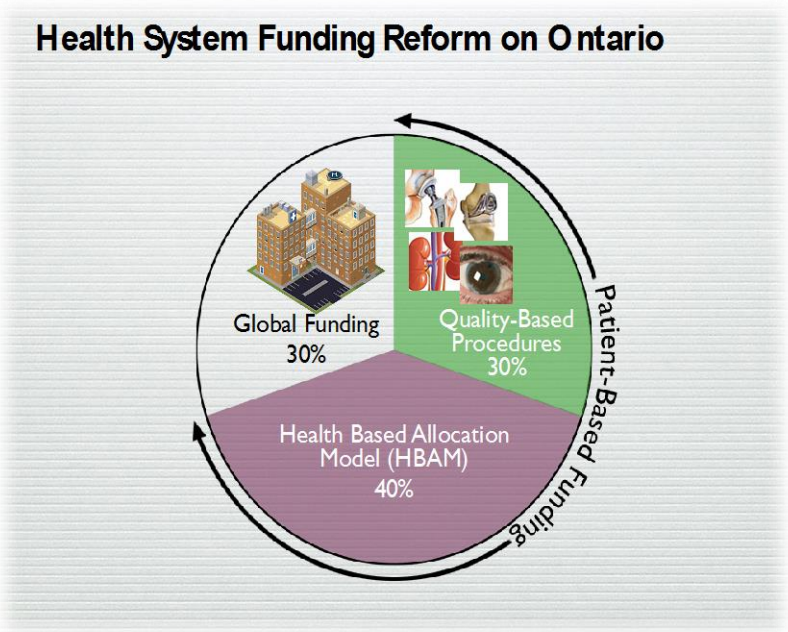
Report of the President & CEO to the Board of Directors

Date: January 2016

Three years ago in 2012 a new funding formula was introduced for hospitals across Ontario. Today I am going to share with you the impact it has had on Windsor Regional Hospital and our region.

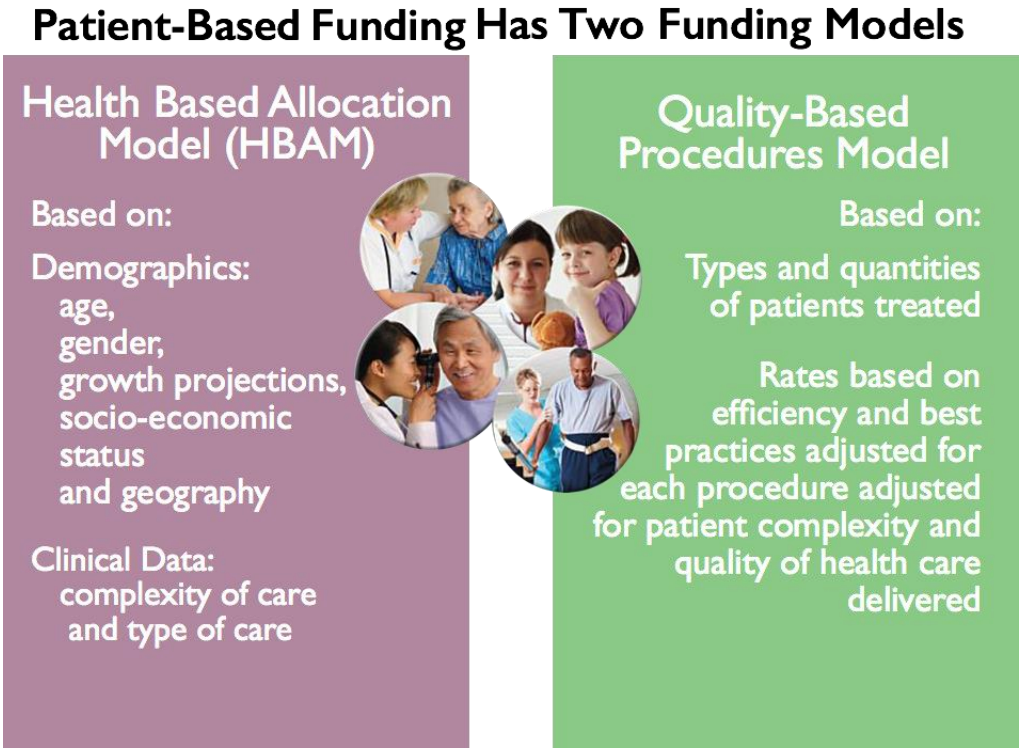
As a refresher the new funding formula is called Health System Funding Reform – termed - HSFR. It focuses on three components.



First, there is organizational-level funding that comprises approximately 40% of HSFR allocation. Funding is allocated to hospitals using what is called the Health Based Allocation

Model or termed - HBAM

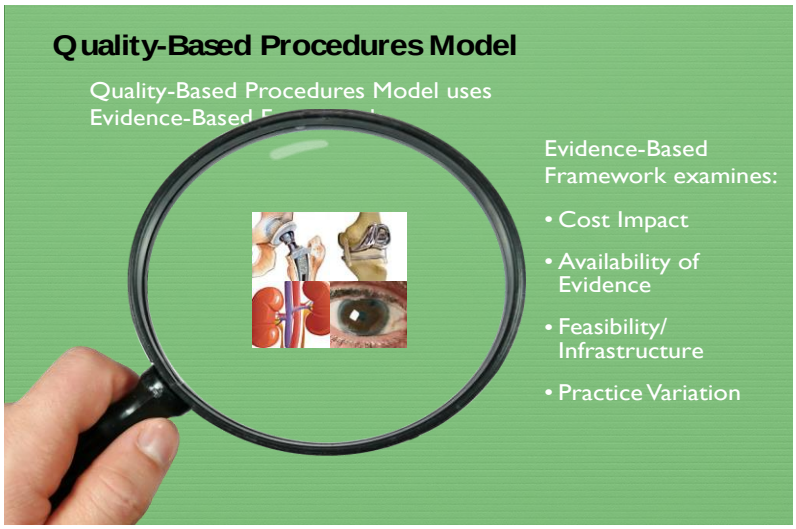
Second, there is Quality-Based Procedures that will comprise approximately 30 per cent of HSFR allocation. Under QBP funding is allocated to specific procedures based on a "price times volume" approach. This involves providing evidence-based allocations to targeted clinical groups. The price is structured to provide an incentive and adequately reimburse providers for delivering high-quality care.



The last 30% is fixed for overhead or termed global base funding.

I will start with the last one first. For this past year our overhead spending was 26%. This is below the 30% being allocated and we are being told a very favorable percentage as compared to other similarly sized hospitals. So therefore, by not spending as much on overhead we are able to reinvest those dollars into patient care. Overhead includes insurance, heating, lighting and administrative salaries to name a few things. During realignment we were able to reduce non-union staff by some 50 full time equivalents or approximately $2 million dollars. That had a large impact on getting overhead at 4% below funded levels and more efficient then our peers.

The second item I will focus on is Quality-Based Procedures. There is a list that continues to grow on procedures where we receive a fixed amount of dollars for a certain procedure, for example, a hip replacement. We receive approximately $8000 for every hip we replace. This amount of funding is approximately 10% above the average cost hospitals report as their costs for replacing hips.

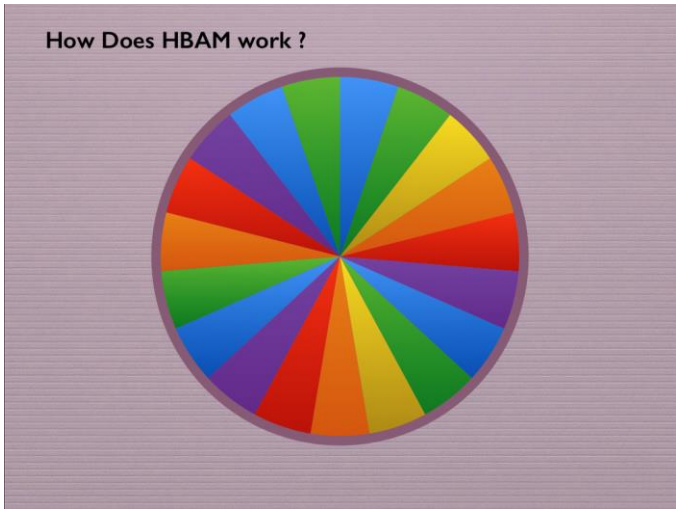


Therefore, if we can replace a hip for that amount or lower that is a good thing from a financial point of view. If it costs us more than the revenue we receive it has to come from somewhere else or we have to stop doing those procedures. We continue to work with our teams on the QBPs and focusing on best practices to ensure high quality while at the same time being fiscally responsible.

The last of the three funding pots is Health Based Allocation Model or HBAM.

HBAM uses a number of inputs which include two year old weighted case volumes for both acute cases and emergency department patients, expense data from similar hospitals, expected and projected population growth and health care access patterns in a specific region and the size and teaching status of a hospital. All of this is used to predict how many services each hospital should be providing each year and the cost for each service.

To put HBAM in context we have to remember that the overall pie for healthcare spending and in particular hospital spending has been fixed at for the past few years.



For hospitals the annual spend provincially has been approximately $19 billion dollars. This has been frozen for the last 5 years except for newly constructed hospitals, very small hospitals or priority programs like pacemakers.

That fixed pie needs to be divided across the approximate 150 hospitals in Ontario.

Generally this is where we have been penalized as a hospital and region. In fact, just for this fiscal year we are being told we will receive approximately $10 million dollars less in funding due to the HBAM formula. This is coupled with similar funding reductions over the past couple of years.

In addition, because our population is not growing or growing far less than some other areas of the province, we are negatively impacted.

Both Ken Deane and I knew that this was where funding for acute care in Windsor was going to suffer if not for realignment. In order to respond to the changes that were coming we had to consolidate acute operations and move towards a single acute site.

In total we have to reduce our HBAM operational expenses by approximately 4% or $20 million dollars.

It does not take a long ride to see how the pie is being divided. Just go to Markham, Vaughan,

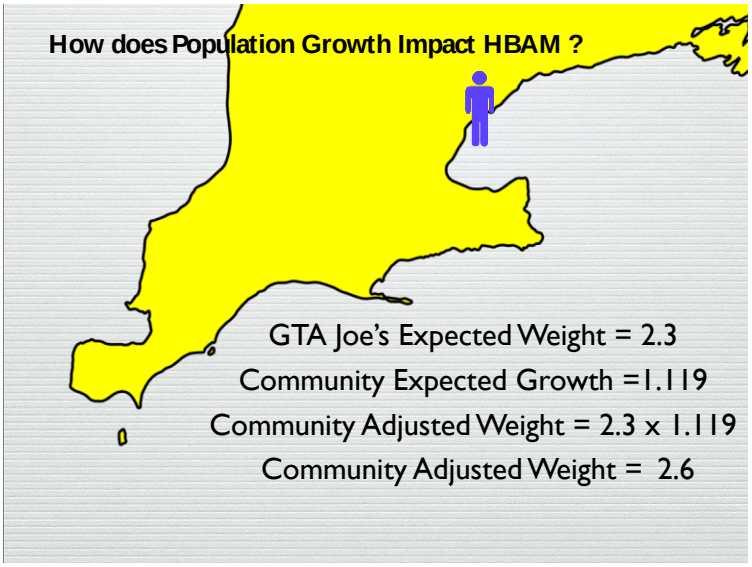
Toronto, Barrie, Richmond Hill to name a few cities/regions to see the growth that is happening. If the pie is pretty much fixed the funding to help that population growth has to come from somewhere. Since we are not growing the math is simple.

So how does this work?

Every patient that comes to a hospital is given a certain "acuity weight' due to their healthcare issues/diagnosis. That weight is increased based on population growth in an area to recognize the growing need to service that population.

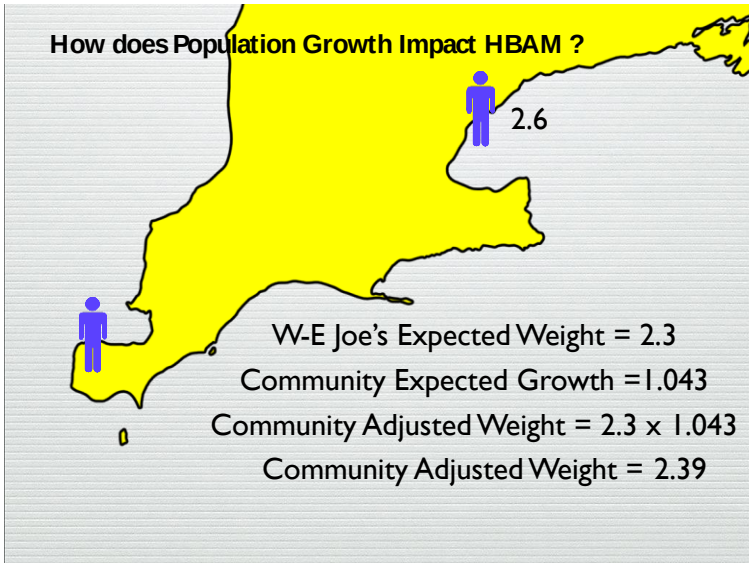
HBAM uses the Ontario finance ministry projections for population growth. From 2012 to 2014 Greater Toronto Area was projected to grow by 11.9% - Windsor/Essex which goes as far as Middlesex county is 4.3%. Therefore the 11.9% and 4.3% is added to the acuity weight assigned to each patient. In our case we are getting approximately 8% less. If this population difference continues into the future that weighting difference is significant.

So for example if we have a patient – say Joe - Joe lives in Toronto and attends a Toronto hospital. He has a certain acuity weight assigned to him based upon his health issues when he presents to the hospital. That weight is increased by the population growth projected for Toronto or in this case by 11.9%.

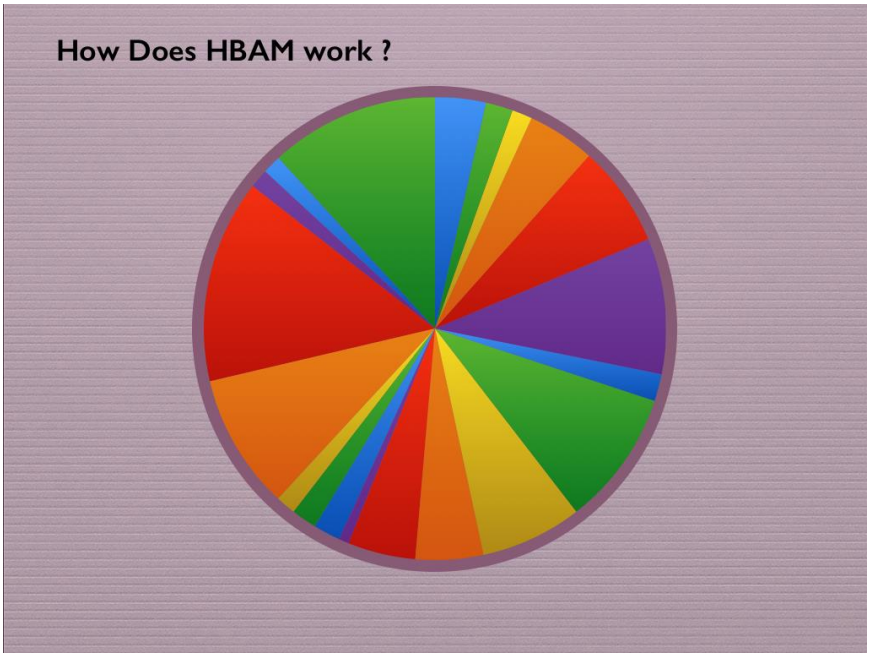


This same patient Joe is a Windsor resident and comes to our hospital. His acuity weight is the

same but only increased by our projected population growth of 4.3%. See the difference?



The fixed funding pie is then divided much differently.



As a result similar to QBPs we have to look at what other hospitals are doing operationally

without reducing the services we are funded for.

The biggest item we have to change is our staff mix. Windsor Regional Hospital is one of the last hospitals in Ontario with an all registered nurse model of care. We have approximately 1550 registered nurses at both campuses and approximately 180 registered practical nurses.

The plan is to move to add 80 more RPNs while reducing the same amount of RNs.

At the same time we need to look at the various clinics we are operating at the hospital. We are not funded for clinics. They have been historically provided in hospital on an outpatient basis.

Detailed changes have been shared with the various union executives and will be communicated on a program-by-program basis over the next few days and weeks.

Although overhead is not the issue we need to address we continue to look at opportunities to reduce overhead where and when we can. The executive committee has taken an individual voluntary 4% pay reduction to help offset these funding challenges.

One might argue stop with the new hospital plans and take those monies and provide to support operations. That might seem reasonable to some. However, there are a couple problems. Capital dollars are one time dollars. In today's economy they are also financed over decades. Operating dollars occur each year.

At the same time if you use capital dollars for operations how do you maintain your buildings/facilities? Using capital dollars for operations is very short term and can lead to major capital and operational issues in the future.

For our region's sake we need to take advantage of opportunities that are funded 90% by the province that can support health care development for our region. Moving ahead with the new hospital is critical. Not only because our current facilities are tired and no where near what Markham, Vaughan and Oakville have or will have but it help support the health care development we desperately need to bring to this region.

If we continue to do what we have always been doing we should not be shocked if the results do not change.

Prior to realignment Windsor Regional hospital had 6 balanced or surplus operating budgets. This was after a decade of deficit budgets. With the plan being implemented today and looking into the future for our region we will return to balanced or surplus budgets while maintaining and enhancing hospital health care services.

We will continue to advocate with other hospitals that the funding formula, although well intended, does not work in a province with such disparity in growth rates and one where the pie is frozen. If the pie was not frozen then a portion of the increases could go to offset this disparity.

We are not alone. Any non-905 hospitals are feeling the same issues we are. For example, London, Quinte and most recently North Bay have all recently announced changes as a result of HSFR..

The Ministry of Health and Long Term Care is working closely with us to reduce the immediacy of the changes by providing some short term funding however ultimately the changes have to be made. This will allow most, if not all of the staff reductions to be addressed through retirement packages and normal attrition.

We have accomplished a lot of great things at Windsor Regional Hospital. These great things will continue as we move forward. Now is the time we have to continue to work together and continue to provide outstanding care to our community and our patients.

Although these are difficult times we have to place this into perspective.

- the reductions needed are 4% of our operating budget.
- we have been informed that our operational data for this past fiscal year is trending in a positive direction.

The first full fiscal year of realignment is improving and actually our costs for acute care operations are under expected costs. As one acute care operation we have the ability and greater flexibility to work as one to consolidate services prior to a new facility that benefit our patients and are also financially sound.

In summary:

- ✓ This is a revenue/funding reduction issue
- ✓ Overhead expenses have gone down and are well below benchmarks
- ✓ Each department across the hospital is being required to operate according to their budgets under this new revenue adjustment. This includes the operating rooms that will see longer than historical waiting lists for certain scheduled cases because we are operating to budget now. As a result this is not a physician created issue but a hospital budget created issue.
- ✓ The Ministry of Health is working with us with some temporary funding to make the transition as smooth as possible with hopefully most job changes handled through retirements and normal attrition
- ✓ We will continue to advocate for modifications to the funding formula taking into account the geographic realities of our Province, the fact overall hospital funding has been frozen and you can only divide the "pie" so many times and for a funding formula that is not heavily weighted on population growth until there is hospital funding increases that can compensate for growth. Not taking from "Peter to pay Paul"
- ✓ We cannot have this distract us from the need to proceed with the new state of the art Acute Care Hospital and other system investments that will be paid 90% by the Province and others in the Province who Windsor/Essex has paid for new hospitals. People cannot confuse operating dollars with capital dollars. Using capital dollars to offset operating deficits is very short term thinking and results in deficient capital infrastructure with no ability to correct in the future
- ✓ The realignment between Hôtel-Dieu Grace and Windsor Regional places us in a better position to address this funding reduction. Rather than possibly "bouncing" problems back and forth between Acute care organizations we can address these issues from a systems perspective.
- ✓ We need to continue to advance the work we are doing with the Standardization and Optimization (SOP) Teams. These teams not only have been able to find ways to make the patient experience more streamlined but also have found ways to either find efficiencies and or avoid additional costs to the system.
- ✓ Prior to realignment and the new funding formula Windsor Regional had 6 straight balanced or surplus budgets.
- ✓ We can and will do it again.