Kingston General Hospital
Performance Improvement Plan and
Fiscal 2010 Budget

2009 June 12

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Origin of the Performance Improvement Plan

The financial challenges facing Kingston General Hospital (KGH) are significant, and have been for several years, culminating in a projected operating deficit of nearly $30 million one year ago. Management and the Board of Directors are confident that this situation can be resolved through a Performance Improvement Plan that systematically eliminates the operating deficit by the end of Fiscal 2012. Through the short-term implementation of improved management practices and longer-term changes to the organizational culture, re-design of workforce, and patient care and support systems models, KGH will learn to live within its means. These changes must, however, not compromise the quality and safety of patient care nor force any otherwise avoidable reduction in clinical service.

Magnitude and Timing

The Board of Directors is accountable to ensure that the organization accomplishes a full financial recovery over a three year period ending March 31, 2012 as identified in the Deficit Recovery Plan dated 2008 November.

This Recovery Plan (known as the Performance Improvement Plan or "PIP") is a three-year plan to achieve a balanced budget by the end of fiscal year 2012. The Plan included an overall target for deficit reduction of $27.3M. Recognizing the magnitude of the change required, the timeframe for the implementation covered the remaining portion of Fiscal 2009 through to 2012 March 31.

> *"Sufficient time must be allowed for the changes to be successfully implemented and sustained in order to protect clinical services. The renewal of the KGH Board of Directors, the recruitment of a new President and Chief Executive Officer, the appointment of an Interim Chief of Staff and the creation of the Senior Vice President, People Services and Organizational Effectiveness position will be key enablers for maintaining a focus on leadership development, accountability and cultural change, and successfully achieving the plan."*
>
> *KGH PIP, 2008 November*

Deficit reduction initiatives were focused on Steps 1 – 6 of the Ministry of Health and Long-Term Care's prioritization ladder as follows:

- Revenue Generation/Shared Service Recoveries
- Administration and Support Efficiencies
- Operational and Clinical Efficiencies

- Diagnostic Imaging, Laboratory, Pharmacy Efficiencies
- Program Efficiencies and Consolidation
- Utilization Management

Human resource impacts were to be managed primarily through attrition with strategies such as early retirement and layoff used only as a last resort.

Step 7 (Clinical Service Reduction) was not contemplated.

Base Adjustment of $5 Million and Reduction of PIP Target

Subsequent to the development of the PIP, the Ministry provided a base funding adjustment of $5M to the Hospital. Originally it was intended that the $5M adjustment would be utilized to address severance or one-time expenses relative to the Recovery Plan, and should excess funds be available, to address capital investment needs. It was later discussed with the Hospital's Resources Committee (and presented to the South East Local Health Integration Network (SE LHIN)) that this amount should, more properly, be deducted immediately from the original $27.3M deficit reduction target. In addition, any contemplated severance or other one-time expenses should be managed within the annual operating expenditures.

After such adjustment, the revised PIP deficit recovery target translates into a deficit reduction of $22.3 million by end of Fiscal 2012.

Progress of the PIP

Recommended Deficit Reduction Timing

It is considered achievable for the Hospital to obtain a balanced financial position by the end of Fiscal 2012 as contemplated by the Deficit Recovery Plan.

Fiscal Year	Year-end financial position
2009	($19.3M)* actual
2010	($13.5M) budget
2011	($ 8.1M) projected
2012	Balanced projected

* excluding $4 million exceptional deferred revenue item

It is important to note that the above year-end financial positions reflect PIP relevant operating results only. For further information regarding inflationary impacts in Fiscal 2010 and later years *see* (Page 9).

Performance Improvement Plan Initiatives

The following details initiatives incorporated into the current fiscal year and targets for the following two fiscal years. It is recognized that these targets, at this point, do not totally eliminate the deficit. Work will continue over the summer to identify ways to fully address the remaining deficit.

	PIP Initiatives	Fiscal 2010 Budget	Fiscal 2011 Projection	Fiscal 2012 Projection
Revenue Opportunities (Step 1)	Bill for CT scan to other regional hospitals	86,000		
	Increase vendor revenue in chronic kidney disease (CKD) drug supply contract	195,000		
	Other revenue initiatives e.g. drug dispensing, TV & Phone patient rentals	513,488		
Supply & Other Expense reductions	Equipment amortization	1,267,040		
	Reduce travel expenses; overall one third reduction from 07/08	150,000		
	Removal of express shuttle service to parking lot	224,000		
	Nutrition services inventory & distribution control initiatives	102,917		
	Discontinue practice of mass carpet & paint projects	200,000		
	Save interest charges on credit line by reducing Accounts Receivable & eliminate interest free employee computer purchase program	43,500		
	Cardiac program product standardizing initiatives for electrophysiological studies (EPS) & ablation catheters, and drug eluting stents (DES)	183,400		
	Other supply cost standardization and reduction initiatives	527,660		
Utilization Management (Step 5)	Cohort ALC patients	150,000		
	Closure of 15 acute beds	1,102,688		
	Other length of stay reduction initiatives	96,804		
	Other ongoing utilization management initiatives	147,800		
Workforce redesign	Reduction in paid sick time replacement	873,679		
	Baseline staffing changes per Corpus Sanchez recommendations	2,165,876		
	Position eliminations	2,351,635		
	Automate patient information	104,125		
	Other process efficiencies	2,625,352		
	Total Potential Reductions	**13,110,964**	**$5.4M**	**$4.5M**
	3 Year Total Potential PIP Initiatives		**$23M**	

Approximate FTE Reductions by Initiative/Category Fiscal 2010	
Reduction in sick time replacement	10.3
Workforce redesign	26.8
Other process efficiencies	14.1
Bed reduction	10.5
Baseline staffing changes (CSI recommendation)	22.9
Total	84.6

Approximate FTE Reductions by Area Fiscal 2010	
Direct patient care	45.2
Allied health	2.1
Administration and support	37.3
Total	84.6

Volume Indicators

It is important to note that the 3-year Performance Improvement Plan does not include any reduction in clinical services. Key activity volumes are displayed in the following table:

Activity Volumes	**Fiscal 2009 Actual**	**Fiscal 2010 Budget**
Admissions	19,450	19,400
Total Weighted Cases (ytd Dec)	26,010	26,000
projected weighted cases F2009	34,679	34,700
Average ALC Patients per Month	60	57
OR Hours (IP & OP)	21,143	18,148*
OR Cases (IP & OP)	8,488	7,878*
Emergency Department Visits		
Admitted Pts **(CTAS 1-5)**	8,163	8,297
Non Admit High Acuity **(CTAS 1-3)**	22,823	23,198
Non Admit Low Acuity **(CTAS 4,5)**	14,270	14,505
Total ER Visits	**45,256**	**46,000**

* The Fiscal 2010 budget does not reflect new revenue or expense related to KGH's 11th operating room, as funding has yet to be confirmed by the Ministry.

Efficiency Indicators

Cost-centre specific benchmarking targets are being incorporated into PIP initiatives. Relevant indicators will be monitored regularly by program management and executive leadership to ensure the operational results are achieving the target goals.

The following organizational indicators have been indentified for monitoring:

Indicators	Fiscal 2009 Actual	Fiscal 2010 Budget
Financial (HSAA)		
- (Deficit) from operations (before building amortization)	($14.8M)	($14.525M)
- Total Margin % (Ministry target 0%)	(3.9%)	(3.96%)
- Working capital (deficit)	($54.614M)	($60M)
- Current ratio	0.48:1	0.44:1
Organizational Health (HSAA)		
- % Nurses employed full-time (Ministry target 70%)	78.2%	74.6%
- % Sick time hours	6.4%	5.2%
- % Overtime hours	1.6%	0.8%
- Average days sick per employee	14	12
- Full-time Equivalents (FTEs)	2,669	2,590
Quality/Efficiency		
Acute Length of Stay (ALOS) (Excl. Newborns)		
- ALOS (All Services) – Days	6.6	6.3
- ALOS (Medical) – Days	8.6	8.2
- ALOS (Surgical) – Days	6.9	6.6
- OR Cancellation Rate	9.4%	7%
- Elective Surgical Wait Time (Median) – Days	46	44
Emergency Department LOS Performance		
Admitted Patients (% Acuity Level 1-5 Patients within 8hrs ED LOS)	27%	37%
Non Admit High Acuity (% Acuity Level 1 and 2 Patients with ED LOS <=8hrs, % Acuity Level 3 Patients with ED LOS <=6hrs)	77%	87%
Non Admit Low Acuity (% Acuity Level 4 & 5 Patients with ED LOS <4hrs)	66%	76%

Investments

The full realization of the PIP requires a specific focus on expense reduction. However, a number of investments have been incorporated to enable the successful achievement of this goal.

Kingston General Hospital is renewing its focus on people and quality of work life. In this regard an investment in a new Vice President of People Services & Organizational Effectiveness has been incorporated.

Also, in the area of human resource investment, the Interprofessional Collaborative Practice Model (ICPM) has been identified as a top priority at KGH that will transform how care is delivered by our providers to our patients and their families. With the growing demand on providers and resources the need for fundamentally re-thinking how we provide care is necessary. This rethinking requires KGH to redesign roles (i.e., who does what) and processes (i.e., how our staff perform the work) to meet the changing needs of patients; to improve efficiency and efficacy of how care is delivered; and to create a work environment that supports staff wellbeing as well as retention and recruitment efforts.

In order to achieve some of the PIP savings in fiscal years 2011 and 2012 investment in technology or capital equipment is required. In this regard, the Fiscal 2010 Critical Capital Funding Submission to the Ministry of Health and Long-Term Care has requested approximately $5M in funding to facilitate the efficiencies identified.

Investments have also been made to support the Ministry's Emergency Department (ED) Pay for Results Program. These include positions to enable critical care throughput from the ED and transfer/admission to inpatient units, capital investment for the ED to enable point of care testing, and continued support for positions to decrease offloading delays with ambulance service.

Risks

General risks

Risks inherent in this proposed Performance Improvement Plan and the 2010 Operating Budget could impact the timing of achieving the individual year target savings and/or achieving the overall goal of a Balanced Budget Plan within the 3-year timeframe.

The rate of future annual funding increases will not likely keep pace with labour settlements and other inflationary increases. This shortfall is not currently known for fiscal years 2011 and 2012. The magnitude of this impact will determine the extent to which additional initiatives will be required in order to maintain the balanced budget position at the end of Fiscal 2012.

The Performance Improvement Plan assumes that the Hospital will have the ability and resources to operationalize performance improvement initiatives within the timeframes identified. Several initiatives in this Plan are predicated on the receipt of capital funds ($15 million capital submission) from the Ministry in order to achieve these outcomes. We fully expect imminent approval of that submission.

Further, the PIP contemplates that human resources savings will be achieved mainly through attrition based on historical trends in our organization, thereby minimizing severance requirements. The current global and local economic situation may affect our ability to use attrition as much as planned.

The Plan to achieve a balanced budget by the end of Fiscal 2012 included a number of assumptions based on a benchmarking data comparison relative to peer facilities. To the extent that issues with the quality of such data used for this purpose exist, benchmarking targets will need to be analyzed, understood and adjusted appropriately.

Next Actions

In order to fully achieve the targeted (revised) reductions of $22.3 million by the end of Fiscal 2012 the following must be undertaken immediately:

1. The initiatives identified for current year implementation must be fully realized by instilling a strong accountability in the entire management organization.
2. Management must continuously monitor performance against targets and take corrective action, if necessary. Detailed action plans for Fiscal 2011 and Fiscal 2012 must be developed. Some budget reduction measures planned for Fiscal 2011 and Fiscal 2012 may need to be advanced if current organizational performance slips within year.
3. Executive leadership must continue to set the absolute priority of achieving a successful PIP by the end of Fiscal 2012. Specifically, financial and human resource support to managers must be improved by providing better tools for understanding and managing program activity and people.
4. Management must continue to identify new revenue generating opportunities and pursue new sources of funding. External partners will be asked to provide innovative solutions that, to this point, have not been considered feasible.
5. Medical staff must understand, support and involve themselves in active review of utilization of all Hospital resources, recognizing that a successful Hospital PIP necessarily requires changes to their practice of medicine in the Hospital. Effective utilization management does not occur as a result of

management actions alone, but in concert with active physician engagement.

6. Middle management must become better versed in understanding the concept of benchmarking against peers and use this information to continuously evaluate potential opportunities to improve efficiency.
7. Executive leadership must sustain current positive communications with the SE LHIN to apprise them of our challenges and progress on all fronts.

Fiscal 2010 Operating Budget

The budget for Fiscal 2010 reflects the results of the first year activities indentified within the Performance Improvement Plan (PIP). Approximately $13M of PIP initiatives have been incorporated into the budget for this fiscal year. Also incorporated is $1.1M of net inflationary impacts that have developed within the current year as a result of increased Ministry funding awards and wage and expenditure inflation. The Fiscal 2010 budget projects a deficit of revenues over expenses of $14.5M (Hospital operations plus Funds 2/3 indicated below). (This can be considered to represent a combined effect of PIP deficit reduction to $13.5 million and an additional deficit of $1.0 million relative to new 2010 funding pressures.)

Budget Outlook (in $000)	Fiscal 2009 Actual	Fiscal 2010 Budget
Revenue		
- Ministry/LHIN funding (base + activity)	271,650	278,716
- Ministry/LHIN one-time	15,954	11,119
- Patient revenue other payors	16,387	16,203
- Differential and co-payment	4,488	4,621
- Recoveries and miscellaneous	19,593	17,153
- Amortization of deferred capital contributions	6,180	5,911
Sub-total	**334,252**	**333,723**
Expenses		
- Compensation	187,600	185,756
- Benefits	45,964	47,054
- Medical and surgical supplies	31,458	31,330
- Drugs and medical gases	20,941	21,580
- Supplies and other	45,815	45,081
- Interest expense	573	642
- Rental/lease of equipment	2,555	2,250
- Amortization of major equipment	13,016	14,053
- Bad debts	1,130	600
Sub-total	**349,052**	**348,346**
(Deficit) from hospital operations	(14,800)	(14,623)
Building amortization expense, Net	(3,541)	(3,867)
Fund 2 surplus/(deficit) – Clinical education and other votes programs	36	(114)

Budget Outlook (in $000)	Fiscal 2009 Actual	Fiscal 2010 Budget
Fund 3 surplus/(deficit) – Non-hospital operations	441	212
Total (deficit)	**(17,864)**	**(18,392)**
Total margin (Ministry target = 0%)	**(3.90%)**	**(3.96%)**

Fiscal 2010 Assumptions/Inflationary Impacts

Funding increases for Fiscal 2010 are not sufficient to cover labour settlements and other inflationary increases:

Budget Assumptions	**Impact (In $000)**
Compensation	5,693
Utilities – 1.5% to 10.9 %	402
Patient care and miscellaneous supplies – 0.6% to 6.0 %	1,718
Total inflationary cost assumption	7,813
Fiscal 2010 base funding increase Fiscal 2010 patient revenue increase	6,556 200
Net impact to deficit	**(1,057)**