



Management Discussion and Analysis
(unaudited)
For the Year Ended March 31, 2023



Management Discussion and Analysis (unaudited) for the year ended March 31, 2023

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, 2023. 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 deficit as expenses exceeded revenues before building amortization by approximately \$1.5 million. During the fiscal year, the Ontario Supreme Court of Justice repealed Bill 124 which capped public sector wage increases to 1% per year for a three-year moderation period. As a result of this repeal, several collective agreements containing reopener clauses have either settled retroactively or are scheduled for arbitration. As a result of the outcomes being seen throughout the public sector, the Hospital has reviewed all employee groups and have included retroactive accruals related to the moderation period where applicable. A favourable fiscal result is provisioned in the operating budget to provide for capital expenditures, but has been eroded due to the accruals related to Bill 124.

COVID Impact on Clinical Services

The 2022-23 fiscal year continued to be challenging due to the COVID-19 global pandemic. Building on clinical successes during the pandemic, KHSC responded to the provincial challenge during December 2022 and January 2023 paediatric surges, caused by Covid, influenza and other respiratory viruses across the province of Ontario. KHSC accepted over 20 sick children out of region needing pediatric intensive care.

Health human resource challenges continued in 2022/23 with ongoing staff shortages, staff deployments, onboarding large numbers non-regulated staff support roles and a competitive recruitment market. To help mitigate health human resource challenges a number of strategies were implemented: over-time enhancement premiums for full-time and part-time staff, a recruitment sign-on bonus and relocation assistance for new recruits with a minimum 2-year commitment and the use of agency nurses.

Despite the continued pandemic challenges, we made progress in surgical recovery. Elective surgical wait list was reduced from 7,356 to 7,007, 44.27% over target surgical cases were completed exceeding Ontario Health 40% target and the last 7 months of 2022/23 sustained OR at full capacity. Successful applications for surgical innovation funding from the Ministry of Health were critical in this achievement, as funding supported training additional OR staff and continued relocating low-risk cataract surgeries offsite.

For the upcoming year, we will continue to focus on surgical & procedure backlog management and collaborating on a regional and provincial post 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 more than 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 as they relate the power of partnership, collaboration, and a whole system response to promoting the health and wellness of everyone in our community. Since becoming an approved OHT in the fall of 2020, we have conducted extensive stakeholder engagement with all sectors represented in our OHT, as well as with community members, to socialize our model and structure, seek input into our inaugural strategic plan and solicit provider and community member participants for our priority working groups and supporting structures. These include priority project groups focused on: aging-well-at-home, palliative care partnerships, addictions and mental health integration, coordinated discharge, access to primary care and digital health. Since developing the organization structure for the OHT, members have signed onto a Collaborative Decision-Making Arrangement, and provided leadership to these key FLA-OHT working groups, which 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 all these elements of the FLA OHT's development, a KHSC resource has provided leadership to the creation of FLA OHTs inaugural strategic plan, which provides the context and direction for our efforts over the next five years towards *Achieving our best health, as people, as providers, and as a system*. This resource has also led the OHT's Communications and Engagement Support Structure to ensure we keep our partners and community informed and engaged with our progress towards realizing our vision of: *a healthier community where we all have equitable access to high quality care, services and supports that empower us toward achieving our best health*.

In Q4 KHSC also contributed leadership to:

- Engaging and collaborating 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.
- Collaborating with OHT partners, including Queen's University Faculty of Health Sciences, on the proposal to the Ministry of Health to create a new team-based Health Home which, once approved, will provide access to integrated, person-centred primary care for people in Frontenac, Lennox and Addington counties who do not currently have a primary care provider.

- Working with OHT partners on key initiatives to improve wait times for specialty health-care services.
- Supporting Transitional Leadership Collaborative with agenda planning & process design to support strategy discussions.
- Providing professional consulting to the OHT priority project groups on communication, engagement and strategic planning 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 \$128 million (net assets). The analysis below focuses on the change in net assets during fiscal 2023.

In 000s	Unrestricted	Internally Restricted	Invested in Capital Assets	\$
Balance, beginning of year (restated)	40,439	35,000	56,767	132,206
Surplus (deficit) of revenues over expenses	7,694	-	(11,822)	(4,128)
Net change in investment in capital assets	(33,592)	-	33,592	-
Balance, end of year	14,541	35,000	78,537	128,078

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. The opening balance has been restated as a result of the adoption of Public Sector Accounting Standard PS 3280 effective April 1, 2021 to recognize the liability related to asset retirement obligations.

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, 2023 the hospital's total working capital position was positive at approximately \$83 million; an increase of \$9 million from the beginning of the year position.

The total portion of current assets restricted for approved capital expenditures is \$60.5 million. An additional amount of \$60.5 million is provisioned for specific operational liabilities and \$3.6 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 2023 (\$35 million borrowing capacity).

Long-term Debt

Included in the total long-term debt outstanding of approximately \$7.1 million as at March 31, 2023 is \$1.6 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, \$0.95 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. New debt was secured for \$4.5M in 2023 to finance the construction of the New Women's Centre on Highway 15. This new building enabled the consolidation of all mammography and breast imaging services to one offsite location that serves Kingston and the Region. The new equipment for the Women's Centre was funded by donations.

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 2023 of approximately \$58.1 million. This capacity includes \$32.2 million of working capital that was approved to support procurement of capital items requiring priority replacement. Cash to complete all capital expenditures approved at March 31, 2023, but not completed, has been internally restricted for this purpose.

During the fiscal year, the hospital purchased \$56.1 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	\$ 20.70
Information management systems (including Regional HIS)	\$ 21.05
Facilities infrastructure/renovations	\$ 7.45
Redevelopment	\$ 6.90

During the year, \$21.1 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

Hospitals submitted incremental COVID operational and capital costs on a quarterly 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. Funding was capped in F2023 as COVID impact on hospital operations stabilized in the year.

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

	2023	2022
Bed Capacity Expansion	\$42,831	\$36,915
Incremental COVID-19 Operating Expenses	\$6,503	\$12,612
Assessment Centre and Lab Services	\$5,969	\$11,703
Retention Bonus Incentive for Nurses	\$3,860	\$3,773
Wage enhancement	\$769	\$3,773
Enhanced Extern Program	\$1,807	\$840
Medical Resident Redeployment Program	\$235	\$258
Other Pandemic Initiatives	\$687	\$983
Non-Ministry Revenue Losses Related to Prior Year	-	\$5,598
	\$62,661	\$76,455

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.

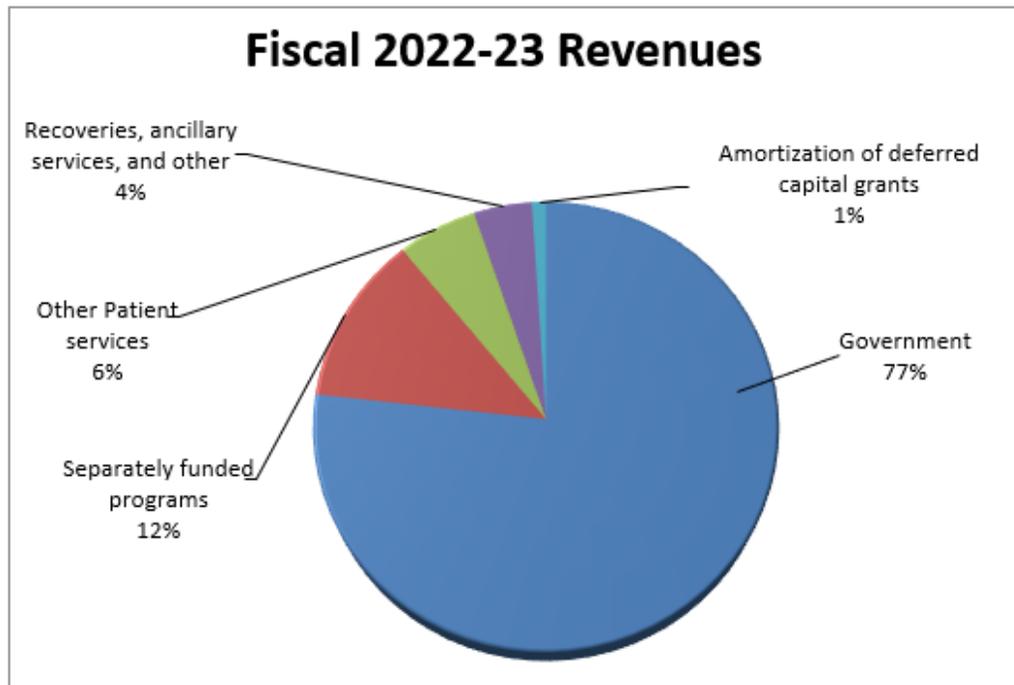
Operating Revenues

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 \$62,661 of COVID revenue)	\$ 558,080
Clinical Education, Other Votes, and Programs	\$ 89,340
Other Patient Services	\$ 41,790
Recoveries, Ancillary, and Other	\$ 30,392
Amortization of Deferred Capital Grants	\$ 7,409
Total Revenues	\$ 727,011

At approximately \$558 million (including significant one-time COVID funding), funding from provincial government sources is the hospital's most significant source of income, representing 77 per cent of total operating revenue in fiscal 2023.

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 \$89 million.

Approximately \$42 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 \$6.8 million), services such as parking and occupancy rental fees for third-party operated services (approximately \$2.0 million), and one-time non-recurring revenues. Recoveries for supplies and services provided to parties external to the hospital contributed approximately \$19 million.

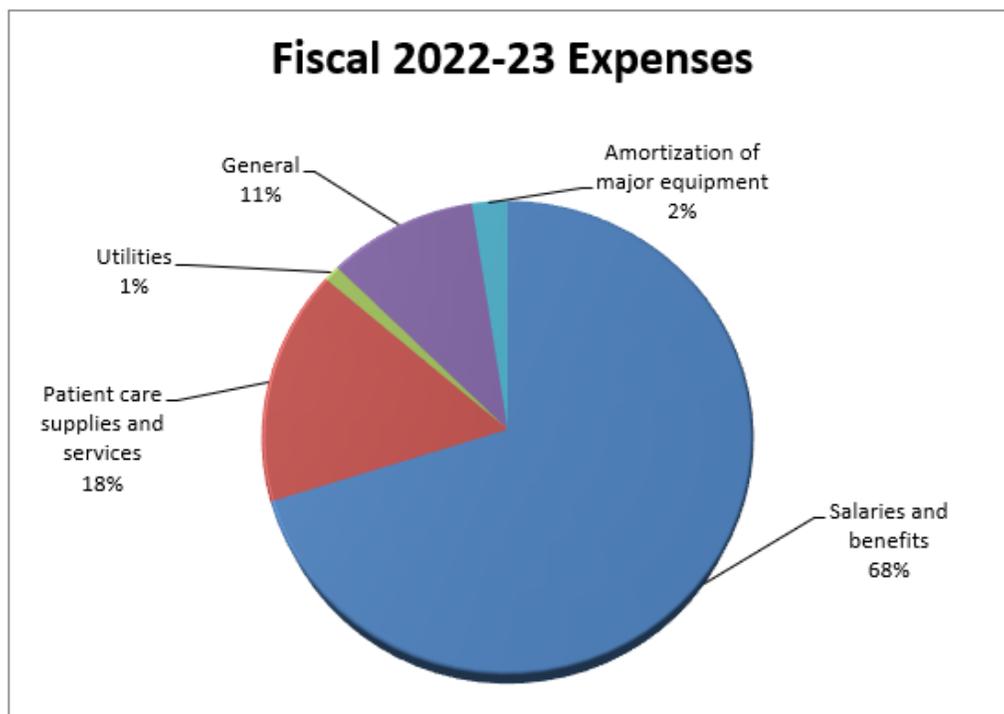
Amortization of deferred capital grants contributes the balance of total revenue.

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 2023. At approximately \$494 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. During the fiscal year, the Supreme Court of Justice repelled Bill 124 “Protecting a Sustainable Public Sector for Future Generations Act, 2019”. This statute which came into effect November 7, 2019 limited increases of total compensation within the broader public sector to more than 1% per 12-month period for three consecutive years. As a result of this repel, the Hospital has estimated potential retroactive settlements for reopener arbitration settlements.

Patient care supplies and services expense totaled approximately \$132 million for fiscal 2023. 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 \$283 thousand of interest expense on long-term debt obligations, and \$664 thousand bad debts expense.



Expenses (in thousands of dollars):

Salaries and Benefits	\$ 494,478
Patient Care Supplies and Services	\$ 131,540
General	\$ 77,843
Utilities	\$ 8,047
Amortization of Major Equipment	\$ 16,640
Total Expenses	\$ 728,548

Human Resources

Kingston Health Sciences Centre (KHSC), like many other hospitals across the country, continues to experience critical staffing shortages which emerged during the COVID-19 pandemic and have persisted. These shortages are the result of several factors including, too few health-care workers across the country to recruit; individuals choosing to retire, staff relocation or leaving the sector for other careers. HHR strategies have included the following:

- Targeted marketing regionally, provincially, nationally and internationally for registered staff
- Optimizing provincially funded programs such as Community Commitment Program for Nurses and Nurse Graduate Guarantee (NGG) utilization
- Partnerships with St. Lawrence College, Queen's University and other agencies to place students.
- Offering clinical placements in specialized areas (Operating Room/Emergency Department/Critical Care).
- 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 Steering Committee to oversee related organizational strategies and initiatives with sub-committees focused on nursing and allied profession engagement about their work experience and opportunities to enhance and promote retention.
- Implementation of temporary recruitment and referral bonuses to attract new talent to high needs areas and occupations and temporary pay premiums to retain existing staff
- 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; most recently including Clinical Extern roles.
- Promoted and supported educational opportunities, tuition support, certification, and re-certification programs
- Implemented model of care changes

As at March 31, 2023 the hospital employed 5222 permanent employees and 323 temporary employees. The workforce total increases to 6014 when including medical residents. At KHSC we also rely on our physicians, Patient Experience Advisors, and over 130 people who volunteer their time and talents. Unionized staff represented 91.5 per cent of individuals. Staff employed fulltime represented 61.92 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 2023 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 2023. The approximate \$83 million total working capital surplus as at March 31, 2023 translates to a current ratio of 1.41:1.

The second financial performance indicator included in the fiscal 2023 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, 2023 was negative 0.19 per cent. The Ministry target for this indicator is a range of zero per cent to three per cent. The impact of Bill 124 is the driver of the current year deficit.

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. Significant improvement of activity-based funding was achieved this fiscal, as COVID stabilized and ramp up efforts resulted in increased activity and revenue earned, with over 90% of activity-based revenue achieved.

Patient Activity Volumes

The following table highlights key activity levels during the fiscal 2023 year:

	2020/21	2021/22	2022/23	Increase/(Decrease)	
Inpatient Days	156,341	157,328	172,416	15,088	9.6%
Average Length of Stay	5.9	6.1	6.2	0	1.6%
Operative Cases	14,768	14,272	17,070	2,798	19.6%
Births	1,862	2064	1954	(110)	(5.3%)
Trauma cases	127	82	125	19	17.9%
Emergency Department Visits (KGH site)	52,867	57,726	54,570	(3,156)	(5.5%)
Urgent Care Centre Visits (HDH site)	38,309	46,966	50,165	3,199	6.8%
Cancer Centre Visits	103,248	N/A	136,584	N/A	N/A
Dialysis Visits	53,840	53,088	53,769	681	1.3%
All other ambulatory care visits	327,781	350,875	300,107	(50,768)	(14.5%)
Imaging Exams	210,759	221,390	246,793	25,403	11.5%
Clinical Laboratories Tests	3,141,392	3,425,175	3,338,540	(86,635)	(2.5%)
Admissions	23,386	23,831	23,697	(134)	(0.6%)

The COVID-19 pandemic did impact clinical activity in the first quarter of the fiscal year however overall patient activity increased for most areas of the organization. Surgical activity increased as OR times ramped up to address backlogs and inpatient days increased along side the ramp up. Slight declines in laboratory testing reflect changes related to COVID-19 testing criteria in the community, declines in ambulatory care visits are directly related to our Assessment Centre as volumes wound down and eventually the centre at Beechgrove was closed.

Looking Forward

Strategic Direction 3: Improve the health of our communities through partnership and innovation of our Transforming Care Together strategy speaks to the importance for KHSC, as the region's only tertiary, academic health sciences centre, to deliberately forge partnerships and foster innovation across the region to improve care delivery and population health. Since integration, this strategic direction has guided our work with other health care providers. In the last year the CIO Portfolio has worked tirelessly alongside our South East hospital partners to support a watershed, region-wide clinical transformation with the implementation of Lumeo, the Oracle – Cerner Regional Health Information System (HIS). This ground-breaking technology enabled transformation will facilitate effective coordination of care across the health system, enable sharing of resources fluidly to achieve system-like behavior and performance, reduce variation in medical practice to improve safety and quality of care, patient outcomes, population health, and overall patient experience for residents of

South Eastern Ontario. Implementing Lumeo with the other five independent South East hospitals is the embodiment of transformational leadership and partnership. This collective work will markedly improve patient safety, clinical outcomes and quality care through process redesign and IT implementation. Implementation is now in full swing with a target go-live of spring 2024 for KHSC. Three hundred plus Subject Matter Experts (SME), fifty core team members and three hundred fifty plus change agents have been recruited from across the region to work with over one hundred fifty Cerner professionals.

In addition, KHSC and the CIO portfolio have made cybersecurity a corporate priority in the face of a dynamic, escalating threat landscape. Our Information Security team continues to play an important regional and provincial leadership role, working closely with our South East region, Ontario Health (OH) East Region and OH provincial partners to improve our collective information security posture. On the provincial front, we participated in the selection of a slate of OH sanctioned Managed Security Service Providers (MSSP) and continue to coordinate Regional Security Operation Centre (RSOC) and Local Delivery Group (LDG) design activity with OH.

Looking forward to fiscal year 2023-2024, the CIO Portfolio will continue to support the corporate strategic plan and annual corporate planned goals with a continued focus on Lumeo, cybersecurity and replacement of aging clinical equipment.

Summary

Guided by the KHSC mission, vision, and Fiscal 2023 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 2023. 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.