

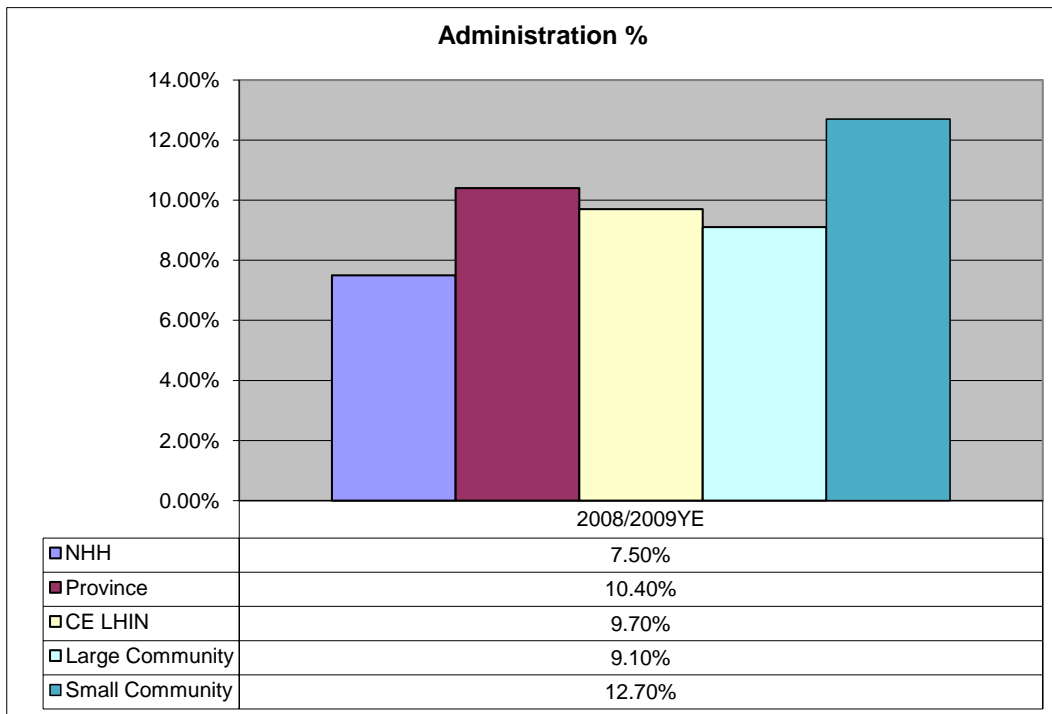


Backgrounder – Administrative and Management Costs

Administrative Costs

Hospitals are the most complex and highly regulated organizations to operate and manage. Administrative functions must be maintained to ensure compliance with a broad range of regulatory and legislative requirements and accreditation standards. In addition, Northumberland Hills Hospital (NHH) is committed to the provision of high quality, safe patient care that meets or exceeds all relevant clinical practice standards.

The key indicator used in the industry related to administrative costs is the, “Percentage of Administration Costs to Total Expenditures.” For the latest fiscal year available, 2008/09, the bar chart below summarizes the results.



Source: Ministry of Health and Long-Term Care, Healthcare Indicator Tool (HIT)

In this particular indicator, administrative costs include the following services: Administration, Executive Offices, Utilization Management, Infection Control, Communications, Organizational Development, Finance, Decision Support, Payroll, Human Resources, Employee Health, Information Technology, Telecommunications, and Quality and Risk Management.

For the 2008/09 fiscal year, what the results show is that 7.5% of NHH total expenditures are spent on administrative functions, which is substantially less than the provincial hospital average at 10.4%, Central East LHIN hospital average at 9.7%, large community hospital average at 9.10%, and small community hospital average at 12.7%.

What this means is that the Administrative functions at NHH were already pared down in previous years, and hence are currently very lean. This has allowed the Hospital to maximize the dollars that are redirected toward patient care activities.

Results for the 2009/10 fiscal year are expected to be available from the Ministry of Health and Long-Term Care in July/August 2010. NHH results will continue to show better performance than other hospitals.

The NHH Board and management team remain committed to keeping administrative costs as low as possible without compromising our legal obligations, quality of care or patient safety.

Regional Initiatives for Shared Services

In 2006/2007, NHH had embarked on shared management and administrative positions with Campbellford Memorial Hospital. It became apparent that this arrangement was not achieving the objectives and savings anticipated for either hospital, and hence the initiative was phased out in 2007 and early 2008.

For regional back office functions, NHH participates in numerous shared initiatives in the Central East LHIN hospitals including, but not limited to: information technology and shared health information system (Meditech); shared regional Chief Information Officer; diagnostic imaging Picture Archiving Communications System (PACS) technology; group employee benefit program; and laboratory test referrals to the regional centre. Integrating functions such as human resources and finance among hospitals simply will not achieve operating efficiencies.

Regional supply chain functions have been identified as having the greatest opportunity for cost savings. In March 2010, the Board approved NHH joining the Central Ontario Healthcare Procurement Alliance (COHPA) as part of the hospital's supply chain improvement initiative to reduce costs associated with the procurement and distribution of medical/surgical supplies. COHPA is a shared service organization of hospitals in central Ontario focused on procurement, group purchase and inventory management.

Management Positions

The 2008/09 operating budget included 22.2 management positions (representing all levels from supervisors up to the CEO).

For the 2010/11 budget, NHH has a total of 23.4 management positions, representing an increase of 1.2 full-time equivalents, who are responsible for an operating budget of approximately \$60 million and approximately 382 (2010/11) full-time equivalents. This represents 6% of our workforce paid hours to fulfill the management responsibilities of the organization.

Management costs represent 4.5% of total hospital operating costs in 2008/09, and 4.9% for 2010/11.

The following table reconciles and tracks the changes in management positions from the 2008/09 fiscal year to the 2010/11 operating budget, from 22.20 FTEs to 23.40 FTEs respectively (an increase of 1.2 FTEs):

Position	Rationale for Change
22.20 FTEs	2008/09 Operating Budget – Full-Time Equivalents
Director Quality and Safety +1 full-time equivalent	This position is an investment for achieving our commitment to quality and safety. NHH is committed to ensuring it meets or surpasses legislative and leading practices for patient safety and quality of care. Among other responsibilities, this position is also responsible for implementing Lean quality improvement methodology throughout the organization as part of the Hospital's ongoing commitment to reduce waste and improve quality performance. Previously, NHH relied on external consultants for this expertise, and hence, when the projects were completed the expertise left the organization. NHH must build its own capacity (expertise and "know how") to adopt and spread Lean across the organization.
Supervisor, Support Services (-1 full-time equivalent)	Position removed in 2009/10 budget.
Manager, Diabetes Education (-0.80 full time equivalent)	Closure of service as part of the 2010/11 budget and service plan.
Manager Emergency Department +1 full-time equivalent	As part of the March 2009 operating budget (2009/10 fiscal year), NHH also introduced changes in the Emergency Department. The changes included additional hours being directed to front-line nursing hours through a charge nurse position, and the introduction of a manager for this department (position filled in April 2010). The changes reflect NHH's commitment to reduce wait times and to continuously improve quality of care and standards of practice.
Materials Management Coordinator +1 full-time equivalent	<p>NHH has been very successful in the past year in improving its supply chain performance by reducing medical/surgical costs and improving inventory management. These improvements required the assistance of external expertise. The 2010/11 budget includes additional cost savings in supply chain that will be achieved through this new position.</p> <p>NHH still lags behind in supply chain best practices and meeting the Ontario government's Supply Chain Guidelines (issued by the OntarioBuys agency). Included in the operating budget is a new investment for a position that will bring supply chain expertise to the organization (e.g., P.Log, CPP and/or CPM designations). This position will implement the required OntarioBuys guidelines and best practices, achieve further savings through contract management, hospital group purchasing activities, and inventory control and distribution.</p>
23.40 FTEs	2010/11 Operating Budget – Full-Time Equivalents

Management Structure: Comparison to Other Industries

Using the 2010 SaratogaTM human resource benchmarking database available from Pricewaterhouse-Coopers LLP, the following table provides comparison of NHH with Canadian results from other industries, including banking, energy and non-profit sectors.

Performance Measure	Description	Canadian Results: Percentile					2010/11 NHH
		10th	25th	Median	75th	90th	
Executive Percent	Percent of employees who are executives.	0.2%	0.5%	1.3%	2.5%	4.0%	0.7%
Manager Percent	Percent of employees who are managers.	5.6%	8.9%	15.9%	21.0%	30.6%	3.7%
Non-Management Percent	Percent of employees who are non-management.	66.8%	78.2%	82.7%	89.3%	93.0%	95.6%
Executive Span of Control	Number of employees supported by each executive.	25.2	39.6	72.1	194.8	616.1	135.0
Management Span of Control	Number of employees supported by each manager.	2.8	4.5	5.8	9.1	14.2	22.5

The results clearly demonstrate that NHH has a lean and flat management structure, even when compared to other industries.

Executive Team

The numbers of staff within the Administration Department (that is, executive offices) have not increased in the past few years. The CEO has restructured the executive team to better reflect the priorities of the organization, realigned responsibilities and changed the titles of the positions. The head count (i.e., the number of positions) has not changed, nor have salary levels other than inflationary adjustments. The table summarizes the changes that were made in January 2009:

Previous Position / Title	<u>New Responsibilities Added to the Position</u>	New Position / Title
Chief Operating Officer	Privacy oversight, Information Technology, Materials Management, Food Services	Vice President, Finance and Information. Chief Financial Officer. Chief Privacy Officer.
Director Human Resources and Risk Management. Chief Human Resources Officer.	Quality and safety, Environmental Services	Vice President, Human Resources and Quality. Chief Human Resources Officer.
Director Communications	Community engagement	Director Communications and Community Engagement.
Vice President, Patient Services and Chief Nursing Officer	Diagnostic Imaging	Vice President, Patient Services and Chief Nursing Executive.

Central East LHIN Evaluation of NHH's Administrative and Management Costs

"We've heard (NHH) is one of the best-operated hospitals in Ontario for its size... and the community has recognized that," fellow LHIN board member Ron Francis said.

Barker [Central East LHIN, Senior Director] replied that efficiencies have been pushed to the limit over the past two years, so there is "no excess fat" in the NHH's administrative area.

"From my perspective, they are a very efficient organization," he said. "There is no leaner management team in this LHIN."

Northumberland Today
Valerie MacDonald
LHIN approves funding agreement
March 17, 2010

"That hospital [NHH] is probably the leanest in the whole province when it comes to administration."

Foster Loucks
Chair, Central East Local Health Integration Network
Newswatch, CHEX TV
March 17, 2010