



MIDDLESEX-LONDON HEALTH UNIT

REPORT NO. 16-22FFC

TO: Finance and Facilities Committee

FROM: Emily Williams, Chief Executive Officer
Alexander Summers, Medical Officer of Health

DATE: 2022 October 6

PROPOSED 2023 BUDGET PLANNING PROCESS

Recommendation

It is recommended that the Finance and Facilities Committee recommend to the Board of Health to:

- 1. Approve the revised budget planning process for 2023 outlined herein;*
- 2. Approve the modified zero-base budgeting approach to General Expenses; and*
- 3. Receive the Public Health Program Pyramid and Critical Business Infrastructure frameworks outlined in [Appendix A](#) and [Appendix B](#) to Report No 16-22FFC for information.*

Key Points

- MLHU continues to operate in an environment with a high degree of uncertainty, presenting challenges for budget planning for the 2023 cycle.
- To plan effectively, it was assumed that base funding from the province will remain flat at 2019 levels. Inflationary pressures for 2022 are approximately \$897,000.
- As with 2022 budget planning, feedback from the Senior Leadership Team emphasized a concern that program leaders and staff found it extremely difficult to identify marginal savings within programs, and the need for a framework to guide service-level reductions was required.
- As outlined in 2022 budget planning, zero-based budgeting was introduced across the organization as part of the 2023 budget planning, specifically for the review of General Expenses.

Background

The current environment in which the Middlesex London Health Unit (MLHU) is operating continues to present the organization with significant challenges in budget planning for 2023, due to several contributing factors. These include the ongoing COVID-19 pandemic response, uncertainty with respect to funding and prioritization of public health work from the provincial government, and inflationary pressures facing the organization. These conditions require the Health Unit to make informed assumptions with which to plan, including the possibility of flat funding levels in the face of rising inflationary pressures.

In past years at the MLHU, Program Budgeting Marginal Analysis (PBMA) was used to prioritize incremental funding investments and disinvestments made at the Health Unit in response to evolving priorities. While a one percent increase in base funding from 2019 levels was received in 2022, the provincial funding levels remain well below incremental inflationary pressures over the past four years, and the use of marginal analysis and incremental investment/disinvestment has become increasingly difficult to address the significant funding shortfalls. As well, within the PBMA approach, corporate services were rated using the same criteria as public health programs, creating a challenge related to the applicability of the criteria to both. Feedback from the Senior Leadership Team (SLT) during the

development of the 2022 and 2023 budget planning processes emphasized that strategic decision making related to service-level reductions will be required if funding continues to be insufficient. The MLHU can no longer reduce 'at the margins'; it is now necessary to make very difficult decisions about program and service-level changes.

Funding Assumptions and Pressures

Funding Assumptions

As noted above, it is necessary to make informed assumptions about funding levels to undertake budget planning. The forecasting process at the MLHU is focused on assumptions with respect to provincial and municipal funding and the incremental costs related to salaries and benefits, as well as other inflationary pressures. COVID-19 related programs (Case and Contact Management and Vaccine) will continue to be budgeted separately to support both planning and reporting activities.

For 2023, the MoH confirmed it will continue to provide mitigation funding to health units to offset the previously planned changes to cost sharing with the municipalities for public health services; the MLHU will receive the amount identical to the past three years which was assessed at 2019 levels. Unfortunately, the Funding and Oversight division of the MoH has communicated that baseline funding levels for public health units in 2023 will not be released until early in the calendar year. Given the lack of further information, the SLT supported the recommendation of the Chief Executive Officer (CEO) to assume that provincial funding will remain flat to 2022 levels.

With respect to municipal funding, the MLHU requested increases to funding in 2021 for the first time in 12 years; though the funds were later returned when they were unspent due to the lack of organizational capacity to resume public health programs due to COVID-19. The same increased amounts of municipal funding were requested and approved by both Middlesex County and the City of London again in 2022, and it is anticipated that they will be fully spent and required to continue in 2023. Given inflationary pressures impacting both municipalities in 2023, it was determined that further increases would not be requested by the MLHU.

For 2022, the province is utilizing the identical process for cost-recovery from 2021 and has currently funded approximately 50% of the COVID-19 CCM and Vaccine program costs budgeted by MLHU. They have committed to a process for further expense recovery throughout the remainder of the year; second quarter reporting was completed, and further cash flow is expected in October. It is important to note that, as in 2021, only extraordinary expenses continue to be funded provincially, which means that MLHU must fully use its operating budget prior to submitting expenses for reimbursement. This is critical to understand as teams undertake the 2023 budget planning process related to COVID-19 work. To date, no information related to funding for COVID-19 extraordinary costs for 2023 has been received, though recent communication from the MoH Funding and Oversight division indicated the information should be forthcoming in advance of base funding information. It is anticipated that the province will continue to fund COVID-19 activities as extraordinary expenses in 2023, using the same process for cost recovery as in 2021 and 2022.

Inflationary pressures

For 2023, salary, wage, and benefit increases, including step-increases, equate to \$596,000 in inflationary pressures for the MLHU. Based on market inflation rates and increases experienced in 2022, corporate expenses are also expected to increase up to an additional \$300,000 over the next year. This represents a total \$896,000 funding pressure for the organization for 2023.

Other pressures

Historically the MLHU has used a ‘gapping’ budget to present a balanced budget to the Board of Health (BOH) and the MoH. In the 2022 budget, this grew to its highest amount ever at \$1.5 million. The Health Unit typically made up this gap through vacant positions, differences in staff wage step-levels, and unspent general expense funds. Given the historically low turnover rate (8.9%) at the MLHU and the plan to introduce zero-based budgeting in 2023, the CEO and Assistant Director of Finance recommended to SLT that this gap be reduced to 2021 levels at \$1.2 million, with the ultimate goal of eliminating it entirely over the next four years. This was supported by SLT and contributes an additional \$336,000 to the funding pressure in 2023 for a total of \$1.2 million.

In 2020, the Health Unit moved from 50 King Street to CitiPlaza, incurring \$4.2 million in bank loan debt for the fit-up of the new location. This is comprised of a fixed-term loan and a variable loan, which is subject to current interest rates. The CEO and Assistant Director of Finance also recommended to SLT that an increase in repayment of the debt be added to the budget above the required annual amount, with the caveat that this would only be paid if a surplus was achieved at year end and therefore not contributing further to the overall pressure. Due to the COVID-19 extraordinary funding process, the organization can direct operational surplus funding to budgeted items prior to it being directed to COVID-19 activities; this necessitates including it in the budget to ensure the organization has the option to repay. SLT supported this strategy.

2023 Budget Planning

A revised budget process is being proposed to address the issues identified regarding the PBMA process and the current complex environmental context in which the health unit is operating. Two frameworks, the Public Health Program Pyramid ([Appendix A](#)) and Critical Business Infrastructure Framework ([Appendix B](#)), were created by the Medical Officer of Health (MOH) and the CEO respectively, to guide programs in determining which services to disinvest. The SLT provided input and endorsed both frameworks, which include the assessment of applicable risk factors, leveraging the strengths of the PBMA process. Each framework applies a ‘triage’ process to analyze public health programs and corporate services, beginning with those that are critical to operate, either by legislative mechanisms or to ensure business continuity. Subsequent factors of analysis include programs and services that are aligned with the organizational strategy and the core understanding of public health work. Leadership teams will review programs and services in the context of these frameworks and identify areas to disinvest, which will subsequently be reviewed by the SLT. Final decision-making rests with the MOH and CEO to formulate recommendations to the BOH.

In conjunction with the two frameworks, a zero-based budgeting technique was introduced across the health unit to review General Expenses. Through this process, funds are allocated by the Finance Team based on prioritization and necessity, informed by historical data related to actual spending, and not historical budget amounts. Programs are provided an opportunity to request increases to the allocated amounts by providing rationale, and these are reviewed by SLT for consideration. The reduction in General Expenses is then applied to the overall funding pressure and the remaining amount becomes the overall organization target that is required for program and service-level disinvestment in 2023.

Next Steps


Following approval of the proposed 2023 budget planning process, the Finance team will finalize the General Expense zero-based budgeting amount yielded by this exercise. This will inform the overall organization target that is required for program and service-level disinvestment in 2023. Teams will apply the frameworks to review programs and services and finalize proposals for submission and review to the SLT. Recommended proposals will be brought to the Finance & Facilities Committee and the Board of Health

for approval in November 2022. Staff will work towards the development of the 2023 budget based on the direction of the Board.

This report was prepared by the Chief Executive Officer.

A handwritten signature in black ink that reads "EWilliams". The signature is written in a cursive style with a large, prominent 'E'.

Emily Williams, BScN, RN, MBA, CHE
Chief Executive Officer

A handwritten signature in black ink that reads "Alexander T. Summers". The signature is written in a cursive style with a large, prominent 'A' and 'S'.

Alexander Summers, MD, MPH, CCFP, FRCPC
Medical Officer of Health