



IWK Health

Management Discussion & Analysis

Fiscal Year April 1, 2024 - March 31, 2025

Message from the CFO

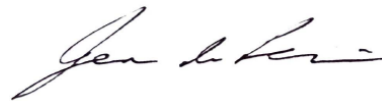
It is a tremendous privilege to serve as Chief Financial Officer of IWK Health. In this role, I am deeply aware of the unique and vital contribution the IWK makes to the lives of women, children, youth, and families across our province and region. IWK Health is more than a hospital. It is a cornerstone of care, innovation, and compassion for generations past, present, and future.

Stewardship of this remarkable institution means more than achieving a balanced budget. It is about ensuring that the IWK remains strong and resilient, with the infrastructure, equipment, and talent needed to deliver exceptional care now and in the years ahead. This responsibility is shared by all of us who have the privilege of serving here.

Our ability to meet this responsibility depends on strong partnerships. We are grateful to government for its essential role in funding operations, and to donors, whose generosity through the IWK Foundation enables us to enhance patient care, foster innovation, and create environments that promote healing and well-being. This collective support helps us build on the IWK's legacy while preparing for the future. This year's financial results reflect a balanced position, but one under growing strain. We face significant pressures that demand sustained attention and investment. Chief among these is the state of our aging infrastructure and the backlog of deferred maintenance. Labour shortages, changing demographics and growing complexity of care are increasing operating expenses, while costs for medical supplies, drugs, and reagents continue to climb faster than general inflation, limiting our financial flexibility.

As I begin my tenure as Chief Financial Officer, I am committed to working with our board, leadership team, government, donors, and community to ensure that the IWK continues to thrive for generations to come.

Now is the time to act. Together, we must rise to meet these challenges and make the critical investments required to safeguard the quality of care Nova Scotians expect and deserve. I am confident that with a shared commitment, we can strengthen this vital institution for the future.



Jean du Plessis
VP, Corporate Programs & Chief Financial Officer
IWK Health

Introduction & Purpose

The IWK Health Centre plays a unique and vital role in delivering specialized pediatric and maternal health services to families across the Maritimes. As both a center of excellence in care and a public institution, we are committed to transparency, accountability, and sound stewardship of the resources entrusted to us.

This Management Discussion and Analysis (MD&A) is intended to provide the public, government, and internal partners with a clear and accessible overview of IWK Health's financial position and performance for the fiscal year. It complements our audited financial statements by offering context, highlighting key drivers of financial results, and linking those results to our strategic priorities and operating realities.

As this report outlines, IWK continues to manage public funds with care and discipline, while also facing structural challenges, particularly in the form of aging infrastructure and underinvestment in capital renewal. These pressures shape how we plan, invest, and deliver care today and into the future.

Financial Summary

For the year ended March 31, 2025, IWK Health reported total revenues of \$490.1 million and total expenses of \$438.6 million, resulting in an annual accounting surplus of \$51.5 million. This surplus does not reflect an operating gain, but rather the accounting treatment of capital funding. Under Public Sector Accounting Standards (PSAS), capital grants are recorded as revenue when received, while the corresponding capital expenditures are amortized over time. The result is a timing difference that produces an annual surplus in the year of acquisition.

From an operating perspective, IWK Health maintained balanced results, consistent with budget expectations and the organization's commitment to financial stewardship.

Compared to the prior year:

- Total revenue increased by \$60.7 million (14.1%), largely due to higher operating and capital grants.
- Total expenses increased by \$35.0 million (8.7%), reflecting growth in community health services, diagnostic and therapeutic services, and ambulatory care services.
- The annual surplus grew from \$25.7 million in 2024 to \$51.5 million in 2025, again driven by timing differences related to capital activity.
- These results reflect stable operating performance alongside significant investment in infrastructure.

Revenue Analysis

IWK Health received most of its funding from the Provincial government totaling \$439.7 million (89.7%).

Most of the Provincial funding was received in the form of operating grants which consists of both core funding of \$305.5M and initiative specific funding of \$52M. Core funding is more stable and flexible in its application than initiative specific funding which is generally provided to advance specific programing and is earned only when spent on the program it was designated for.

Provincial capital grants consist of project specific funding of \$61.5 million for infrastructure and equipment. Capital envelope grants, grants related to asset retirement obligations, as well as grants received by the province through the federal Investing in Canada Infrastructure Program (ICIP) were received for the maintenance of existing infrastructure and equipment (\$16.4 million). Capital funding was also received for new infrastructure and redevelopment projects (\$45.1 million) including Action for Health Transformational initiatives.

Other revenue and recoveries are typically received on a cost recovery basis in support of patient care and other unplanned costs. This includes funding received for certain high-cost drugs, out of province patients, and urgent infrastructure repairs needed because of aging buildings.

Provincial revenue compared to the prior year:

- Provincial operating grants increased by \$28.5 million (8.7%), proportionately increasing in both core and initiative specific funding
- Provincial capital grants increased by \$24.7 million (67.1%), largely due to the progression of the Emergency Department development

(\$14.5 million increase) and Action for Health initiatives (\$9.4 million increase)

- Provincial research and innovation grants remained largely unchanged, at \$0.1 million.
- Other revenue and recoveries increased by \$7.9 million (62.2%), largely due to increased high-cost drugs (\$3.2 million), and one-time facility repairs (\$2.2 million)

IWK Health receives funding from sources other than the Province of Nova Scotia including:

- The IWK Foundation in the form of both capital grants totaling \$2.8 million and other revenue supporting patient care totaling \$3.7 million. This funding represents an increase of 78% over the prior year. This funding was used to support a number of initiatives including the emergency department redevelopment, priority medical equipment, fellowships, Integrated Youth Services, and the Pediatric Learning Health System
- Retail services, and parking revenues totaling \$4.5 million. Parking revenues in the next fiscal year will be recognized as provincial revenue due to free parking mandate.
- Investment income earned on cash balances totaling \$2.9 million
- Research and innovation grants from both the Federal government and other institutions totaling \$17.5 million.

Operational Analysis

For the fiscal year ended March 31, 2025, IWK Health reported an annual surplus of \$51.5 million fully attributable to capital transactions including acquisition costs of \$64 million, offset by amortization of \$12.3 million and write-downs of \$0.2 million. The surplus/deficit from operations was nil.

Costs totaling \$438.6 million were incurred to support IWK's mandate, an increase of 8.7%. The statement of operations reflects expenses by service comprised of:

- Nursing Inpatient Services costs of \$118.1 million related to inpatient care for patients admitted to hospital, an increase of 2.1%.
- Clinical and Operational Support Services costs of \$81.4 million for the provision and management of all physical assets and services necessary to support staffing, operation and maintenance, an increase of 1.6%. Services including admitting, clinical engineering, facilities, IT, in-service education, patient food services, and housekeeping fall within this category.
- Diagnostic and Therapeutic Services costs of \$78 million for professional and technical services which assist in the detection, assessment, and/or treatment of diseases, disabilities or injuries, an increase of 10.6% driven by \$3M in high-cost drugs, increased number of referred out tests, and inflationary increases in medical supplies.
- Community Health Services costs of \$68.3 million for the provision of health services on an ambulatory or outreach basis to individuals, groups, and/or communities, an increase of 24.2% driven primarily by rollout of Integrated Youth Services programming across the province and growth within Provincial Preschool Autism Services.
- Ambulatory Care Services costs of \$50 million for specialized diagnostic, consultative,

treatment and teaching services, an increase of 12.6% driven by investments in surgical services to reduce wait-times and higher costs in emergency services driven by increased patient visits as well as investment in waiting room care.

- Corporate Support Services of \$23.6 million to support administering health services, an increase of 19.4% as a result of filling numerous positions that had been vacant in the prior year as a result of recruitment challenges as well as an investment in transformation resources to support rollout of Action for Health related initiatives.
- Research and Innovation costs of \$19.2 million related to formally organized research, an increase of 5.9% as a result of increased research study activities.

Schedule A of the financial statements reflect costs by type. The majority of expenses, \$318.4 million (72.6%) are salary and benefit costs supporting both day-to-day operations and special programs, including Action for Health initiatives. Costs related to compensation remain relatively consistent as a proportion of total expenses when compared to prior year costs of \$297.4 million (73.7%). Other costs incurred relate primarily to patient care supplies, facility operations, equipment maintenance, and administrative supplies and other costs. Impacts from both inflation and supply chain are especially notable in medical and surgical supplies (increased \$3.9 million) and drug costs (increased \$4 million).

Capital and Infrastructure

Investment in capital infrastructure, equipment and systems is critical to patient and staff safety, maximizing efficiencies, and keeping current with best practices. During the year IWK Health invested \$64 million in capital projects, an increase of \$27.5 million (75.3%) over the prior year. Investment in capital outpaced the depreciation due to the one-time funding received for construction of IWK's new emergency department, Action for Health initiatives, and ventilation upgrades. Without the receipt of funding for these specific projects, depreciation of \$12.3 million would have surpassed base envelope funding of \$9.3 million which is intended to maintain capital infrastructure and equipment.

Space redevelopment projects advanced during the fiscal year include:

- Emergency department redevelopment, \$36 million
- Surgical space redevelopment, \$7.5 million
- Ventilation upgrades, \$4.4 million
- Roofing upgrades, \$1.1 million

Significant medical equipment replacements include:

- Operating room integration equipment, \$2 million
- Genetic sequencer, \$1.2 million
- Ultrasound machines, \$1.1 million
- Radiographic Fluoroscopy unit, \$0.7 million

IWK Health facilities portfolio consists of both IWK owned buildings and leased properties in the community. Upgrades and improvements made to leased facilities are typically amortized over the term of the lease while IWK owned buildings are amortized over their estimated useful life. At March 31, 2025 the net book value of IWK owned buildings and building service equipment was

\$176.9 million with an average estimated remaining useful life of 23 years assuming continued investment in building repairs and maintenance at the current rate. A significant investment in infrastructure renewal and preventative maintenance is required to extend the facilities useful life beyond the current estimate as a result of years of deferred maintenance. Increased instances of flooding and emergency unplanned repairs are expected to continue until a more significant investment in the building and its systems is made.

The IWK children's building contains asbestos, a material that represents a health hazard if disturbed. There is a legal requirement to perform abatement activities in asbestos containing areas upon renovation or demolition of the building. The estimated cost of remediation activities upon demolition of the building is capitalized as part of the cost of the building. As a result of new information, management's estimate of the cost of these abatement activities has increased by \$2.4 million.

Financial Position and Liquidity

The statement of financial position reports net debt of \$4.9 million at March 31, 2025 as liabilities of \$145.6 million exceeded financial assets of \$140.7 million. Net debt is a financial liquidity metric that measures a company's ability to pay all its debts if they were due today.

Financial assets include:

- Cash of \$54.1 million, comprised of restricted (\$39.8 million) and unrestricted (\$14.3 million) cash
- Accounts receivables of \$86.6 million, comprised of provincial and federal government accounts amounting to \$74.6 million, amounts owed from the IWK Foundation of \$2.4 million, and other accounts receivable of \$9.5 million comprised mostly of patient, insurance, employee and other external health organizations.

Financial liabilities include:

- Accounts payable and accrued liabilities of \$56.4 million comprised of amounts owed for compensation and benefits of \$31.6 million, trade payables of \$13.4 million, and accrued liabilities of \$11.4 million
- Deferred revenue of \$39.8 million, related to funding received with unmet stipulations and was comprised of restricted donations of \$21.4 million, restricted funding for research projects of \$18 million, and capital project funding of \$0.4 million
- Employee future benefits of \$34.6 million for actuarially estimated costs including non-vested sick-leave benefits of \$17.4 million, post-retiree health benefits of \$16.4 million, and retiring allowances of \$0.9 million. Employee future benefits are fully funded by the Province of Nova Scotia

- Asset retirement obligations of \$14.8 million for estimated future costs to safely dispose of asbestos and other regulated materials on demolition of IWK buildings. Asset retirement obligations are fully funded by the Province of Nova Scotia.

Non-financial assets totaled \$315.2 million and include:

- Tangible capital assets of \$309.8 million which includes land and buildings of \$181.2 million, equipment of \$25.2 million, IT assets of \$1.8 million, and projects in progress of \$101.5 million
- Inventories held for use of \$2.8 million, consisting of medical and surgical supplies of \$1.4 million, drugs of \$0.9 million, and departmental supplies of \$0.5 million
- Prepaid expenses of \$2.6 million

Non-financial assets of \$315.2 million less net debt of \$4.9 million account for an accumulated surplus of \$310.3 million.

IWK Health enters into multi-year contracts, in support of day-to-day operations, as well as to avoid risk and take advantage of opportunities for favorable purchase terms. These commitments include contracts for the delivery of equipment, supplies, services and operating leases and are expected to become liabilities in the future as the related terms of service are fulfilled. Contractual obligations at March 31, 2025 are estimated at \$48.2 million over the next 5 years.

Financial Risk and Uncertainty

Funding and Government Support Risk

IWK Health relies heavily on core funding from the provincial government, as well as targeted funding from federal and other public sources. Changes to government priorities, fiscal constraints, or modifications to funding formulas may materially affect the Centre's ability to deliver services, invest in infrastructure, and pursue strategic initiatives.

The organization continues to engage proactively with government partners to advocate for sustainable, predictable funding models. Multi-year funding pressures, combined with inflationary cost growth in both operating and capital expenditures, heighten this risk.

Infrastructure and Capital Investment Risk

Underinvestment in infrastructure over an extended period has created a backlog of capital needs across IWK facilities. A number of critical building systems are aging, and deferred maintenance poses potential risks to service continuity, safety, and compliance.

Failure to secure sufficient capital funding could result in unplanned service disruptions or increased operating costs. The organization is actively pursuing capital planning and prioritization strategies to mitigate these risks, while advocating for necessary reinvestment.

Inflation and Cost Escalation Risk

Like many healthcare organizations, IWK is facing cost pressures due to inflation in goods, services, construction materials, and wages. Recent trends

in construction cost escalation may significantly impact the affordability of planned capital projects. Cost inflation in contracted services and clinical supplies may further pressure operating budgets in an environment of flat or marginally increasing funding.

Workforce and Labour Market Risk

The broader labour market continues to experience volatility, including shortages of skilled clinical, technical, and support staff. Competitive pressures in compensation and recruitment may drive higher personnel costs or affect service delivery. The organization continues to work closely with HR partners and bargaining agents to mitigate these risks, with a focus on recruitment, retention, and workforce flexibility.

Information Technology and Cybersecurity Risk

Healthcare systems are increasingly reliant on complex IT platforms and digital infrastructure, much of which is managed through shared service arrangements with provincial partners (CSDS and NSHA). Risks related to system availability, cybersecurity breaches, and digital obsolescence could impact clinical operations and administrative functions. IWK Health is working with provincial and local partners to strengthen IT risk management, governance, data strategy, cybersecurity posture, and system resilience.

Supply Chain Disruption Risk

Global and domestic supply chain disruptions continue to affect availability and cost of certain clinical supplies, equipment, and pharmaceuticals. The organization is closely monitoring critical supply categories and maintaining contingency plans where feasible.

Looking Ahead

The past several years has marked a period of significant investment in the health sector as a result of government's Action for Health Plan. IWK Health has worked to modernize systems, processes, and facilities through investment in multi-year projects aimed at improving healthcare accessibility, equity, and outcomes.

Current economic conditions indicate this level of financial investment in the health sector will likely not be sustained. As a publicly funded health organization, annual funding is impacted by changes in provincial revenues and government policy and priorities. While investment has been made to affect transformational change within the health system the question of sustainability is a real one.

Despite significant investment in health transformation and new facilities, IWK Health's existing facilities require significant capital and operational investment to extend its life and maintain its condition. This includes new funding needed to support building and building system repairs and upgrades as well as investment in equipment to keep our facilities safe. Without significant ongoing investment in repairs, renewals and preventative maintenance the facilities will continue to deteriorate impacting patient care and health care provider satisfaction and retention.

Looking to fiscal 25-26 we expect financial pressures in operations as new funding received is not sufficient to support expected inflationary and utilization cost pressures. IWK Health takes pride in our ability to achieve a balanced financial result each year and as such leaders take an active role in monitoring financial results throughout the year so mitigation strategies, including vacancy management and discretionary spending limits can be put in place as needed.

Fiscal 25-26 is expected to bring several major technological system advancements with the launch of a modernized enterprise resource planning system, SAP S4 Hana, and unified electronic health record platform OPOR (One Patient One Record). SAP S4 HANA brings with it opportunities to streamline business processes and financial reporting and drive efficiency. Finance and logistics migrated to S4 Hana in early June 2025. It is also expected that OPOR will go live later in the fiscal year. OPOR will bring with it significant advancement in patient care by connecting systems and patient health information.