



# BRIEFING NOTE

**Date:** February 21, 2024  
**Issue:** 2024-25 Operating Budget and Multi-Year Financial Plan  
**Prepared for:** Board of Directors  
**Purpose:**  Approval  Discussion  Information  Seeking Direction  
**Prepared by:** Valerie Smith-Sellers, Director Finance and Interim CFO  
**Approved by:** Patrick Gaskin, President & CEO

**Attachments/Related Documents:** Appendix A – 2024-25 Operating Budget  
 Appendix B – Multi-Year Financial Plan

## Alignment with CMH Priorities

2022-2027 Strategic Plan No <input type="checkbox"/>	2023-24 CMH Priorities No <input type="checkbox"/>	2023-24 Integrated Risk Management Priorities No <input type="checkbox"/>
<input type="checkbox"/> Elevate Partnerships in Care	<input type="checkbox"/> Ensure Equitable Care For CND Residents	<input type="checkbox"/> Change / Project Management
<input type="checkbox"/> Advance Health Equity	<input checked="" type="checkbox"/> Grow Clinical Services	
<input type="checkbox"/> Increase Joy In Work	<input type="checkbox"/> Increase Staff Engagement	<input type="checkbox"/> Staff Shortages
<input checked="" type="checkbox"/> Reimagine Community Health	<input checked="" type="checkbox"/> HIS/ERP Planning and Implementation	<input type="checkbox"/> Access to Care
<input checked="" type="checkbox"/> Sustain Financial Health	<input checked="" type="checkbox"/> Grow Ministry Revenue	<input checked="" type="checkbox"/> Revenue & Funding

## Recommendation/Motion

### Board

Following review and discussion of the information provided, the Board approves the balanced operating budget for the 2024-25 fiscal year with total revenue and expense of \$208.8M.

### Resources Committee

Following review and discussion of the information provided, the Resources Committee of the Board recommends to the Board of Directors the approval of a balanced operating budget for the 2024-25 fiscal year with total revenue and expense of \$208.8M.

### Executive Summary

A balanced budget for Cambridge Memorial Hospital (CMH) has been developed for fiscal 2024-25 with a total revenue and expense of \$208.8M as summarized in Appendix A. The budget assumes a 3% Ministry of Health (MOH) funding increase, \$5.4M in Bill 124 funding to offset incremental wage increases; 3% salaries and wages increase, \$3.5M in budget enhancements, and a \$4M contingency for unanticipated operational pressures.

MOH has confirmed that incremental bed funding of \$12.8M to operate 22 acute care beds and 2 ICU beds will continue as base funding in 2024-25.

\$15.8M of Post Construction Operating Plan (PCOP) funding has been budgeted in fiscal 2024-25. The maximum PCOP funding that CMH can earn in fiscal 2024-25 is \$22M. The MOH has approved an extension to the PCOP 6 year ramp up schedule due to the CRP delays. The

PCOP budget includes the addition of the third endoscopy room, six additional acute care beds when B Tower opens in October 2024 and the realignment of the OR surgical plan to maximize the weighted cases.

The detailed multi-year Financial Plan (Appendix B) shows a balanced position in each year and a positive net cash balance throughout the five-year plan.

**Background**

The Financial Planning and Performance policy in the Board manual requires management to prepare an annual balanced budget, unless directed or permitted by the MOH or Ontario Health (OH). CMH’s operating budget is in alignment with the Board’s strategic priorities and minimizes the financial risk to the organization. The operating budget is approved by the Board no later than February before the start of the fiscal year.

For 2024-25, CMH is not required to submit a Hospital Accountability Planning Submission (HAPS) to the MOH. The HAPS is a detailed operating plan, including financial and statistical budgets and performance indicators that informs the Hospital Service Accountability Agreement (H-SAA). The budget is a key component of the HAPS. MOH will be extending the current H-SAA until March 31, 2025.

**Analysis**

The fiscal 2024-25 budget development process was initiated in September 2023. The leadership team reviewed departmental/program budgets to confirm staffing levels, identify budget pressures and savings opportunities. A detailed analysis of projected clinical service volumes was performed to establish revenue budgets for PCOP and Quality Based Procedures (QBPs). The impact of inflationary pressures and supply chain issues were incorporated into the budget. Directors provided budget enhancement requests that were approved by the Senior Leadership Team.

**Key Budget Assumptions**

The budget is based on the following key assumptions:

Capital Redevelopment Project (CRP)

During 2024-25, CMH will complete the CRP with the opening of the Wing B patient care tower in October 2024, including 84 Medicine beds, 35 Surgical beds and 14 Rehab beds. The Rehab program is scheduled to return from Grand River Hospital in early 2025. This plan does not include any open beds in Wing C, which will become vacant (floors C3 and C4) once the programs relocate to Wing B.

Our total bed capacity will increase from a pre-pandemic level of 168 beds to 203 beds and includes the addition of 22 incremental acute beds and 2 level 3, ICU (Intensive Care Unit) beds that became base funded in 2024-25.

The following table summarizes the number of available beds after October 2024.

<b>Program</b>	<b>Pre- Pandemic January 2020</b>	<b>Current 2023-24</b>	<b>After CRP October 2024</b>
ICU (including 6 Step down beds)	12	20	20
Medicine	70	82	84
Surgery	24	31	35
Women & Children	23	23	25
Rehabilitation	14	0	14

Mental Health	25	25	25
<b>Total</b>	<b>168</b>	<b>181</b>	<b>203</b>

Health Information System (HIS)/Enterprise Resource Project (ERP)

In 2024-25, CMH anticipates the start of the HIS 18-month implementation and the ERP workforce management project. Both vendor and CMH resources will be capitalized during this phase.

MOH Funding

- A 3% increase in MOH funding is forecast in fiscal 2024-25 with no significant changes in the funding model, consistent with what other hospitals in the Waterloo Wellington (WW) region are budgeting. OH, has not provided any guidance on funding expectations for 2024-25 to date.
- MOH one-time funding will include the incremental wage impact associated with the Bill 124 settlements. CMH is waiting for further information from MOH. An estimate of 80% of the incremental wage increase (\$5.4M) has been included.
- Public Hospitals Act – subsection 4.2 provision will continue that allows agreements with private clinics to provide endoscopies and cataract surgeries.
- PCOP revenue target for 2024-25 is \$15.8M representing an increase of \$4.8M from prior year budget. The growth includes the addition of the third Endoscopy room representing \$1.8M in PCOP revenue. CMH has also completed a detailed review of the OR grid and has realigned the surgical blocks to maximize the PCOP revenue. The new OR schedule will begin April 1, 2024. The forecasted increase in surgical PCOP is estimated at \$3M.
- In 2024-25, PCOP revenue recognition will be aligned to the MOH reconciliation process to capture the eligible weighted cases generated from the incremental surge beds, which are now base funded. Previously, CMH recorded the revenue after final MOH reconciliation. This realignment is expected to increase in-year PCOP revenue by approximately \$4M.
- A \$600K shortfall in urgent care QBP revenue is being budgeted as volumes for Chronic Obstructive Pulmonary Disease (COPD), pneumonia and hip fracture continue to be below funded levels.

Expenses

Higher inflationary pressures are expected to continue in 2024-25. The following inflationary pressures have been incorporated into the budget based on input from Mohawk Medbuy (CMH’s group purchasing organization) and other WW region hospitals:

Salaries and step increases	3%
Benefits	2%
Insurance	7%
Food	20%
Medical Surgical Supplies	10%

There is no planned change in the overtime budget despite the current year pressures. Overtime continues to be a significant pressure and is forecast to exceed budget by \$7.5M in fiscal 2023-24. Standby premiums paid at double time will no longer be paid in 2024-25. Staffing strategies, including a mentorship programs and partnership with Conestoga College for graduating students in the Surgical Services program, are being implemented to build health human resources capacity. Current staffing pressures and overtime are being addressed by a multi-disciplinary team lead by HR to improve the recruitment and retention process.

A \$4M contingency fund has been incorporated into the operating budget to offset in-year pressures and unforeseen expenses.

## Budget Enhancements

\$3.5M in enhancement requests were approved through the budget development process, including the following investments:

### Clinical Enhancements (\$2,359K)

- \$675K to support model of care change in Inpatient Surgery and increase in bed capacity from 27 to 35 when CRP is completed
- \$668K for Special Care Nursery additional RN 24/7 to support an 8 bed model of care
- \$524K for OR staffing to operate 7 rooms, 3 days per week to address PCOP requirements and surgical backlog
- \$249K for Laboratory contract renewal for referred out testing
- \$143K for MDRD technicians to need enhanced department needs
- \$100K for social work staff and replacement hours

### Corporate Enhancements (\$1,192K)

- \$400K for software licenses
- \$300K for EVS porter and DSW to cover increased space in B Tower
- \$122K for a Diversity, Inclusion and Equity lead, previously on contract
- \$112K for Project Management office staffing previous on contract
- \$110K for a Communications Specialist previously on contract
- \$98K investment in Purchasing staff to meet department needs
- \$50K for professional practice software licenses

## Major Risks

The following key risks have been identified for the fiscal 2024-25 budget:

1. Achieving weighted case and volume targets to earn PCOP and QBP Funding
  - a. CMH will not meet 2023-24 PCOP revenue targets with forecast revenue to be \$5M below target. This will put pressure on the 2024-25 PCOP forecast. The following strategies are underway to address this shortfall:
    - i. Redesign of OR grid including the addition of another orthopedic surgery day and enhanced booking procedures
    - ii. Physician education on OR blocks and funding implications
    - iii. Ongoing Alternate Level of Care (ALC) work on discharge planning in partnership with Home and Community Care Support Services
    - iv. Improve Emergency Department (ED) patient flow, Provider Initial Assessment (PIA) times and reduce the number of Left Without Being Seen (LWBS) patients
    - v. Clinical managers to monitor and manage volumes / data monthly
    - vi. Ongoing recruitment and retention strategies to reduce health human resources shortage and use of overtime.
2. Human health resources (HHR) shortage
  - a. CMH is gradually seeing a reduction in the number of vacant positions. The vacancy rate is 5.9% at January 31, 2024. Staffing shortages and absenteeism impact the patient care experience, create pressures to achieve volume-based funding targets and impact patient flow. Overtime continues to be a significant cost pressure. The 2024-25 operating budget assumes that all positions are filled. The following HHR strategies are underway:
    - i. Enhanced recruitment and retention strategies

- ii. Onboarding has shifted from monthly to weekly to support the new hires and bring on new staff in a timely manner
  - iii. Ongoing use of MOH staff training funds and programs
  - iv. Use of students and mentorship programs
  - v. Staff wellness supports
  - vi. Mental health benefit enhancements
3. Inflation pressures including price increases for medical supplies, utilities and food which are out of our control. Mitigation strategies include:
  - a. Use of Purchasing contracts to secure pricing
  - b. Maximizing product pricing through our shared service organization (Mohawk Medbuy Corporation)
  - c. Securing fixed pricing for utilities
  - d. Advocating with MOH to receive additional financial support to offset inflationary pressures.
4. CRP actual costs higher than forecast
  - a. Manage owner initiated change orders
  - b. Monitor ongoing costs; PCC costs funded at reconciliation.
5. Outstanding Funding Reconciliations
  - a. PCOP prior year reconciliations for 2021-22 and 2022-23 are currently outstanding; results are expected to be favourable (see Table 1 below)
  - b. Annual MOH funding is not reconciled until the following year
  - c. CRP final reconciliation timing and result unknown.
6. Aging Infrastructure
  - a. Wing C and D are aging and may incur unforeseen repair costs
    - i. CMH to apply for HIRF and Exceptional Circumstance funding if applicable
  - b. No current plan to renovate Wing C Floors 3 and 4. The space will be vacant and renovations will only occur if funded.
7. HIS project costs to be determined
  - a. We are still in negotiations with the preferred vendor for a single instance. This may impact both the capital and operating expenses and the amortization of the capital portion of the project. A shared instance will also be considered. Estimated start date is June 2024.
  - b. The interest expense will be determined on the amount we actually borrow and the interest rate we secure. We are basing the interest expense on a \$20M debt paid over 20 years with an interest rate of 4.761%. We are currently working with the Ontario Financing Authority to secure our financing for a more favourable interest rate over commercial banking.

### **Contingency**

In addition to the mitigation strategies noted above, a contingency amount of \$4M has been included in the 2024-25 budget to offset unforeseen financial pressures. CMH will continue to look for efficiencies and to grow the PCOP revenue.

### **Consultation**

The Leadership Team has been consulted throughout the budget development process. Regular updates and inputs were received from Senior Management and the Directors' Council.

The detailed budget has been entered into the hospital's electronic budgeting tool (Budman), and validated by the Finance Team and program/departmental budget owners. Finance has confirmed budgeted costs by expense line and the number of full-time equivalents.

Hospitals in Waterloo Wellington region shared their respective budget assumptions to validate internal budget assumptions. Funding assumptions are consistent.

### **Next Steps**

The hospital continues to advocate with the OH for base funding to offset the incremental wage increases from Bill 124. To date, OH has not provided guidance on this issue for 2024-25.

The budget will be updated once OH funding is confirmed early in fiscal 2024-25. Management will provide the Resources Committee with an update on the changes made to the budget in June.

### **Multi-Year Financial Plan**

The multi-year Financial Plan has been developed in support of the organization's Strategic Plan, Clinical Services Growth Plan and Digital Health Strategy. The 2024-25 budget has been incorporated into the plan. This five-year plan will enable a strategic long-term vision to sustain the financial health of CMH. A key strategic priority is to grow Ministry revenue by \$22 million by achieving approved program volumes and the corresponding budgeted revenue by 2028. Our goal is to allow CMH to continue providing exceptional care while modernizing our systems and completing the Capital Redevelopment Project (CRP). The development of the plan is a key organizational activity to be overseen by the Resources Committee.

This multi-year Financial Plan is a management tool based on assumptions that may change and is not a budget or a guarantee of actual results. The plan is guided by our five-year Strategic Plan and is aligned to our pillars of:

- Elevate partnerships in care
- Advance health equity
- Increase joy in work
- Reimagine community health
- Sustain financial health

The Clinical Services Growth Plan identifies the program growth and development for the next five years. Through extensive community consultation, discussions with our community partners and physicians, and consideration of the community demographics and population growth, the plan outlines the clinical direction that has been incorporated in the multi-year Financial Plan.

The multi-year Financial Plan incorporates system modernization including an investment of \$70M consisting of \$60M in HIS (Hospital Information Systems) and \$10M in the corporate solution. Approximately \$35M will be capital costs and \$35M in operating expenses. The capital costs will be incurred during the 18-month implementation phase. CMH is planning a down payment of \$15M and will debt finance the remaining \$20M over a 20-year amortization period. The operating costs of \$35M will be incurred over 8.5 years. The HIS project is estimated to begin in June 2024, with implementation completed by 2025-26. The corporate solutions will be staggered over the next couple of years starting in 2024-25 with workforce management.

The multi-year Financial Plan is developed in conjunction with the multi-year Capital Plan to identify capital investments needed for medical equipment, IT and facilities infrastructure while sustaining financial health. As highlighted in the capital budget update, CMH has extensive capital needs that require funding including CRP pressures and investments for clinical and corporate information systems.

The detailed multi-year Financial Plan shows a balanced position in each year of the plan (Appendix B line 23). Actual year end results for 2022-23 were used as our base year. Forecasted 2023-34 results and the budget for 2024-25 have been included. This plan is based on achieving the QBP and PCOP targets, controlling overtime by having a full staff complement and operating within the fiscal budgets. The plan incorporates the completion of CRP and the \$70M cost for HIS and corporate solution. Each fiscal year includes a contingency amount of \$4M. Appendix B, line 22 shows the reduction in the contingency required to balance the budget after adding the HIS costs.

As noted above, there are currently two years of outstanding MOH PCOP reconciliations. CMH estimates a total favourable revenue adjustment of \$13.4M when the reconciliations are finalized. This has not been factored into the multi-year Financial Plan due to the uncertainty of the MOH reconciliation process and unknown timing.

**Table 1 – Outstanding MOH PCOP reconciliations (\$M)**

Year	Available PCOP	MOH estimated settlement	PCOP Earned	PCOP additional revenue
2021-22	13.9	(4.8)	9.1	7.4
2022-23	16.6	(7.1)	9.5	6.0

CMH has a strong cash position. In the previous 6+ years, fiscal surpluses have been achieved, resulting in a favourable working capital position. The plan is to use \$15M of available cash as a down payment for the HIS in 2024-25. The closing cash balance (Appendix B line 34) remains positive throughout the five-year plan.

The multi-year Financial Plan includes the achievement of the strategic revenue growth goal of \$22M by 2028-29.

**Next Steps**

- Continue to advocate with Ontario Health (OH) to provide sustainable base hospital funding
- Monitor PCOP and QBP volumes and targets monthly and take corrective action
- Update the multi-year Financial Plan when the PCOP reconciliations are finalized
- Track completion date for CRP and final financial reconciliation
- Complete HIS vendor negotiations and update multi-year Financial Plan as required
- Continue ongoing staff and physician recruitment and retention
- Update MOH funding for Bill 124 incremental wage impact when finalized.
- Seek new funding opportunities