BRIEFING NOTE

Date: February 23, 2022
Issue: 2022-23 Operating Budget
Prepared for: Resources Committee
Purpose: ☒ Approval ☐ Discussion ☐ Information ☐ Seeking Direction
Prepared by: Trevor Clark, VP Finance and Corporate Services and CFO
Approved by: Patrick Gaskin, President and CEO

Attachments/Related Documents: Appendix A – 2022-23 Operating Budget

Alignment with CMH Priorities

2021-22 Strategic Plan No ☐	2021-22 Integrated Risk Management Priorities No ☐	2021-22 Priorities No ☐
☒ Prove Patients Matter Most	☒ Staff and Physician Wellbeing	☒ Accelerating Access to Care
☒ Increase Joy in Work	☒ Length of Stay	☒ Keeping Staff and Physicians Safe and Engaged
☒ Lead Boldly	☒ CRP Phase 3	☒ Executing CRP Phase 3
	☒ Multi-year Fiscal & Capital Strategy	☒ Completing our HIS Evaluation

Recommendation/Motion

Following review and discussion of the information provided, the Resources Committee of the Board recommends to the Board the approval of a balanced operating budget for the 2022-23 fiscal year with a total revenue and expense of $170.2M.

Executive Summary

A balanced budget for Cambridge Memorial Hospital (CMH) has been developed for fiscal 2022-23 with a total revenue and expense of $170.2M as summarized in Appendix A. The budget is based on the key assumption that the pandemic will have no net financial impact on hospital operations. Pandemic related costs including the Assessment Centre, patient/visitor screening function and physician remuneration that the MOH has confirmed will be funded in fiscal 2022-23 have been incorporated into the budget. As in fiscal 2020-21 and fiscal 2021-22, it is assumed that the MOH will reimburse the hospital for 100% of other pandemic related costs incurred. The budget assumes that the MOH will provide CMH with funding to operate two new critical care beds ($1.6M), increasing Intensive Care Unit (ICU) capacity from 12 to 14 beds. The budget has not incorporated any funding to operate incremental acute care beds. CMH has received incremental funding in fiscal 2021-22 to operate up to 34 acute care beds. In December, the MOH confirmed that this funding will continue in fiscal 2022-23, but due to phase 3 of the Capital Redevelopment Project (CRP) and closure of B Wing, it is not clear how much acute care bed funding CMH will be eligible to receive.

$12.4M of Post Construction Operating Plan (PCOP) funding has been budgeted in fiscal 2022-23, $170K more than in fiscal 2021-22. Fiscal 2022-23 is year four of the six year PCOP funding period. The maximum funding that CMH can earn in fiscal 2022-23 is $16.2M. The budgeted amount is based on surgical growth plans and weighted case targets for the Medicine program and patient day targets for the Mental Health program. There is an opportunity to generate additional PCOP funding if growth plans exceed budgeted targets.

The pandemic has significantly impacted hospital growth plans over the past two fiscal years. The hospital is not forecasting to earn any PCOP funding in fiscal 2021-22. During pandemic wave peak periods, the hospital is required to follow MOH directives, stopping elective and non-urgent activities and then limiting activities during recovery periods. For the past two years the loss of PCOP funding has been offset by incremental acute care and critical care bed funding. The hospital will not be able to rely on this funding to balance its budget in fiscal 2022-23, increasing the importance of earning PCOP funding.

Work will continue in fiscal 2022-23 on the following three budget strategies agreed upon in fiscal 2021-22, to reduce expenses and increase revenue:

1. Reduction in the number of conservable bed days to support patient flow and generation of weighted cases for the Medicine Program;
2. Improvement in physician documentation and coding to increase the number of weighted cases;
3. Optimization of the clinical staffing model through the recruitment and retention of health human resources to support growth plans and reduce the amount of overtime incurred.

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 and capital budgets are in alignment with the Board's established priorities, and minimize the financial risk to the organization. The operating and capital budgets are approved by the Board no later than February before the start of the fiscal year.

CMH is usually required to submit a Hospital Accountability Planning Submission (HAPS) to OH on an annual basis. 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 MOH has advised that, due to the health system's ongoing focus on the pandemic response, hospitals will not be required to submit a HAPS and that the H-SAA will be extend for another year in fiscal 2022-23.

Analysis

The fiscal 2022-23 budget development process was initiated in September. A $4.8M pressure was initially identified driven by:

- The impact that the pandemic has had on the hospital's ability to grow clinical volumes to earn PCOP funding;
- The loss of urgent Quality Based Procedure (QBP) funding due to forecast volume decreases for three key medical QBPs (COPD – Chronic Obstructive Pulmonary Disease, pneumonia and hip fractures);
- The closure of B Wing in fiscal 2022-23 for renovations as part of the CRP. The hospital will operate 16 (see table 1 Line 8 total beds (168 beds -152 beds)) fewer beds once B Wing

closes in June 2022. Compared to the pre-pandemic bed summary in table 1, there are 2 fewer medical surgical beds (see table 1 line 4 total pre-pandemic beds minus total July 2022 (104 beds – 106 beds). The remaining 14 regional rehabilitation beds and associated funding have been transferred to Grand River Hospital's (GRH) Freeport site for a twenty-seven month period;
- Incremental costs due to the change in practice resulting from the pandemic including the patient/visitor screening function and higher infection prevention and control standards;
- Higher than normal inflationary pressures due to worldwide supply chain issues.

$3.6M in key enhancements, summarized below, were identified through the budget development process increasing the total pressure to $8.4M.

Clinical Enhancements ($2.2M)

- $694K for Medicine program staffing model enhancements, reducing the patient-to-staff ratio from five to one to four to one, in alignment with hospitals in the region;
- $547K for increased staffing in the Mental Health program due to growing census volumes. The average census in Mental Health has been over 22 patients per day in fiscal 2021-22 compared to 18 in fiscal 2020-21;
- $313K to operate two additional critical care beds, increasing the number of beds in the ICU from 12 to 14;
- $257K investment in Professional Practice through the addition of a Director, Professional Practice position and change in part-time Professional Practice Lead role to a full-time Manager, Professional Practice. The Director, Professional Practice role will be part of a core team established to lead the implementation of a new Electronic Medical Record, replacing the hospital's current Meditech Magic 5.67 application. The Manager, Professional Practice role will be accountable for the development of a more robust electronic Learning Management System;
- $161K investment in staffing in the Diagnostic Imaging department to meet increasing demand in services;
- $250K increase in clinical equipment amortization.

Support Services Enhancements ($1.4M)

- $798K for patient/visitor screening function to meet IPAC standards and maintain control of identifying COVID exposure risks;
- $249K for the creation of a Project Management office. 2 FTEs have been hired to build organizational capacity to plan and support achievement deliverables for major organizational projects;
- $100K to improve organizational position on cyber security and to meet criteria to secure additional cyber security insurance coverage;
- $250K increase in support services equipment amortization.

The following strategies have been developed to close the budget gap.

Clinical Growth Plan- Perioperative Services ($2.7M)

- Maximizing the Perioperative Services program operating room blocks and achieving targets established in the pre-pandemic growth plan, increasing revenue by $2.2M over fiscal 2021-22 forecast;

- Utilizing weekend Perioperative Services program on call staff to do a limited number of elective procedures on the weekend, increasing revenue by $500K. Providing this service, will not impact the provision of emergency care on the weekend.

Clinical Growth Plan- Medicine Program ($1.6M)

- Increasing the number of weighted cases over what would have been earned in fiscal 2021-22 if the hospital had not received COVID incremental acute care bed funding is expected to generate $1.6M in PCOP funding. Three strategies to increase the number of weighted cases have been committed to:
    1. Increase patient flow. More frequent and timely discharges will support patient follow from the Emergency Department (ED), allowing more patients to be treated and increasing the number of weighted cases generated. Based on most recent data, there are on average between 30-40 patients whose length of stay exceeds the average length of stay on a daily basis.
    2. Alternate Level of Care (ALC) reduction strategies – throughout fiscal 2021-22 there have been on average in excess of 25 patients who are designated ALC. These patients no longer require acute care and should be discharged to a more appropriate healthcare setting, but due to systemic shortages in the community, can't be discharged safely from the hospital. ALC patients normally have long lengths of stay, have lower complexity and require less care. Due to these factors, ALC patients generate a lower number of average weighted cases per day on discharge. ALC pressures stop the hospital from serving patients with more acute needs that would generate higher average daily weighted cases and threaten surgical growth plans, putting PCOP volume targets for the Perioperative Services and Medicine programs at risk;
    3. Utilization of 3M's Computer Assisted Coding tool, being implemented in fiscal 2021-22, for a full fiscal year will maximize the number of weighted cases for patient served in fiscal 2022-23. For each additional weighted case over the PCOP funding workbook baseline volume, CMH earns $4,517.

New MOH Funding ($2.4M)

- The MOH has committed to continue to fund two incremental critical care beds to in 2022-23, providing CMH with $1.6M in one-time funding to operate the beds. CMH will continue to advocate that this one-time funding be converted to base funding;
- MOH has confirmed that costs associated with the screening function will continue to be a reimbursable COVID incremental expense in fiscal 2022-23. $798K in incremental expenses associated with this function will be offset by this funding.

Operating Savings ($1.7M)

- $1.4M of savings have been identified through the reduction in Personal Protective Equipment (PPE) costs due to increase vendor inventories eliminating premiums paid for products in fiscal 2021-22 ($500K), IT software savings ($385K), savings from the reduction of surgical beds ($225K), and elimination of the nursing float pool ($167K).
- Two FTEs at a total compensation cost of $300K will be capitalized in fiscal 2022-23 to support the implementation of a new EMR and Enterprise Resource Planning (ERP) system – Director, Professional Practice (1.0 FTE), a Project Manager (0.5 FTE) and a Director of Digital Health (0.5 FTE).

Through the implementation of these strategies a balanced budget is forecast in fiscal 2022-23. Contingency funds have been incorporated into the operating budget to budget strategy risks associated with clinical growth plans. Sources for the contingency include PCOP amortization revenue if the $12.3M in PCOP funding is earned ($991K) and savings from the Co-generation Plant ($900K).

If the hospital achieves volume targets, a surplus will be generated in fiscal 2022-23. This is very common for hospitals going through the PCOP funding period and should be CMH's goal. Many hospitals have used surpluses generated through this period in their lifecycle to fund new health information systems.

Key Budget Assumptions

The budget is based on the following key assumptions.

Beds

B Wing will close for renovations by no later than June 30, 2022. The hospital was able to negotiate a delay in the closing of B Wing without financial penalty to support recovery plans after the Omicron wave of the pandemic. Once B Wing closes, CMH will operate 104 beds, 48 fewer than at the beginning of fiscal 2021-22, as summarized in the table below. This includes the 14 rehabilitation beds temporarily transferred to GRH for 27 months on February 23. CMH will be operating 2 (see table 1 line 4, (106 beds -104 beds) fewer medical surgical beds in July 2022 than in January 2020 after the opening of A Wing. The hospital has budgeted to receive funding for the two incremental ICU beds in fiscal 2022-23.

The MOH has committed to continue to provide funding for incremental acute care beds. CMH may be eligible to receive funding for up to 15 acute care beds ($7.1M) to maintain system capacity to support future COVID wave response and recovery phases. Upon approval of this funding, 23 additional beds will be opened on C Wing from April 1 until June 30. Once B Wing closes on June 30, 23 medical beds will be closed on C Wing and 15 medical beds and 4 surgical beds will open on A Wing. The above bed changes are conditional on receiving funding for the 15 acute care beds. Neither the revenue nor expenses for these beds have been reflected in the budget. It is expected that the incremental revenue and expenses will offset each other.

Table 1: Bed Summary

Line #	Program	A	B	C	D
		January 2020 Pre-Pandemic	**April 2021 Pandemic Wave 3**	**April 2022 Wave 4 Recovery**	**July 2022 B Wing Closure**
1	Medicine	70	106	77	67
2	Surgery	24	24	24	23
3	ICU	12	22	14	14
4	**Sub-total**	**106**	**152**	**115**	**104**
5	Women and Children	23	23	23	23
6	Rehabilitation	14	14	0	0
7	Mental Health	25	25	25	25
8	**Total**	**168**	**214**	**163**	**152**

MOH Funding

- $12.3M in PCOP funding has been budgeted in fiscal 2022-23, 57% of the total funding envelope. Fiscal 2022-23 is the fourth year of the six year PCOP funding period. CMH is eligible to receive up to $16.2M in funding (75% of total PCOP funding envelope). If CMH achieves higher weighted case volumes for the Medicine and Perioperative Services programs and/or patient day volumes for Mental Health program than budgeted, additional PCOP funding can be earned in fiscal 2022-23. $1.2M in QBP funding for hip and knee replacements has been reallocated to PCOP funding to align with anticipated QBP volume.
- $6M in one-time funding has been budgeted for COVID – $2M for temporary physician funding, $798K for screening function and $3.2M to operate the Assessment Centre. Physician and screening funding were not budgeted in fiscal 2021-22 and are 100% offset by incremental expenses. The Assessment Centre was budgeted in fiscal 2021-22 and no change has been budgeted in fiscal 2022-23. It has been assumed that the MOH will provide differential funding if the volumes are not achieved to breakeven.
- A 1% increase in base funding has been budgeted, consistent with OH direction. The MOH has confirmed that it will continue to allocate new funding through the Growth and Efficiency Model (GEM) in fiscal 2022-23. Statistical data from fiscal 2019-20 will be used to calculate funding allocations due to the variability of data caused by the pandemic in fiscal 2020-21 and fiscal 2021-22. CMH received a 2% funding increase in fiscal 2021-22 using fiscal 2019-20 data. No additional GEM funding has been budgeted in fiscal 2022-23.
- A $1.8M shortfall in urgent care QBP revenue has been budgeted, $0.9M more than in fiscal 2021-22. Volumes for Chronic Obstructive Pulmonary Disease (COPD), pneumonia and hip fracture continue to be well below approved funded levels. If volumes for these three urgent care QBPs are higher than budgeted, CMH can recognize this funding that it is eligible to receive.

Other Revenue

- The Hallman Foundation made a $1M donation to CMH in 2021, to be used for staff wellness and well-being. Several FTEs have been hired to support CMH's Wellness and Well-being program including a Wellness and Well-being Specialist, Communications Specialist and part-time Ergonomist. $332K of this funding has been budgeted to be utilized in fiscal 2022-23.
- CMH does work for WSIB in the emergency department, diagnostic imaging and some inpatient areas. WSIB volumes are currently higher than budget and expected to continue to increase in fiscal 2022-23. A $100K increase has been budgeted.
- Revenue generated from private and semi-private rooms has been declining for a number of years. The opening of A Wing, where most rooms are private, has led to a significant decline in differential which is not expected to increase. A $500K reduction in other revenue has been budgeted.
- There has been a significant reduction in parking revenue due to visitor restrictions and a reduction in elective procedures due to the pandemic. It is expected that some of this lost revenue will be recovered in a post-pandemic environment, but not the full amount. A $350K reduction has been budgeted.

Expenditures

- In the 2021-22 budget, $2.5M was added to operate incremental medical beds for nine months. Those beds were closed resulting in savings of $2.5M in the fiscal 2022-23 budget.
- The reduction of beds due to CRP will result in $3.5M in savings through the closure of the 26 bed Rehabilitation/Transitional Care Unit on B Wing with an offsetting cost of $3M to

GRH to operate the 14 Rehabilitation beds. CMH will send GRH the funding to operate these beds until the service is resumed after B Wing reopens.

- No change has been budgeted in overtime despite current year pressures. Overtime is forecast to exceed budget by $2M in fiscal 2021-22. Overtime pressures are expected to decrease with the closure of B Wing in June and associated bed reduction. Staffing strategies are also being initiated which include a mentorship program in ICU, partnership with Conestoga College for graduating students in the Perioperative Services program, increased recruitment efforts in ED. Negative variances in overtime should be offset by favourable variances in regular worked salaries in program/department budgets.
- Worldwide supply chain issues are having a material impact on the cost of food, supplies and drugs required to support hospital operations. The following inflationary pressures have been incorporated into the budget based on conversations with Mohawk Medbuy, CMH's group purchasing organization and other WW region hospitals:

• Salaries and Wages	• 1.4%
• Group Benefits	• 2.7%
• Medical and Surgical Supplies	• 5%
• Drugs	• 5%
• Food	• 8%
• Insurance	• 9%

Major Risks

The following key risks have been identified for the fiscal 2022-23 budget:

Health Human Resources (HHR) Shortage

CMH was experiencing HHR shortages before the pandemic which have been amplified over the past two-year period. There are currently over 170 vacancies throughout the hospital. As a result of the vacancies, the Perioperative Services program has not had enough staff to fully utilize operating room blocks, and the hospital has had to go on redirect for after-hours service. The ED is also experiencing staffing shortages which is impacting access and patient flow. ED is the primary source of referrals for inpatient admissions to the Medicine program. When beds are blocked in ED, it creates significant pressure on the clinical team. Staffing shortages going into fiscal 2022-23 will put PCOP and QBP volume targets at risk.

The staffing shortage is also putting a greater demand on existing resources who are being asked to work overtime. There has been ongoing pressure to work extra hours over the pandemic period, impacting staff well-being and increasing the risk of turnover. Strategies to recruit and retain staff must be an ongoing area of focus in fiscal 2022-23.

Achieving Weighted Cases Targets to Earn PCOP Funding

The pandemic has created challenges meeting the weighted targets required to recognize PCOP funding. Medicine bed capacity has been used to support COVID response and inpatient volumes have dropped during each wave of the pandemic. The MOH has provided the hospital with funding to operate additional Medicine and ICU beds over the past two fiscal years. Patient volumes attributed to these beds do not qualify for PCOP funding since they are funded using an alternative funding source.

The hospital will be operating fewer Medicine beds once B Wing closes in June 2022. In order to achieve weighted case targets the organization must realize discharge targets to improve patient flow, allowing the hospital to serve more people and earn the weighted cases required to recognize PCOP funding.

Through the various waves of the pandemic, the Perioperative Services program has been required to shut down or slow down, resulting in the cancellation of elective procedures. The PCOP growth plan is contingent on growth in Perioperative Services. A growth plan was developed before the pandemic but has not been implemented.

If the MOH approves funding for incremental acute care beds in fiscal 2022-23 to maintain system capacity, it will reduce the amount of PCOP funding that the hospital will be required to earn.

Impact of Future Pandemic Waves

Each wave of the pandemic has had a significant impact on core hospital operations. Elective and non-urgent procedures are put on hold and then slowly reintroduced during the recovery period. Any future wave will put volume base funding at risk.

For the past two years, the hospital has been able to utilize COVID funding to offset lost PCOP and QBP revenue. Negotiations are occurring with Ontario Health to receive additional funding for up to 15 incremental acute beds in fiscal 2022-23. In fiscal 2021-22 the hospital was funded for up to 34 acute beds.

Consultation

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

The detailed budget has been built in Budman, CMH's budget software program, and validated by the Finance Team with 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 with communication from the MOH, OH and Ontario Hospital Association.

Next Steps

The Leadership Team is starting to develop budget reduction strategies that will be implemented in the first quarter of fiscal 2022-23, if MOH funding is less than expected or PCOP/QBP volumes targets are not being met.

A multi-disciplinary Clinical Operations Excellence Committee, including physician leaders, has been formed to improve patient flow through the reduction of conservable beds and improvement of coding accuracy. Reporting mechanisms will be put in place to ensure key stakeholders understand if volume targets are being met.

The budget will be updated once MOH funding is confirmed. The Resources Committee will be provided with a budget update at the June 27 meeting.

A multi-year Financial Plan will be developed in fiscal 2022-23 in support of the organization's new Strategic Plan and Digital Health Strategy. As summarized in the multi-year Capital Plan, CMH has extensive capital needs that require funding. The multi-year Financial Plan will identify the financial results that need to be achieved in order to maintain financial health through this period of modernization with a goal to fully fund a HIS and prepare the organization for the post PCOP funding period.