111 million total working capital surplus as at March 31, 2021 translates to a current ratio of 1.79:1.

The second financial performance indicator included in the fiscal 2021 H-SAA is the total margin percentage. The total margin measures total operating revenues in excess of total operating expenses and is calculated by dividing the operating surplus by total operating revenue. It is a measure of management's efficiency and the hospital's ability to live within available resources during a specific operating fiscal year. KHSC's total margin at March 31, 2021 was 1.89 per cent; within the Ministry target for this indicator of between zero per cent to three per cent.

The hospital undertakes performance analysis of its clinical activity as it relates to funding. Activity based funding (e.g. QBP's) stipulates the volume and price of specific procedures included in hospital funding. The goal is to achieve 100% of the funding. As a result of COVID, many services were reduced due to social distancing as well as Ministry directive to ensure sufficient bed capacity. The volume caps were removed for certain funded procedures and some procedures were funded with a 20% premium incentive for activity achieved above 50% of funded volumes. Total revenue achieved was 92% without incentive revenue and 95% including incentive revenue.

## Patient Activity Volumes

The following table highlights key activity levels during the fiscal 2021 year:

	2019/20	2020/21	Increase / (decrease)	
<b>Inpatient Days</b>	177,885	157,403	(20,482)	(11.5%)
<b>Average Length of Stay</b>	6.0	5.9	0	0.0%
<b>Operative Cases</b>	16,894	14,768	(2,126)	(12.6%)
<b>Births</b>	1,888	1,878	(10)	(0.5%)
<b>Trauma cases</b>	144	126	(18)	(12.5%)
<b>Emergency Department Visits (KGH site)</b>	63,131	52,833	(10,298)	(16.3%)
<b>Urgent Care Centre Visits (HDH site)</b>	51,684	38,248	(13,436)	(26.0%)
<b>Cancer Centre Visits</b>	100,626	103,248	2,622	2.6%
<b>Dialysis Visits</b>	59,853	57,125	(2,728)	(4.6%)
<b>All other ambulatory care visits</b>	317,689	327,781	10,092	3.2%
<b>Imaging Exams</b>	234,348	210,759	(23,589)	(10.1%)
<b>Clinical Laboratories Tests</b>	3,155,178	3,141,392	(7,364)	(2.0%)
<b>Admissions</b>	24,154	23,508	(646)	(2.7%)

The pandemic has had a profound impact on the hospital's activity levels as is evident in broad decreases detailed above. Legislation requiring available in-patient capacity and the cancellation of elective operating room procedures resulted in decreased operative cases, admissions, patient days and imaging exams. Activity did increase during the second and third quarter but was bookended by decreased activity at the start and end of the fiscal year due to Ministry directives.

Increases in ambulatory care visits are due to COVID-19 Assessment centre activity which made up for decreases in clinic activity at Hospital both sites.

Lab testing decreased slightly as activity shifted significantly between modalities to address the significant volumes associated with COVID-19 PCR testing. Additionally, referred-in pathology testing from other centres declined as surgical disruptions occurred across the region.

## Looking Forward

KHSC will continue to serve the local community by providing the best possible care. In the last year, KHSC and MOH worked together to build the clinical and technological capability. KHSC information technology and project management team alongside caregivers, organizational leaders, and patients and families successfully deployed a host of innovative digital solutions and new ways of working. This transformational work helped to keep staff safe, connected, and equipped to continue to deliver high-quality care during these uncertain times. Some of these innovations include virtual meetings; staff and patient screening; virtual patient-physician visits; remote monitoring of patients in their homes, visitor tracking; family-patient electronic visits and heightened cybersecurity monitoring. At the same time, the clinical engineering team deployed equipment to support the expansion of critical care and acute care services at the HDH, KGH and Union Street sites for COVID and non-COVID patient care. The Privacy team worked with Strategy Management + Communications together to protect patient privacy while keeping the community informed of KHSC's COVID response. Many of these technical and process changes were enthusiastically adopted and will continue beyond the pandemic.

Other notable work that positions KHSC for the future was also completed. First, the South East Regional Hospital Information System made significant progress with the successful completion of contract negotiations with the preferred vendor. Second, the Human Resources Information System project moved the hospital from two legacy systems to a single KHSC system that effectively streamlined human resources services and processes, including payroll and recruitment. Third, we enhanced our cybersecurity posture through a combination of staff education, governance, and infrastructure enhancements, and nurturing of key industry and provincial relationships. Fourth, Clinical Engineering got the go ahead to replace aging monitoring and telemetry equipment throughout KHSC. At the same time, we kept our fleet of information systems, technical infrastructure, and clinical equipment in good working order.

As we enter into the 2021-2022 fiscal year, much of the organizational Health Human Resources (HHR) capacity is committed to care of critically ill patients transferred from the Greater Toronto Area (GTA). The continuing care requirements of these ICU patients will have significant impact of the organization's ability provide local and tertiary care within our region. We also anticipate that these GTA transfers will be long stay and may affect KHSC's ability to quickly return to normal operations after the Wave 3 surge. The pandemic has also resulted in unanticipated attrition/early retirement of clinical care staff as well as a province wide HHR shortage; these workforce challenges may also affect ability to provide care in the next fiscal year. The ultimate trajectory of pandemic, care & resource requirements and any financial impact on the organization remains to be seen.

## Summary

Guided by the KHSC mission, vision, and Fiscal 2022 Annual Corporate Plan: Transforming Care, Together, the Kingston Health Sciences Centre managed an extremely challenging level of patient care activity and corresponding operating pressures in fiscal 2021. We are committed to focused and effective management of our fiscal resources in order to sustain our organization's strong financial health in the years ahead.