



Management Discussion and Analysis

(unaudited)

For the year ended March 31, 2020



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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, 2020. 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. Ontario Health is going through a transition and in fiscal 2020 Ministry of Health put a hold on the HBAM methodology but continue the HBAM funding.

- 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.

The Ministry of Health suspended the HSFR model for fiscal 2020, pending the development of longer term plans that would consider a consolidated approach to addressing growth. The Ministry of Health allocated \$384 million in funding for hospitals including targeted investments aimed at ending hallway health care and maintaining hospital capacity, increasing access to highly specialized treatments and supporting volume growth, as well as a % for general growth, of which approximately \$5.8M was allocated to Kingston Health Sciences Centre. This funding supported activity growth in a number of surgical programs, enhanced the total bed capacity and provided a general inflationary provision. The pure inflationary component of funding was calculated at approximately \$2.0 million (0.6 per cent), far lower than actual inflationary cost impacts. Additional funding was provided later in the fiscal year to assist hospitals to increase capacity across the health care system.

Kingston Health Sciences Centre ended the year with a total surplus of revenue over expenditures of approximately \$4 million after the inclusion of building amortization.

The hospital reported a surplus of revenue over expenses before building amortization of approximately \$5 million. This favourable fiscal result was provisioned in the operating budget to provide for capital expenditure.

COVID Impact

In March, COVID-19 was declared a pandemic in Canada and Public Health advised Canadians to avoid any non-essential travels and follow the norms of social distancing. To respond to the unprecedented ways to meet the challenges of COVID-19, Ministry of Health issued a directive on March 15th, 2020. Following the MOH directive, KHSC has cancelled non-emergency procedures, and also many patients themselves elected to postpone non-urgent care to ensure social distancing. At the time of preparation of the financial statements, there is not enough information available to thoroughly understand the future financial impact of COVID-19 on KHSC. As of March 2020, unearned revenue and operational expenses are estimated around \$3.2M and \$690K, respectively.

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 2020.

(\$000's)	Unrestricted	Invested in Capital Assets	Internally Restricted	Total
Balance, beginning of year	43,072	34,390	26,000	90,999
Excess of revenue over expenses	13,357	(9,280)	-	4,077
Appropriated for capital projects	(3,000)	-	3,000	-
Net change in investment in capital assets	(18,752)	18,752	-	-
Balance, end of year	34,677	43,862	29,000	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 \$106 million; a decrease of \$6 million from the beginning of the year position.

The total portion of current assets restricted for approved capital expenditures is \$89.8 million. An additional amount of \$21.3 million is provisioned for specific operational liabilities and \$2.9 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 2020 (\$35 million borrowing capacity).

Long-term Debt

Included in the total long-term debt outstanding of approximately \$6.5 million as at March 31, 2020 is \$3.5 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, \$1.6 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 2020 of approximately \$21.8 million. This capacity was augmented by an additional \$6.4 million of working capital carry forward from prior fiscal years and a new equipment loan. Cash to complete all capital expenditures approved as at March 31, 2020, but not completed, has been internally restricted for this purpose.

During the fiscal year, the hospital purchased \$27.9 million of capital assets (approved in previous and current year). Expenditures occurred in the following major categories:

Patient care and non-clinical equipment	\$ 18.1 million
Information management systems	\$ 3.2 million
Facilities infrastructure/renovations	\$ 6.6 million

During the year, \$9.6 million of the above capital expenditures were reported as funded through the use of deferred capital contributions (donations or grants).

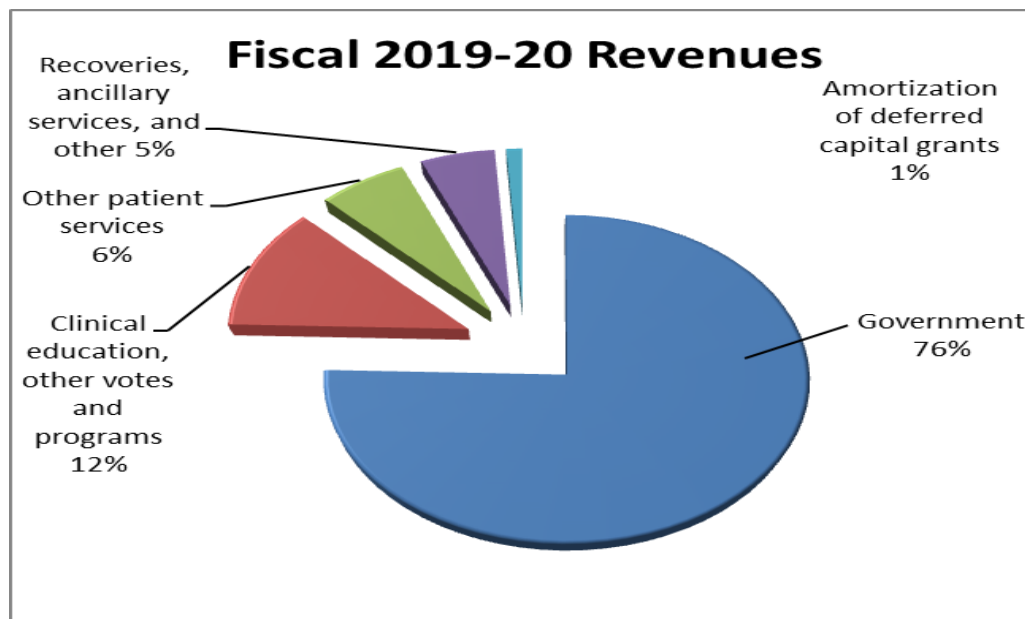
Operating Revenues

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	\$464,907
Clinical education, other votes and programs	74,288
Other patient services	38,283
Recoveries, ancillary, and other	31,839
Amortization of deferred capital grants	6,790
Total revenues	\$616,107

At approximately \$465 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 2020.

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 \$74 million.

Approximately \$38 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 \$3.6 million), services such as parking and occupancy rental fees for third-party operated services (approximately \$2.5 million), and one-time non-recurring revenues. Recoveries for supplies and services provided to parties external to the hospital contributed approximately \$21 million.

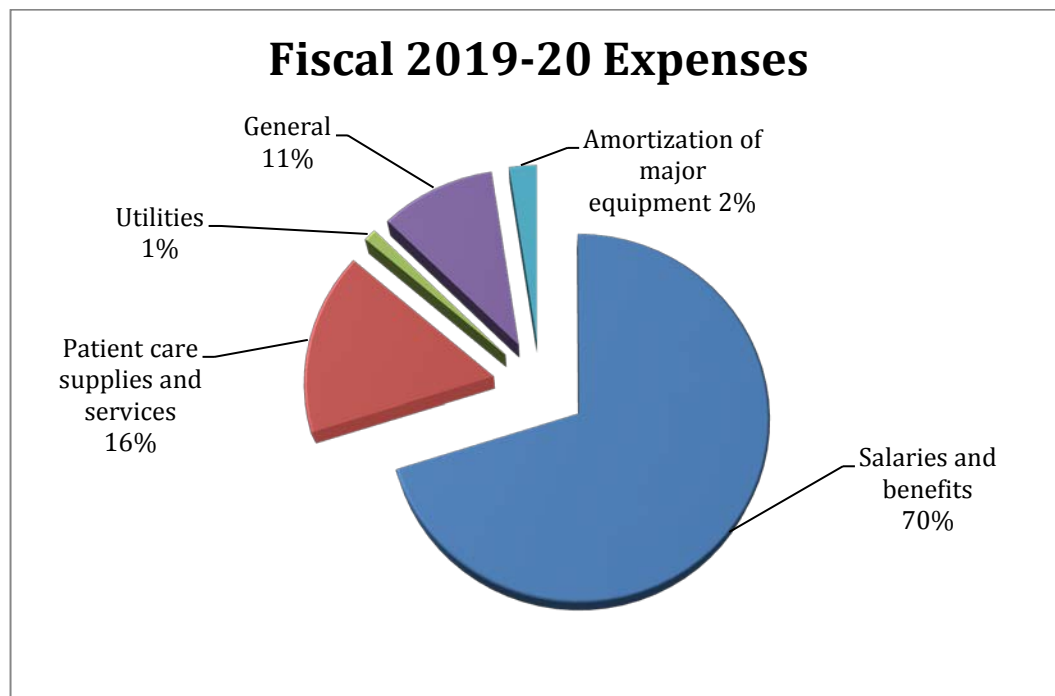
Amortization of deferred capital grants contributes the balance of total revenue.

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 2020. At approximately \$427 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 \$99 million for fiscal 2020. 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 \$237 thousand of interest expense on long-term debt obligations, and \$614 thousand bad debts expense.



Expenses (in thousands of dollars)

Salaries and benefits	\$427,257
Patient care supplies and services	98,842
General	63,686
Utilities	6,175
Amortization of major equipment	14,837
Total expenses	\$610,797

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, 2020 the hospital employed 4,986 individuals. The workforce total increases to 5,469 when including medical residents. Union organizations represented 92 per cent of individuals. Staff employed fulltime represented 62 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 775 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 2020 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 2020. The approximate \$106 million total working capital surplus as at March 31, 2020 translates to a current ratio of 2.09:1.

The second financial performance indicator included in the fiscal 2020 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, 2020 was 0.9 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. Although the goal is to achieve 100% of the funding, operating room reductions due to staffing shortages early in the year and COVID-19 reduction of elective surgeries in March resulted in 96% of budgeted revenue being achieved.

The HBAM represented approximately 33 percent of Ministry funded 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 2020 year:

	2018/19	2019/20	Increase / (decrease)	
Inpatient Days	175,912	177,885	1,973	1.1%
Average Length of Stay	5.8	6.0	0.3	4.8%
Operative Cases	17,408	16,894	(514)	(3.0%)
Births	1,873	1,888	15	0.8%
Trauma cases	183	144	(39)	(21.3%)
Emergency Department Visits (KGH site)	63,741	63,131	(610)	(1.0%)
Urgent Care Centre Visits (HDH site)	52,910	51,684	(1,226)	(2.3%)
Cancer Centre Visits	102,066	107,009	4943	4.8%
Dialysis Visits	60,337	59,853	(484)	(0.8%)
All other ambulatory care visits	339,701	317,689	(22,012)	(6.5%)
Imaging Exams	231,792	234,348	2,556	1.1%
Clinical Laboratories Tests	3,026,484	3,155,178	128,694	4.3%

As it relates to the fiscal 2020 activity volumes above, the following are of note:

Inpatient days: Occupancy was consistently high during the year in all areas except Mental Health & Obstetrics. The overall total inpatient days increased approximately 1 per cent over the previous year. Total acute care activity increased 2.2 per cent (3516 inpatient days) and adult mental health activity decreased 11.5 per cent from the prior year (1543 inpatient days).

Acute average length of stay: KHSC is 0.3 of a day above its expected inpatient length of stay, and length of stay is 0.3 of a day higher than the previous year. Initiatives during the year to reduce the number of patients in the hospital awaiting access to non-acute care facilities resulted in the number of non-acute patients increased by 5% from prior year vs. 20% increase in the prior year.

Operative cases: Operative cases were lower than prior year as a result of a reduction in the number of active operating rooms. However, overall most activity base funded volumes such as QBPs were near to or achieved including cancer surgeries. The hospital performed 20 kidney transplants. Other operative cases included 601 Cardiac and 236 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 a 5 per cent increase in activity over the prior year primarily attributed to increased Systemic clinic & treatment visits.

Dialysis visits: KHSC functions as the regional center for renal care in the SE-LHIN and operates six satellites dialysis locations. The Regional Program liaises with the Independent Health Facility in Brockville and also oversees the Moose Factory Dialysis Unit (part of the Weeneebayko Health Authority). Dialysis visit activity volume is trending downwards and is attributable to an increased focus on appropriately deferred dialysis initiation, home therapies, transplant, and conservative care for patients who do not wish to pursue dialysis

All other ambulatory visits: There is an approximate 6.5 percent decrease over the prior year. The volume decrease is partially offset with telemedicine particularly in the 4th quarter. As well, Ophthalmology decreased 11% due to temporary facility related closure.

Imaging exams: Overall 1% increase over prior year. Increases for KGH site Computed Tomography (CT) and Interventional Radiology are a result of increased oncology procedures. Increasing demands for inpatient and emergency patients also directly impacted the CT numbers. MRI increased volumes with second MRI in operation. Wait time demands continue. Increased volumes were achieved by implementing key process improvement initiatives.

Clinical laboratories tests: Volumes increase can be attributed to increase in the core lab (4%) related to the high patient occupancy and support for tests within the region, increase in Histopathology (6%) attributed to the general increase in activity from all areas sending work to KHSC; and Blood Bank (8%) increase in the blood products distribution/dispensing for patients for at home. The genetics testing continues to increase (8%) as it is emerging as part of standard of care.

Looking Forward

In January of 2020 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 2020-21.

Hospital leadership identified initiatives to assist the hospital in addressing the gap between the 2020 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 2020-21.

Summary

Guided by our 2019-20 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 2020. 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.