



BRIEFING NOTE

Date: February 19, 2025
Issue: 2025-26 Operating Budget and 2025-30 Multi-Year Financial Plan
Prepared for: Board of Directors
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 – 2025-26 Operating Budget
Appendix B – 2025-30 Multi-Year Financial Plan

Alignment with CMH Priorities

2022-2027 Strategic Plan No <input type="checkbox"/>	2024/25 CMH Priorities No <input type="checkbox"/>	2024/25 Integrated Risk Management Priorities No <input type="checkbox"/>
<input type="checkbox"/> Elevate Partnerships in Care	<input type="checkbox"/> Improve Patient Flow (PIA, Time to Bed, ALC)	<input type="checkbox"/> Access to Care
<input type="checkbox"/> Advance Health Equity	<input type="checkbox"/> Embrace Diversity, Build a Culture of Inclusion	<input type="checkbox"/> Business Continuity
<input type="checkbox"/> Increase Joy In Work	<input type="checkbox"/> Increase Staff Engagement Through Improved Staffing	<input type="checkbox"/> Workforce Planning
<input checked="" type="checkbox"/> Reimagine Community Health	<input checked="" type="checkbox"/> Prepare for Digital Health Transformation	<input type="checkbox"/> Change Management
<input checked="" type="checkbox"/> Sustain Financial Health	<input checked="" type="checkbox"/> Earn the Maximum Eligible PCOP Funding	<input checked="" type="checkbox"/> Revenue & Funding

Recommendation/Motion

Board

That, the Board approves the balanced operating budget for the 2025-26 fiscal year with total revenue and expenses of \$238.2M upon the recommendation of the Resources Committee at the meeting of February 24, 2025.
 None opposed. **CARRIED.**

Resources Committee

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 2025-26 fiscal year with total revenue and expenses of \$238.2M. **CARRIED.**

Executive Summary

A balanced budget for Cambridge Memorial Hospital (CMH) has been developed for fiscal 2025-26 with total revenue and expenses of \$238.2M, as summarized in Appendix A. This does not include the one-time pickup of prior year PCOP funding (\$8.4M) which is expected to be reconciled by the Ministry of Health (MOH) during fiscal 2025-26.

The budget assumes a \$4.5M increase in Post Construction Operating Plan (PCOP) funding, and a 3% increase in Ministry of Health (MOH) base funding to support inflationary and growth pressures. The budget also incorporates \$3.9M of additional Bill 124 funding announced in

December, which increases total funding received for Bill 124 to \$9.3M, which fully offsets incremental costs incurred by CMH related to this legislation. Budgeted expenses include a 3% salaries and wages increase, \$4.1M to support Project Quantum implementation costs, \$3.2M in budget enhancements, and \$4.9M in contingency for unanticipated operational pressures.

\$20.3M in PCOP funding has been budgeted in fiscal 2025-26. The maximum PCOP funding that CMH can earn is \$22M. The MOH approved an extension to the six-year PCOP ramp up period due to delays in Capital Redevelopment Project (CRP) and the impact that the pandemic had on hospital operations. The budget accounts for the addition of a third endoscopy room, six additional acute care beds, and the realignment of the surgical plan to maximize weighted cases.

The 2025-30 Multi-Year Financial Plan summarized in Appendix B shows the hospital in a \$8.4M surplus position for fiscal 2025-26 due to the expected one-time pickup of prior year PCOP funding followed by a controlled deficit of \$6M in fiscal 2026-27 due to the expensing of \$13.3M in project costs related to the implementation of the new Health Information System (HIS) and Enterprise Resource Planning (ERP) system. Future year budget pressures are anticipated due to the impact that growth and inflation will have on budgeted costs that are expected to outpace annual revenue increases. A \$2.8M pressure is forecast for fiscal 2027-28 which grows to \$6.1M in fiscal 2029-30. It is common practice to start the annual budget planning cycle with a forecast deficit that is closed through the budget development process.

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 March before the start of the fiscal year.

CMH is usually required to submit a Hospital Accountability Planning Submission (HAPS) to OH. The HAPS is a detailed operating plan, including financial and statistical budgets and performance indicators that informs the Hospital Service Accountability Agreement (HSAA). The budget is a key component of the HAPS. In 2025-26, OH will be extending the current HSAA until March 31, 2026, and will not require a HAPS submission.

Analysis

The fiscal 2025-26 Operating Budget development process was initiated in September 2024. 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:

CMH Bed Capacity

CMH opened the renovated Wing B in January 2025 which will operate 59 medicine beds, 35 surgical beds and 14 rehabilitation beds. The Rehabilitation Program is scheduled to return from Grand River Hospital in October 2025. The bed plan does not include any beds on Wing C,

which became vacant once programs relocated to Wing B. This space is available to support surge periods / future incremental beds should the MOH increase provincial bed capacity.

The following table summarizes the number of available beds planned in 2025-26.

Program	Current 2024-25	Planned 2025-26
Intensive Care Unit (ICU)	20	20
Medicine	83	83
Surgery	28	35
Women & Children's	25	25
Rehabilitation *	0	14
Mental Health	25	25
Total	181	202

* The Rehabilitation Program is budgeted to return from Grand River Hospital on October 1, 2025

MOH Funding

- The PCOP revenue budget for 2025-26 is \$20.3M, a \$4.5M increase over fiscal 2024-25. The budgeted increase is due to higher weighted cases in Medicine (\$3M), increased weighted cases in Inpatient Surgery and the Emergency Department (\$1.2M), higher endoscopy volumes due to the addition of the third endoscopy room (\$0.5M). These increases are partially offset by a decrease in Inpatient Mental Health volumes. CMH has also completed a detailed review of the Operating Room grid and has aligned surgical blocks to maximize PCOP revenue.
- A 3% increase in MOH funding is forecast for the 2025-26 fiscal year. No significant changes are expected in the funding model. OH has not provided any guidance on funding assumptions for fiscal 2025-26 to date.
- The MOH confirmed in fiscal 2024-25 that funding relating to the incremental wage impact associated with the Bill 124 settlements will become part of base revenue. CMH has received 100% of the funding requested to offset the incremental wage impacts (\$9.3M).
- The MOH confirmed that subsection 4.2 provision in the *Public Hospitals Act* will continue in fiscal 2025-26 that allows hospitals to enter into agreements with private clinics to provide specified services including endoscopies and cataract surgeries.
- \$3.3M in one-time Incremental Surgical Recovery (ISR) revenue has been budgeted. Hospitals receive this funding for providing additional surgical volumes. The MOH has provided no indication that this funding will not continue in fiscal 2025-26.
- Pay 4 Results (P4R) is funding to support initiatives to reduce the length of stay and improve patient experience in the Emergency Department (ED). The funding model is made up of a fixed component and variable component. The variable component is tied to achieving targets set out in the P4R funding agreement. CMH is budgeting to receive \$739K in funding in the 2025-26 fiscal year, \$105K less than in fiscal 2024-25. The hospital is budgeting to receive \$401K in fixed funding and \$338K in variable funding.

Expenses

Higher inflationary pressures are expected to continue in 2025-26. The following inflationary pressures have been incorporated into the budget based on input from Mohawk Medbuy (MMC), CMH's group purchasing organization and other WW region hospitals:

Salaries and step increases	3%
Benefits	3%
Medical and surgical supplies	3%
Drugs	0%
Food	14%
Utilities *	30%
Insurance	5%

* Utilities increase driven by Wing B becoming operational

Overtime continues to be a significant financial pressure point and is forecast to exceed budget by \$4.9M in fiscal 2024-25. In 2025-26, more realistic overtime budgets have been established with a \$2M budget increase. The Overtime Task Force, an internal working group, continues to meet regularly to monitor overtime and implement strategies to reduce overtime. Staffing strategies, including a mentorship program in the ICU, clinical scholar and preceptor programs, and partnership with Conestoga College for graduating students in the Surgical Services Program are in place to help build health human resources capacity.

Project Quantum

\$4.1M of project implementation costs have been included in the operating budget. This includes \$2.9M for the HIS implementation expected to start in October 2025, \$700K for supply chain modernization and \$500K for implementation of the workforce planning (WFP) system. Total budgeted operating costs during the project period for the HIS implementation are \$9.7M. The WFP project is in progress with an expected go-live date in the first quarter of fiscal 2025-26. All costs for this project will be incurred by the end of fiscal 2025-26.

Budget Enhancements

\$3.2M in enhancement requests were approved through the budget development process, including the following investments:

Clinical Enhancements (\$2.9M)

- \$727K to increase Allied Health staff to improve patient flow
- \$708K to increase registered staff in the Labour & Delivery unit to improve patient safety
- \$493K to support a model of care change in the ED
- \$317K to expand Lab support and the scope of Medical Lab Associates (MLA) in the ED
- \$175K to support a model of care change in the Surgical Clinics
- \$164K in creating a PSW float pool which will support 1 to 1 care organizationally
- \$164K to support a model of care change in the PACU
- \$132K to fund the Infection Prevention and Control (IPAC) position permanently which was previously funded through CRP
- \$32K in Diagnostic Imaging (DI) to increase in X-ray volumes

Corporate Enhancements (\$274K)

- \$126K to permanently fund the Facility Planning Coordinator role that was previously funded through CRP
- \$60K to partially fund the new Manager, Staffing and Patient Flow position
- \$53K to support an additional material handler and a research student role
- \$35K to align the budget to job evaluations ratings for the Data Scientist & Pharmacy Operations Coordinator positions

Contingency

\$4.9M in contingency funds have been incorporated into the operating budget to offset in-year pressures, and as a placeholder for HIS operating expenses to be incurred during the project period and future year ongoing operating costs.

Major Risks

The following key risks have been identified for the fiscal 2025-26 budget:

1. Achieving weighted case and volume targets to earn PCOP and QBP funding. Fiscal 2024-25 is the first year that CMH has surpassed budgeted PCOP. To ensure that the hospital continues to achieve PCOP and QBP targets the following strategies are in place and being worked on:
 - Redesign of OR grid including adding another day for orthopedic surgery and enhanced booking procedures.
 - Physician education on OR blocks and funding implications.
 - Ongoing Alternate Level of Care (ALC) work on discharge planning in partnership with Ontario Health at Home.
 - Improving ED patient flow, Provider Initial Assessment (PIA) times and reduce the number of Left Without Being Seen (LWBS) patients.
 - Clinical managers monitoring and managing volumes/data monthly.
 - Ongoing recruitment and retention strategies to reduce the number of vacant positions that drive PCOP volume targets.
 - Ongoing recruitment of physicians.
2. Human Health Resources (HHR) shortage. CMH is gradually seeing a reduction in the number of vacant positions. The vacancy rate was 4.4% on January 31, 2025. Staffing shortages and absenteeism impact the patient care experience, impact patient flow, put pressure on achieving volume-based funding targets, and create financial pressures through the use of overtime. The 2025-26 Operating Budget assumes that all positions are filled. The following HHR strategies have been put in place to increase vacancy rates:
 - Enhanced recruitment and retention strategies.
 - Onboarding is done on a bi-weekly basis to support the new hires and bring on new staff in a timely manner.
 - Ongoing use of MOH staff training funds and programs.
 - Use of students and mentorship programs.
 - Staff wellness supports.
 - Mental health benefit enhancements.
 - Review of absence management program.
3. Inflationary pressures for medical supplies, food and utilities have been high and if a trade war between the United States and Canada driven by tariffs becomes a reality, prices will increase further. Mitigation strategies include:
 - Maximizing product pricing through MMC.
 - Seeking alternate products for goods that are experiencing high inflationary pressures.
 - Securing fixed pricing for utilities.

- Advocating with MOH to receive additional financial support to offset inflationary pressures.
4. CRP recently came to a close. The final reconciliation of all project costs needs to be negotiated with the MOH and post project completion deficiencies managed. Mitigation strategies include:
 - Reconciling all owner-initiated change orders.
 - Monitoring ongoing costs related to CRP.
 - Tracking the costs of ongoing deficiencies.
 - Preparing working papers for the final CRP reconciliation with the MOH.
 5. Potential loss of funding when the MOH reconciles volume-based funding in future years.
 - PCOP prior year reconciliations for 2023-24 and 2024-25 are currently outstanding. Based on recent conversations earlier in the year, the hospital is expecting one-time funding pickups when fiscal 2023-24 (\$8.4M) and fiscal 2024-25 (\$1.4M) reconciliations are finalized.
 - Annual MOH funding is not reconciled until the following year
 6. The potential loss of \$3.3M in one-time Incremental Surgical Recovery funding. The MOH has been providing hospitals with this funding for the past two years and has given no indication that this funding will end in fiscal 2025-26. If this funding is not continued, the hospital will need to draw down contingency or allocate a portion of the prior year PCOP funding that is expected in fiscal 2025-26 to offset this loss.
 7. Aging Infrastructure
 - Wings C and D are very old parts of the building, causing unforeseen repair costs each fiscal year. To mitigate this risk:
 - ✓ CMH will apply for Exceptional Circumstances Project (ECP) funding through the Health Infrastructure Renewal Fund (HIRF) each fiscal year for eligible building infrastructure repairs.
 - ✓ The multi-year capital plan is becoming more robust and leadership has identified high cost building improvements required over the upcoming five-year planning period.
 8. Project Quantum cost overruns
 - Negotiations with Oracle Health and Grand River Hospital to join a shared instance of their HIS continue. Management is working to stay within the \$70.5M ten-year total cost of ownership to join the shared instance as approved by the Board in December.
 - The project implementation period is budgeted to be a year. If the project period extends beyond twelve months it could lead to significant cost overruns.
 - Bank interest expense will be determined based on the amount of funds borrowed and interest rates at the time the loan is secured. Conservative projections have been incorporated into the project's budget.

Consultation

The Leadership Team has been consulted throughout the budget development process. Regular updates and inputs were received from the Senior Leadership Committee and 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 with each program/department leaders.

Next Steps

The budget will be updated once OH funding is confirmed early in fiscal 2025-26. Management will provide the Resources Committee with an update on the changes made to the budget in June 2025.

2025-30 Multi-Year Financial Plan

The multi-year financial plan is developed in support of the organization's strategic plan, clinical services growth plan and other supporting plans. The multi-year financial plan is a planning tool based on assumptions that will change. It is not a budget but provides an important line of sight on future year financial pressures.

The multi-year financial plan is a rolling five-year plan and has been updated for the 2025-30 period. The plan will enable the strategic long-term vision to sustain the financial health of the hospital. The organization is in position to achieve the five-year success goal identified in support of the 2022-27 Strategic Plan to complete CRP, improve hospital building infrastructure, replace end-of-life equipment and upgrade core clinical and ERP systems while maintaining financial sustainability.

A key strategic priority in the 2022-27 Multi-Year Financial Plan was to grow PCOP revenue to \$22 million by achieving specified volume targets. PCOP volume targets are expected to be achieved and funding fully earned by fiscal 2028-29. In December 2024, the MOH advised the hospital of a change in the PCOP funding methodology. The base year volumes on which incremental funding is calculated was changed from 2016-17 to 2022-23 to account for the impact that the pandemic has had on hospital volumes. This change in approach will help CMH earn its PCOP funding earlier and will benefit as prior year volumes are reconciled. CMH estimates favourable revenue adjustments for both fiscal 2023-24 (\$8.4M) and 2024-25 (\$1.4M) when reconciliations are finalized.

The 2025-30 Multi-Year Financial Plan incorporates Project Quantum system modernization costs including a new HIS, with a ten-year total cost of ownership of \$70.5M and ERP system with a ten-year total cost of ownership of \$25.8M (\$20.5M for supply chain management, finance, human resources and payroll and \$5.3M for WFP). Costs are summarized in the table below. CMH is planning to debt finance \$20M of the HIS capital cost over a 15-year amortization period. Interest payments have been incorporated into the plan. The HIS project is estimated to begin in October 2025, with a one-year implementation period. The ERP WFP system is scheduled to go-live in the spring of 2025. The remaining ERP costs are estimates based on Deloitte's ten-year total cost of ownership analysis conducted in 2023. ERP costs will be updated when a decision is made on what system(s) to implement. For planning purposes, it has been assumed that the remaining ERP modules will be implemented by March 31, 2027.

Project Quantum 10-Year Total Cost of Ownership (\$M)

	Project Capital Cost	Project Operating Costs	Ongoing Operating Costs	10-Year TCO
HIS	27.9	9.7	32.9	70.5
ERP- WFP	0.7	1.1	3.5	5.3
ERP- Other	8.2	3.0	9.3	20.5
Total	36.8	13.8	45.7	96.3

The 2025-30 Multi-Year Financial Plan is summarized in Appendix B. Over the five-year period, the hospital will fully earn its PCOP funding allocation by fiscal 2028-29 (\$22M for clinical growth and \$1.7M for equipment amortization) and implement a new HIS and full ERP system(s). The plan assumes that the MOH will continue to make funding investments to the hospital sector at a rate of 3% on average each year and that inflationary pressures will continue throughout this five-year period. The implementation of new systems, inflationary and growth pressures will create annual budget pressures starting in fiscal 2026-27 that will need to be closed through the annual budget development process as summarized below.

Fiscal Year	Surplus / (Deficit) \$M
2025-26	8.4
2026-27	(6.0)
2027-28	(2.8)
2028-29	(3.4)
2029-30	(6.1)

Due to the delay in the start of the HIS implementation, there will be a higher one-time budget pressure in fiscal 2026-27 due to the expensing of \$6.8M in HIS project costs. This deficit is due to project timing and fiscal year reporting requirements and is fully offset by the budgeted one-time surplus of \$8.4M in fiscal 2025-26 resulting from the reconciliation of prior year PCOP funding expected to be finalized by the MOH in fiscal 2025-26. If a decision is made to run a controlled one-time deficit in fiscal 2026-27 the hospital will require OH and MOH approval.

Next Steps

- Continue to advocate with Ontario Health (OH) and the government to provide sustainable hospital base funding considering high inflationary pressures;
- Monitor PCOP and QBP volumes monthly;
- Update the Multi-Year Financial Plan when HIS and ERP costs are finalized;
- Initiate 2026-27 budget development planning cycle in June 2025.