Kingston Health Sciences Centre

Centre des sciences de la santé de Kingston

Hôpital Hotel Dieu Hospital

Hôpital Général de Kingston General Hospital

Management Discussion and Analysis

(unaudited)

For the year ended March 31, 2019

Transforming care, together™

Management Discussion and Analysis (unaudited) for the year ended March 31, 2019

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, 2019. 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 Finance and Audit Committee of the hospital.

Overview

Kingston Health Sciences Centre is a new 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.

During its inaugural year (began April 1, 2017), KHSC was able to offset unfunded inflationary cost pressures while addressing higher than budgeted activity volumes in many of our programs and clinical support services, while ending the year with a financial surplus from hospital operations. The capacity to invest in the ongoing replacement of patient care equipment, technology, and building infrastructure occurred at a level higher than our original capital budget. Our working capital position is positive.

Before 2012, the amount of annual funding each hospital received from the Ministry of Health and Long-Term Care (Ministry) was mainly based on historical spending and inflation. Under this system, each hospital was given a lump-sum payment.

In 2012, the Ministry began implementing its Health System Funding Reform (HSFR), a model intended to allocate health-care dollars equitably, promote best clinical practices, and keep spending growth to sustainable levels. The reform introduced two key funding components:

- The health-based allocation model (HBAM) estimates health-care expenses based on demographics and actual use of health services, taking into account the types and complexity of patient care that individual hospitals provide. Under this model, the Ministry is to adjust funding to hospitals based on patient demand and population growth.

- The quality-based procedures (QBPs) component funds hospitals for specific types and volumes of procedures. The Ministry established best practice guidelines for hospitals to follow based on standardizing care for patients and efficiency measures, and determined the amount of funding each hospital would receive for these procedures.

Although the data informing the HSFR model was utilized for fiscal 2019, the main allocation of hospital funding was made by way of an overall funding increase from the prior fiscal year level. For KHSC the 2.5 per cent Provincial funding increase amounted to approximately $9.3 million and was inclusive of funding for activity growth in a number of surgical programs. The pure inflationary component of funding was calculated at approximately $2.2 million (0.6 per cent); far lower than actual inflationary cost impacts. Additional funding was provided late in the fiscal year to assist hospitals to increase capacity across the health care system. This targeted funding had equally offsetting patient care related costs.

Kingston Health Sciences Centre ended the year with a total surplus of revenue over expenditures of approximately $12 million after the inclusion of building amortization.

The hospital reported a surplus of revenue over expenses before building amortization of approximately $14 million. This favourable fiscal result was provisioned in the operating budget to provide for capital expenditure.

Financial Analysis of the Hospital

The assets of the hospital exceeded its liabilities at the end of the most recent fiscal year by $103 million (net assets). The analysis below focuses on the change in net assets during fiscal 2019.

($000's)	Unrestricted	Invested in Capital Assets	Internally Restricted	Total
Balance, beginning of year	40,974	27,025	23,000	90,999
Excess of revenue over expenses	21,291	(8,828)		12,463
Appropriated for capital projects	(3,000)		3,000	-
Net change in investment in capital assets	(16,193)	16,193		-
Balance, end of year	43,072	34,390	26,000	103,462

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 restricted an additional $3 million of net assets for a future major redevelopment project at the Kingston General Hospital site.

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, 2019 the hospital's total working capital position was positive at approximately $111.5 million; an increase of $10 million from the beginning of the year position.

The total portion of current assets restricted for approved capital expenditures is $87.1 million. An additional amount of $18.7 million is provisioned for specific operational liabilities and $3.8 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 15 of the accompanying Notes to Financial Statements.

The hospital did not draw upon its operating line of credit in fiscal 2019 ($35 million borrowing capacity).

Long-term Debt

Included in the total long-term debt outstanding of approximately $6.9 million as at March 31, 2019 is $4.1 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, $1.7 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 by the legacy hospitals 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 16 in the accompanying Notes to Financial Statements).

The hospital achieved a capacity for capital expenditure in fiscal 2019 of approximately $31.5 million. Cash to complete all capital expenditures approved as at March 31, 2019, but not completed, has been internally restricted for this purpose.

During the fiscal year, the hospital accounted for the purchase of approximately $26.2 million of capital assets (approved in previous and current year). Expenditures occurred in the following major categories:

Patient care and non-clinical equipment	$ 15.4 million
Information management systems	$ 1.1 million
Facilities infrastructure/renovations	$ 9.7 million

During the year, $11.5 million of the above capital expenditures were reported as funded through the use of deferred capital contributions (donations or grants).

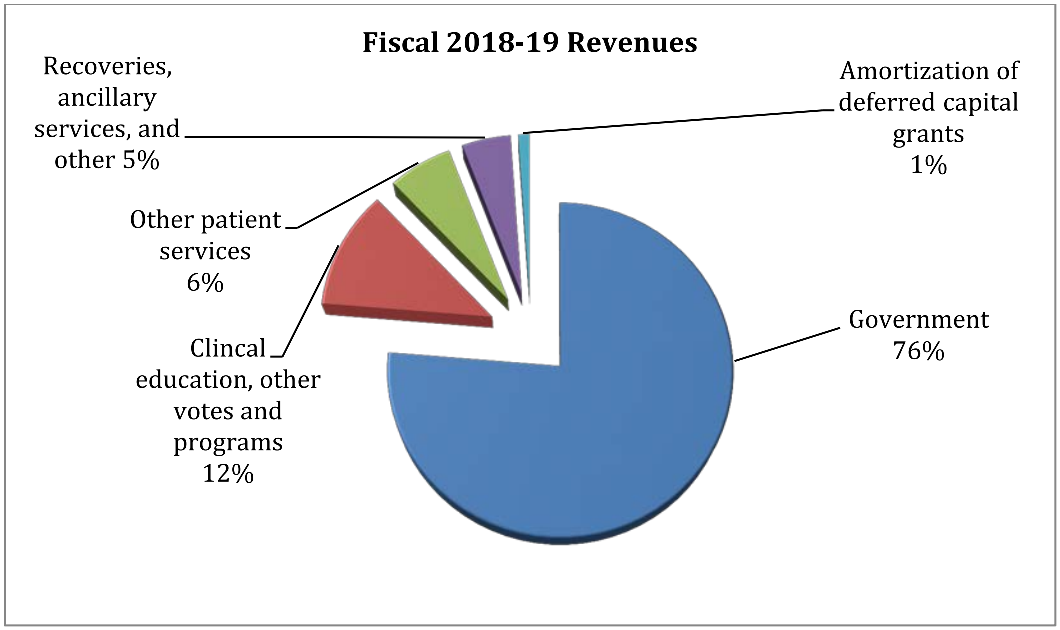
Operating Revenues

Kingston Health Sciences Centre is funded primarily by the Province of Ontario in accordance with funding policies established by the Ontario Ministry of Health and Long-Term Care, Cancer Care Ontario, and the South East Local Health Integration Network (SE-LHIN).

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	$455,115
Clinical education, other votes and programs	69,354
Other patient services	37,204
Recoveries, ancillary, and other	28,238
Amortization of deferred capital grants	6,555
Total revenues	$596,466

At approximately $455 million, funding from provincial government sources is the hospital's most significant source of income, representing 76 per cent of total operating revenue in fiscal 2019.

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 $69 million.

Approximately $37 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 $3 million), services such as parking and occupancy rental fees for third-party operated services (approximately $3 million), and one-time non-recurring revenues. Recoveries for supplies and services provided to parties external to the hospital contributed approximately $20 million.

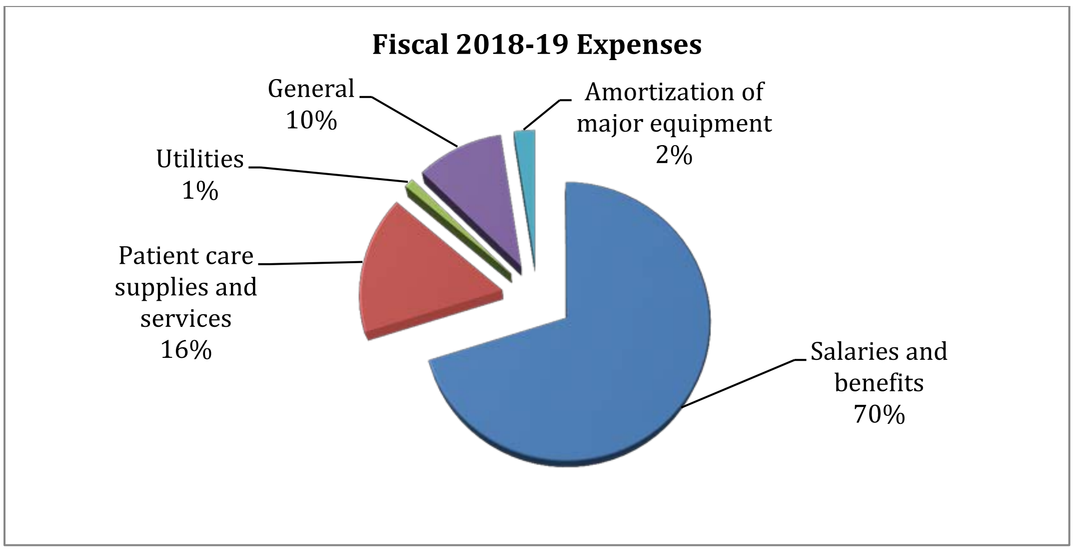
Amortization of deferred capital grants contributes the balance of total revenue.

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 2019. At approximately $409 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 $94 million for fiscal 2019. 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 $290 thousand of interest expense on long-term debt obligations, and $683 thousand bad debts expense.



Expenses (in thousands of dollars)

Salaries and benefits	$	408,671
Patient care supplies and services		94,157
General		59,408
Utilities		6,384
Amortization of major equipment		14,157
Total expenses	$	582,777

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, researches and volunteers at our hospitals to be inspired and proud to be part of the KSHC community.

As at March 31, 2019 the hospital employed 4,901 individuals. The workforce total increases to 5,381 when including medical residents.

Union organizations represented 90 per cent of individuals. Staff employed fulltime represented 58 per cent of the workforce.

Employees aren't the only one's helping our patients and their families. At KHSC we also rely on our physicians, Patient Experience Advisors, and over 1,000 people who volunteer their time and talents.

Operational Efficiency

KHSC established a process for ongoing monitoring of the financial position to ensure a balanced operational position was achieved. The fiscal 2019 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 2019. The approximate $111.5 million total working capital surplus as at March 31, 2019 translates to a current ratio of 2.18:1.

The second financial performance indicator included in the fiscal 2019 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, 2019 was 2.34 per cent; slightly in excess of the high end of the Ministry target for this indicator of between zero per cent to three per cent.

The hospital also 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. For fiscal 2019 we set an ambitious target to achieve one hundred percent of available funded volume. We were successful in achieving 96.5 percent of this funding. Patient need dictates this activity.

The HBAM represented approximately 33 percent of hospital operational funding. Under the current funding methodology two categories of patient based activity are funded in this manner; in-patient and day surgery cases and Emergency Department activity.

Patient Activity Volumes

A key cost driver for the organization is the volume of patient activity provided. Inpatient occupancy rates exceeded 100 percent throughout several months of the fiscal year.

The following table highlights key activity levels during the fiscal 2019 year:

	2017/18	2018/19	Increase / (decrease)	
Inpatient Days	169,309	175,912	6,603	3.9%
Average Length of Stay	5.8	5.9	(0.1)	(2.6%)
Operative Cases	17,484	17,408	(76)	(0.4%)
Births	1,948	1,873	(75)	(3.9%)
Trauma cases	202	183	(19)	(9.4%)
Emergency Department Visits (KGH site)	63,375	63,741	366	0.6%
Urgent Care Centre Visits (HDH site)	51,275	52,910	1,635	3.2%
Cancer Centre Visits	91,597	102,115	10,518	11.5%
Dialysis Visits	61,205	60,339	(866)	(1.4%)
All other ambulatory care visits	330,238	341,420	11,182	3.4%
Imaging Exams	228,833	231,792	2,959	1.3%
Clinical Laboratories Tests	2,878,569	3,026,484	147,915	5.1%

As it relates to the fiscal 2019 activity volumes above, the following are of note:

Inpatient days: Occupancy was consistently high during the year. The overall total inpatient days increased approximately 4 per cent over the previous year. Total acute care activity increased 3.8 per cent (5990 inpatient days) and adult mental health activity increased 4.8 per cent from the prior year (613 inpatient days).

Acute average length of stay: KHSC is 0.10 of a day above its expected inpatient length of stay, however, length of stay is 0.15 of a day lower than the previous year. Although initiatives were actioned during the year to reduce the number of patients in the hospital awaiting access to non-acute care facilities, the number of non-acute patients increased by 20% from prior year.

Operative cases: Operative cases include QBPs. The activity exceeded the funded volume for most QBP procedures except for Shoulders, Cataracts, Knee Arthroscopy, Cancer surgeries, and Tonsillectomy. The hospital performed 19 kidney transplants. Other operative cases included 615 Cardiac and 218 Bariatric surgery procedures.

KGH site Emergency Department visits: Visits to the Emergency Department were relatively unchanged from the prior year. However, the Emergency Department was regularly at capacity in part due to the longer inpatient stays in the Emergency Department as a result of overall high bed occupancy in the hospital. Also, there was an 8% increase for the high acuity non-admitted patients and these more complex cases length of stay is longer.

HDH site Urgent Care Center visits: Urgent Care Center visits increased 3 per cent from the prior year (+727 UCC and +907 COPC). Part of the increase can be attributable to increase in the number of patients that report no primary care physician.

Cancer Care Centre visits: There was an 11 per cent increase in activity over the prior year primarily in Surgical clinic visits partly attributable to two additional dermatologists, as well as additional radiation oncologist result increase in Radiation treatment visits.

Dialysis visits: KHSC functions as the regional center for renal care in the SE-LHIN and operates six satellites dialysis locations. Dialysis activity volume continues to increase year over year. The 1% decrease in visits is due to the expansion of the Home based dialysis which increased 12 percent over the prior year.

All other ambulatory visits: There is an approximate 3.4 percent increase over the prior year that is primarily due to new physicians added to many departments as well as expanded programs for pain and central intake services.

Imaging exams: Imaging exams increased approximately 1.3 percent over the prior year. Although wait times continue to be longer than desired, volumes increase are partially due to wait time demands particularly in the CT and mammography modalities; increased services to oncology and emergency.

Clinical laboratories tests: Test volumes have increased 5% compared to the prior year. Increases in the core lab are attributed to the high patient occupancy. There were increased complex test volumes to support hospitals within the region including additional volumes for Brockville. The genetics testing continues to increase as it is emerging as part of standard of care.

Looking Forward

In January of 2019 KHSC submitted to the SE-LHIN our annual Hospital Annual Planning Submission (HAPS) and Community Annual Planning Submission (CAPS) both with balanced operating budgets for Fiscal 2020.

Hospital leadership identified initiatives to assist the hospital in addressing the gap between the 2019 level of funding and expected costs for hospital operations including inflationary cost factors.

It is anticipated that the implementation of these new initiatives and funding from Government will position the hospital to not only achieve the balanced operating position submitted but also allow the hospital to proceed with capital investment at the same level achieved in fiscal 2019.

Summary

Guided by our 2018-19 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 2019. 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.