

# Overview of 2021-22 Budget and Update on 2020-21 Year-End Hospital Financials

March 25, 2021

Hospitals and Capital Division

# Purpose

This presentation will provide an update on the 2021-22 budget and guidance to the hospital sector on 2020-21 year-end financials.

## Agenda

- Overview of the 2021-22 Budget
- Update on 2020-21 Year End Hospital Financials
  - Hospitals Working Funds Initiative
  - Hospital COVID-19 Expense Reimbursement
  - Lost Non-Ministry Revenue
  - Reconciliation and Hospital Funding Programs
- Q&A

# Overview of the 2021-22 Budget

- As announced on March 24, the hospital sector will receive an investment of \$778M in base funding for the 2021-22 funding-year. This funding will support:
  - Regular health system (non-COVID-19) operating pressures and constraints in the hospital sector resulting from increased growth and utilization;
  - Growth in trauma, obstetrics, mental health and emergency department service;
  - Growth in priority services like lifesaving and life-enhancing programs such as cancer, cardiac, neurosurgical, hip and knees replacement and MRI/CT, and making new technologies more accessible to Ontarians; and
  - Funding for 40+ projects that have been completed or are under construction, including but not limited to:
    - North York (Branson RCC)
    - Providence (St. Mary's RCC)
    - CAMH
    - Sinai Health
    - Health Sciences North (RCC)
- In addition to this, the hospital sector will receive investments to support continued COVID-19 response:
  - \$760M to support the ongoing operation of over 3,100 hospital beds to help the sector continue to provide care for patients during COVID-19; and
  - \$300M to support hospitals in reducing surgical backlogs from delayed or cancelled surgeries and procedures.
- The Budget investment is in addition to the \$1.2B in one-time working funds and lost revenue [announced on March 22](#).

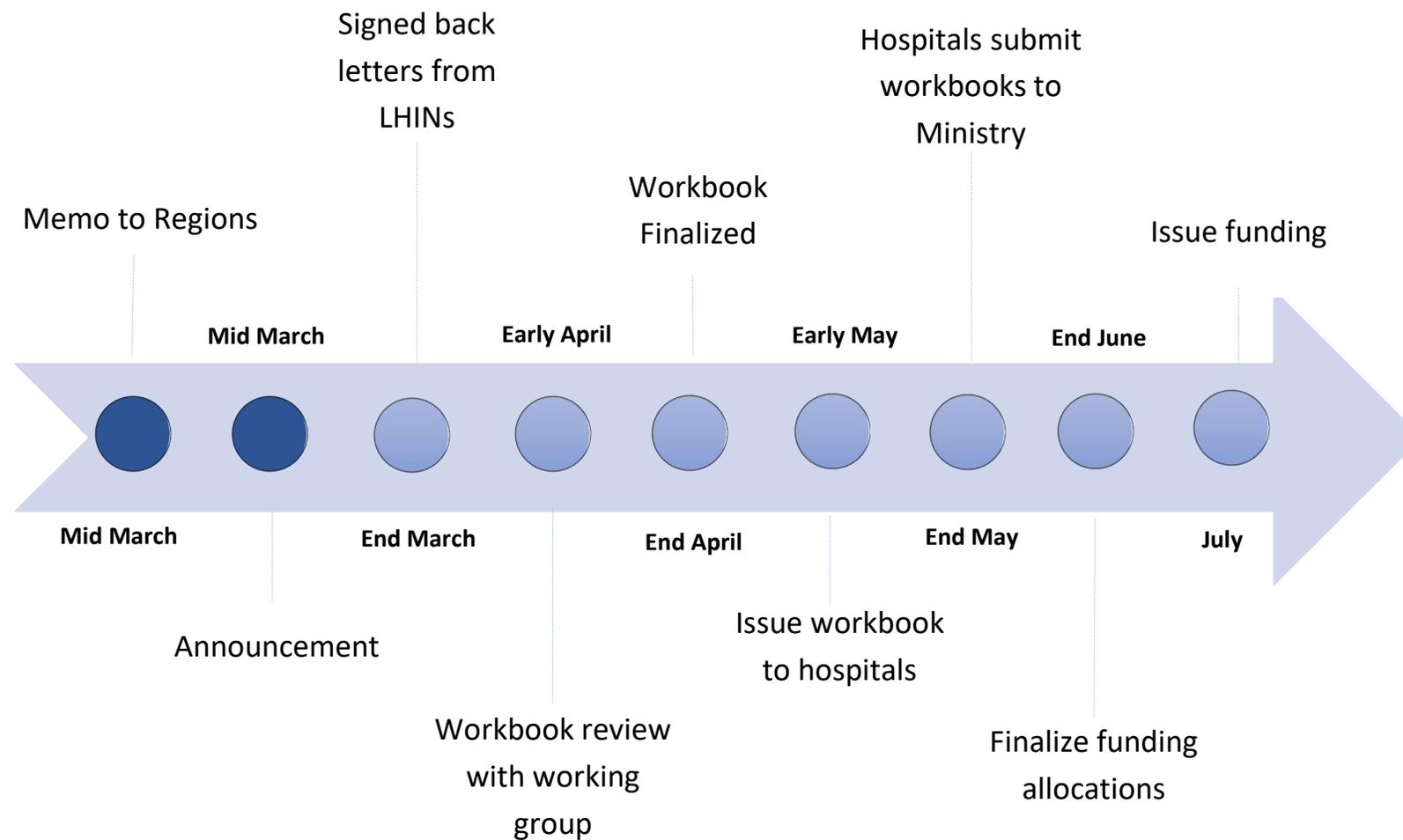
# Hospitals Working Funds Initiative



# Hospital Working Funds Initiative

- It was announced last week that up to \$696.6M in funding would be provided to help hospitals improve their working funds position and enable them to focus on quality front-line patient care, instead of managing debt or acquiring additional debt.
- Up to \$696,575,800 is to be provided to up to 69 hospitals.
- The intent of the program is to address systemic working funds deficits to improve the financial health and stability of all hospitals with particular focus on hospitals that have historically been underfunded.
- Improving a hospital's working funds position to a neutral or surplus position allows the hospital to apply operational funding towards service delivery and innovation (e.g., Health Information Systems) rather than accumulated debt.
- The Ministry will be working with Ontario Health and the Ontario Hospital Association (OHA) in the coming weeks to form a working group to help finalize program details.
- Eligible hospitals will receive notification from their LHIN.

# Working Funds – Estimated Timeline



# Hospitals COVID-19 Expense Requirement



# 2020-21 Accruals for COVID-19 Incremental Expenses

- Five regional memos have been sent to the OH regions outlining:
  - Operating and Capital expense reimbursement amounts for December 2020 to March 2021 (subject to formal government approvals).
  - Amounts noted are to be accrued in the 2020-21 FY, with funding to flow in the 2021-22 Fiscal Year after MOH-OH validation of actual costs incurred are received.
  - Accrual amounts are calculated based on December 2020 and January 2021 expense reports (actuals), and ministry forecasted expenses (estimates) for the month of February and March 2021
- Ministry has received incremental expense reports for the months of March 2020 (2019-20 Fiscal Year), and April to January (2020-21 Fiscal Year).
  - To help hospitals in managing cash flow, submitted eligible operating and capital expenses for March to September 2020 have been reimbursed.
  - October and November 2020 expense reimbursements are currently being processed by the regions.
- February 2021 expense reports are due by end of March 2021 from the regions to the ministry. Deadline for March 2021 expense reports is extended to the end of May 2021.

# 2020-21 Accruals for COVID-19 Incremental Expenses (cont'd)

- The Ministry's Financial Management Branch (FMB) will provide instructions and documentation to the LHINs/OH regions who will help to facilitate the 2020-21 year-end accruals with eligible hospitals.
  - Hospitals will be instructed by the LHIN/OH regional offices to accrue the amounts that the ministry has communicated to the LHINs/OH regions.
  - This includes a maximum amount that can be accrued. After analysis and validation of actual expense reports and any required adjustments to remove ineligible expenses, these estimated amounts may decrease.
  - LHINs/OH regions to confirm agreement in writing to the ministry within 3 days of receiving the memo.
- Release of funding in 2021-22 will be subject to review and validation of actual expenses reported. This includes:
  - Validation and attestation of eligible financial information to be considered for reimbursement, reported in the COVID-19 expense reports; and
  - Other eligibility criteria as communicated.
- Once the funding has been determined, final funding letters confirming the COVID-19 expense reimbursements will be issued in the 2021-22 fiscal year (subject to formal government approvals).

# 2020-21 Hospital / Hospital Attestation Form (Operating) and Settlement Form (Capital)

- As part of the ADM memo, the Ministry distributed the 2020-21 Hospital / Hospital Auditor Attestation Form (Operating) and Settlement Template (Capital).
- These forms require CEO and CFO sign off from external auditors at each hospital (overseeing the hospital's year-end financial audits) and will indicate confirmation that all COVID-19 incremental expenses submitted and reimbursed were aligned with and met processes outlined in the COVID-19 Hospitals Incremental Expenses guidance document requirements.
- Hospitals will be required to include a signed Attestation Form as a supplementary addition to the respective hospital's 2020-21 Audited Financial Statement for both operating and capital expenses.
- Additional audit-related expenses incurred by hospitals as a result of this year-end attestation process are eligible for reimbursement. Please submit expenses as part of your February and March expense submissions.

# 2021-22 COVID-19 Expense Reporting

- The Ministry will continue the COVID-19 incremental expense reporting process beyond March 31, 2021.
- Ministry recognizes that hospitals will continue to aid in managing the province's pandemic response, including in areas such as Long-Term Care, Vaccine Administration and Critical Care capacity.
- The Ministry will provide further communication to the sector in April 2021 with a revised guidance document with modified criteria and excel template.
- Some updates being considered for the guidance document include revising eligibility for the various expense groups/categories that can be reported, as well as issuing a revised set of expense groups/categories that will be considered for reimbursement.

Lost Non-Ministry  
Revenue



# Context: COVID-19 and Non-Ministry Revenue

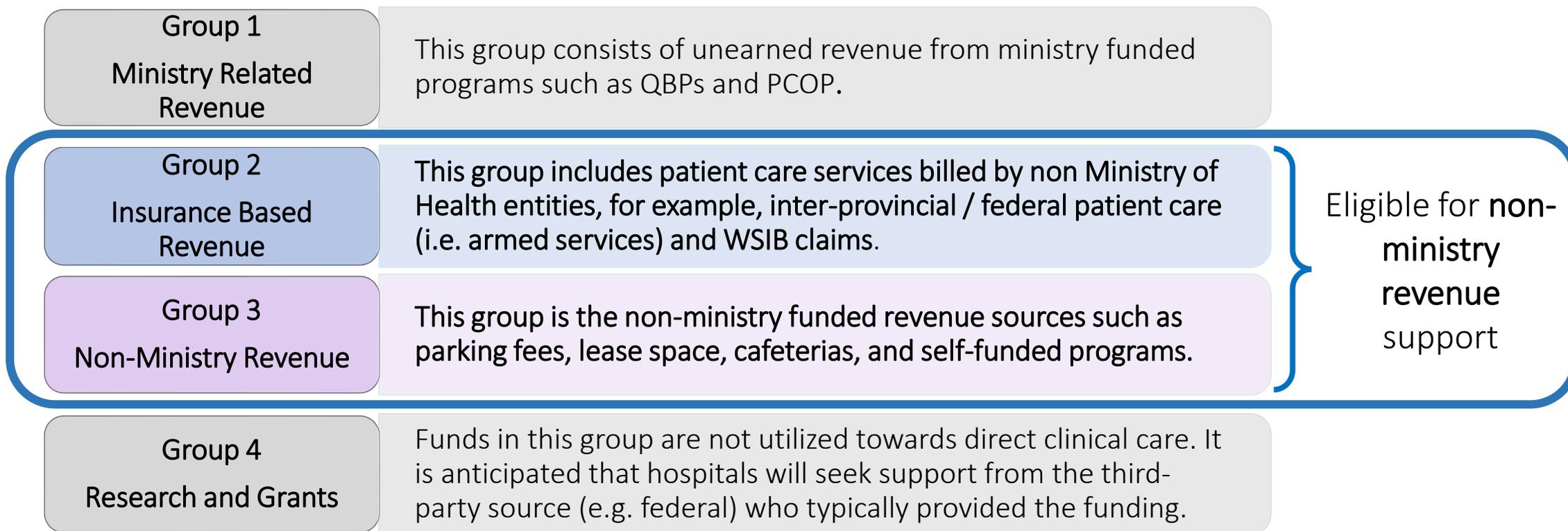
- COVID-19 has left hospitals feeling financially challenged. In a non-pandemic environment, hospitals typically generate revenue to supplement ministry funding and support core clinical services and patient care.
- Due to the current unprecedented circumstances, the revenue loss experienced was unavoidable. Therefore, the ministry has set aside \$572.3M in funding to reimburse hospitals for a qualifying portion of these losses.
- To better understand the impact felt by hospitals and to determine how the ministry could support this loss, the following guiding principles were developed:

## Guiding Principles: Lost Revenue Reimbursement



# How was Lost Revenue data collected?

- Hospital reported data in 2020-21, through the Ontario Hospital Association (OHA) survey and ministry data sources
- Lost Revenue information collected was analyzed against the guiding principles and categorized into 4 groups.
- For this reimbursement process, lost revenues in Groups 2 and 3 are considered eligible for support.



Note: Please see the Appendix for eligible lost revenues details

# How will hospitals receive funding?

## Accrual Process

*(Funding will be booked in FY 2020-21 )*

- The ministry and hospitals will accrue the loss revenue in fiscal year 2020/21.
- To be able to accrue lost revenue funding, hospitals were required to meet the following eligibility criteria:
  - Status as a public hospital corporation operating in Ontario;
  - Hospital has experienced a reduction in non-ministry revenue due to COVID-19 during the 2020-21 fiscal year;
  - Hospital is utilizing funding to reimburse lost non-ministry revenue for direct clinical service.
- The ministry accrual estimates are based on 6 months of hospital reported data, projected to create a year-end total.
- This data was analyzed in comparison to historical trends. Hospitals will accrue up to this total for lost revenues in the eligible categories.

## Reimbursement

*(Following a validation process, approved funding will flow in 2021-22)*

- A validation process will be used to identify the total approved funding.
- Hospital will complete an attestation form that will validate their total lost non-ministry revenue. This attestation will confirm that lost non-ministry revenues have not been claimed through other sources of funding (eg. Incremental expense funding).
- In addition, hospitals audited financial statements, will be included in the validation process.
- Cash disbursement/funding letters will be issued in 2021-22 once the expense has been validated and is consistent with the Broad Based Reconciliation Process.

# Reconciliation and Hospital Funding Programs



# Unearned Funding from Select Hospital Funding Programs

- The ministry is adjusting reconciliation policies for select hospital funding programs to acknowledge fundamental changes in hospital operations caused by the pandemic
- Hospitals will be permitted, on a one-time basis in 2020-21, to use unearned funds<sup>1</sup> from select hospital programs to address hospital operating cost pressures (Fund Type 1) that were *not eligible for or submitted* to the COVID-19 Incremental Hospital Expense Process.
- Hospitals will be required to provide documentation and attest on how these unearned program funds were applied to other hospital cost pressures.
  - An 'Application of Unearned Hospital Funds' will be released by the Ministry
- This form will be evaluated as part of the Broad-Based Reconciliation Process for 2020-21 hospital funding related to and impacted by COVID-19.

<sup>1</sup> Amounts eligible for application to cost pressures are those that remain after all in-year volume reallocations have been performed. LHIN-led QBP and Wait Times reallocations continued throughout 2020-21 fiscal year to move surgical volumes to hospitals with available surgical capacity and serve as many patients as possible in the province. The Ministry will be taking into account hospitals that experienced financial impacts from reallocations and therefore have fewer unearned funds to apply to hospital cost pressures.

# Select Hospital Funding Programs Eligible to be Applied to Fund Type 1 Hospital Pressures

## The Ministry-LHIN Accountability agreement amendments apply to the following programs:

- Emergency Department Pay-for-Results (P4R) funding
- LHIN-Managed Quality-Based Procedures (QBP) and Bundled QBPs
- Wait Times (WT) program procedures, including MRI/CT
- The following Priority Services:
  - Bariatric Services
  - Cochlear Implant Program
  - Instrumented Spinal Procedures
  - Neuroservices
  - Neurosurgery Access Funding
  - Ontario Fetal Centre
  - Organ, Tissue / Donation, Transplantation Program
  - Selective Dorsal Rhizotomy (SDR) Program
  - Cardiac Program, including Pacemakers
  - Advanced Endovascular Aneurysm Repair
  - Thunder Bay Regional Health Sciences Centre (TBRHSC) Vascular Program
  - University Health Network (UHN)-TBRHSC One-Program, Two-Sites Cardiovascular Program
  - UHN Thoracoabdominal Aortic Aneurysm Program
  - Sick Kids Limb-Lengthening Program
  - COVID-19 Surgical Premiums
- Post Construction Operating Plan (PCOP) funding
- Small and Rural Hospital Transformation Fund

## The Ontario Health agreement amendments apply to the following programs:

- **Volume-Based Cancer Programs**
  - Systemic Treatment QBP
  - Cancer Surgery QBP
  - GI Endoscopy QBP
  - 20% COVID-19 Premium for Cancer Surgery QBP
  - Acute Leukemia Treatment
  - Genetic Testing - HER2NEU, BRAF, KRAS, ALK, EGFR, PD-L1, BRCA, LYNCH
  - Cancer Surgery – Hyperthermic Intraperitoneal Chemotherapy (HIPEC)
  - Chimeric Antigen Receptor T-Cell (CAR T) Therapy Volumes
  - Interventional Radiology
  - High Cost Therapy
  - Neuroendocrine tumours (NETs)
  - Ocular Brachytherapy
  - Positron Emission Tomography (PET) Volumes
  - Radiation Volumes
  - Sarcoma
  - Stem Cell Transplants
- **Volume-Based Cancer Screening Programs**
  - Ontario Breast Screening Program (OBSP) Volumes
  - High Risk Lung
  - Fecal Immunochemical Test (FIT)
  - Small Hospital Volume Allocation – not part of GI Endoscopy QBP
- **Volume-Based Renal Programs**
  - Chronic Kidney Disease QBP

# Context: Broad Based Reconciliation

- The landscape of hospital funding in Ontario in 2020-21 is complex, with the introduction of the COVID-19 Incremental Hospital Expense Process and many other specific funding initiatives that have supported hospitals to deliver key services in the pandemic.
- **Key aims** of the Broad-Based Reconciliation process include:
  1. Reviewing hospital documentation associated with each of the initiatives discussed in conjunction with documentation of hospital operating (Fund Type 1) expenses to make a final determination of:
    - What amount of unearned funds from select hospital programs are not required for hospital Fund Type 1 operating expenses and are appropriate for recovery (if any);
    - What final funding amount of lost non-ministry revenue reimbursement a hospital requires (if any) given the impact of other ministry supports.
  2. Ensuring appropriate controllership and accountability of ministry funding.

# Process Overview: Broad Based Reconciliation

The Broad-Based Reconciliation process will unfold in four parts as outlined below. Parts 2 to 4 will occur simultaneously.

- **Part 1 – Sector Notification and Preparation of Documentation**

This part involves hospitals reviewing ministry's reporting requirements and preparing necessary submissions.

- **Part 2 – Review of Relevant Financial and Clinical Data**

Upon receipt of hospital year-end reporting, the ministry will review COVID-19 expenses claims (including Attestations) and complete an analysis of hospital Fund Type 1 expenses using data submitted through the Self-Reporting Initiative, Ontario Healthcare Financial and Statistical System, Ontario Hospital Cost Distribution Methodology, Audited Financial Statements and other hospital reporting.

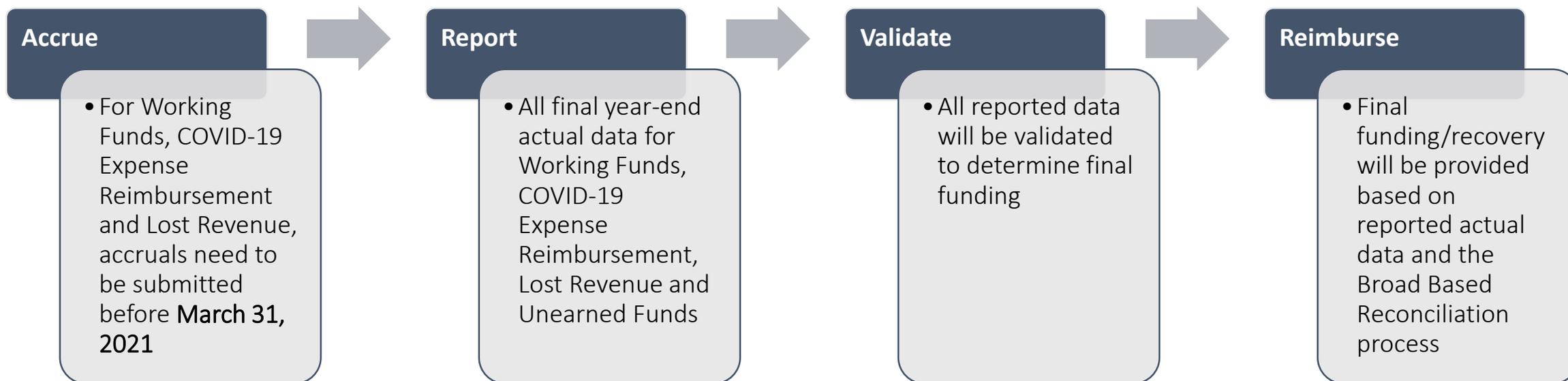
- **Part 3 – Validation of Use of Funds from Select Hospital Programs**

The ministry will work with OH to review and validate hospitals' statements regarding use of Unearned Hospital (and Cancer and Renal) Program funds to ensure such funds were applied to reasonable and appropriate costs given the pandemic.

- **Part 4 – Calculation and Flow of Lost Non-Ministry Revenue Funding**

Following the completion of above, the ministry will finalize funding amounts for lost revenue reimbursement to hospitals and settlement letters will be issued and any excess funds from select hospital programs not applied to reasonable hospital costs will be recovered; and, any applicable payments/cash will be flowed.

# Key Takeaways



# Questions



Appendix

# Eligible Lost Revenues Details

<b>Group 2: INSURANCE BASED</b>	<b>Description</b>
Inter-provincial Billing	Billing for interprovincial patients receiving service in ON hospitals
WSIB	Workplace Safety Insurance Board actual claims (e.g. automobile accident claims/assessments) and WSIB Clinics with hospital staff; Impacted by the cancellation of non-medically urgent visits, elective surgery closures and reduced patient volumes due to hesitancy and workplace closures
Federal Government (CAF)	Billing for armed services (federal) patients receiving service in ON hospitals

<b>Group 3: NON-MINISTRY REVENUE</b>	<b>Description</b>
Ambulance Revenue	Revenue received from patient for ambulance service based on previous year's volumes; reduced as a result of lower occupancy (patient hesitancy)
Cafeteria	On-site food services revenue
Co-payment (includes CCC/ALC)	Reduction of co-payment to hospitals for ALC/CCC patients; impacted by single room occupancy to manage pandemic
Gift Shop/Auxiliary	Gift shop or auxiliary services revenue (run by volunteers)

# Eligible Lost Revenues Details (cont'd)

Group 3: NON-MINISTRY REVENUE	Description
Leased Space / Rental revenues	Revenue from leased spaces to external tenants; building rent forgiveness for office space for family physicians on-site; rentals for splints, casts, injections, crutches, canes, patient phones/TVs etc.; building/conference space rentals
Parking	Parking revenue
Preferred Accommodation	Patient amenities (TV, WiFi) and patient equipment; private accommodation; decrease in revenue due to reduced elective surgeries, reduced length of inpatient stays for key populations (e.g. maternity), increased use of private rooms for isolations and shift toward single room occupancy to manage social distancing requirements
Retail Pharmacy	On-site retail pharmacy revenue
Self Funded Programs/Clinics	Specialty clinics or programs operated by hospitals (orthotics, specialty food stores, dental, hearing aid dispensary, rehab, mental health, sports medicine)
Self-Pay	Revenue associated with uninsured services, Canadian residents who do not have OHIP coverage or non-Canadian residents regardless of whether they have private insurance