

## Terms of Reference for External Review at Strathroy Middlesex General Hospital

**Date:** August 19, 2008

**Review Type:**  
External Review

### Overview of Approach to External Review:

1. External reviewer appointed by the Chief Executive Officer, South West Local Health Integration Network (South West LHIN).
2. All approved expenses of the external reviewer and associated support will be paid by the South West LHIN.
3. External reviewer to acquire support as required, with authorization from the CEO, South West LHIN, to execute the review.
4. External reviewer will update the CEO, South West LHIN, or his designate, and the CEO, Strathroy Middlesex General Hospital of the progress of the review, bi-weekly.
5. The review is required by the South West LHIN in order for the hospital to achieve a balanced financial operating position within the existing approved funding allocation. Consideration of the impacts on services, health human resources and other health service providers is a required component of the plan.
6. The hospital is required to actively participate in the review process and be responsible for the development and implementation of the final plan.

### Goal:

To develop a set of recommendations that enables the hospital to develop a Hospital Annual Planning Submission (HAPS) to achieve a balanced operating position within the existing approved funding allocation and enables the hospital to sign the 2008-10 Hospital Service Accountability Agreement (H-SAA).

### Objectives:

1. Develop within the context of the 2008-10 HAPS Guidelines and the 2008-10 H-SAA the opportunities for the hospital to establish a balanced financial operating position within the existing approved funding allocation. In developing the opportunities, the reviewer will consider the following based on existing operations:
  - a) Identify cost drivers within the organization;
  - b) Examine workload measures, current services provided, cost of services provided, efficiency of services provided and clinical outcomes.
  - c) Examine hospital decisions to expand and/or limit service levels within the previous two fiscal periods;
  - d) Review analysis conducted by the hospital in considering measures to achieve a balanced operating position put forward as part of the 2008-10 HAPS/H-SAA process;

- e) Examine the scope of current services compared to the mandate of the hospital and assess the appropriateness of current services and service levels. The examination should include the expansion of services by other providers.
  - f) In conjunction with the above examination, assess the opportunity for further clinical and administrative integration and partnership between the Middlesex Hospital Alliance hospitals;
  - g) Identify and quantify any other barriers preventing the hospital from achieving a balanced financial operating position and identify mitigation measures in response to these barriers;
  - h) Provide coaching and mentoring assistance to the Hospital's senior team in setting financial targets for realizing efficiencies, integration opportunities and program service levels.
2. In conjunction with the hospital senior leadership team, make recommendations to the hospital Board for approval to enable the hospital to submit a final HAPS to bring the hospital into a balanced financial operating position.

**Role of the External Reviewer:**

The external reviewer will:

- Provide input and experience to work with hospital senior leadership team in recommending measures to bring the hospital into a balanced financial operating position;
- Consult with hospital staff in consideration of efficiency opportunities, management of existing services and other impediments to operational performance improvement;
- Provide recommendations that enable the hospital to reach a balanced operating position within the existing approved funding allocation;
- Work with the hospital senior leadership team to present the recommendations to the hospital Board for approval;
- Remain available for further advice to the hospital and/or the South West LHIN as required following the approval of the 2008-10 H-SAA.

**Role of the Hospital:**

The senior management will:

- Support the external reviewer and provide all necessary information and access to staff required to meet the objectives;
- Work, with coaching and mentoring from the reviewer, to identify the net savings per functional centre required to achieve a balanced financial operating position;
- Develop an impact assessment on service levels, health human resources and access to service;
- Develop a risk assessment and management strategies for each measure;
- Develop an implementation plan for each measure, including key metrics and a timeline;
- Develop a monitoring plan for hospital senior management and Board;
- Develop a reporting plan and schedule (monthly) based on the implementation plan targeted to the South West LHIN on performance against targets and timelines;
- Develop an internal and external communications plan;

- Work in conjunction with the external reviewer to present the recommendations for the hospital Board's consideration;
- Based on the recommendations, submit a hospital approved 2008-10 HAPS and 2008-10 H-SAA per identified timelines;
- Implement, monitor and report on the final HAPS required to reach a balanced operating position.

### **Role of the South West LHIN:**

The senior leadership will:

- Consider the work of the external reviewer when reviewing the final HAPS submitted by the hospital;
- Ensure the hospital delivers on the implementation, monitoring and reporting requirements outlined in the final plan.

The Board will:

- Consider the hospital approved 2008-10 H-SAA per identified timeline.

### **Timeline:**

1. The review will begin the week of September 8, 2008.
2. Recommendations from the external reviewer will be prepared by October 1, 2008. The recommendations will also be submitted to the South West LHIN.
3. The final hospital Board approved 2008-10 HAPS to be submitted to the South West LHIN by November 3, 2008.
4. The hospital approved 2008-10 H-SAA to be submitted to the South West LHIN by November 21, 2008.
5. The South West LHIN Board will consider the H-SAA on November 26, 2008.

End.

23 September 2008

Mr. Mike Mazza  
Chief Executive Officer  
Strathroy Middlesex General Hospital  
395 Carrie Street  
Strathroy, Ontario  
N7G 3J4

Dear Mr. Mazza,

A set of operational efficiency performance benchmarking reports is attached, in electronic format, for your review. These benchmarking reports are for 2006/07 and 2007/08 and use 2007/08 peer hospital best quartile performance targets, except for:

- Drug costs (kept at current actual due to differences in reporting drug costs among hospitals)
- Non-labour non-drug costs in direct functional centres [set at the median if the median is lower than actual SMGH costs and there are significant costs in this category (greater than \$30,000)]

A summary report and a set of other (global) analyses such as sick time, are also attached. A few observations regarding the results are presented in this draft letter report.

### ***Benchmarking Results Overall, in Context***

The hospital peers used for benchmarking purposes were as follows:

SMH	596	ALLISTON STEVENSON	LOWH	826	KENORA LAKE O WOODS
CGMH	640	COLLINGWOOD GENERAL	WDMH	882	WINCHESTER DIST MEM
WLMH	664	GRIMSBY WEST LINCOLN	TH	888	NEW LISKEARD TEMISKG
LDMH	704	LEAMINGTON DIST MEM	WGH	890	WOODSTOCK GENERAL
HDH	726	MIDLAND HURONIA DIST	RHC	900	RIVERSIDE HEALTH CARE
RVH	788	RENFREW VICTORIA HOSPITAL	DCHCC	916	ORANGEVILLE DUFF-CAL HCC
HDGH	800	HAWKESBURY DISTRICT	SFPDH	928	SMITH FALLS & PERTH DISTRICT
NGH	804	SIMCOE NORFOLK GEN	NHH	940	NORTHUMBERLAND HILLS HOSPITAL
TDMH	824	TILLSONBURG DIST MEM	SBGH	946	SOUTH BRUCE GREY HS

The benchmarking performance reports at a functional centre level present a theoretical target savings of about \$5.2 million for 2006/07 and \$5.9 million for 2007/08, at the peer

best quartile<sup>1</sup>. The total theoretical savings target for SMGH equals 17.7% of net operating costs in 2006/07 and 17.0% for 2007/08. These results are presented in the following table. Note that a review of the reports and underlying data may lead to some data adjustments for comparability, and corresponding adjustment(s) in screening results.

### SMGH Overall Benchmark Results

Overall Benchmarking Results	2006/07		2007/08	
	FTEs	Net Total \$	FTEs	Net Total \$
SMGH Actual FTEs and Net Operating Costs	259.1	\$29,675,005	276.9	\$34,804,619
Calculated (Theoretical) Screening Targets @ Best Quartile	-48.3	-\$5,238,541	-43.9	-\$5,912,674
Percentage Change		-17.7%		-17.0%

For other clients, the initial screening percent has varied between 5.9% and 27.5%, with a median screening of 12.4% as presented in the following table. Note that the results for other clients below reflect a spectrum of community general (majority), teaching, CCC/Rehabilitation and specialty hospitals. Also, the mix of clients from one year to the next may vary. Relative to all HCM benchmarking clients, SMGH's theoretical screening percentages are above the median screening levels.

### Initial Benchmark Screening – Theoretical Savings Target Percentage

	Total	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Number	146	23	14	26	31	35	17
Mean	12.79%	14.05%	15.85%	12.09%	12.65%	11.62%	12.29%
Median	12.38%	13.67%	14.82%	11.30%	12.51%	11.70%	11.90%
Min	5.87%	9.45%	9.64%	5.87%	7.90%	6.60%	7.10%
Max	27.45%	25.69%	27.45%	25.60%	22.80%	18.40%	18.90%

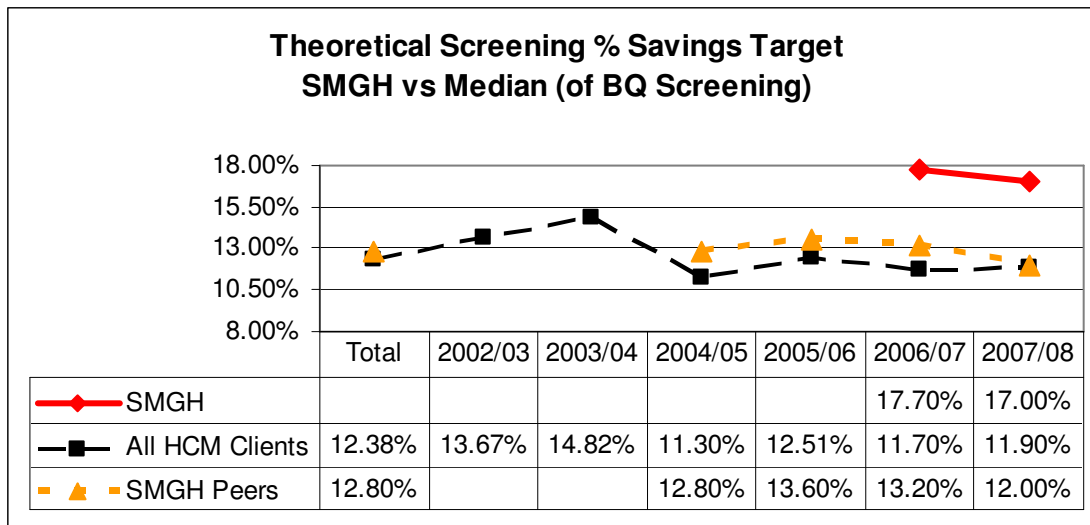
For clients that are being used as peers for SMGH, the initial screening percentage has varied between 8.7% and 18.4%, with a median screening of 12.8% as presented in the following table.

### Initial Benchmark Screening – Theoretical Savings Target Percentage – SMGH Peers

	Total	2004/05	2005/06	2006/07	2007/08
Number	13	1	3	5	4
Mean	13.26%	12.80%	12.43%	13.97%	13.10%
Median	12.80%	12.80%	13.60%	13.20%	12.00%
Min	8.70%	12.80%	8.70%	11.30%	11.80%
Max	18.40%	12.80%	15.00%	18.40%	16.60%

SMGH's 2006/07 and 2007/08 theoretical screening percentages of 17.7% and 17.0% respectively, relative to the hospital's peer group are above the median initial screening percentages. In comparison with 2007/08 SMGH has the highest theoretical screening percentage.

<sup>1</sup> Based on 2007/08 peer performance benchmarking at the best quartile performance levels for labour and median performance levels for non-labour. This methodology is consistent with operational reviews.



We have found that across all HCM clients, the percentage of theoretical savings has decreased over time for individual hospitals, as improvements to operational efficiency and reporting are made.

### ***Theoretical versus Achievable Savings***

Past clients who have pursued opportunities to improve cost efficiencies have achieved 23-52% of the best quartile screening savings potential, with a median/mean achievement of 36% as presented in the following table.

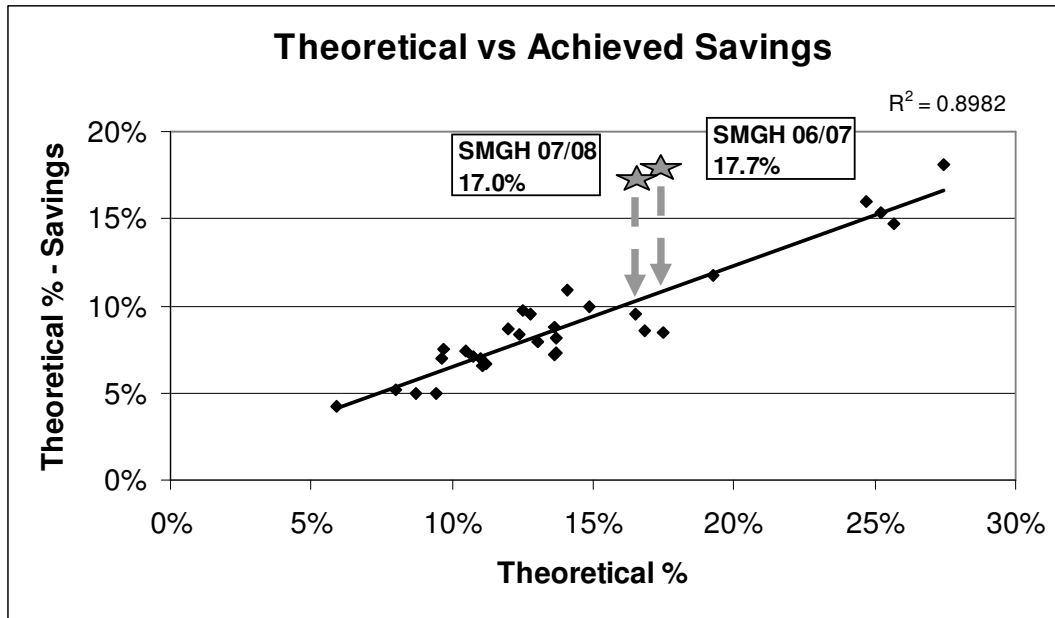
**Achievable Savings – Percentage of Theoretical Target**

	Total	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Number	31	10	4	4	4	7	2
Mean	36.12%	43.23%	38.62%	34.72%	28.48%	30.07%	34.85%
Median	35.70%	44.59%	39.12%	34.85%	25.50%	29.80%	34.85%
Min	22.50%	33.58%	34.19%	28.11%	22.50%	22.60%	27.10%
Max	51.77%	51.77%	42.06%	41.08%	40.42%	36.90%	42.60%

These improvement strategies represent initiatives from across the organization, including savings in areas that were identified as having no theoretical savings target (already in the best quartile) and new revenue/recovery opportunities.

SMGH’s potential opportunity for operational savings relative to other HCM clients appears to be greater than other hospitals. We have also seen that the magnitude of actual (not theoretical) savings opportunity for clients has lessened over the past few years, particularly for those clients who continue to strive for operating efficiencies and who typically are already near the lower end of the “theoretical savings percentage” range.

The chart below shows the experience of a wide range of Ontario clients with respect to theoretical versus achievable savings. The horizontal axis is the theoretical (initial) savings percentage (17.7% and 17.0% for 2006/07 and 2007/08 respectively, in SMGH’s case), while the vertical axis is the residual theoretical savings percentage (after the planned savings are subtracted).



SMGH’s current position on the x-axis suggests that there is room for improvement vis-à-vis the y-axis (residual theoretical savings percentage) in relation to what our past operational improvement clients have achieved.

Thus, based on our experience with other clients, SMGH could expect to achieve savings and revenues of \$1.4 – \$2.5 million (23% - 43% based on other client results over 2005/06 through 2007/08) of the total theoretical 2007/08 theoretical savings target (approximately \$5.9 million) in theory, if SMGH went through the same type of organization-wide operational improvement exercise that other clients have undertaken. From the regression chart above moving to the line is an improvement of about 5.6 % of net operating costs, representing \$1.9 million.

Note that two of the clients (one in 2006/07 and 2007/08) were SMGH peers who identified plans to achieve 25.6% and 27.1% of their theoretical potential, with initial theoretical screening percentages of 12.8% and 11.8% respectively. These improvement strategies represent initiatives from across the organization, including savings in areas that were identified as having no theoretical savings target (already in the best quartile) and new revenue/recovery opportunities.

From the functional centre reports, there appears to be opportunity for cost savings and/or increased revenue opportunities. As noted earlier a review of the reports and underlying data may lead to some data adjustments for comparability, and corresponding adjustment(s) in theoretical screening results.

**Allied Health Content of Care Analyses**

The allied health content of care analyses provide another perspective on benchmarking (versus the productivity-based measure of hours per attendance). These analyses

compare “how much” therapy SMGH is providing compared to the peers. The reported patient care workload units are used to allocate worked hours by the type of patient (acute, outpatient, etc.). Comparisons with peers focus on therapy hours per patient day and the percentage of resources devoted to outpatient care. These reports indicate the following:

- Physiotherapy’s percentages for outpatient services are above the peer median.
- The overall hours per acute patient day are at/above the peer median. Speech Language Pathology’s hours per acute patient day are higher than all peers.
- The overall hours per CCC patient day are above the peer median. Physiotherapy’s hours per CCC patient day are above 75<sup>th</sup> percentile.

### ***Other (Global) Analyses***

These secondary analyses are focused on more global opportunities. These reports indicate the following:

- Drug costs (analyzed at a very high-level, excluding other votes, outpatients and dialysis) as a percentage of net operating costs are less than the median and per weighted patient day are above the 75<sup>th</sup> percentile.
- Inpatient costs are above 75th percentile (may reflect differences in extent of cost distribution).
- Supply costs are above the median in most categories.
- The Hospital is above the 75th percentile overall (depreciation and equipment), above the 75th percentile for both depreciation and equipment maintenance, indicating that equipment is much newer than peers but also is maintained much more (potential to review maintenance contracts and reduce some costs)?. Combined biomedical and maintenance costs are between the 25<sup>th</sup> percentile and the median for patient care areas.
- Telephone long distance costs are less the peer median.
- 2007/08 sick time is between the just above the 25<sup>th</sup> percentile.
- Overall 2007/08 orientation hours are above the 75<sup>th</sup> percentile.
- Overtime is better than the peer median, but has been increasing over the last 3 years.
- Differential and chronic co-payment revenues appear to be low compared with the peers. Bad debt appears is above the peer median.

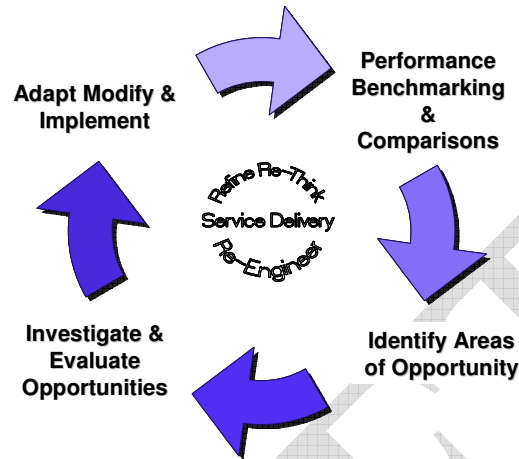
### ***Summary***

The results of the performance benchmarking exercise indicate that there are opportunities for cost savings and/or increased revenue opportunities.

Performance benchmarking is a tool that helps an organization become a top performer and is a means to establish internal priorities. On their own, the results derived from the performance benchmarking and comparisons are not the answer and are only one

component of a complete continual operational improvement process, as shown in the following diagram.

### Operational Improvement Process



As noted earlier, our clients over the past five years who have undertaken a comprehensive operational improvement process have identified operational improvement strategies that have accounted for 23 – 52% of their theoretical total savings potential, without reductions in service volumes. These improvement strategies represent initiatives from across the organization, including savings in areas that were identified as having no theoretical savings target (already in the best quartile) and new revenue/recovery opportunities. A process for confirming and achieving operational efficiency opportunities consists of the following steps and critical success factors:

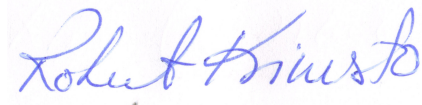
- Senior Management & Board must show commitment to improving operational efficiency and present a consistent message to the organization and community. The operational improvement process must be a top priority for the organization.
- The underlying benchmarking data (MIS Trial Balance Data) may be reviewed and corrections/adjustments made where appropriate to improve comparability. However, this should not become all-consuming<sup>2</sup>, as there is a need to move beyond the data and focus on identifying improvement initiatives.
- The operational improvement process itself must lead to ownership of the results by the Hospital. This is achieved by the following:
  - Ideally this should be an organization-wide undertaking and all areas, including those that do not have theoretical targets, should be involved in identifying opportunities.
  - Department heads should take the lead in understanding their benchmarking reports and in identifying and quantifying opportunities for their areas.
  - Senior management should be involved actively in reviewing and identifying opportunities as the process moves along, not after the process is completed

<sup>2</sup> Avoid “paralysis through analysis”

- Internal resources (such as financial analysts) should be available to help support department heads' analyses and development of plans.
- Ongoing monitoring is required in order to ensure that improvement initiatives are implemented and that the intended results are being achieved.

Please feel free to call me at 1-519-448-4180 with any questions or follow-up needs (such as any fine-tuning of the data or analyses). At that time we may discuss potential next steps including (if you are interested) our proven approach to Operational Improvement to help hospitals identify specific plans and initiatives to reduce operating costs.

Very truly yours,

A handwritten signature in blue ink that reads "Robert Kimsto".

Robert Kimsto, Principal  
HCM Group, Inc.

Encl.

DRAFT



5 December 2008

Mr. Michael Mazza  
Chief Executive Officer  
Strathroy Middlesex General Hospital  
395 Carrie Street  
Strathroy, Ontario  
N7G 3J4

Dear Michael:

HCM Group, Inc. recently assisted Strathroy Middlesex General Hospital (SMGH) in identifying and pursuing opportunities to improve operational and cost effectiveness. This letter report provides a summary of our involvement in this project and our assessment of the process, the rigour undertaken by SMGH, and the associated results.

## Background and Objectives

The objective of this project was to undertake a comprehensive internal review of SMGH's organization and operational processes to identify and implement strategies to improve operational efficiency and effect significant cost savings.

## HCM's Involvement

HCM's role was one of support to the vice presidents and department heads to help them identify opportunities and establish departmental plans to achieve the required savings, specifically:

- To prepare cost savings targets based on benchmarks at the best quartile of peer hospitals
- To move the process through to a timely and appropriate conclusion, so that SMGH can address (and demonstrate that it is addressing) its need to reduce operating costs
- To push, challenge and assist department heads to adopt plans that are achievable and aggressive enough to reach the broad savings target (recognizing that Senior Management must continue to provide the overall leadership).

Our participation encompassed the following:

- **Performance Benchmarking** – we conducted a productivity/performance benchmarking exercise consistent with approaches and methodologies utilized in several recent hospital operational improvement engagements. This consisted of the following:
  - ◇ Editing of SMGH MIS Trial Balance data for 2007/08 (actual) data and making changes where appropriate, and editing/review of detailed trial balance files
  - ◇ Preparation of SMGH data (past four years) and 2007/08 peer data for purposes of performance benchmarking (this included a review of peer performance results and removal of outliers).
  - ◇ Setting of preliminary performance targets (based on peer performance benchmarking at the best quartile performance levels for labour and median performance levels for non-labour) for all departments.
  - ◇ Preparation of reports by department with identified FTE/cost savings, and a summary listing of the potential savings
  - ◇ Review of factors that may affect/explain productivity differences
  - ◇ Review of reports with the Senior Administrative Team and revision of reports where needed to account for data/other artefacts or other SMGH circumstances.
  
- **Department Workshop** - We conducted a workshop with Senior Management and department heads to ensure a consistent approach and common understanding of the overall objectives and processes related to this project:
  - ◇ Provided orientation to performance benchmarking, the performance targets and expected savings, and approaches to improving performance
  - ◇ Distributed performance reports and calculated screening targets for cost savings
  - ◇ Ensured that all department heads are in tune with the Organization's serious need to reduce costs quickly, and that Senior Management commitment is demonstrated
  - ◇ Presented ideas for other opportunities to reduce costs (inventory control, supplies costs reductions) and/or increase revenues
  - ◇ Provided a framework for departments as to how to contact some better performing peers to understand practices that help them achieve high levels of performance (not to compare data, as this would have been a fruitless undertaking)
  - ◇ Provided a guide to assist department heads in identifying potential initiatives to achieve targets.
  - ◇ Provided department heads with follow-up work and a workbook for completion/submission that identify how they plan to achieve or exceed the savings targets for their areas.

- **Progress Monitoring** – We conducted several meetings with the department heads and Vice Presidents to monitor and provide support, including:
  - ◊ Reviewed each department’s progress and completed workbooks, and identified any follow-up needs.
  - ◊ Challenged department’s assumptions and constraints, to clearly identify initiatives that can be undertaken in the current environment.

## Performance Benchmarking Results, In Context

The hospital peers used for benchmarking purposes were as follows:

CODE	PEER HOSPITAL NAME	CODE	PEER HOSPITAL NAME
SMH	596 ALLISTON STEVENSON	LOWH	826 KENORA LAKE O WOODS
CGMH	640 COLLINGWOOD GENERAL	WDMH	882 WINCHESTER DIST MEM
WLMH	664 GRIMSBY WEST LINCOLN	TH	888 NEW LISKEARD TEMISKG
LDMH	704 LEAMINGTON DIST MEM	WGH	890 WOODSTOCK GENERAL
HDH	726 MIDLAND HURONIA DIST	RHC	900 RIVERSIDE HEALTH CARE
RVH	788 RENFREW VICTORIA HOSPITAL	DCHCC	916 ORANGEVILLE DUFF-CAL HCC
HDGH	800 HAWKESBURY DISTRICT	SFPDH	928 SMITH FALLS & PERTH DISTRICT
NGH	804 SIMCOE NORFOLK GEN	NHH	940 NORTHUMBERLAND HILLS HOSPITAL
TDMH	824 TILLSONBURG DIST MEM	SBGH	946 SOUTH BRUCE GREY HS

The benchmarking performance reports at a functional centre level present a theoretical target savings of about \$5.07 million for 2007/08, at the peer best quartile<sup>1</sup>. The total theoretical savings target for SMGH equals 14.5% of net operating costs 2007/08.

For other clients, the initial screening percent has varied between 5.9% and 27.5%, with a median screening of 12.3% as presented in the following table. Note that the results for other clients reflect a spectrum of community general, teaching, CCC/Rehabilitation and specialty hospitals. Also the mix of clients from one year to the next may vary. Relative to all HCM benchmarking clients, SMGH’s theoretical 2007/08 screening percentage is above the median levels.

### Initial Benchmark Screening – Theoretical Savings Target Percentage

	Total	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Number	150	23	14	26	31	35	21	2
Mean	12.67%	14.05%	15.85%	12.09%	12.65%	11.59%	11.59%	7.26%
Median	12.28%	13.67%	14.82%	11.30%	12.51%	11.40%	11.40%	7.26%
Min	5.87%	9.45%	9.64%	5.87%	7.90%	6.60%	7.10%	7.10%
Max	27.45%	25.69%	27.45%	25.60%	22.80%	18.40%	18.90%	7.41%

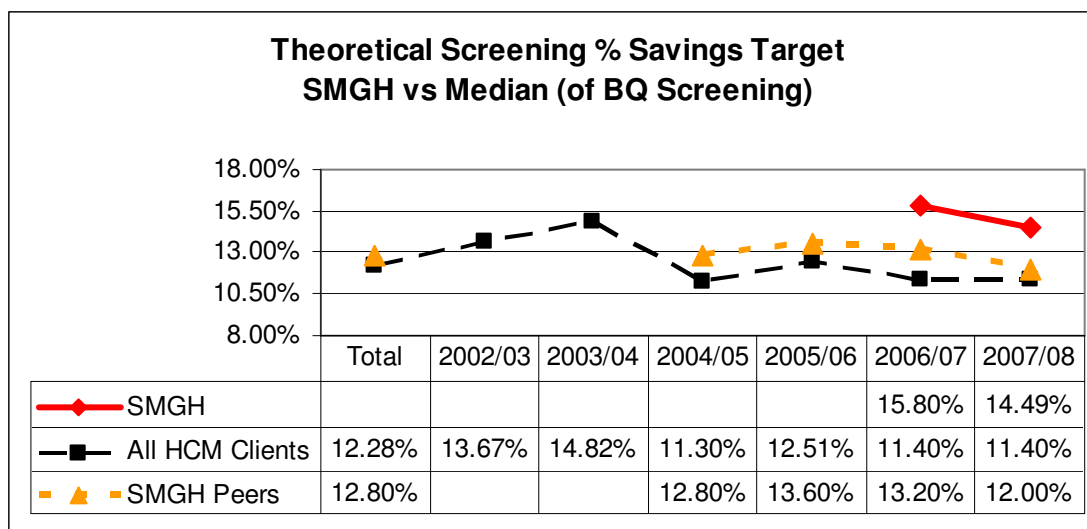
<sup>1</sup> Based on 2007/08 peer performance benchmarking at the best quartile performance levels for labour and median performance levels for non-labour. This methodology is consistent with operational reviews.

For clients that are being used as peers for SMGH the initial screening percentage has varied between 7.4% and 17.6%, with a median screening of 12.4% as presented in the following table. Note that the peer group in the table below is not the same from one year to the next.

**Initial Benchmark Screening – Theoretical Savings Target Percentage – SMGH Peers**

	Total	2004/05	2005/06	2006/07	2007/08
Number	13	1	3	5	4
Mean	13.26%	12.80%	12.43%	13.97%	13.10%
Median	12.80%	12.80%	13.60%	13.20%	12.00%
Min	8.70%	12.80%	8.70%	11.30%	11.80%
Max	18.40%	12.80%	15.00%	18.40%	16.60%

SMGH's 2007/08 theoretical screening percentages relative to their peer group of hospitals is above the median.



Like all of our clients who have undergone this type of operational improvement project, issues related to data quality and reporting consistency were identified. For SMGH the following issues related to data reporting and peer comparisons were identified:

- For SGMH the birthing program is reported within the combined medical/surgical inpatient functional centre. For improved peer comparisons the peer hospital birthing programs were combined with their combined medical/surgical functional centres.
- PACS-related costs were reallocated from Information Systems to Diagnostic Imaging
- The following data/reporting issues were identified however the no adjustments made to either SMGH or peer hospital data:
  - ◇ SMGH's Switchboard operations is a function within the Admitting (Registration) functional centre and is not separated out for Trial Balance reporting purposes

- ◇ SMGH’s Chief Financial Officer is reported under Finance versus General Administration
- ◇ SMGH’s Chief Nursing Officer is reported under Nursing Administration versus General Administration
- ◇ SMGH’s Occupational Health and Safety is reported under General Administration versus Human Resources

SMGH will need to ensure that the appropriate mechanisms and processes are in place to report MIS data correctly on an ongoing basis.

## SMGH Results of Operational Improvement Process

This initiative was focused on improving efficiencies without reducing services (although a large portion of the savings arise from bed closures that SMGH had planned for prior to undertaking this exercise). Departments were challenged and were required to rethink how they provide services, and to provide and implement alternatives. In contrast to traditional operational reviews, this initiative was built on “made in SMGH solutions”, rather than completely external recommendations for specific changes. This results in more buy-in/ownership and strengthens corporate commitment to the initiatives being implemented.

### *SMGH Department-Identified Initiatives*

SMGH’s department-identified operational improvement initiatives have resulted in the identification of approximately \$2.7 million in cost savings and increased revenues as presented in the following table:

SMGH Operational Improvement Target Savings/Revenues	Total Initiatives	
	FTEs	Total \$
Labour Related (Salaries & Fringe Benefits)	-29.9	(\$2,188,189)
Non-Labour Related		(\$459,369)
Potential Recoveries/Revenues		(\$38,350)
<b>Total Potential Savings/Revenues</b>	<b>-29.9</b>	<b>(\$2,685,909)</b>
One-Time Costs Identified		\$5,471
<b>% of 2007/08 Calculated (Theoretical) Targets Achieved</b>	<b>53.0%</b>	
<b>Percentage Change in 2007/08 Net Operating Costs</b>	<b>-7.7%</b>	

The total \$2.7 million in cost savings and increased revenues targeted by SMGH represents 53.0% of the theoretical possible savings<sup>2</sup> for 2007/08. This compares to a range of 22 – 52% achieved (over the past 6 years) for other hospitals for whom we have completed similar projects, with a median/mean achievement of 35%<sup>3</sup> as presented in the following table. As noted above, past clients reflect a spectrum of community general, teaching, CCC/Rehabilitation and specialty hospitals. However, as illustrated in the table below, we have seen that the magnitude of actual (not theoretical) savings opportunity for clients has lessened over the past few years. Between 2005/06 and 2007/08 this range has been 22 – 43% with a median achievement of 29%. SMGH results are above the highest results (as a percentage of theoretical target) identified by our clients.

#### Achievable Savings – Percentage of Theoretical Target

	Total	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Number	34	10	4	4	4	7	5
Mean	35.96%	43.23%	38.62%	34.72%	28.48%	30.07%	34.50%
Median	35.46%	44.59%	39.12%	34.85%	25.50%	29.80%	33.00%
Min	22.50%	33.58%	34.19%	28.11%	22.50%	22.60%	26.30%
Max	51.77%	51.77%	42.06%	41.08%	40.42%	36.90%	43.50%

The documented initiatives will continue to be reviewed and analysed by the Senior Management Team to ensure that savings and revenue targets identified are fully achievable. As a result, some initiatives may not be pursued, may be replaced with other initiatives, or may have new savings/revenue targets identified. Some observations related to the identified initiatives and other comments provided are:

- Allowances for one time costs related to human resources (ie severance) and ongoing depreciation, maintenance costs, etc. have not been accounted for.
- Approximately \$870,000 (32%) of the total SGMH’s identified opportunity relates to closure of the Complex Continuing Care beds (Aug & Nov 2008) and Transitional Beds (May 2008)
- The majority of the patients remaining on the CCC unit are rehabilitation patients; the Hospital is not funded to provide rehab services. The hospital reported that a large portion of their outpatient physiotherapy services is focused on their rehab patients which helps in reducing the inpatient length of stay.

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<sup>2</sup> Allowances for one-time costs related to human resources (severance) and ongoing depreciation, maintenance costs, etc. have not been accounted for yet

<sup>3</sup> This includes pursuing cost savings in areas for which no savings target is identified (already at “best practice”) and new revenues/recovery opportunities. Note that the majority of past clients have been community general hospitals.

- The \$2.7 million in targeted cost savings and increased revenues represents changes from SMGH's 2007/08 actual net operating costs. Some of these savings are not budgeted for on an annual basis (eg., overtime, standby costs, etc.). Of the \$2.7 million SMGH has identified approximately \$2.4 million as 2009/10 budget-related savings and increased revenue opportunities.
- We understand that SMGH will investigate further and pursue as appropriate the additional functional centre and global potential savings opportunities identified (but not quantified) by Directors/Managers.
- This project was focused on identifying initiatives related to operational efficiency savings and increased revenues. There may be additional opportunities related to clinical efficiency improvements and reviewing SGMH's current role and scope of services, which were outside the scope of this project.

As you are aware, the identification of savings opportunities represents but one stage in your overall process. The next more challenging stage is the implementation of the required actions that will result in the complete realization of these savings opportunities. Preliminary high-level planning of these initiatives are targeted to achieve the majority of the savings/revenues for the 2009/10 fiscal year. These timelines are preliminary and will likely be adjusted as further review is conducted and detailed implementation plans are developed.

Thank you for the opportunity to have worked with the Strathroy Middlesex General Hospital. Please do not hesitate to call us to discuss this initiative and our role further.

Very truly yours,

A handwritten signature in blue ink that reads 'Robert Kimsto'.

Robert Kimsto  
Principal, HCM Group, Inc.

