



**Management Discussion and Analysis**  
**(unaudited)**  
**For the Year Ended March 31, 2022**



## Management Discussion and Analysis (unaudited) for the year ended March 31, 2022

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, 2022. 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 \$33 million. A favourable fiscal result is provisioned in the operating budget to provide for capital expenditures. Prior year COVID-19 revenue<sup>1</sup> and volume-based activity revenue were settled in the current fiscal year resulting in significant additional surplus in the current fiscal year.

### COVID Impact on Clinical Services

The 2021-22 fiscal year began during Wave 3 of the COVID-19 global pandemic, with KHSC playing a critical role in the "Team Ontario" response. To create the required critical care capacity, new Level 2 Critical Care beds were created on an inpatient surgical unit, drastically shifting the overall bed distribution and care priorities. New critical care beds also were added in existing critical care units, virtually doubling the pre-pandemic critical care capacity at KHSC. During April & May of 2021, approximately 150 patients were transferred to Kingston from Scarborough and Oshawa.

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

Throughout the remainder of the fiscal year, the pandemic required cycles of elective/scheduled care reduction, further exacerbating the backlog in care that developed throughout the pandemic. Emergency department volume continued to recover, stabilizing close to pre-pandemic levels. With ongoing physical distancing requirements, it was necessary to use closed inpatient beds to create overflow capacity for the Emergency Department.

The COVID-19 pandemic has exacerbated the health human resource (HHR) shortages already felt through Ontario and many other parts of the country. In the final quarter of the fiscal year, KHSC experienced critical nurse and physician staffing shortages as a result of high volume of COVID-19 illness. This has a major impact on activity and morale that management continues to address and improve through weekly planning sessions and staff forums.

Despite the continuing pandemic, we made some progress on recovering surgical and cardiac volume. Successful applications for surgical innovation funding from the Ministry of Health were critical in this achievement, as funding supported training additional OR staff as well as relocating certain cataract surgeries offsite. A successful partnership with a local cataract surgical centre enabled the ophthalmology program to maintain its academic and quality commitments while at the same time availing space at the HDH site to complete other surgical procedures.

For the upcoming year we will continue to 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, 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, together with over 300 other health-care partners throughout this region, is providing leadership to the development of an Ontario Health Team that would provide fully integrated health care to the attributed population in the counties of Frontenac, Lennox and Addington. With the right partners and plans in place, and one year of successful OHT project implementation behind us, 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. Since becoming an approved OHT in the fall of 2020, we have conducted extensive stakeholder engagement with all sectors represented in our OHT to socialize our model and structure, while soliciting participants for our priority working groups and supporting structures. We 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 and have completed their first year of work. This work is building on existing collaborations in our region with the aim that our patients and citizens will be the beneficiaries of a stronger, more connected health care system as soon as possible.

To support the development of the OHT, we have operationalized four priority project groups focused on: aging-well-at-home, palliative care partnerships, addictions and mental health integration, and coordinated discharge. A KHSC resource is supporting strategy development across the project groups and for the OHT as a whole, as well as communications and engagement to ensure we keep our partners and community informed and engaged with our progress.

In Q4 KHSC contributed leadership to:

- Strategic engagement and collaboration with our Ministry of Health and Ontario Health partners on issues related to future accountable, value-based models for OHTs, possible pilot projects that may be awarded to FLA OHT
- Supporting Transitional Leadership Collaborative with agenda planning & process design to support emerging strategy discussions
- Executing a strategy development process which is currently underway, including extensive, community-wide engagement on the future of our health-care system
- Providing professional consulting to the OHT project groups as they form communication, engagement and strategic plans to support their work
- Continuing to provide leadership to the Regional Health Information System project, now known as Lumeo; a key foundation for connecting hospitals, and eventually other providers in the system, on a common patient record and a platform for digital health.

## Financial Analysis of the Hospital

The assets of the hospital exceeded its liabilities at the end of the most recent fiscal year by \$149 million (net assets). The analysis below focuses on the change in net assets during fiscal 2022.

In 000s	Unrestricted	Internally Restricted	Invested in Capital Assets	\$
Balance, beginning of year	32,841	32,000	53,554	118,395
Surplus (deficit) of revenues over expenses	42,329	-	(11,174)	31,155
Appropriated for capital projects	(3,000)	3,000	-	-
Net change in investment in capital assets	(13,322)	-	13,322	-
<b>Balance, end of year</b>	<b>58,848</b>	<b>35,000</b>	<b>55,702</b>	<b>149,550</b>

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, 2022 the hospital's total working capital position was positive at approximately \$74 million; an increase of \$28 million from the beginning of the year position.

The total portion of current assets restricted for approved capital expenditures is \$17.7 million. An additional amount of \$71 million is provisioned for specific operational liabilities and \$3.3 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 2022 (\$35 million borrowing capacity).

## Long-term Debt

Included in the total long-term debt outstanding of approximately \$3.8 million as at March 31, 2022 is \$2.3 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, \$1.2 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 2022 of approximately \$30.1 million. This capacity was augmented by an additional \$3.6 million of one-time Ministry funding to support COVID capital needs and \$0.29M to support a regional IT project. Cash to complete all capital expenditures approved as at March 31, 2022, but not completed, has been internally restricted for this purpose. \$9.5 million of working capital was used to support current year additions as budgeted.

During the fiscal year, the hospital purchased \$41.4 million of capital assets (approved in previous and current year). Expenditures occurred in the following major categories (in millions):

Patient care and non-clinical equipment	\$ 26.20
Information management systems	\$ 1.90
Facilities infrastructure/renovations	\$ 3.90
Redevelopment	\$ 5.80
COVID (equipment and facilities)	\$ 3.60

During the year, \$30.2 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, extended occupational health and safety staffing, expanded Emergency Department services, implementation of virtual visits software, COVID vaccine clinic, minor equipment purchases to expand bed capacity, personal protective equipment, and additional technology equipment. The Ministry provided cash for the April to September COVID incremental submissions to ensure no working capital deficits to hospitals. In preparation for year end audit, the Ministry also provided an estimate of COVID incremental funding for the period October 1, 2021 to March 31, 2022.

In F20-21, 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. Almost \$6M of revenue related to F20-21 lost non-Ministry revenues were settled and recognized in F21-22 revenue.

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

	2022	2021
Bed Capacity Expansion	\$36,915	\$9,180
Incremental COVID-19 Operating Expenses	\$12,612	\$12,143
Assessment Centre and Lab Services	\$11,703	\$7,153
Retention Bonus Incentive for Nurses	\$3,773	-
Pandemic Pay	\$2,658	\$7,619
Temporary Wage Enhancement	\$1,082	\$453
Enhanced Extern Program	\$840	-
Medical Resident Redeployment Program	\$258	-
Temporary Physician	\$272	\$354
Other Pandemic Initiatives	\$711	\$132
Non-Ministry Revenue Losses Related to Prior Year	\$5,598	\$105
	<b>\$76,422</b>	<b>\$37,139</b>

In addition to the above, the Hospital has also recognized \$3.06 million 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 the audited financial statements and are based on the best available data at the time of statement preparation. All submissions for COVID incremental revenue are subject to Ministry review and approval. Any discrepancies will be accounted for in the year of settlement.

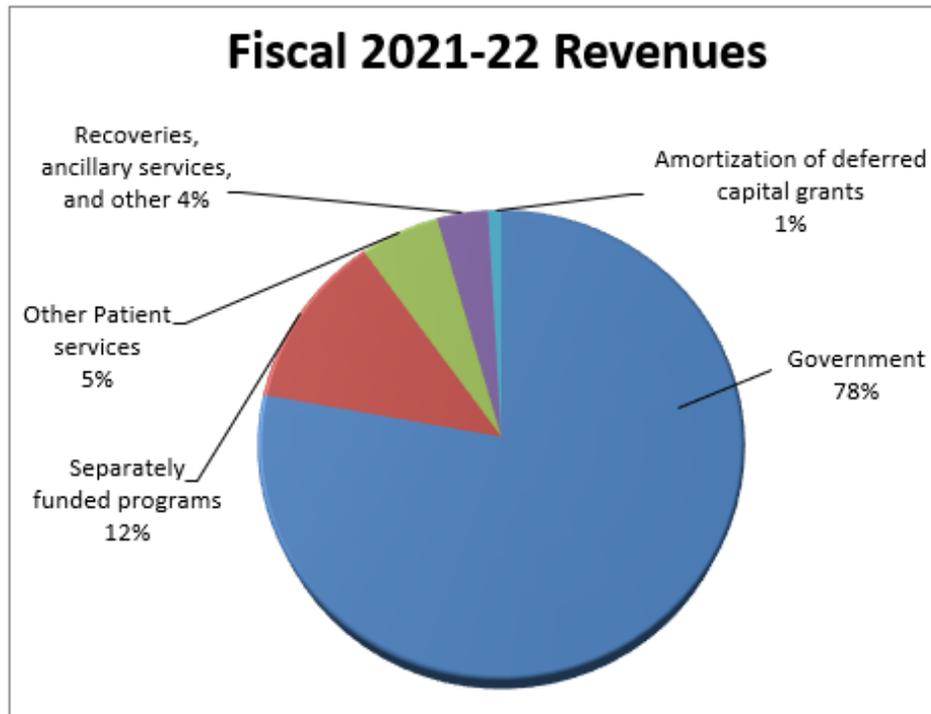
## Operating Revenues

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 \$76,422 of COVID revenue)	\$ 556,999
Clinical Education, Other Votes, and Programs	\$ 87,373
Other Patient Services	\$ 39,249
Recoveries, Ancillary, and Other	\$ 25,080
Amortization of Deferred Capital Grants	\$ 6,510
<b>Total Revenues</b>	<b>\$ 715,211</b>

At approximately \$557 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 2022.

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 \$87 million.

Approximately \$39 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 \$19 million.

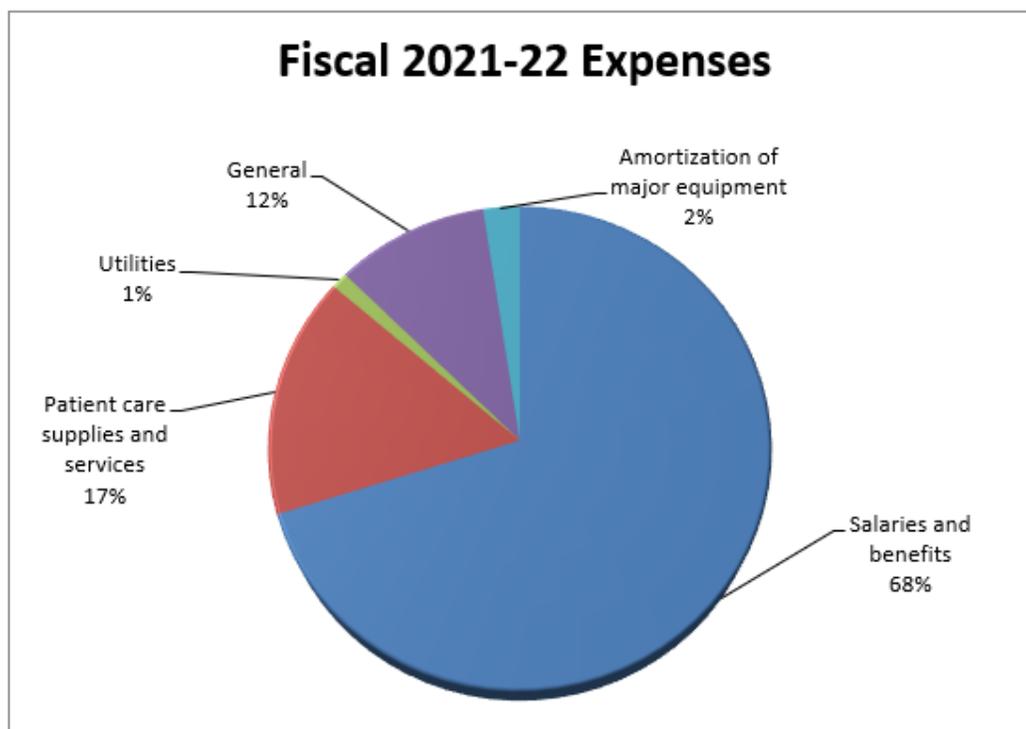
Amortization of deferred capital grants contributes the balance of total revenue.

### 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 68 per cent of the total operating expenditures in fiscal 2022. At approximately \$466 million, this expense included accommodating inflationary increases for salary and benefits costs for hospital employees and medical residents, and additional staffing resources to operationalize additional funded bedded capacity.

Patient care supplies and services expense totaled approximately \$119 million for fiscal 2022. 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 \$165 thousand of interest expense on long-term debt obligations, and \$644 thousand bad debts expense.



Expenses (in thousands of dollars):

Salaries and Benefits	\$ 465,563
Patient Care Supplies and Services	\$ 118,826
General	\$ 74,749
Utilities	\$ 7,234
Amortization of Major Equipment	\$ 15,928
<b>Total Expenses</b>	<b>\$ 682,300</b>

## Human Resources

Kingston Health Sciences Centre (KHSC), like many other hospitals across the country, is experiencing critical staffing shortages as a result of the COVID-19 pandemic. These shortages are the result of several factors including, too few health-care workers across the country to recruit; individuals choosing to retire, staff moving home to be closer to family or leaving the sector for other careers. HHR strategies have included the following:

- Optimizing Nurse Graduate Guarantee (NGG) utilization
- Partnerships with St. Lawrence College, Queens University and other agencies to place students.
- Offering clinical placements in specialized areas (Operating Room/Emergency Department/Critical Care).
- Placement site for Ontario's accelerated PSW training initiative
- Participate in Internationally Educated Nursing (IEN) fast track program

Additionally, KHSC has implemented the following retention strategies for existing staff:

- Created a Recruitment and Retention Task Force to address concerns and openly engage staff in discussions about staffing challenges, actively listening to their concerns, feedback and ideas before and after actions are taken.
- Increased the number of full-time staff, consolidating part-time positions, to create more stability.
- Implemented permanent 12 HR Charge Nurse roles in areas of need.
- Added role extenders to support registered staff; for example, Nursing Support Assistants, Patient Mobility Aides and Medical Residents.
- Promoted and supported educational opportunities, tuition support, certification and re-certification programs
- Implemented model of care changes

As at March 31, 2022 the hospital employed 5025 permanent employees and 393 temporary employees. The workforce total increases to 5911 when including medical residents. At KHSC we also rely on our physicians, Patient Experience Advisors, and over 775 people who volunteer their time and talents. Unionized staff represented 91.8 per cent of individuals. Staff employed fulltime represented 60.95 per cent of the workforce.

## 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 2022 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 2022. The approximate \$74 million total working capital surplus as at March 31, 2022 translates to a current ratio of 1.42:1.

The second financial performance indicator included in the fiscal 2022 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, 2022 was 4.62 per cent. This is slightly above the Ministry target for this indicator of between zero per cent to three per cent, which is primarily a result

of prior year earned revenues settled in F21-22. Removing prior year revenue settlements results in a total margin of 3.3 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. Total revenue achieved was 89%.

## Patient Activity Volumes

The following table highlights key activity levels during the fiscal 2022 year:

	2019/20	2020/21	2021/2022	Increase/(Decrease)	
Inpatient Days	177,885	157,403	157,328	-75	0.0%
Average Length of Stay	6	5.9	6.1	0.2	3.4%
Operative Cases	16,894	14,768	14,272	-496	-3.4%
Births	1,888	1,878	2064	186	9.9%
Trauma cases	144	126	82	-44	-34.9%
Emergency Department Visits (KGH site)	63,131	52,833	57,726	4,893	9.3%
Urgent Care Centre Visits (HDH site)	51,684	38,248	46,966	8,718	22.8%
Cancer Centre Visits	100,626	103,248	N/A	N/A	N/A
Dialysis Visits	59,853	57,125	53,840	-3,285	-5.8%
All other ambulatory care visits	317,689	327,781	350,875	23,094	7.0%
Imaging Exams	234,348	210,759	221,390	10,631	5.0%
Clinical Laboratories Tests	3,155,178	3,141,392	3,425,175	283,783	9.0%
Admissions	24,154	23,508	23,831	323	1.4%

The COVID-19 pandemic continued to impact clinical activity levels. Legislation requiring the cancellation of elective operating room procedures and inpatient capacity levels resulted in decreased operative cases and inpatient days relative to 2019/20. Activity did increase in the emergency and urgent care departments along with imaging exams with those volumes moving closer to their pre-pandemic levels. Laboratory testing and Ambulatory visits again increased and was driven by COVID-19 testing and assessment visits.

## Looking Forward

KHSC continues to work with regional and provincial partners to manage the effects of the pandemic and improve the health of our communities through partnership and innovation. In the last year, to support this direction, the Chief Information Officer (CIO) Portfolio worked alongside our clinical and administrative stakeholders on many transformation projects. On the clinical front this included working closely with our regional partners to recruit 500+ clinical, technical and privacy experts from across the region for the Lumeo Regional Hospital Information System clinical transformation project, refining KHSC's virtual health operating model, piloting Central Intake and Waitlist Management automation, providing project management and technology support for Breast Imaging Kingston, the regional digital morphology network, the application for Choosing Wisely Canada Level 1, the physiological monitor deployment, the Cardiology Cath Lab upgrade, and Physician Quality Committee initiatives. On the back office and infrastructure front, the team is managing the transition to modern collaboration tools and cloud-based technologies such as Microsoft Teams, Microsoft 365 and ServiceNow. At the same time, the team kept our information, digital assets and clinical equipment safeguarded and in good working order.

Looking forward to fiscal year 2022-2023, the portfolio will continue to support the corporate strategic plan and annual corporate planned goals including pandemic recovery initiatives. Much of our time and effort in the coming year will be focused on the Lumeo RHIS implementation, further work on Virtual Health operations, the Microsoft MS365 cloud

migration and strengthening our cybersecurity posture as per the three-year cybersecurity roadmap. We will also continue to play a regional leadership role on the Ontario Hospital East Region Digital Health Advisory Council and Cybersecurity Work Group, and OHT Digital Health Lead Working Groups.

## 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 2022. 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.