



BRIEFING NOTE

Date: February 22, 2023
Issue: 2023-24 Capital Budget & Multi-Year Capital Plan
Prepared for: Resources Committee
Purpose: Approval Discussion Information Seeking Direction
Prepared by: Valerie Smith-Sellers, Director, Finance
Approved by: Trevor Clark, VP Finance and Corporate Services, CFO

Attachments/Related Documents: Appendix A – Draft Multi-Year Capital Plan

Alignment with CMH Priorities

2022-2027 Strategic Plan No <input type="checkbox"/>	2022/23 CMH Priorities No <input checked="" type="checkbox"/>	2022/23 Integrated Risk Management Priorities No <input checked="" type="checkbox"/>
<input type="checkbox"/> Elevate Partnerships in Care	<input type="checkbox"/> Manage COVID Response & System Recovery	<input type="checkbox"/> Clinical Services, Recovery, Growth & Transformation
<input type="checkbox"/> Advance Health Equity	<input type="checkbox"/> Support Staff and Physicians Wellbeing & Engagement	<input type="checkbox"/> Staff Wellbeing
<input type="checkbox"/> Increase Joy In Work	<input type="checkbox"/> Undertake the HIS Evaluation	<input type="checkbox"/> Retention & Recruitment
<input type="checkbox"/> Reimagine Community Health	<input type="checkbox"/> Execute CRP Phase 3	<input type="checkbox"/> Operational Excellence
<input checked="" type="checkbox"/> Sustain Financial Health		

Recommendation/Motion

Following review and discussion of the information provided, the Resources Committee of the Board recommends to the Board of Directors the approval of the fiscal 2023-24 Capital Budget, with a budget allocation of \$15.8M.

Executive Summary

A \$15.8M capital budget is being recommended for Cambridge Memorial Hospital (CMH) in fiscal 2023-24, broken down by the following major categories.

	\$M
Medical/General Equipment	3.5
Information Technology	1.4
Plant and Property	3.3
Contingency	0.5
	<hr/>
	8.7
New Health Information System	7.1
Total	<hr/>15.8

The capital budget includes a \$7.1M allocation for a new health information system (HIS) with implemented anticipated to start in October 2023. The ten-year total cost of ownership (TCO) for the new HIS is estimated to be \$45.5M. The capital component of the TCO is \$21.2M. For budget purposes, it has been assumed that one third of the capital expenditures will occur during the first six months of the project.

The Plant and Property budget includes a \$2M allocation for owner-initiated change orders related to phase 3 of the Capital Redevelopment Project (CRP).

Funding sources for the capital budget, excluding the new HIS, include net amortization from the hospital's operating budget (\$4.5M), funding from the CMH Foundation (\$3.7M for medical and general equipment) and Health Infrastructure Renewal (HIRF) funding provided by the Ministry of Health (MOH) to support building improvement projects (\$500K).

The HIS will be partially funded through surpluses generated from hospital operations and debt financing. The funding strategy will be confirmed with the Resources Committee in the fall of 2023 once the vendor has been selected, implementation timelines have been confirmed and the financial outlook for fiscal 2023-24 is better understood.

Uncommitted working capital available at the start of fiscal 2023-24 is forecast to be \$3.7M. This working capital will be preserved to offset any further local share cost increases for the CRP and to partially fund the HIS capital costs. With the recommended capital budget and balanced operating budget for fiscal 2023-24, the hospital will end next fiscal year in a positive working capital position, before HIS implementation.

A number of large capital investments have been identified in the multi-year capital plan including:

- \$7M for a new Enterprise Resource Planning (ERP) system to support critical corporate functions including human resources, finance and purchasing;
- \$4.5M for the purchase and installation of a new MRI (Magnetic Resonance Imaging) machine;
- \$1.7M for a hardware refresh for the PACS (Picture Archiving and Communication System);
- \$1.5M for a new CT (Computed Tomography) scanner;
- \$1.5M for the replacement of the roof on Wing D;
- \$1.5M for a new pharmacy sterile compounding room.

The multi-year capital plan will be updated on an annual basis to incorporate new capital items identified through the other corporate plans and to prioritize expenditures.

Background

Cambridge Memorial Hospital (CMH) has launched a new strategic plan for the five-year period ending March 31, 2027. A multi-year capital plan is being developed in support of the strategic plan. The development of the plan is a key organizational activity overseen by the Resources Committee. The annual capital budget is approved by the Board before the start of each fiscal year. The 2023-24 Capital Budget has been developed in conjunction with the new multi-year capital plan.

The multi-year capital plan is a five-year plan that prioritizes capital investments in hospital building infrastructure, medical and general equipment, and information technology. The five-year success goal is to have made the required investments by March 31, 2028 to complete the Capital Redevelopment Project (CRP), improve hospital building infrastructure, replace end-of-life equipment and upgrade core clinical and ERP systems while maintaining financial sustainability.

A multi-year financial plan is being developed in conjunction with the multi-year capital plan to identify objectives that need to be achieved in order to support required capital investments while maintaining financial health. Due to the number of hospital funded capital projects being planned for, amortization expense and ongoing operating costs to support the capital investments will grow significantly. These new costs will create a budget pressure that will need to be factored into the operating budget.

Analysis

Fiscal 2023-24 Capital Budget

In December 2022, departmental and physician leaders were engaged in the development of capital request lists. Each department/program completed a template identifying all planned capital requirements by fiscal year for the five-year period ending March 31, 2028. \$46.1M in capital requests were identified through the intake process.

Key support teams including Biomedical Engineering, Facilities, IT Services and the Capital Redevelopment team were consulted throughout the process. The Purchasing team supported the process by estimating the costs of capital requests identified. Ongoing operating costs associated with the capital requests were identified on the template and will be factored into the 2023-24 operating budget and multi-year financial plan. All capital requests were approved by the program Vice President/Senior Director.

Preliminary budget allocations including a contingency budget were established by major spending category to support the decision making process. The contingency budget will be used for investments required to meet Accessibility for Ontarians with Disabilities Act (AODA), unplanned medical and general equipment breakdowns, unanticipated IT investments and unexpected building maintenance.

The finance and capital redevelopment teams facilitated a collaborative review process in January with department/program leaders to prioritize capital requests, identified items that could be taken off the capital list, purchased before the end of fiscal 2022-23 or deferred into future fiscal years to work within the approved annual capital allocation for each year in the five-year planning period.

A \$15.8M capital budget is recommended for fiscal 2023-24 broken down by the following major categories.

	\$M
Medical/General Equipment	3.5
Information Technology	1.4
Plant and Property	3.3
Contingency	0.5
	<hr/>
	8.7
New Health Information System	7.1
Total	<hr/> 15.8 <hr/>

See Appendix A for a breakdown of capital asset items included in the 2023-24 capital budget and multi-year capital plan (excluding the HIS and ERP projects). Key highlights by major category are summarized below.

Medical/General Equipment

\$3.5M has been budgeted for medical and general equipment in fiscal 2023-24, including a pharmacy medication packager and carousel (\$1.1M), patient experience system (\$700K), sterilizer for the Surgical program (\$200K), gastroscopes/colonoscopes (\$175K), a plastics microscope (\$120K), cystoscopes (\$120K) and immunohistochemistry analyzer (\$115K).

\$3.7M of planned expenditures were outstanding at the end of January. Approved capital assets not completed from the current plan will be carried forward into fiscal 2023-24. Existing capital assets will be utilized as long as possible without putting patient safety at risk. The replacement of equipment not included in the multi-year Capital Plan which unexpectedly breaks down will be funded through contingency funds.

Information Technology

\$1.4M has been budgeted for information technology in fiscal 2023-24. Key investments include VDI server refresh (\$650K), Wing A closet refresh (\$400K) and cyber security (\$150K).

\$1.5M of planned expenditures that are required were outstanding at the end of January. Approved capital assets in the current plan not completed will be carried forward into next year.

Plant and Property

\$3.3M has been budgeted for plant and property in fiscal 2023-24. \$2M has been budgeted for owner-initiated change orders for the CRP. The remaining \$1.3M will be used for building infrastructure upgrades.

Contingency

A contingency budget has been created to ensure funds are available for unplanned expenses. The hospital's C and D Wings are aging, and investments are expected to maintain these facilities. \$200K in contingency funds have been set aside for the implementation of the Accessibility for Ontarians Disability Act (AODA) and asbestos abatement. Contingency funds have been designated for unplanned medical/general equipment (\$200K) and information technology (\$100K).

Multi-Year Capital Plan

\$74.3M in requirements have been identified for the multi-year capital plan, for the five-year period ending March 31, 2028. Budget allocations include \$46.1M for medical and general equipment, information technology and plant and property, \$21.2M for a new HIS, and \$7M for a new ERP system.

Budget allocations by major category are summarized in Table 1.

Table 1- Multi-Year Capital Plan (\$M)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Major Projects						
Health Information System	7.1	14.1				21.2
Enterprise Resource Planning		3.5	3.5			7.0
	7.1	17.6	3.5			28.2
Annual Capital Budget						
Medical/General Equipment	3.5	5.2	3.4	4.7	3.4	20.2
Information Technology	1.4	1.8	1.8	1.7	3.9	10.6
Plant & Property	3.3	2.5	3.2	3.0	0.8	12.8
Contingency	0.5	0.5	0.5	0.5	0.5	2.5
	8.7	10.0	8.9	9.9	8.6	46.1
Total Planned Budget	15.8	27.6	12.4	9.9	8.6	74.3

Key highlights by major category are summarized below.

Major Projects

Health Information System (HIS)

The procurement for a new HIS is in progress. Deloitte was engaged to develop a ten-year total cost of ownership for the new HIS. The TCO is estimated to be between \$42M to \$54.4M, which was used to inform the hospital's targeted TCO of \$45.5M. The TCO includes \$21.2M in capital costs to be incurred over the 18-month project implementation period. Capital costs will be

depreciated over a 15-year period after the system goes live. The TCO and associated capital budget will be updated when pricing envelopes are opened for the RFP and negotiations with preferred vendor are finalized.

Enterprise Resource Planning System (ERP)

Deloitte has been engaged to do a market assessment of tier 1 and 2 ERP applications in the Ontario marketplace. As part of this work, a TCO for a new ERP will be developed. It is estimated that the capital component of the TCO will be between \$6M - \$8M. A \$7M placeholder has been included in the multi-year capital plan with investments over a two-year period starting in fiscal 2024-25.

Capital Redevelopment Project (CRP)

\$2M budget allocations in each of the first two years of the multi-year financial plan have been included for phase 3 owner-initiated orders.

Management has started discussions with the MOH Capital Branch to review the current approved Capital Redevelopment Project budget (called Final Estimate of Cost 3) with the objective to maximize the MOH portion of the budget grant, limiting hospital budget increases to the \$4M included in the multi-year capital plan.

Annual Capital Budget

Medical/General Equipment

Several large expenditures are included in the multi-year Capital Plan including an MRI (Magnetic Resonance Imaging) machine (\$4.5M), PACS (Picture Archiving and Communication System) hardware refresh (\$1.7M), CT (Computed Tomography) scanner (\$1.5M), pharmacy medication packager and carousel (\$1.1M), patient entertainment/engagement system (\$0.7M), anesthetic gas machines (\$0.7M), operating room tables (\$0.7M), patient experience system (\$700K), X-ray room (\$0.5M), bone mineral density unit (\$0.5M) and sterilizers (\$0.4M).

Information Technology

A significant investment in IT is required over the upcoming five-year period. Key investments identified include storage and back up infrastructure (\$1.3M), servers for VDI and MEDITECH (\$1.2M), wireless servers (\$0.7M), phone infrastructure refresh (\$0.7M) and cyber security (\$0.5M).

Plant and Property

An annual budget allocation for building improvements has been made in the new multi-year capital plan to raise organizational awareness of needed upcoming infrastructure investments. How these funds will be utilized will be confirmed before the start of each fiscal year. Building improvement projects are currently funded through HIRF and prior year surpluses.

Key items identified in the multi-year Capital Plan include the replacement of the Wing D roof (\$1.5M) and a new sterile compounding room for the pharmacy (\$1.5M). In the first two years of the plan, \$2M has been budgeted per year for owner-initiated change orders for the CRP. HIRF funding approvals will be prioritized towards the Wing B roof replacement in fiscal 2023-24.

Multi-Year Capital Plan Funding Sources

There are a number of funding sources for the multi-year capital plan as summarized in Table 2. The annual capital budget, excluding major projects, does not exceed the net amortization on hospital funded assets, CMHF donations and MOH HIRF funding.

Table 2- Multi-Year Capital Plan Funding Sources (\$M)

	2023-24	2024-25	2025-26	2026-27	2027-28	Total
Major Projects						
Debt Financing	3.4	17.6	3.5			24.5
CMH	3.7					3.7
	7.1	17.6	3.5			28.2
Annual Capital Budget						
CMH	4.5	4.5	5.8	6.3	6.3	27.4
CMH Foundation	3.7	5.0	5.0	5.0	5.0	23.7
MOH- HIRF	0.5	0.5	0.5	0.5	0.5	2.5
	8.7	10.0	11.3	11.8	11.8	53.6
Total Funding	15.8	27.6	14.8	11.8	11.8	81.8

HIS/ERP

The majority of the HIS and ERP systems will be funding using debt financing, to be paid back over the life of the HIS/ERP. The remainder of the systems will be funded using surpluses generated through hospital operations. \$3.7M in unrestricted working capital is forecast at March 31, 2023. \$24.5M in debt financing is currently being projected.

A debt financing strategy will be developed in parallel with the HIS RFP process. The strategy will be finalized by the September/October 2023 time-period. Actual debt financing required will depend on the size of future year operating surpluses, which is dependent on the hospital maximizing patient based funding allocations (Post Construction Operating Plan and Quality Based Procedures). If future year surpluses continue to be generated, the size of the bank loan will be reduced.

A debt financing strategy will be required for ERP systems. A \$7M placeholder has been included in the multi-year capital plan spread over a two-year implementation period starting in fiscal 2023-24.

Working Capital Position

CMH is forecasting to start fiscal 2023-24 with \$3.7M in unrestricted working capital for investment in the new HIS as summarized in Table 3.

Table 3- Forecast Working Capital Position- April 1, 2023

	(\$M)
Unrestricted bank balance – January 31, 2023	80.0
Add: Other Current Assets	12.8
Less: Current Liabilities (\$0.6M due to MOH)	(76.0)
Add: Vacation Bank Accrual (consistent with MOH working capital calculation)	4.3
Working capital available – January 31, 2023	21.1
Add: CMHF capital funding	1.7
Add: Federal Grant – Staff Entrance	0.2
Add: MOH Health Infrastructure Renewal Funding	0.1
Less: Outstanding Capital Budget Commitments	(12.3)
Less: CRP Phase 3 Owner Initiated Change Orders	(5.6)
Less: February and March 2023 projected deficit	(1.5)
Forecast working capital position – April 1, 2023	\$3.7

The hospital is required to maintain a working capital ratio between 0.8 and 2.0, as per the Hospital Service Accountability Agreement entered into with Ontario Health. The working capital ratio at the end of January 2023 is currently 1.13. The addition of \$24.5M in debt financing for the new HIS/ERP would reduce the working capital ratio within the required range.

Risk Assessment

The following risks are associated with the multi-year capital plan:

- There is potential of unforeseen capital costs associated with the renovation of Wing B, increasing owner-initiated change orders above the current forecast amount;
- The building infrastructure in Wing C and D is aging and may require unplanned investments to address urgent needs;
- The investment required to implement a new HIS and ERP solutions have not been confirmed. Actual pricing may be higher than amounts budgeted for multi-year capital plan;
- As corporate plans in support of the new strategic plan are finalized, additional capital needs may be identified;
- A master planning exercise is being planned in fiscal 2023-24 that will identify areas in the facility requiring capital investment;
- CMHF has committed to provide CMH with between \$3.7M - \$5M annually to support the purchase of medical and general equipment. The Foundation is focused on fundraising to support the purchase of an MRI machine (\$4.5M) in 2024-25, which represents a significant capital outlay. The community's response to supporting the hospital's ongoing medical and general equipment needs in the current economic climate is unknown;
- For the past three years it has been challenging for the hospital to meet patient-based funding targets. The MOH has provided the acute care sector with incremental funding to offset volume-based funding losses. The MOH has not confirmed whether incremental funding will continue to be provided in fiscal 2023-24, which could create operating budget pressures, reducing the hospital's ability to generate working capital from operations;
- The MOH has indicated that the HIRF program will be wound down at some point in the future, and it is unknown whether this program will be replaced with another funding source to help hospitals address building infrastructure needs.