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cutting through complexity

Option Analysis for Service de santé de Chapleau Health Services

Report to the North East Local Health Integration Network

February 25, 2015

Introduction

KPMG LLP ('KPMG') has been retained by the North East Local Health Integration Network ('NELHIN') to identify and evaluate options relating to the operations of Service de santé de Chapleau Health Services (the "Hospital"). Specifically, the NELHIN has requested:

- An assessment of the Hospital's current operations and financial performance;
- The identification of potential strategies to improve the Hospital's financial performance; and
- An evaluation of the financial and other implications of the identified strategies.

Our review was primarily focused on the financial performance and position of the Hospital. While our report discussed clinical matters, our review did not include a comprehensive clinical evaluation of the Hospital.

This report outlines the results of our analysis.

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Restrictions

This report is strictly confidential and was drafted for the purpose of briefing the NELHIN. This report is not to be relied upon by any party other than the NELHIN and is not otherwise to be published, circulated, referred to, quoted from, reproduced or used for any other purpose without the KPMG's prior written permission in each specific instance. KPMG will not assume any responsibility or liability for any costs, damages, losses, liabilities or expenses incurred by anyone as a result of the circulation, publication, reproduction, reference to, quotes from, use of or reliance upon this report in contravention of the above.

This report is based on information and documentation that was made available to KPMG at the date of this report. KPMG has not audited nor otherwise attempted to independently verify the information provided unless otherwise indicated. Should additional information be provided to KPMG after the issuance of this report, KPMG reserves the right (but will be under no obligation) to review this information and adjust its comments accordingly.

Pursuant to the terms of our engagement, it is understood and agreed that all decisions in connection with the implementation of advice and recommendations as provided by KPMG during the course of this engagement shall be the responsibility of, and made by, the NELHIN. KPMG has not and will not perform management functions or make management decisions for the NELHIN.

This report includes or makes reference to future oriented financial information. Readers are cautioned that since these financial projections are based on assumptions regarding future events, actual results will vary from the information presented even if the hypotheses occur, and the variations may be material.

Comments in this report are not intended, nor should they be interpreted, to be legal advice or opinion.

KPMG has no present or contemplated interest in the NELHIN nor are we an insider or associate of the NELHIN or its management teams. Our fees for this engagement are not contingent upon our findings or any other event. Accordingly, we believe we are independent of the NELHIN and are acting objectively.

KPMG currently provides audit and other professional services to the Hospital. However, no members of the audit team were involved in the preparation of this report and ethical dividers were established within KPMG in connection with this review.

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Current State Overview

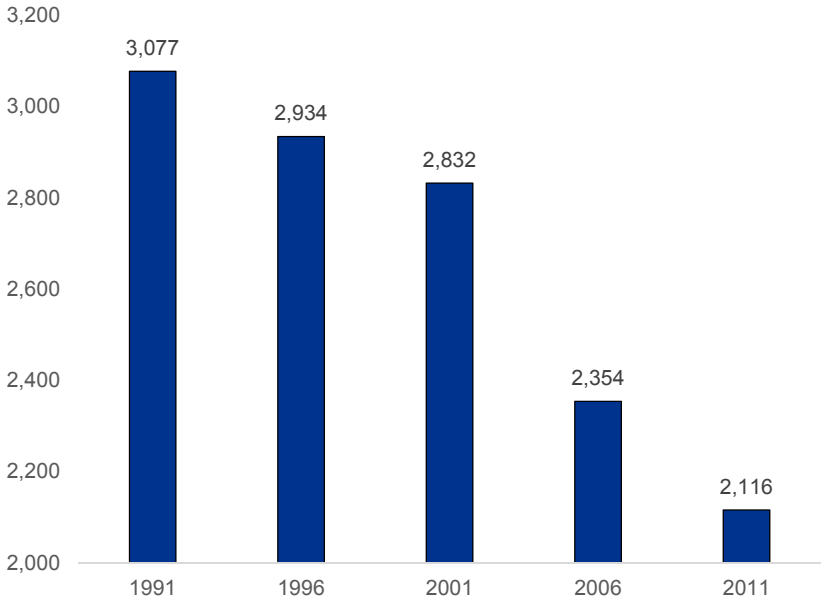
Over the last 20 years, the total population of the Township of Chapleau has decreased by 31%, while the median age of its residents has increased by 8.6 years.

Overview of the Township of Chapleau

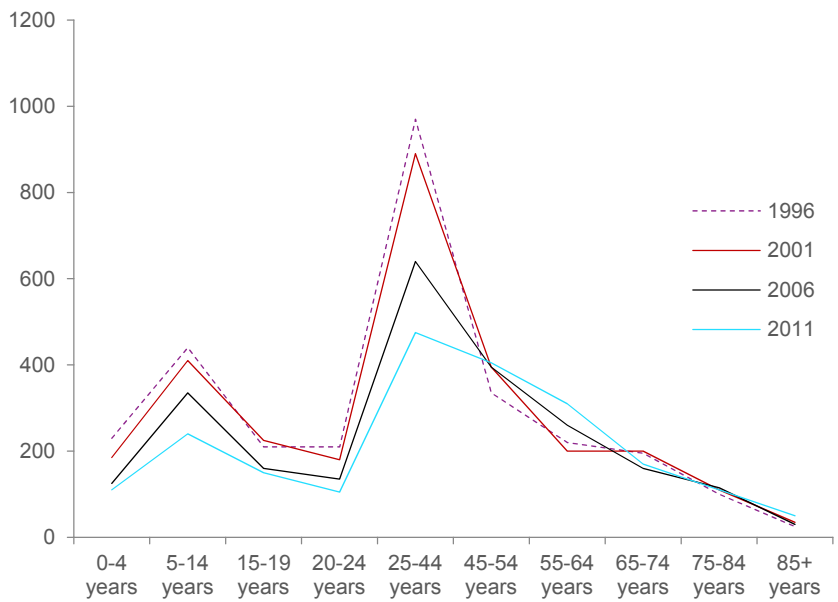
Arguably representing one of the more remote communities with the NELHIN's service area, the Township of Chapleau (the 'Township') is located approximately 200 kilometres southwest of the City of Timmins and 140 kilometres northeast of the Municipality of Wawa. Consistent with other communities that have traditionally been dependent on the forestry sector, the Township has witnessed a significant decline in its total population over the last 20 years. Since 1991, the Township's total population has decreased by 31% in response to the closure of a number of sawmills in the area as well as job losses in the forestry, transportation and public sectors.

In addition to population losses, the Township has experienced a gradual aging of its residents over the same period. Overall, the Township's median age has increased from 35.9 years in 2001 to 44.5 years in 2011, compared to the Provincial median age of 40.4 years.

Chapleau population by census year



Chapleau population by age category



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Current State Overview

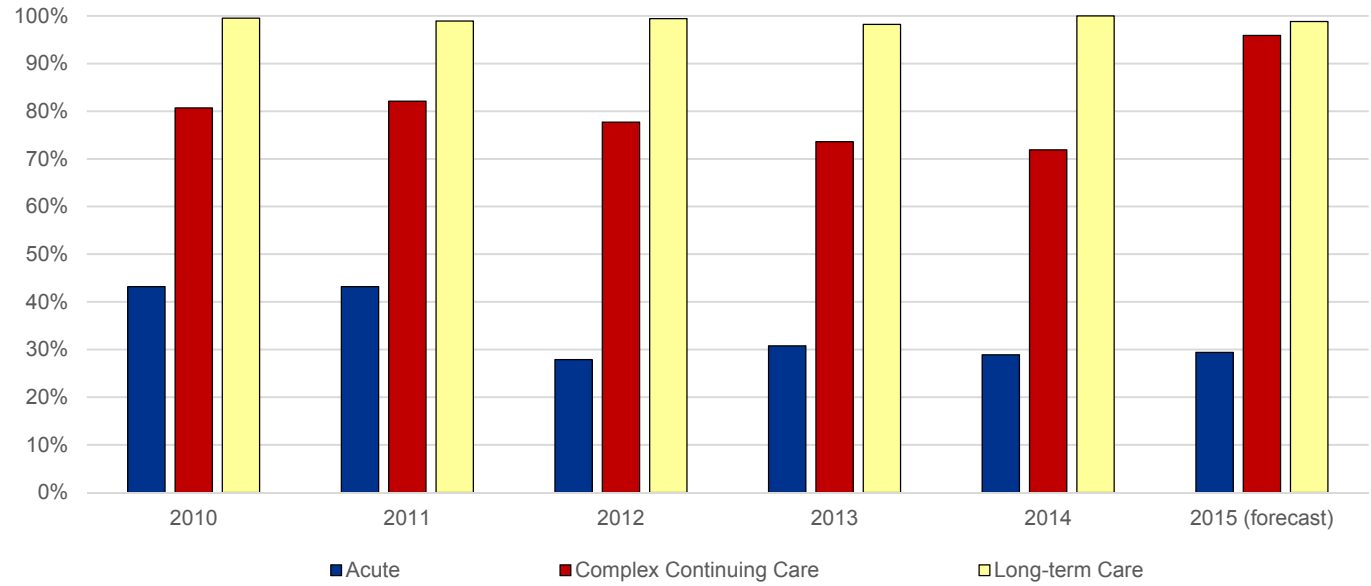
On average, the Hospital's acute care beds are empty 255 days a year (reflecting a 30% occupancy rate).

Hospital overview

The Hospital currently operates a total of 39 beds, comprised of 14 acute care beds (combined medical-surgical beds), 19 long-term care beds and six complex continuing care beds (including two respite beds). In addition to its medical beds, the Hospital also operates a 23-unit seniors apartment complex (Cedar Grove) and provides a range of community support programs, including mental health and addictions programs.

Historical information reported by the Hospital indicates that while its long-term care and complex continuing care beds enjoy relatively high occupancy rates, the overall utilization of its acute care beds is very low, averaging 34% since 2010 with a forecasted occupancy of 29.4% for 2014-2015. Additionally, an analysis of HBAM inpatient grouping data ('HIG') indicates that a sizeable portion of acute care bed occupancy appears to be related to long-stay (i.e. ALC) patients. While long-stay cases account for only a relatively small proportion of total discharges (11 out of 142 discharges in 2014, or 8% of total discharges), they account for 35% of the Hospital's total HIG weight. From our perspective, we interpret this to be reflective of the Hospital using acute care beds as holding beds for its long-term care program, which overstates the total utilization of acute care beds.

Reported bed occupancy rates



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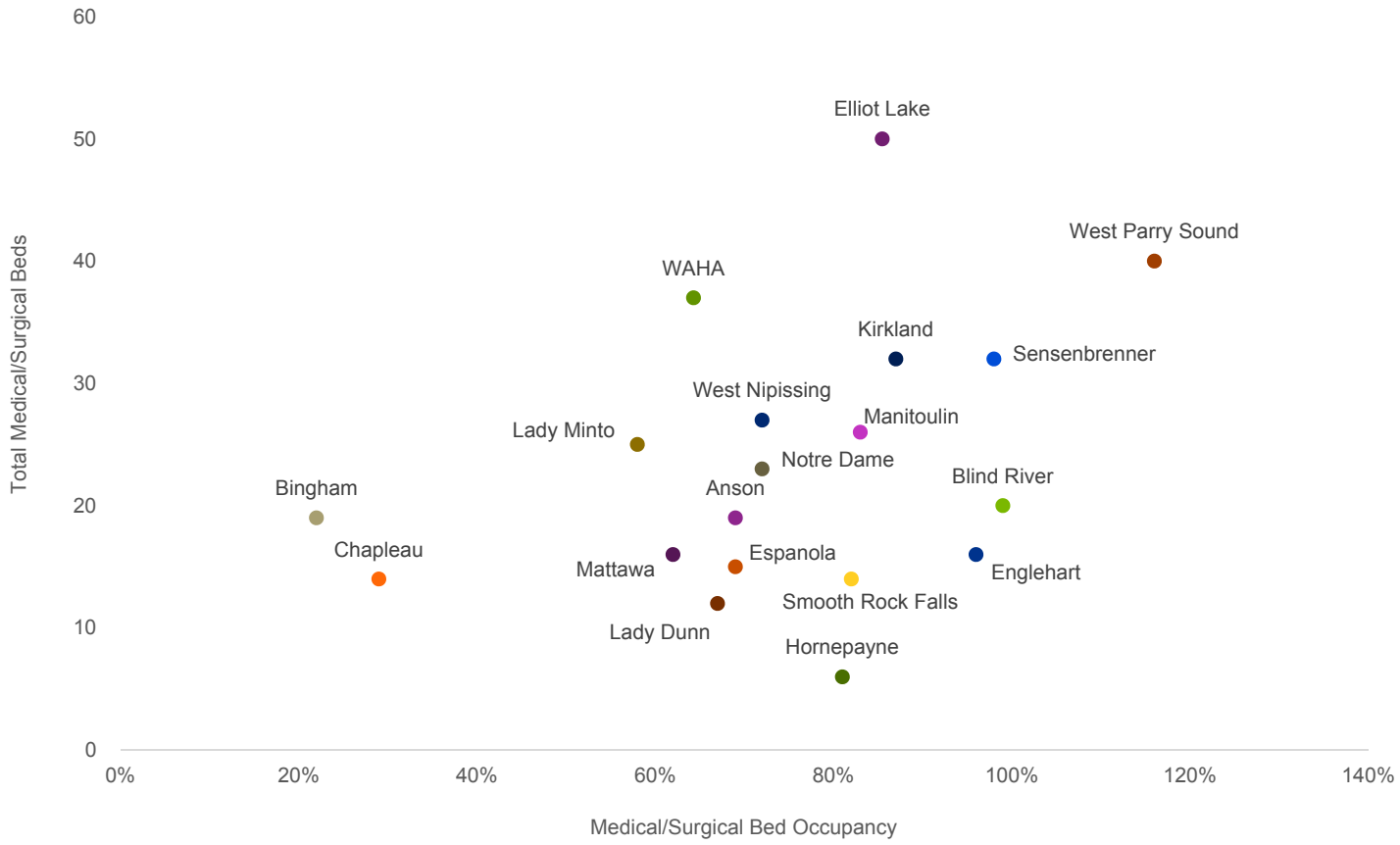
Current State Overview

With a medical-surgical bed occupancy of 29% in 2014, the Hospital's occupancy is significantly lower than all but one NELHIN hospital, regardless of size or location.

Hospital occupancy in comparison to other NELHIN hospitals

As noted below, the Hospital's relatively low occupancy rate for medical/surgical beds is relatively unique within the NELHIN, with all but Bingham Memorial Hospital reporting higher rates of occupancy.

Medical and surgical acute care bed occupancy rates by size of hospital (2014)



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Current State Overview

In comparison to other small NELHIN hospitals, the Hospital has (i) a higher number of acute care beds; and (ii) a lower rate of emergency department visits; when viewed based on total population served.

Hospital occupancy in comparison to other NELHIN hospitals (continued)

To a certain extent, it could be argued that the Hospital's lower than average occupancy rate is attributed to the fact that it has a higher number of acute care beds per thousand residents that most other small NELHIN hospitals, with only three other hospitals (Englehart, Smooth Rock Falls, Mattawa) having a higher number of acute care beds per thousand residents. We also note that the Hospital has the second lowest number of per capita emergency department visits of the selected small NELHIN hospitals., recognizing that emergency department visits will be influenced by the level of alternative primary care resources available in the community.

Hospital	Population	Acute Beds		Emergency Department Visits	
		Total	Per Thousand Residents	Total	Per Resident
Service de santé de Chapleau Health Services	2,116	14	6.62	2,424	1.15
Hôpital Notre Dame Hospital	5,090	23	4.51	13,432	2.64
Sensenbrenner Hospital	8,196	32	3.90	16,750	2.04
Anson General Hospital	4,595	19	4.13	7,198	1.57
Bingham Memorial Hospital	2,410	11	4.56	2,139	0.89
Blind River District Health Centre	3,549	20	5.64	19,087	5.38
Englehart and District Hospital	1,519	16	10.53	5,093	3.35
Espanola General Hospital	5,364	15	2.80	13,075	2.44
Hôpital de Mattawa Hospital	2,023	16	7.91	5,992	2.96
Hôpital de Smooth Rock Falls Hospital	1,376	14	10.17	2,805	2.04
Hornepayne Community Hospital	1,050	6	5.71	1,462	1.39
Lady Dunn Health Centre	2,975	12	4.03	5,388	1.81
Lady Minto Hospital	5,340	25	4.68	10,025	1.88
Manitoulin Health Centre	13,048	32	2.45	21,755	1.67

Our analysis is based on the Census reported population (2011) and does not attempt to adjust for age-sex weighting.

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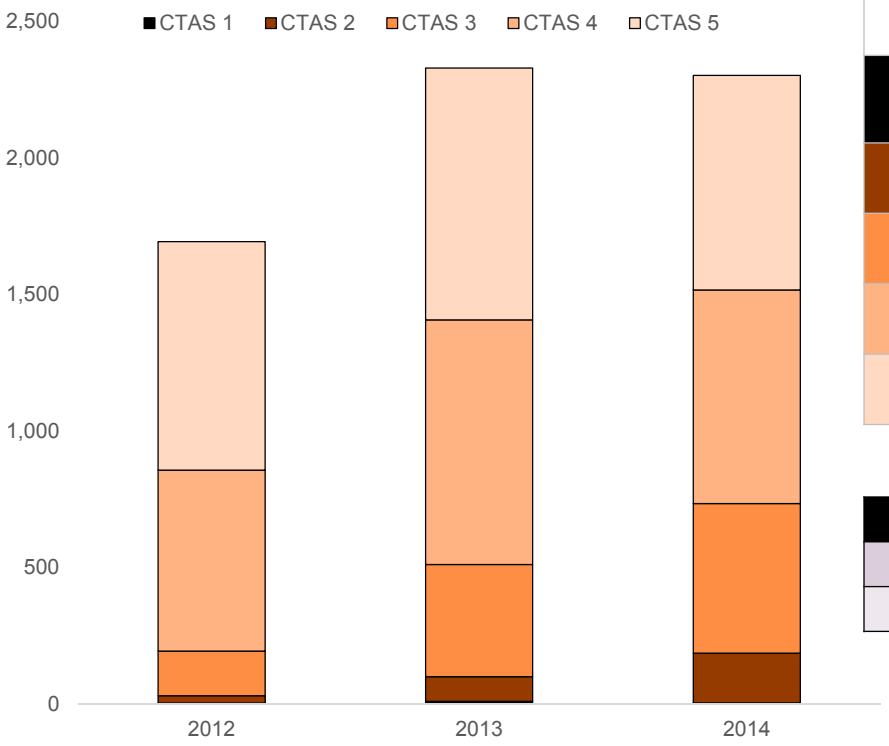
Current State Overview

Emergency department activity

As noted on the previous page, the Hospital has one of the lowest rates of emergency room visits per resident of all small NELHIN hospitals, with an average of just over 2,100 visits per year or six visits per day. Overall, 95% of the Hospital's emergency room visits are classified as non-emergency cases (CTAS 3,4 or 5).

Emergency Department Visits by CTAS Level



CTAS Level	Response Guideline	Three Year Average	Percentage of Total
1	Resuscitation – Patients need to be seen by a physician immediately 90% of the time	5†	0.24%
2	Emergent – Patients need to be seen by a physician within 15 minutes 95% of the time	100†	4.74%
3	Urgent – Patients need to be seen by a physician within 30 minutes 90% of the time	374	17.73%
4	Less Urgent – Patients need to be seen by a physician within 60 minutes 85% of the time	781	37.03%
5	Non Urgent – Patients need to be seen by a physician within 120 minutes 80% of the time	849	40.26%

† Details of the Hospital's CTAS 1 and 2 visits are as follows:

	2011-2012	2012-2013	2013-2014
CTAS 1	2	9	3
CTAS 2	27	90	182

During the course of our review, we were advised by the Hospital that the increase in CTAS 2 cases from 2012 to 2014 is due to changes to triage criteria.

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Current State Overview

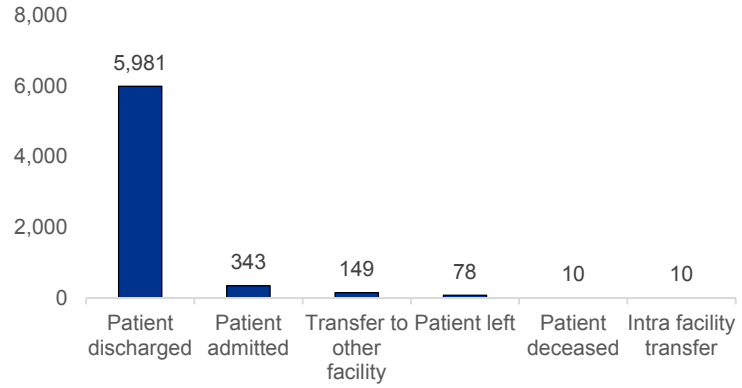
The majority of the Hospital's emergency room visits

- *occur between 8:00 am and 6:00 pm (70%)*
- *involve CTAS levels 3, 4 and 5 (95%)*
- *result in patients being discharged without community supports (91%)*

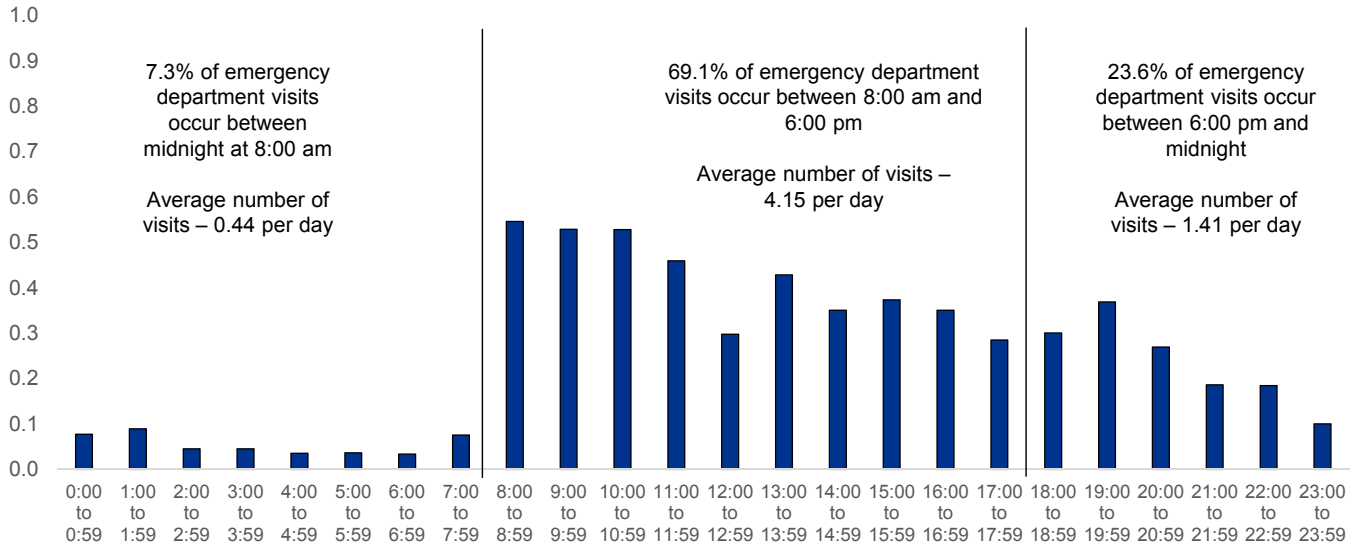
Emergency department activity (continued)

The non-urgent nature of the Hospital's emergency department is reflected in the nature of the disposition of emergency room patients. During the period April 2011 to March 2014, 91.1% of emergency room patients were discharged without community supports as compared to only 5.2% of patients being admitted to the Hospital (compared to the Provincial average of approximately 10%) and 2.2% being transferred to other acute care facilities. In addition, an analysis of the time of registration for the Hospital's emergency department indicates that the majority (just under 70%) of patients attend between the hours of 8:00 am and 6:00 pm. On average, the Hospital has reported less than two emergency room visits per day between the hours of 7:00 pm and 8:00 am during the period April 2011 to March 2014.

Disposition of emergency department patients



Average daily emergency department visits by time of day



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Current State Overview

The financial challenges facing the Hospital do not appear to be restricted solely to its core hospital operations. Rather, its Fund Type 3 programs are also incurring ongoing operating losses, further adding to the Hospital's financial pressures.

Financial performance

Over the last five years, the Hospital has experienced a cumulative deficit of $414,000 from a Fund Type 1 perspective, with deficits reported in three of the last five years. The Hospital is forecasted to incur a Fund Type 1 deficit of $416,000 in 2014-2015, which will require it to increase its level of short-term borrowings to a projected $550,000. In addition to its Fund Type 1 deficits, the Hospital is also incurring losses with respect to its Fund Type 3 programs, which have reported a cumulative deficit of $370,000 over the last five years, with an additional deficit of $195,000 projected for 2014-2015.

(in thousands)	2010	2011	2012	2013	2014	2015 (Budget)
Revenues:						
NELHIN funding	$6,022	$6,122	$6,294	$6,196	$6,616	$6,540
Ministry of Health and Long-term Care funding		$104	$107	$176	$238	$200
Other revenues	$2,071	$2,042	$2,044	$2,083	$1,964	$1,973
Total	$8,093	$8,268	$8,445	$8,455	$8,818	$8,713
Expenses:						
Salaries and benefits	$5,123	$5,532	$5,630	$5,306	$5,361	$5,985
Medical staff remuneration	$923	$921	$958	$1,026	$1,032	$909
Other expenses	$2,116	$2,134	$2,132	$2,034	$2,266	$2,236
Total	$8,162	$8,587	$8,720	$8,366	$8,659	$9,130
Fund Type 1 surplus (deficit)	**($69)**	**($319)**	**($274)**	**$89**	**$159**	**($416)**
Building amortization, net of contributions	($125)	($120)	($137)	($139)	($164)	($140)
Fund Type 2 surplus (deficit)	–	–	–	–	–	–
Fund Type 3 surplus (deficit)	($82)	($14)	($26)	($60)	($188)	($195)
Total reported surplus (deficit)	**($276)**	**($453)**	**($437)**	**($110)**	**($193)**	**($751)**
Cash (net borrowings)	($13)	($184)	$39	$352	$120	($550)

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Current State Overview

During the course of our discussions with Hospital representatives, we were advised that the change in the Hospital's financial performance from 2014 (actual results) to 2015 (budgeted results) is due to the following factors:

- Decreases in total NELHIN/MOHLTC funding of $114,000, reflecting reductions in one-time funding from the NELHIN. We note that during the 2014 fiscal year, the NELHIN reported total one-time funding paid to the Hospital of $415,231, the majority of which ($387,966) came from the Small and Rural Hospital Transformation Fund. The Hospital's 2014 budget indicates one-time funding of $168,750. The decrease in one-time funding is expected to be partially offset by a $73,600 increase in NELHIN base funding.
- Increases in compensation costs of $624,000, reflecting a combination of:
  - Salary increases awarded pursuant to the Hospital's collective bargaining agreement ($50,000);
  - The addition of four new positions funded either in whole or in part by the NELHIN ($271,000);
  - The filling of two vacant positions (patient care manager and support services manager) that were included in the 2014 budget ($165,000); and
  - Benefit cost increases associated with the above-noted staffing changes.

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Current State Overview

Financial performance (continued)

From a funding perspective, a comparison of NELHIN funding for hospitals in the Cochrane hub indicates that the Hospital receives a higher level of base funding on a weighted case basis than most other Cochrane hub hospitals excluding TADH.

Hospital	Type of Designation	NELHIN Funding (Base Only) (2014)	Weighted Cases (Acute, CCC, ELDCAP)	NELHIN Funding per Weighted Case
Cochrane Hub Hospitals (excluding TADH)				
Services de sante de Chapleau Health Services	Complete	$6,405,461	1,532	$4,181
Hôpital de Smooth Rock Falls Hospital	Complete	$5,153,562	1,254	$4,110
Sensenbrenner Hospital	Complete	$15,321,327	4,538	$3,376
Hôpital Notre Dame Hospital	Complete	$13,014,633	5,580	$2,332
Anson General Hospital	None	$7,943,777	3,858	$2,059
Lady Minto Hospital	None	$9,970,070	2,669	$3,736
Bingham Memorial Hospital	None	$5,790,827	749	$7,731
Total – Cochrane hub hospitals (excluding TADH)				$3,152

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Current State Overview

Overall comments and conclusions

Based on the results of our analysis of the Hospital's current state, we make the following comments and observations:

- The Hospital's acute care components, particularly its medical-surgical inpatient beds and emergency room, appear to be underutilized:
  - The Hospital's acute care occupancy of 29% is significantly lower than other NELHIN hospitals, despite the fact that it is influenced (overstated) by long-stay patients. This is the equivalent of having the Hospital's beds vacant 255 days a year;
  - Over the last three years, the Hospital's emergency room treated an average of six patients per day, the equivalent of one patient every four hours; and
  - The Hospital's emergency room predominantly serves non-emergent care patients during regular business hours who are typically discharged home without any support.
- The Hospital's financial pressures are not recent events but rather reflect continuation of historical operating deficits. Should the Hospital continue to incur financial deficits on the same scale as forecasted for 2014-2015, it will require additional sources of working funds over the short to medium term as its available cash has been fully utilized and its level of short-term borrowings have increased.
- The Hospital's financial circumstances are further complicated by operating deficits incurred by its Type 3 programs.
- The Hospital's geographic location is relatively remote from other hospitals within the NELHIN and as such, geographic proximity should be considered when determining potential courses of action for addressing the Hospital's situation. This is particularly relevant given the inherent cost inefficiencies associated with maintaining minimum staffing levels and levels of care.

Potential courses of action for consideration by the NELHIN, which reflect the above-noted comments and observations, are included on the following pages.

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Potential Options for Consideration

What hasn't been considered

The following strategies have not been considered as a result of our review and as such, are not recommended for consideration:

- Closure of the Hospital
- Reduction of emergency room hours to a level below 24/7 coverage
- Closure of all acute care inpatient beds, with replacement by short-stay/observation beds
- Corporate integration with another hospital(s)

Potential options for consideration

In order to address the financial deficits and associated drawdowns of the Hospital's working capital, the following strategies could be considered.

1. Rationalizing nursing resources

During the course of our engagement, we have reviewed the Hospital's nursing resources and scheduling, a summary of which is provided on the following page (schedule reflects Monday to Friday staffing only). We have reviewed this schedule with Hospital representatives who have confirmed the accuracy of the information presented.

As noted on the following page, the Hospital generally maintains a staffing complement to two to three RNs for its acute care functions, with up to four RPNs for its ELDCAP and CCC beds. In addition to these nursing resources, there appears to be:

- Two additional RN positions (at 80%) within the Hospital (nurse educator and infection control/occupational health);
- One additional RN present on a part-time basis (Director of Clinical Services); and
- Two activation staff that assist with ELDCAP and CCC beds

We were advised by the Hospital that it is planning to hire a Patient Care Manager who would replace the two current team leaders, which we estimate would provide savings in the order of $150,000 per year. In addition, consideration could be given to further consolidation of job responsibilities, including:

- The elimination of the part-time Director of Clinical Services, with those responsibilities assigned to the Patient Care Manager. We note that the Hospital's 2013-2014 MIS trail balance indicates that purchased services for inpatient nursing administration amounted to $107,471 during the 2014 fiscal year.
- The consolidation of infection control/occupational health responsibilities with another position within the Hospital

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Potential Options for Consideration

Functional Area	Position	Nursing qualification	12:00 am	1:00 am	2:00 am	3:00 am	4:00 am	5:00 am	6:00 am	7:00 am	8:00 am	9:00 am	10:00 am	11:00 am	12:00 am	1:00 pm	2:00 pm	3:00 pm	4:00 pm	5:00 pm	6:00 pm	7:00 pm	8:00 pm	9:00 pm	10:00 pm	11:00 pm
Acute care	Team leader*	RN																								
	Inpatient beds	RN																								
	Emergency room	RN																								
ELDCAP and CCC	Team leader*	RPN																								
	ELDCAP beds	RPN																								
	ELDCAP beds	RPN																								
	ELDCAP beds	RPN																								
Other	Director of Clinical Services	RN	Part-time position filled through purchased service arrangement																							
	Nurse educator**	RN																								
	Infection control/occupational health**	RN																								
Total registered nurses			2	2	2	2	2	2	2	5	5	5	5	5	5	5	5	5	4	4	4	4	2	2	2	2
Total registered practical nurses			1	1	1	1	1	1	1	4	4	4	4	4	4	4	4	4	3	3	3	3	2	2	2	2

* Monday to Friday

** The positions work approximately 20% of their time in the Hospital's acute care functions, with the remaining 80% spent on either nurse education or infection control/occupational health and safety. We have confirmed with the Hospital that (i) these individuals are scheduled on a 12-hour shift basis; and (ii) when these individuals are not involved in acute care activities, the Hospital will schedule additional staff to 'backfill' these positions.

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2. Consider shared service arrangements for back office functions

In addition to its clinical programs, the Hospital maintains an administrative function for finance, human resources, information technology and materials management. Selected information for these administrative functions is provided below.

Service	Annual Net Costs			Total Hours Worked	FTE
	Wages and Benefits	Other Costs, Net of Recoveries	Total		
Executive offices	$530,116	$119,347	$649,463	9,473	4.9
Finance	$151,321	$6,782	$158,103	3,452	1.8
Human resources	$69,730	$12,662	$82,392	1,116	0.6
Information technology	$88,062	$173,511	$261,573	1,909	1.0
Materials management	$11,439	$7,161	$18,600	300	0.2
Total	$850,668	$319,463	$1,170,131	16,250	8.5

The potential does exist for additional cost savings through greater collaboration with respect to the Hospital's back office and clinical functions, with either Lady Dunn Health Centre in Wawa or Timmins and District Hospital representing potential partners for the Hospital. We note that both of these hospitals have either partial (Lady Dunn) or full (TADH) French language service designations. We further understand that Lady Dunn Health Centre currently has a vacancy in its CEO position as a such, an immediate opportunity for shared services does exist.

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