An Update on HSN's Financial Situation

Dear patient representatives, employees, medical staff, learners, volunteers and Board members,
Boozhoo, Aanii, Kwe Kwe,

I always appreciate hearing back from you after one of my blog posts. My goals for these blogs are transparency, accountability and fostering a conversation with you. I believe this kind of two-way communication is critical if we are going to be successful as an organization.

With that being said, I want to update you on HSN's financial situation.

Let me begin by being painfully blunt: we are in trouble.

The Past Four Years - Context

As I have written in previous posts, HSN incurred a deficit of $7.1 million in 2016-2017, which was the largest among Ontario's 23 academic health science centers belonging to the Council of Academic Hospitals of Ontario (CAHO). This deficit was a major shift given HSN's audited financial statements from 2013-2014 to 2015-2016 showed a surplus every year. The less obvious part of the financial statements from 2013-2014 to 2015-2016 (that I have come to understand much better over the last few weeks), was the impact of the year-end adjustments done in each of those fiscal years. The impact of these year-end adjustments - all audited and consistent with generally accepted accounting standards - is that without them, HSN would have reported deficits of $3.4 million in 2013-2014, $9.9 million in 2014-2015 and $10 million in 2015-2016.

So, what are year-end adjustments?

Fundamentally (and as simply as I can think of), a year-end adjustment is a one-time change made at the end of a fiscal year to an account as a result of accruals or deferrals of revenues or expenses, prepayments, audit adjustments, accounting reclassifications etc. While these adjustments are legal, can be a normal part of running an organization and are found in many organizations' annual financial statements, I have concerns with the assumptions HSN made, and the level of our collective understanding of the implications of these adjustments.

There was a total of $24.3 million of such "one-time" adjustments from 2013-2014 to 2015-2016. In 2016-2017, HSN ran out of opportunities to do one-time adjustments to eliminate the annual deficit (which in reality was always there in the three preceding years), leaving a deficit of $7.1 million.

One example of a year-end adjustment used is that HSN assumed additional funding from the Ministry to fund the expansion of the Ramsey Lake Health Centre completed in 2010. Those assumptions were $2.4 million in 2014-2015 and another $4.3 million in 2015-2016 in additional funding from the Ministry. These "revenues" were used to "reduce the deficit" in those years. However, that money was never received, and HSN still has not received these funds related to the construction of the hospital.

So in short, we have been living beyond our means since 2013-2014, and we have a structural deficit that we will need to address over the coming years.

Here's a bit more detail regarding our year-end adjustments for the last few years for those of you who would like to see more data on this subject:

	2013-2014	2014-2015	2015-2016	2016-2017
Surplus (deficit) as per audited financial statements including one-time items	**$0.432M**	**$0.117M**	**$0.283M**	**($7.130M)**
Additional revenues for hospital construction recognized		$2.402M	$4.345M	
MOHLTC/CCO deferred revenue recognition	$0.330M	$3.503M	$2.092M	$0.649M
Pay equity accrual reversal, on reassessment of liability		$3.251M		
Base LHIN revenue – year end pickup	$2.857M			
Employee future benefit actuarial adjustment			$2.772M	
ERP drug plan insurance liability reversal (no contractual requirement to maintain)			$1.151M	
Marek revenues – prior years' billing pickup		$0.918M		
Laptop, desktop, monitor, printer inventory adjustment	$0.363M			
Water accrual adjustment	$0.335M			
Reversal of allowance on inventory balances				$0.220M
Total of one-time adjustments	**$3.885M**	**$10.074M**	**$10.360M**	**$0.869M**
Surplus (deficit) excluding one-time items	**($3.453M)**	**($9.957M)**	**($10.077M)**	**($7.999M)**

So what does this all mean for 2017-2018?

On my very first day at HSN on October 2nd, I attended a meeting of the Finance Committee of the Board of Directors. At that meeting, Senior Management informed the Finance Committee that HSN had incurred a deficit of $5.3 million during the five first months alone of the fiscal year (April-August 2017) but indicated that financial improvement initiatives were underway. Board members reaffirmed at the time their ongoing dissatisfaction with the lack of improvement in HSN's financial performance. In January of this year, the Board approved a 2017-2018 budget with a deficit capped at $5.9 million, given the initiatives underway. It was going to be a challenge, but the team was confident it could tackle it.

Unfortunately, on February 20th, we were informed by the Finance Department of a revised base forecast deficit of $11.9 million as of January 31st. On March 5th, Joe Pilon advised the Finance Committee that we were tracking a $10 million deficit as of January 31st.

We immediately got to work on a 16-point action plan to strengthen our internal financial accountability. The re-introduction of annual budgets based on the April-March fiscal year, as opposed to the 36-month "rolling forecasts" adopted at HSN since April 2016, will enhance accountability to the Board.

Some Challenges and Opportunities Moving Forward

Over the past few weeks, I have also come to realize that the practice of HSN, when incurring loans, has been to budget only the interest costs and not the capital repayment. As of March 31, 2017, HSN's outstanding liabilities included:

- A loan for the expansion of the Ramsey Lake Health Centre parking lot, which is fully funded through increased parking revenues;
- $23 million loaned to the Health Sciences North Research Institute (HSNRI). The HSNRI Board decided last week to secure a commercial mortgage on the new Walford Road property in order to immediately repay HSN for most of the $23 million loan to HSNRI.

There is therefore a plan in place to address these first two examples.

Other HSN liabilities as of March 31, 2017 included:

- $10.7 million for Care Point;
- $9.4 million for a three-year loan secured in 2016-2017 for equipment;
- $2.4 million in one-time costs for the opening of the Cardiac Outpatient Centre.

There was no plan in place in the HSN operating budget for the repayment of the principal portion of these three loans totaling $22.5 million. Only the interest portion on the debt was included in the 2017-2018 operating budget. In our upcoming budget, we will need to provide for the repayment of the principal for these loans.

We have reviewed extensive financial benchmarking with 17 similar-sized Ontario hospitals on over 80 indicators at the hospital and program levels. Generally speaking, the distribution of our revenues and of our expenses across broad categories at the hospital level is consistent with the others, except for two areas where HSN appears to allocate substantially more of its budget than any of the 17 other hospitals: research (where HSN spent $3.1 million in 2017-2018) and laundry (where more efficiencies need to be achieved despite recent substantial financial savings). This needs to, and will be, addressed.

In addition, we learned HSN has only $1.5 million set aside for future pay equity obligations. This will likely not be sufficient and may need to be addressed in the upcoming budget.

Finally, we have been taking a hard look at our current 14 sites in Greater Sudbury. This is not efficient. As part of the update to our Capital Master Plan, expected to be completed in May 2019, we will consider how to optimize space, reduce our number of sites in Greater Sudbury and re-unite departments that should co-locate. We will determine how best to eliminate “unconventional bed spaces”, meet the needs of our aging population and of NEO Kids.

Next Steps

We will be recommending a 2018-2019 budget to the Finance Committee of the Board on March 26th and to the Board on March 29th. The Board requires a budget that contains the annual deficit below $4.9 million (1% of budget) and a budget that demonstrates greater cost containment in non-clinical areas.

Senior Leadership spent 32 hours from Tuesday to Saturday last week reviewing budget submissions of each department with directors and discussing the best way forward. This experience reinforced again for me how our medical and administrative directors are focused on doing what’s right for patients and the communities we serve, within resources available. We are making very difficult choices based on evidence and benchmarking. Our focus remains on achieving provincial and regional priorities and accreditation “with exemplary standing”, meeting expectations set by the Board and protecting the quality of care, patient and staff safety.

Today, I had the opportunity to present a potential scenario to the Medical Advisory Committee, to directors, to the Fiscal Advisory Committee and to the Patient and Family Advisory Council. Tomorrow, Senior Leadership will review the feedback received and consider what adjustments to make before finalizing its recommendations to the Board.

On March 28th, the Ontario Minister of Finance will present the 2018 Budget at Queen's Park. Health sector expenditures as a percentage of Ontario government expenditures are at their lowest in six years: 38.1%. Over the last five years, Health sector expenditures have gone up annually at a lower rate than the rest of government spending. Ontario's 2017 Budget contemplates $2.5 billion or 4.6% more in Health sector expenditures in 2018-2019. We are hopeful they will deliver on this promise.

I can appreciate this is a lot to absorb. However, as key players at HSN, it is crucial that you understand our reality as we work together on both the challenges and opportunities we face. Once the Board has approved the budget, I will write another blog to summarize its highlights for you. We are required to submit a budget to the North East Local Health Integration Network by March 31st.

As always, I welcome comments on the blog or any other matter. You can reach me at dgiroux@hsnsudbury.ca, or you can join the 14,800 people who follow me on Facebook, Twitter or LinkedIn.

Merci, Thank you, Miigwech.