2.0 Governance and Management

2.1 The Province and the Hospital

Hospital Boards in Newfoundland are public bodies created by the province to be instruments of public policy in the delivery of health services.

Hospital Boards in Newfoundland are public bodies created by the province to be instruments of public policy in the delivery of health services. Hospital boards are dependent on the provincial government for their operating and capital funds. The public holds the provincial government accountable for the funding, organization, delivery and, to a large extent, the quality of hospital services. Because of the public's perspective and the amount of public funds being provided to hospitals, the government has increasingly stressed the accountability of hospitals and hospital boards for their use of these public funds and for the effectiveness, efficiency and the long-term viability of hospitals. The Government of Newfoundland and Labrador recently articulated the importance of this accountability in its *Achieving Excellence: A Guidebook for the Improved Accountability of Public Bodies.*

Although the government holds hospital boards accountable, it has also allowed them to operate with independence and latitude to respond, as best they can, to the interests and needs of their communities.

Although the government holds hospital boards accountable, it has also allowed them to operate with independence and latitude to respond, as best they can, to the interests and needs of their communities. The position of the government is that once it has agreed with the hospital's general program, operating plan and budget, it remains at 'arms length' from the hospital's day-to-day activities unless and until a major issue occurs. At that point the Department of Health and Community Services has the right and the power to intervene as it deems appropriate.

The Department of Health and Community Services is responsible for determining and ensuring a planned and coordinated system of health care. The hospital's responsibilities are to manage and deliver its mandated services in the most effective and efficient manner it can, to optimize the use of the resources available to it and to strive continuously to improve the availability and quality of its services.

2.2 Governance of the Health Care Corporation of St. John's

Hospital Governance

Hospital governance is the exercise of authority, direction and control over the hospital by the hospital's board of directors.[1] Fundamental responsibilities of governance are:

- defining the purposes, principles, and objectives of hospital
- ensuring and monitoring the quality of hospital services
- ensuring fiscal integrity and long-term future of hospital
- arranging for and monitoring the effectiveness of the hospital's management
- approving annual operating plans and budgets of hospital

In Newfoundland and Labrador the members of the board make up the hospital corporation. The members of the hospital board are appointed by the Minister and thus are directly accountable to the Minister of the Department of Health and Community Services. The board of the hospital is accountable to the patients and communities served by the hospital through the Minister who acts on behalf of the people of Newfoundland and Labrador.

Independence and Autonomy

"...no public body is totally independent from the elected government which created it. However, many public bodies are autonomous in that they are self governing within a larger framework of governance, and exercise their decision-making powers within provincial government policy and legislation. The autonomous status of public bodies does not exempt them from being accountable to designated Ministers. It is important to understand that public bodies are instruments of public policy that have been created for that purpose by government or the Legislature.[2]"

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1 From Into the 21st Century: Ontario's Public Hospitals, Report of the Steering Committee, Public Hospitals Act Review, Ontario Ministry of Health, February, 1992.

2 Government of Newfoundland and Labrador Treasury Board, "Achieving Excellence 2000-A Handbook for the Improved Governance of Public Bodies"

A fundamental responsibility of the hospital board is the fiscal integrity of the hospital and its long-term solvency.

A fundamental responsibility of the hospital board is the fiscal integrity of the hospital and its long-term solvency. It is accountable to the province (acting on behalf of that community) for the long-term viability of the hospital. The board is required to "provide for the faithful and economical management of the facilities for which the Health Care Corporation is responsible."[3]

Hospital boards that allow the hospital's debt to exceed its ability to repay that debt are putting the hospital, its ability to provide service to the community and the health of the community at risk.

The fiscal solvency of the hospital is critical to its ability to respond to the care requirements of the community. Hospital boards that allow the hospital's debt to exceed its ability to repay that debt are putting the hospital, its ability to provide service to the community and the health of the community at risk. This is not good or reasonable stewardship of public and charitable funds and is not in keeping with the hospital corporation's long-term obligations to the Minister. If a hospital board puts the long-term solvency and viability of a hospital at risk, it is incumbent on the provincial government to take action, in the interest of the local community and the province as a whole, to correct the situation and restore the hospital to solvency.

Governance of The Health Care Corporation of St. John's

The following paragraphs provide a brief description and evaluation of the ownership and governance structures and processes of HCCSJ.

The Health Care Corporation of St. John's

The Health Care Corporation of St. John's was created through a Hospitals Act (Health Care Corporation of St. John's) Constitution Order, 1995.[4] Section three of the order states the Health Care Corporation of St. John's "shall manage and control the operation of the following scheduled hospitals:

- Children's Rehabilitation Centre, Pleasantville, St. John's;
- Dr. Charles A. Janeway Child Health Centre, Pleasantville, St. John's;
- Dr. Leonard A. Miller Centre, St. John's;
- Dr. Walter Templeman Hospital, Bell Island
- General Hospital, St. John's;

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[3] Health Care Corporation of St. John's *Governance and Administrative By-Laws*, section 2:04 (c).

[4] Newfoundland Regulation 31/95, pursuant to sections 4 and 5 of the *Hospitals Act*, RSN 1990, c.H-9. (filed March 28,1995).

- St. Clare's Mercy Hospital, St. John's;
- Salvation Army Grace General Hospital, St. John's;
- Waterford Hospital, St. John's

and all other facilities, services and programs operated or provided by or associated with the above scheduled hospitals."

The Health Care Corporation of St. John's is made up of "not more than eighteen persons appointed by the Honourable Minister of Health."[5] The members of the corporation are also the Trustees of the corporation. Although the hospital corporation provides services to the local community, the corporation is accountable to the Minister of Health and Community Services.

Composition and Size of Board

The maximum and minimum size of the Board is defined in section 7(1) of the Hospitals Act. The current board of the Health Care Corporation of St. John's is composed of 18 Members appointed by the Minister of Health. There are three officers of the Board, the Chairperson, the Vice-Chairperson, and the Secretary. The Chief Executive Officer is the Secretary of the Board and is not a voting member.

There are no ex-officio members of the Board and in accordance with the Hospitals Act no one is a member of the Board "who is a member of the medical staff of a hospital operated by the board or who is an employee of the board"[6]. However, also in accordance with the Act, a number of hospital management staff regularly to attend Board meetings, including the Chief Executive Officer and all 5 vice presidents. Additionally the Chair of the Medical Advisory Committee and the President of Medical Staff Association are invited and regularly attend meetings of the Board of Trustees. The Dean of the Medical School also attends HCCSJ Board meetings.

The hospital (or the department) has not chosen to avail itself of the provision of the act wherein an agreement may be executed between the minister and the hospital "providing that the chief of staff and the administrator of the hospital may be

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[5] Newfoundland Regulation 31/95, pursuant to sections 4 and 5 of the *Hospitals Act*, RSN 1990, c.H-9..

[6] Government of Newfoundland and Labrador, Hospitals Act, RSN1990 Chapter H-9: An act Respecting Management and Operation of Hospitals in the Province.

members of the hospital board[7]" if the Lieutenant–Governor in Council considers it necessary or desirable.

Appointment to the Board

Board members are appointed by the Lieutenant Governor in Council, pursuant to section 7(1) of the Hospitals Act. Every resident of the province of Newfoundland is qualified to serve as a member of the Board. Neither employees nor members of the medical staff of any hospital operated by the Health Care Corporation of St. John's may be appointed to the HCCSJ Board.[8]

The Minister appoints trustees for a period not exceeding three years. Trustees are eligible for reappointment, but a Trustee may not serve on the Board for a continuous period longer than nine years. Notwithstanding Section 9 of the Hospitals Act, the Lieutenant Governor in Council may prescribe a term of office for a period greater or less than three years, or make any other changes to the term of an individual board member or an entire board as deemed to be appropriate.

Board Orientation

An orientation manual supports the board orientation process. This resource provides foundational documents of the corporation (including guiding principles, corporate values, mission statement and vision statement), and describes the local patient populations, HCCSJ organizational structure, strategic directions, and the current board structure. A number of recent communications also are provided to help prepare board members for their role and responsibilities. Additionally, as has been discussed previously, the province has published its framework for governance and accountability-"*Achieving Excellence*." And, these materials are augmented by staff presentations on special issues as needed.

Committee Structures & Processes

There are 7 Standing Committees of the Board, whose members are appointed annually by the board:[9]

- Ethics and Values
- Executive
- Finance and Audit

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[7] Hospitals Act. Section 20 (1)

[8] *Hospitals Act*. Section 7(4).

[9] Health Care Corporation of St. John's *Governance and Administrative By-Laws*, section 6:02.

- Human Resources
- Planning
- Property
- Quality Initiatives

Board Committee Membership

With the exception of the Executive Committee, the composition of the board committees is a combination of trustees and non-trustees as determined by the board; however, only trustees are permitted to vote at Committee meetings. The Chairperson of the board and the Chief Executive Officer are ex-officio members of all board committees.[10] However, the CEO is not a board member and thus does not vote at committee meetings.

Joint committees with affiliated organizations as described in the hospital by-laws[11] include:

- Joint Conference Committee
- Joint Liaison Committee
- Research Proposals Approval Committee
- Medical Advisory Committee

The Medical Advisory Committee

The Board has a number of advisory committees, including the Medical Advisory Committee. The functions of the Medical Advisory Committee are to:

- "Advise the Board on the quality of medical care, on the appointment and reappointment of medical staff, on research projects involving human experimentation, on the purchase of medical equipment and other appropriate matters;
- To advise the Chief Executive Officer and Vice-President Medical Services on appropriate matters;
- To serve as a forum for discussion and, if necessary, decision among the various elements of the medical staff;
- To consider, act on or refer other items which are submitted from the Clinical Chiefs, officers of the medical

[10] Health Care Corporation of St. John's *Governance and Administrative By-Laws*, section 6:06.

[11] The Centre for Nursing Studies Advisory Committee is no longer a committee of the Board.

staff, Chief Executive Officer, or Vice-President Medical Services"[12]

The MAC is made up 17 Program Clinical Chiefs, Chairpersons of Faculty of Medicine Disciplines not designated as programs, and medical and administrative ex-officio members.

The Board appoints the Chairperson of the MAC after considering the recommendation of the MAC. The Chairperson is accountable to the Board.

The MAC is not providing the Board with regular reports on the quality of medical care in the hospital

The Chairperson of the MAC provides regular reports to the board regarding the activities, recommendations and actions of the MAC, as well as appointments to the medical staff of the hospital. The reporting focuses primarily on medical department's interests and concerns related to hospital operations. Although advising the Board on the quality of medical care is one of the prime responsibilities of the MAC, the MAC's reports to the board provide little discussion of the quality of medical care in the hospital and there is no regular reporting of any measurements of the quality of medical care.

Also, it is important to note that although the MAC provides regular reports to the Board, it is not formally a committee of the board. (It appears to be a Committee of the organized medical staff of the HCCSJ.) And, the Chair of the MAC is not a member of the Board. Although there is no evidence of a problem, we are concerned that, because there is no formal, structural relationship between the Board and the MAC, the Board could take action without receiving advice regarding the implications of its actions on the quality of medical care at the hospital.

We believe that the Board would be better able to fulfil its responsibility for the quality of care at the hospital if it more formally had access to advice from the medical staff on the quality of medical care. This would be facilitated if the MAC were recognized, formally, as a subcommittee of the Board and if the Chair of the MAC was appointed by the Board and served, ex-officio, as a full member of the Board. The Board would also be able, formally, to provide direction to the medical staff (through the MAC) related to quality of care at

[12] Health Care Corporation of St. John's *Medical Staff By-Laws*, section M8:13 (a-d)

the hospital. (If the Chair of the MAC were to serve on the Board, would be appropriate for the CEO, as the overall leader of the organization, including the medical staff, to also be a full member of the Board.)

It is recommended that:

(1) **The Board Chairperson along with the Minister of Health should solicit the Lieutenant Governor in Council to allow the Chief of Staff/Chair of the MAC and the CEO to be a member of the Board of Trustees of HCCSJ.**

(2) **The Board Chairperson should cause the administrative bylaws to be rewritten to make the Chief of Staff an appointee of the Board and Chair of the MAC.**

(3) **The Board Chairperson should cause the administrative bylaws to be rewritten to make the MAC a subcommittee of the Board of Trustees of HCCSJ.**

Committee Processes

A significant amount of the work of the board is being delegated, appropriately, to the standing committees of the board. The committees review information and debate issues more comprehensively than could be achieved by the full board. Currently, standing committees:

- Provide brief highlights or more detailed minutes of their meetings for the information of the full board.
- Report their recommendations for board action.
- Support their recommendations with documentation of issues and discussions that took place at the committee level.
- Except in unusual circumstances, these processes and practices are minimizing the need for the full board to reconsider and re-debate issues that have been dealt with at the committee level.
- Board members will ask the subcommittee to clarify facts, issues and recommendations; they generally do not repeat the debate that has already taken place at the subcommittee level.

- The board will then vote on the recommendation of the Committee, accepting or rejecting the recommendation as appropriate.

This approach to deliberation and decision-making makes Board meetings more efficient. It allows the full board to focus its deliberations on the most critical issues.

Many of the board committees seem to be moving into the domain of management

It should be noted that in our investigations we have observed that many of the board committees seem to be moving into the domain of management. Although the distinction between governance and management is often not clear, if managers are to be successful, they need to be given the latitude to manage without interference from the board. Having said that, it is the domain of the board to set specific objectives for management and to monitor management's performance in relation to those objectives. (To be fair, if managers do not develop mechanisms and metrics to allow governors to monitor performance, governors will be forced, in the execution of their responsibilities as governors, to be more involved in operations than might be desirable.) The tactics employed by managers to achieve the objectives should be developed and implemented by management, not the board. The board should monitor these tactics only as they relate to the values established by the board to guide the operation of the organization. This important distinction in the roles of governors and managers relates to all areas of governance and management, from finance to ethics.

Defining & Maintaining Purposes & Principles of Hospital

The health care industry has clearly recognized the importance for hospitals to develop coherent sets of objectives and plans. Planning is recognized as a critical component of hospital governance and management. Hospitals should develop plans in response to the needs of the community and in collaboration with the community and other health care and social service agencies. Effective hospital planning should include the following elements:

- Identifying the communities to be served by the hospital,
- Establishing the objectives for the hospital (Vision, Mission and Core Values),
- Selecting the health needs of the composite community that might be appropriately served by the hospital (Role Statement),
- Defining and describing the programs and services required to be offered by the hospital to respond to the

health needs of the population and achieve the hospital's objectives (Long-Range Plan),

- Detailing plans for implementing the program and service goals of the long-range plan and thus achieving the Vision and fulfilling the Mission of the hospital (Strategic Plan),
- Translating the objectives, plans and strategies into specific activities to be initiated in the next fiscal year (Operational Plan).

Decision-making in the absence of clearly articulated Long- Range and Strategic Plans is often uncoordinated and inconsistent

We believe that a Vision/Mission Statement, Role Statement, Long Range Plan and Strategic Plan are critical to the successful governance and management of a hospital. Decision-making in the absence of clearly articulated Long-Range and Strategic Plans is often uncoordinated and inconsistent. The complexity of a hospital and its levels of governance and management require that decisions must be made with reference to a set of long-term objectives (Vision/Mission/Role) and a plan for achieving these objectives (Long-Range and Strategic Plans) that are generally accepted by the critical hospital stakeholders. These documents provide a framework for annual operational planning and budgeting. If prepared through the collaboration of the board, the medical staff, management and hospital staff and in consultation with the community and other health care agencies, they can become the basis for clear communication of the hospital's priorities and for collaborative and supportive actions to achieve the hospital's objectives.

In keeping with the need to distinguish between governance and management, organizational objectives and long-range goals for programs and services should be considered primarily a responsibility of governance; strategies and operational plans for achieving these objectives and goals should be considered primarily a responsibility of management. Although primarily a responsibility of governance, it is unrealistic to expect that boards can or should develop long range objectives or plans independently. Although led by the board, management staff of the hospital will support the development of these statements and plans.

Long Range Objectives: the Hospital's Vision, Mission and Role

The Corporation's planning framework was developed in the first eighteen months of the organization's existence. This framework includes Vision Statement, Mission Statement, Corporate Values, Guiding Principles, and Strategic Directions. These are based on the deliberations at the Board

Planning Retreat held in November 1995. These were refined as a result of a Leadership retreat in March of 2000 and became the "Foundational Statements" for the organization.

The Foundational Statements formed the basis for the development of a corporate Strategic Plan wherein the hospital articulated how it would achieve the Board's Vision and implement the Board's 'Strategic Directions'. The strategic plan commits the organization to its strategic directions:

- identifying and addressing service needs of patients;
- ensuring adequate human resources and stabilization of the work force;
- ensuring the financial stability of the organization;
- promoting evidence based decision-making,
- sharing information with the public and
- promoting a seamless continuum of care."[13]

Since the merger, the corporation's planning activity has been appropriately focused on rationalizing the programs and services of the predecessor organizations.

Since the merger, the corporation's planning activity has been appropriately focused on integrating, and rationalizing the programs and services of the predecessor organizations. The hospital's Strategic Directions and Strategic Plan reflect the final stage of this process wherein their key focus is on stabilizing operations and developing an operating framework and management processes that will provide a foundation for future growth and development[14].

The corporation has not yet articulated its desired role in responding to the health needs of the communities that it serves

However the corporation has not yet formally, or fully articulated its desired role in responding to the health needs of the communities that it serves, nor has it developed long-range or strategic plans to guide its future growth and development. In implementing and consolidating the merger, the hospital seems to have relied on the programs and services of the predecessor organizations to define its current and future role. With the organizational merger, program and service rationalization and facility development almost complete, it is time for the organization to contemplate its longer-term future.

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[13] Health Care Corporation of St. John's *Strategic Plan 2001-2003*. p.5

[14] Also, the Strategic Plan does not articulate desired 'end-states for the organization', rather it describes the desired focus of activity for the organization and selected initiatives for various elements of the organization.

It is recommended that:

(4) The Board of Trustees should initiate a process to develop a role statement and long range plan for the hospital.

Ensuring & Monitoring Effective Management & Financial Health

For the board of a hospital to exercise its responsibility in ensuring effective management and the financial health of the hospital, there must be strong processes for operational planning and budgeting and for reporting on progress in achieving these plans and budgets.

Operational Planning and Budgeting

The primary link between a public body's budgeting and strategic planning processes is the annual operational plan

"The primary link between a public body's budgeting and strategic planning processes is the annual operational plan, which translates long-term goals and objectives into a clear operating framework for a one year period..... Operating plans generate the context for the detailed financial information required in the annual budget.[15]

A hospital board should start the operational planning process by setting the annual objectives for the organization and defining the parameters for operational planning and budgeting

A hospital board should start the operational planning process by drawing from the hospital's long-range plan to set the annual objectives for the organization and to define the parameters for operational planning and budgeting. Without clearly articulated objectives, it is not possible for the board to evaluate the hospital's performance.

The board must take the initiative in setting goals and initial targets for the size of the hospital's operating surplus or loss for the coming year. Budget targets should take into account the Board's responsibility to ensure the current and future financial health of the hospital. The Board should then critically review and approve the operating plan and budget developed by management to achieve its objectives and to accommodate its budget parameters. If the hospital's resources are insufficient to implement the hospital's plans, then the Board must take responsibility for directing management to defer initiatives, suggest alternative strategies for achieving the hospital's vision or, if necessary, to rethink the vision for the organization.

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[15] Government of Newfoundland and Labrador Treasury Board, "Achieving Excellence 2000-A Guidebook for the Improved Accountability of Public Bodies"

The Health Care Corporation of St. John's does not set annual objectives for the organization

Annual objectives should start the annual operational planning and budgeting process and should provide the framework for setting planning parameters and performance targets. The objectives should relate to the same period as the operational plan and budget. The Health Care Corporation of St. John's does not set annual objectives for the organization. It is relying on the Strategic Directions/Strategic Plan to provide the framework for operational planning and budgeting. But hospitals, like most organizations, operate and are funded on an annual cycle. The Board needs to draw from its 3-year strategic plan to determine what it wants to achieve in the coming year.

Neither the board nor management is establishing annual objectives for the hospital. Of perhaps greater importance, because there are no clearly articulated annual objectives, the board is not monitoring and management is not providing regular or comprehensive reports on performance in relation to the corporation's objectives

It is recommended that:

(5) The Chairperson of the Board should develop and implement a process for setting annual objectives for the hospital that can guide the development of the hospital's operating plan and its operating budget.

Operating Results

The Health Care Corporation of St. John's has recorded a deficit each year since its formation in 1995.[16] The following table provides a summary.

Exhibit 2.1
Revenue and Expenditure of HCCSJ[17]
(all numbers are in thousands)

	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01
Revenue	286,234	288,033	294,628	303,073	335,080	355,301
Expenditure	287,630	294,191	296,121	309,097	337,149	367,279
Deficit	-1,396	-6,158	-1,493	-6,024	-2,069	-11,978

[16] Health Care Corporation of St. John's. *Our Five Years Together. Retrospective: April 1995 – April 2000.* Appendix B.

[17] Financial Statements included in Board package, March 31, 2001.

The Board's strategy in dealing with corporation's operating losses has put the financial health of the hospital in jeopardy

The Board's strategy in dealing with corporation's operating losses (budgeting for operating losses and accepting costs and losses that exceed its budgets) has put the financial health of the hospital in jeopardy. The accumulated operating deficits have resulted in a working capital deficit of $28 million at the end of 2001. It is projected that the working capital deficit will grow to over $35 million by the end of 2002.

Operating Plan and Budget for 2000/01

As has been discussed, the Board did not set objectives for 2000/01 and there was no formal operating plan developed.

In March 2000, the Minister of Health and Community Services wrote to the Board to outline the process for reviewing the operating budget "in order to allow Government to meet its financial goal of having balanced board budgets no later than 2002-03."[18] The Department engaged an independent consultant, John Abbott, to serve as Project Manager for a Special Review Team for the Province's Health and Hospital Boards that would:

- determine each Board's base budget for operations based on its current mandate
- identify operational efficiencies that can be achieved over three years assuming no change in mandate
- determine additional efficiencies and acceptable changes in services that could be implemented over the next three years
- identify any other issues that may impact the board's ability to achieve maximum efficiencies in the delivery of health services

We can find no record of the Board approving an operating plan or budget for the corporation for the fiscal year 2000/01.

In its April 2000 meeting the Finance and Audit Committee of the Board discussed the HCCSJ's draft budget for fiscal 2001. The committee reviewed a summary of projected revenues and expenditures. The budget as presented was accepted as a draft for purposes of preparing management reports for April 2000. It was noted that the "Finance Committee will complete further work before submitting it to the Board for formal approval."[19] The projected deficit at that time was $19.2

[18] Letter dated March 16, 2000, from Roger Grimes, Minister, to Eileen Young, Board Chair.

[19] Minutes of the Finance and Audit Committee meeting, April 25, 2000.

million.[20] It appears that the Board of Trustees delayed its approval of the 2000/2001 budget until the work of the Special Review Team was completed, which was expected by June 2000.[21] As the board awaited a draft of the review team's work, the 2000/2001 operating budget was not formally approved by either the Finance and Audit Committee or the Board of Trustees. The draft report of the review was not provided to the hospital in September 2000. We can find no record of the Board approving an operating plan or budget for the corporation for the fiscal year 2000/01. However, at its November 7 meeting, in rejecting the findings of the Special Review Team that suggested that the hospital could reduce its planned deficit to $2.1 million, the Finance & Audit Committee proposed "adjusting the Budget by $5.6 million to reduce the budget deficit from $11.9 million to $6.3 million."[22] And, in January 2001, the Board chair requested permission from the Minister to carry a deficit for 2000/01 of $8 million[23]

In 2000/2001, the hospital's draft and revised budgets significantly underestimated the losses for the year. The hospital experienced a loss from operations in 2000/2001 of $12 million[24].

Operating revenues were $355.3 million or $58,151 less than forecast. Operating expenses were $367.2 million or $3.6 million more than forecast and the deficit was $11.9 million or $3.6 million more than the apparently final budgeted deficit of $8.3 million.

The hospital identified uncontrollable and unpredictable events that caused much of the increase in the size of the deficit, such as accrued vacation, the delay in move of the Janeway, reduction in nurses funding and management classification appeals.[25][26]

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[20] Finance and Audit Committee Report to the Board of Trustees, April, 2000.

[21] Minutes of the meeting of the Board of Trustees of the Health Care Corporation of St. John's. 23 March, 2000.

[22] Minutes of the Finance and Audit Committee meeting, November 7, 2000.

[23] Minutes of the Finance and Audit Committee meeting, January 23, 2001.

[24] Finance and Audit Committee Minutes of meeting held April 23, 2001. (But, in a letter dated July 5, 2001, the hospital indicated that its audited financial result was a deficit of $13.9 million.)

[25] Finance and Audit Committee Minutes. April 23, 2001.

[26] Letter dated July 5, 2001 from Ed Stratton, Chairperson, HCCSJ Board of Trustees to Gerald Smith, (Acting) Minister of Health

The board was increasingly uncomfortable with the hospital's deteriorating financial position

It must be noted that the board was increasingly uncomfortable with the hospital's deteriorating financial position. At its February 2001 meeting the Board of Trustees heard the concerns of the Finance and Audit Committee with respect to "sudden and unexpected" increases in the hospital's projected deficit.[27] Following the committee's report, the Board Chairperson "reiterated his concern with the growing deficit and reaffirmed his direction to Corporate Team that [the hospital] diligently strive to find a means to ensure that [the] final year end deficit is not beyond the predicted [deficit]."[28] Despite this, it is important to realize that the Board was willing to accept an operating loss of more than $8 million.

Development of the Operating Plan and Budget for 2001/2002

The Corporation's initial budget projections for 2001/02 suggested that the hospital would incur a deficit of $13 million

On March 26, 2001 the Minister of Health and Community Services provided the corporation with the "Provincial Revenue Plan Schedule" which outlined the Departments funding allocation for the HCCSJ for 2001/02. This funding provided for an increase of $33.3 million or 10% over the corporation's originally approved funding by the Department in 2000/01. This increase included a provision of $11.9 million in stabilization funding[29]. The funding announcement came with a statement that the Department "has a clear expectation that each Board will maintain 2000/2001 service levels within each Board's 2001/2002 operating budget without incurring operating deficits." The Minister further required the corporation to submit a recast budget and "detailed explanations and notes on how the Board will manage within its budget without reducing the quality and accessibility of existing programs and services."

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[27] Minutes of the meeting of the Board of Trustees of the Health Care Corporation of St. John's. February, 2001.

[28] Minutes of the meeting of the Board of Trustees of the Health Care Corporation of St. John's. February, 2001.

[29] The hospital asserts that the stabilization funding was allocated based on the forecast deficits for health boards from the prior fiscal year. This proved problematic for HCCSJ "because of unexpected funding shortfalls not know prior to year-end and reduced service levels associated with the site closures, labour disputes and recruitment difficulties". (As stated in a communication to the consultants on March 4, 2002.)

The Minister also introduced the concept of a *Letter of Shared Understanding*, which outlined a number of expectations of the Department and of the board of the HCCSJ.

The Department once again asked HCCSJ to resubmit its budget and any "action required by [the hospital] to live within its 2001-02 budget allocation."[30] Recast budgets were to be submitted by May 15, 2001.

Management indicated that "there are minimal opportunities for decreasing costs in this organization...the only opportunities now would be to reduce services."

Hospital management identified measures that could be implemented in order to eliminate the $8.5 million budget deficit. Management indicated that because "there are minimal opportunities for decreasing costs in this organization...the only opportunities now would be to reduce services."[31] The initiatives identified by management were presented as reductions in the volume of service to be provided by the corporation and included reductions in "operating room times, inpatient beds, diagnostic outpatient services, outpatient Mental Health services, cardiac surgeries, services in the Child Health Program and closing the Bell Island facility."[32] These initiatives were rejected by the Finance & Audit Committee and the committee noted that it had "grave concerns about the impact of these measures...and is not prepared to support them." It was noted that "these measures are completely contrary to the Board's position," which is to avoid reducing clinical services.[33] The board was also concerned that by submitting these measures, the Department may believe that the board endorsed them.[34]

Despite being rejected by the board, the CEO of HCCSJ responded to a request from the Deputy Minister to identify actions that would provide for a balanced budget for 2001/02, the CEO of HCCSJ by submitting these potential service reductions to the Department on May 17, 2001 "with concern and reservation."[35]

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30 Letter from Robert Thompson, Deputy Minister, to George Tilley, CEO, dated April 19, 2001.

31 Audit and Finance Committee. Minutes of Special Meeting held May 16, 2001.

32 Ibid.

33 ibid.

34 ibid.

35 Letter from George Tilley, CEO, to Robert Thompson, Deputy Minister, dated May 17, 2001

The Minister told Board of HCCSJ that "We expect the Board to implement best practices and evidence-based measures to manage within the increased budget envelope"

The Department's review of the hospital's plan concluded that "several of the initiatives outline in your organization's recast budget to mitigate the projected $8.8 million deficit are reasonable and will not impact on the quality of care you provide to your patients."[36] The Minister concluded that the recast budget reflected considerable work by the corporation, but that "some work still remains to achieve" the goal of a balanced budget. And she went on to stress that "A balanced budget is essential in the current fiscal year as no additional funding is available. We expect the Board to implement best practices and evidence-based measures to manage within the increased budget envelope." [37] The Board was further advised that the Department "cannot support measures that result in a reduction in access and quality, as these are inconsistent with [the Province's] budget strategy and with Government's desire to stabilize the system…"[38]

The Minister was "disappointed that the board did not bring forward measures to achieve a balanced budget position" for 2001/2002

In September of 2001, the Department instructed all of the hospital boards to "initiate dialogue with the province's public sector unions to identify cost-savings initiatives to reach balanced budgets."[39] The HCCSJ undertook a consultation process with the four employee groups (NAPE Support, NAPE Lab & X-Ray, AAHP and NLNU) with the objective of identifying cost reduction initiatives. There is evidence that these consultations were productive.[40] The Department of Health and Community Services acknowledged the success of the process and "encourage [d] [HCCSJ] to continue this open dialogue."[41] Despite this inclusive approach to developing the budget, the Minister was "disappointed that the board did not bring forward measures to achieve a balanced budget position" for 2001/2002.[42] Through this extensive and extended process of review the hospital was only able to find reductions

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[36] Letter from Robert Thompson, Deputy Minister to George Tilley, CEO, dated June 20, 2001.

[37] Letter from Julie Bettney, Minister, to Edwin Stratton, Board Chair, dated June 27, 2001.

[38] Ibid.

[39] Department of Health and Community Services. *Health minister announces deficit-reduction measures*. News Release. October 30, 2001.

[40] Letter from Ed Stratton, Chair, to Hon. Julie Bettney, Minister, dated 16 October 2001.

[41] Letter from Hon. Julie Bettney, Minister, to Ed Stratton, Chair dated 29 October 2001.

[42] Ibid.

in costs that would not reduce the hospital's service volume of approximately $6.4 million[43] or less than 2% of its operating budget.

HCCSJ Board was convinced that there were no additional savings that would not reduce service

Despite the explicit direction of the Minister, the hospital was unable or unwilling to reduce its costs further. The Board, however, was convinced by management that there were no additional savings available to it that would not involve unacceptable (to the corporation and the Minister) reductions in service volume[44]. The hospital's inability (or unwillingness) to submit a balanced budget led to the government's decision to undertake this operational review.[45]

Monitoring Financial Health

The HCCSJ has a system in place to track and explain variances from budgeted revenues and expenditures.[46] These reports are provided regularly to the Board and contain:

- Revenues
  - Outpatient
  - Inpatient
  - Other Income
- Expenditures
  - Administrative and Support
  - Clinical Programs
  - Therapeutic Services
  - Educational Services
  - Other

For each area of responsibility in each category, the month-to-date (MTD) and year-to-date (YTD) actual variances from budget (broken into compensation and supplies) are provided.

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[43] Derived from the difference between the original deficit projection of $13 million to the final deficit projection of $6.6 million.

[44] It should be noted that prior to the request from the Minister in 2001, the corporation had achieved significant efficiencies through the merger by reducing management and consolidating operations into a smaller number of sites.

[45] Letter from Hon. Julie Bettney, Minister, to Ed Stratton, Chair dated November 2, 2001

[46] Health Care Corporation of St. John's. *Financial Analysis*.

Narrative comments are provided to explain the nature of the MTD and YTD variance in each department. However, there are several opportunities to improve the hospital's approach to analyzing variances from plans and budgets.

We feel that financial and performance reporting to the board should help it to understand:

- the causes of variances from plan,
- the impact of the variances on the running rate of costs for the hospital and
- the potential impact on year-end results

and should identify variances that might be corrected through management initiatives. Thus variances from budgeted levels of expenditure should be identified and measured as variances that are caused by:

- Variances from planned volumes/workload
- Variances from planned unit costs (of labour or materials)
- Variances from planned levels of productivity

Making these analyses available to the board would allow board members to better exercise their responsibility for monitoring and maintaining the financial health of the hospital.

Thus we feel that the effectiveness of these reports could be enhanced with the following changes:

- The reports should present a forecast of year-end results and a summary of changes in revenues and expenses that are forecast to lead to any variances from the budgeted results. The year-end projection helps to determine the need for and the urgency of corrective action to deal with variances from plans and budgets.
- The narrative component of the report should be expanded and enhanced to provide a discussion of opportunities for corrective action to achieve the operating plan or budget targets and an explanation of actions undertaken to correct for negative variances. We further suggest that the Board should request management to propose and undertake these mid-year corrective actions to achieve budgeted levels of performance.
- The report should present selected volume statistics for the corporation as a whole (separations, patient days, etc.) and

selected operating units and services (OR Cases, Emergency Visits, MRI Exams, etc.), and variances from the plan.

- The reports should also include a set of corporate performance indicators that present a comparison of the corporation to benchmark levels of performance of other teaching hospitals. Indicators could include nursing and total paid hours per patient day; total paid hours per adult weighted case; adult and newborn average length of stay; administrative expenses as a % of total operating expenses, etc. Also, performance on these indicators should be contrasted with budgeted levels of performance. The reports should provide explanations of variance and planned corrective actions for these productivity measures as well as for financial measures.

It should be noted, however, that the organization has established a strong structural foundation to support variance analysis. It has embedded variance analysis into its management processes. It now needs to take advantage of its successes to better control costs in relation to plans.

It is recommended that:

(6) The CFO should ensure that all analysis of variance includes consideration of the implications of the variance for year-end departmental, program and hospital results.

(7) The CFO should further expand and enhance financial and statistical reporting to the Board to include more comprehensive analyses of variances from plan that provide not only the cause of the variance but also potential corrective actions.

(8) The CFO should further expand and enhance statistical performance reporting to the board to provide comparisons with similar hospitals in Canada.

Monitoring Effectiveness of Management

The board of a hospital bears overall responsibility for the effectiveness of the hospital in fulfilling its mission. It is, however, dependent on management to provide it with sufficient information to fulfill this responsibility. We feel that reporting structures and mechanisms established by HCCSJ do

not allow the Board to effectively monitor the effectiveness of management.

The board receives regular reports from the Chair and CEO. Each report provides an update of current issues facing the corporation. The board also receives a report from each of the standing committees. These committees such as the Finance and Audit Committee and the Quality Initiatives Committee are actively engaged in monitoring operational and management issues facing the organization.

As we have discussed, the Board is not setting annual objectives (other than budget targets) against which the effectiveness of management can be evaluated. Although its strategic directions do communicate to management the Board's desires regarding the focus for management activity, management has not established a framework for formally and systematically reporting on its actions in relation to these directions. The Board is not receiving systematic reporting of the hospitals overall performance related to its:

- Responsiveness to community needs
- Quality of care
- Efficiency of care
- Organizational climate

that would allow it to track the hospital's/management's performance or success in achieving the related corporate objectives.

These measures would be further enhanced by the addition of external benchmarking comparisons to the measurements of hospital performance.

It is recommended that:

(9) The Corporate Team should develop a system for regular reporting to the Board of organizational performance in relation to the board's objectives for the hospital.

Ensuring & Monitoring Quality of Services

A fundamental responsibility of governance is ensuring and monitoring the quality of services and continuing improvement of quality in all aspects of hospital operations. The Quality Initiatives committee has a process for the board to monitor the quality of hospital services:

- Receives and considers a monthly reports on the quality of care in various departments/areas of responsibility;
- Receives reports from the Director on patient compliments and concerns
- Receives periodic reports on selected other indicators of quality of hospital services (e.g. waiting time for CT and MRI, etc.)
- Receives annual reports on HCCSJ quality by external agencies such as Hay Benchmarking Comparisons and Maclean's reports on health services.

The Quality Initiatives Committee is also informed of investigations and corrective action by management to address issues of quality revealed through the existing measurement tools. The committee is also monitoring the success of management initiatives to improve quality.

The Board was also actively involved in the Canadian Council on Health Services Accreditation review of the hospital. It has reviewed the findings and is monitoring the corrective actions initiated by the hospital in response to the Accreditation Report.

As with all processes there are opportunities for the board to better understand the quality of care and services being provided by the hospital.

- The Committee does not receive a standard set of quality indicators, preferring instead to receive periodic reports from various departments/areas of responsibility. Development of quality indicators that are reported to the committee on a regular (i.e. quarterly) basis would allow the Board to be comforted that the hospital is achieving and maintaining an acceptable level of performance or to alert the committee to areas that require particular attention and corrective action by management or the medical staff
- The departmental reports provided to the committee are periodic in nature and there are no mechanisms in place to monitor performance over time or report on what has changed since the previous review.
- The committee does not receive comparisons of the performance of HCCSJ with other like academic health science centres from across Canada. The development of standardized quality of care indicators should incorporate the ability to compare HCCSJ with the performance of

comparable hospitals across Canada. This will make the information provided to the Board much more useful in understanding the need for and/or opportunities to improve the quality of care and service being provided by the hospital.

- The hospital might also consider developing or obtaining quality measurement tools for other key areas of hospital performance such as dietary, housekeeping, imaging, laboratories and providing summaries of these measurements to the Quality Committee.

Quality Monitoring Through the MAC

Quality of care at HCCSJ is also monitored through the Medical Advisory Committee. One of the functions of the Medical Advisory Committee is to "advise the Board on the quality of medical care," at the hospital.[47] At its monthly meetings, the MAC receives reports from each of the clinical chiefs. These reports vary in the level of detail and data provided; there are no standardized measures or indicators that are reported to the MAC. This reporting could include indicators of the quality of medical/hospital care including ALOS, Mortality Rate, Complication Rate and Unplanned Re-admissions for each Division of each Medical Department of the Hospital

The MAC provides a summary of these reports to the Board. For the board to be better able to understand the quality of care at the hospital, the MAC should more formally report these results to the Quality Initiatives Committee. Also, these quality measures would be further enhanced and more meaningful to the Board if they were contrasted with the performance of other like hospitals across Canada.

The MAC should also develop a protocol for reporting the findings of its Infection Monitoring Program to the Quality Committee of the Board.

It is recommended that:

(10) The Medical Advisory Committee should develop a standardized set of quality indicators to be reported to the board.

[47] Health Care Corporation of St. John's. *Medical Staff By-Laws* Section M8:13.

(11) The Medical Advisory Committee should develop a protocol for reporting the findings of its Infection Monitoring Program to the board.

Annual Objectives and Performance Review of CEO

It was reported that the Board selects the CEO in collaboration with government. The selection Committee for the current CEO included 3 from members from the HCCSJ Board and 3 members from Government. The Treasury Board reviews and approves the appointment. The CEO has an employment contract with the Board. Given this process, the CEO is as much an appointee of the Government as of the Board of the corporation. Given the importance of the CEO to the success of the Board in fulfilling its responsibilities, it might be better if this appointment was more fully the responsibility of the board, rather than an equivalent responsibility of the Department and the corporation.

Formally, the Board interacts with the organization through its CEO. The annual process of setting and communicating the objectives for the CEO is critical in setting the direction for the entire organization. The review of the CEOs performance in relation both to these objectives and to the responsibilities of the position is a critical tool for reinforcing the importance of both the objectives and also the values and desired culture of the organization.

The annual objectives for the CEO should include, as their fundamental component, the annual objectives for the corporation. As has been discussed, the corporation does not set annual objectives for the organization and as a result there are no objectives set for the CEO on an annual basis.

Instead the Board has communicated to the new CEO that he will be evaluated on progress toward achieving the corporate strategic directions and in relation to the performance of his responsibilities. A performance evaluation committee of the board has been established to conduct and communicate the findings of this review.

It is recommended that:

(12) The Chairperson of the Board should ensure that the corporation's annual objectives form the core of the annual performance objectives for the CEO.

2.3 Management Structures & Processes

It is generally accepted in the hospital industry that management is "responsible for the effective and efficient operation of the hospital in accordance with the direction set by the board".[48] Management of a hospital is expected to fulfill its responsibility by:

- Providing leadership to the hospital community
- Developing and implementing strategies for achieving the hospital's objectives
- Creating organizational structures and processes
- Directing and overseeing the delivery of hospital services
- Improving efficiency of hospital services
- Improving effectiveness and quality of hospital services and care
- Recruiting and developing staff
- Reporting to Board on the effectiveness of the hospital

The organizational health and effectiveness of a hospital is dependent on the successful execution of these responsibilities.

In this section we evaluate the management structures and processes of the Health Care Corporation of St. John's in relation to these expectations of the management of a hospital.

Senior Management Organization

Senior management at the Health Care Corporation of St. John's is challenged by the need to operate acute, rehabilitation and chronic hospital care and support services on five sites while integrating programs and services across the sites. The hospital has chosen a mixed approach to the management of programs, sites and corporate services. It has a small number of corporate officers overseeing a senior management team made up of program and functional centre directors. Clinical services are managed using a program management model. Support and administrative services are organized more traditionally using functional centre management. Management of both programs and services span

[48] From "*Into the 21st Century: Ontario's Public Hospitals, Report of the Steering Committee, Public Hospitals Act Review.*" Ontario Ministry of Health, February, 1992.

the five facilities. There is no management structure assigned to or responsible for each or any of the facilities. However, each of the corporate officers is located and has oversight responsibility for one of the 5 sites.

The current management structure has allowed the corporation to significantly reduce the number of management positions from the number used by the legacy organizations

This structure has allowed the corporation to significantly reduce the number of management positions from the number used by the legacy organizations. As will be discussed later in this report, we feel that there may be opportunities to take advantage of the program management structure to further reduce the number and cost of management in the corporation.

The senior management of the hospital includes the CEO and five Vice Presidents organized into the Corporate Team. This is an appropriate number of participants that allows for discussion and consensus building.

Corporate Team meets weekly, on Tuesday mornings, for approximately four hours. These meetings are long, with discussion on a wide variety of operational issues related to clinical and support services. It appears that issues continue to be brought to the Corporate Team for discussion, until a resolution is reached. The decision making process is based on consensus among Corporate Team members.

Corporate Team discussions are wide-ranging, as it considers issues such as site redevelopment, labour strife and back-ups in the Emergency Department. However, Corporate Team has occasionally found itself discussing relatively trivial issues such as stolen vacuum cleaners[49] and the assignment of lap-top computers to individual staff members.[50] Consideration of these issues reduces the effectiveness of the Corporate Team and might better be addressed within departments, or in consultation with the appropriate Vice Presidents.

[49] Health Care Corporation of St. John's. *Corporate Team Minutes*, September 11, 2000.

[50] Health Care Corporation of St. John's. *Corporate Team Minutes*, November 28, 2000.

Management has allowed the Finance & Audit Committee of the Board to assume responsibility for monitoring, investigating and to some extent, directing operational and financial performance of the hospital

Meeting minutes suggest that Corporate Team has spent little time discussing monthly operating results, variance reports, or the development of the operating budgets. Meeting minutes also suggest that the Corporate Team does not receive regular reports of clinical activity or operational activity. Historically, management has allowed the Finance & Audit Committee of the Board to assume responsibility for monitoring, investigating and to some extent, directing operational and financial performance of the hospital. With new management, the corporate team appropriately, has begun to assume responsibility for monitoring, investigating and directing operating and financial performance of the hospital and then reporting to these initiatives to the Board. This behaviour should be continued and reinforced. The Board should monitor performance; management should be responsible for directing operations to ensure performance that achieves the board's objectives.

Strategic Planning

As has been discussed planning is a critical component of hospital governance and management. In keeping with the need to distinguish between governance and management, organizational objectives and long-range goals for programs and services should be considered primarily a responsibility of governance; strategies and operational plans for achieving these objectives and goals should be considered primarily a responsibility of management.

Management should participate in and provide support for the Board's initiatives to:

- Establish the objectives for the hospital (Vision, Mission and Core Values)
- Select the health needs of the composite community that might be appropriately served by the hospital (Role Statement)
- Determine the programs and services to be offered by the hospital in response to the health needs of the population and in order to achieve the hospital's objectives. (Long-Range Plan)

However, management should be responsible for developing a strategic plan that identifies the initiatives that will be employed to implement the enhancements, expansion and/or rationalization of programs and services suggested by the long-range plan thereby achieving the Vision and fulfilling the Mission of the hospital. It is also responsible for translating

the objectives, plans and strategies into an operational plan that will specify the activities to be initiated in the each fiscal year.

As discussed earlier, the corporation published its Strategic Plan in May 2001. Although the plan identifies specific goals, objectives, target dates and follow-up responsibility, it does not identify a process to monitor the progress of implementation or provide feedback to the board with respect to the achievement or non-achievement of the Plan.

The plan does not define the desired future role for the corporation in responding to the needs of its communities nor does it contain long-range goals and objectives. Planning only extends to early 2003, making the document similar to an operational planning document, rather than a long-range strategic plan. The hospital has not as yet developed a long-range strategic plan to guide its future growth and development.

Operational Planning & Budgeting

Operational planning and budgeting are the annual management processes through which a hospital implements its long-range plans and fulfills its mission. Typically these processes will include setting:

- Annual objectives for the organization
- Plans for the development, enhancement, maintenance, contraction or elimination of programs and/or services
- Performance expectations related to the volume, productivity, cost and quality of services provided by each program and by each therapeutic, diagnostic, support and administrative service department.
- Targeted expenditure levels for each element of the program
- Estimates of revenues

A hospital needs the operating plan and related budget to describe and quantify its annual objectives and its planned program, service and fiscal initiatives.

We feel that an effective operational planning and budgeting process should be based on:

- Estimates of patient volume
- Targets for Clinical Efficiency
  - % Ambulatory

  - ALOS
- Targets for Content of Care
  - Functional Centre Workload per Separation/Ambulatory Procedure
- Targets for Operating Efficiency
  - Departmental Productivity
  - Unit Cost Estimates for Labour
  - Targets for Material and Supplies Productivity

The plan and budget should be reviewed and approved by the board, and thus is one of the most effective vehicles for ensuring accountability of hospital management and staff to the board, and the communities served by the hospital.

Senior Management of HCCSJ is committed to effective financial management processes, and has made progress in strengthening these processes

Senior Management of HCCSJ is committed to effective financial management processes, and has made progress in strengthening these processes. It goes without saying that the organization has faced tremendous challenges over the past five years starting with the merger and including site closings, the capital redevelopment, and restructuring of hospital operations. The current operational planning and budgeting process is as follows:

- In October the Department of Health and Community Service issues a request to hospitals to prepare a financial forecast for the next fiscal year.

In response to this request:

- management requests each operating area to prepare their forecast and these are consolidated and submitted to the Department of Health and Community Services
- management then develops a 3 year forecast based on expected changes in medical staff appointments, volumes, and expenses
- the operating areas commence preparation of detailed cost centre budgets
- cost centre budgets are presented to the Corporate team for review and consolidation into a budget for the corporation
- the consolidated budget is presented to the Finance and Audit Committee for review
- based on this review, the Finance & Audit Committee recommends the revised budget to the Board of Trustees.

The operating planning and budgeting process used by the hospital does not formally include consideration of an operating plan for the hospital that provides an indication of objectives for the organization for the coming year and or planned major initiatives.

The operating planning and budgeting process used by the hospital also does not formally include consideration of anticipated volume or productivity targets in determining required or budgeted hours for the hospital as a whole, for the hospitals programs or its patient care, therapeutic, diagnostic or support service departments. Nor does it appear that the budget development process used by the hospital formally considers the productivity that will result from the hours that are being budgeted.

The process starts with supply targets for positions rather than with estimates of patient volume and expectations for content of care and productivity. Our experience suggests that developing a budget with supply targets for staff hours rather than with estimates of patient volume and expectations for content of care and productivity leads departments to focus on continuing the past rather than on how they can become more productive in the future. They do not focus on reducing the number of hours or costs required to provide services to the same volume of patients. Departments will assume that they will be expected to provide the prior years volume and content of care and that they will be allowed to operate at the prior year's staffing levels or higher. It will not focus departmental efforts on continually improving the approach to service delivery to improve productivity and/or quality.

However, the process at HCCSJ is an inclusive process that involves clinical and administrative leadership and the budget is built upon the input from the leadership team.

We feel that the operational planning and budgeting processes could be strengthened through:

- informing the operational planning and budgeting process with parameters that minimally specify:
  - organizational objectives for year
  - assumptions regarding patient volume
  - commitments to new program and service initiatives
  - efficiency targets

- performance based budgets,
- team-based budget reviews: each operating area should present its budget to the rest of the leadership team to ensure implications are understood and addressed, and to broaden ownership of the combined budget,
- a broader investigation of the assumptions and risks in the budget, and a sensitivity analysis presenting scenarios if the assumptions do not hold
- starting the process sooner

It is recommended that:

(13) The CFO should initiate the budget process by communicating the corporations operational planning and budgeting parameters.

(14) The Vice Presidents should ensure that each operating area develops its plan and budget by translating corporate planning and budget parameters into functional centre parameters defining expected service content, workload, productivity targets, overhead staffing requirements and materials productivity targets.

(15) The CFO should ensure that corporate review and evaluation of budgets includes review of changes from prior years and performance against targets.

(16) The CEO should ensure that finalization of the budget includes review of each operating areas plans and budgets by the rest of the leadership team.

(17) The CFO should ensure that the budget package presented to the Board includes assumptions and risks, and sensitivity analyses related to critical planning/budgeting assumptions.

The principal focus of the hospital's fiscal planning and management seems to have been looking for external solutions to its fiscal problem through increases in government funding. Although there has been attention to changing care and service delivery processes there has been less attention to improving efficiency to mitigate the impact of increasing costs of labour and supplies to allow the hospital to maintain patient volume while containing or reducing operating costs.

The hospital's fiscal focus seems to have been on increasing its funding from the Department of Health and Community Services. The rationale for this focus has been that the hospital feels that its funding is significantly less than what is required, given its unique mandate to provide tertiary services to the residents of Newfoundland.

HCCSJ has proceeded to spend on hospital operations in excess of the funding provided or committed by the Department. It is now forecasting a working funds deficit of approximately $35 million by the end of fiscal year 2001/02.

Assuming that the Department of Health and Community Services would eventually confirm the Corporation's assumptions and decisions with respect to the adequacy of its operating funds, HCCSJ has proceeded to spend on hospital operations in excess of the funding provided or committed by the Department. While waiting for the Department to solve its problems, the hospital has allowed its fiscal position to dramatically deteriorate. It is now forecasting a working funds deficit of approximately $35 million by the end of fiscal year 2001/02.

It is recommended that:

(18) The Health Care Corporation of St. John's should develop and implement plans to provide hospital services within the revenues committed to it from the Department of Health and Community Services and available to it from other sources.

Controlling Expenditures

The primary focus of management of a hospital is providing for and ensuring the effective and efficient provision of patient care. Controlling expenditures suggests that management needs to set in place processes for managing hospital efficiency. These processes should include:

- ***Cost Management:*** Controlling the cost of each unit of labour and material used by each department of the hospital in providing its services or producing its products.
- ***Productivity Management:*** Measuring, monitoring and controlling the number of units of labour and materials employed in producing departmental services
- ***Utilization Management:*** Measuring, monitoring and controlling the resources used in each episode of patient care (including length of stay in hospital)
- ***Admission Management:*** Ensuring the appropriateness of each episode of patient care
- ***Volume Management:*** Measuring, monitoring and controlling the number of episodes of patient care.

Management of a hospital uses these processes to manage the overall content and cost of hospital operations. To be effective in the execution of its responsibilities, management needs to be able to influence and ultimately manage all aspects of the clinical and non-clinical activities of a hospital.

Through its management structure and management processes, the management of the Health Care Corporation of St. John's has and is establishing structures and processes that will allow it to effectively and aggressively manage hospital costs. However, as has been discussed previously, aggressively managing and reducing costs has not been a focus of the managers of the hospital.

The most important aspect of variance analysis is not the determination of the cause of the variance, but rather the determination whether it is a controllable variance and the appropriate corrective action that should be initiated

In refining its approach to variance analysis, it will be important for the hospital to remember that the most important aspect of variance analysis is not the determination of the cause of the variance, but rather the determination whether it is a controllable variance. If the variance is controllable then corrective action should be initiated; if it is an uncontrollable variance, then re-budgeting should be considered to reflect the uncontrollable/unplanned event. Corrective actions should be taken in response to significant departmental variances. When these actions will impact on departments outside the program portfolio, the proposed plan of action should be reviewed with the Corporate Team prior to implementation. Corrective actions with significant implications for the hospital and/or re-budgeting with significant implications for year-end results should be reviewed with the Finance and Audit Committee of the Board.

A key reason for monitoring the variance reports is to determine the potential impact on ongoing performance (the 'running rate') and year-end results

A key reason for monitoring the variance reports is to determine the potential impact on ongoing performance (the 'running rate') and year-end results. If the current month variance is the beginning of a negative trend then it should be identified early and addressed before it has a negative impact on year-end (and future years') results. If the year-to-date performance is an erosion of performance than it should be addressed so that performance can be restored to targeted levels. The focus needs to be on determining whether performance can be restored to targeted levels. This will require reporting and analysis of both current month and year-to-date performance.

While it is useful to examine variances by program, more detailed data (i.e., variance by functional centre) would also be

useful. Functional centre data would help to direct the focus of management's efforts to implement corrective actions.

The variance reports need to focus on materiality. Since these reports are being prepared for the hospital's Vice Presidents (and members of the Board of Trustees), they need to be able to focus their efforts where there will be the largest impact. It might be useful if summary reports provided a sorting of functional centre results from the largest the smallest variances from plans and budgets. The Vice Presidents could then work with their Departmental Managers with larger variances to determine whether the current and/or year-to-date variances will impact on the year-end result and determine whether there is a feasible corrective action.

Also, the summary status report should identify any common themes across the departments that might suggest a problem that pervades the program area and that might require corporate rather than sectoral initiatives to resolve.

It is recommended that:

(19) The CFO should improve the content of the variance reporting provided to the Corporate Team

(20) The CEO and Corporate Team should make cost management and productivity improvement a priority of management and staff throughout the organization.

Management Reporting

There must be a balance in management reporting. Too little information and too much information should both be avoided. Management information should focus on the "critical success factors" of an organization. For any organization, the critical success factors are the limited number of areas in which satisfactory results must be achieved in order to ensure the successful performance of the organization. These are the few key areas where "things must go right" for the organization to flourish. If results in these few significant areas are good, the organization will be successful. If results in these few areas are not adequate, the organization's overall performance for this period will be less than desired. The critical factors are areas of activity that should receive constant, careful attention from management. The current status of performance in each area should be continuously measured and made available to the appropriate managers.

The critical volume, productivity, cost, revenue and overall performance targets specified in an operational plan/budget should provide the foundation for effective management reporting. Management reports should provide managers with an indication of departmental performance in relation to operating targets and budgets for:

1. Utilization (e.g., Laboratory Tests per Separation)
2. Volume (e.g., Laboratory Tests)
3. Workload (e.g., Laboratory Workload Units)
4. Productivity (e.g., workload units per variable worked hour – per UPP worked hour)
5. Variable/UPP worked hours
6. Overhead worked hours (Management and Operational Support hours)
7. Benefit hours
8. Total paid hours
9. Total Labour Costs
10. Total Supplies Costs
11. Total Operating Costs
12. Revenues
13. Quality of service

Then, throughout the year, an effective management reporting system will concentrate on:

- comparing actual results to targets, and
- providing this information in a timely and accurate manner to support operating decisions.

so that managers are able to understand and explain significant variances and develop plans for corrective actions to achieve the budgeted levels of performance.[51]

Reporting for Departmental Managers

Departments receive monthly operating statements and labour distribution reports. These provide current month budget, actual, and variance along with YTD budget, YTD actual and variance. But the focus of these reports is spending, not workload, productivity or quality. Also there are no

[51] Alternatively, if the causes of variance are outside the control of the hospital, consideration might be given to formally changing the performance targets.

comparisons to the prior year's performance. The hospital should provide each program and each functional centre with higher level summaries of performance in relation to critical operating and budget targets suggested previously. These can then be the basis for more effective variance analysis throughout the hospital.

The current systems and information to support management have some fundamental deficiencies:

- Integrity of the data has been sighted as a key issue with examples of inconsistency in statistical and utilization data depending on the source
- Availability of the data is another key issue due to the lack of a standardized set of statistical and utilization reports resulting in the use of ad hoc reports and the concern that the information is not presented consistently or in a format that facilitates use by managers
- Incompleteness of the data is another key issue due to the inability to link financial, statistical, utilization and workload data
- The hospital's systems currently cannot match salary with non-salary expenses and cannot link to statistical, utilization, and workload data

However, management has recognized the need to improve the quality of management information at HCCSJ. It has developed an information management strategy to fiscal 2003 and has achieved the following milestones in addressing some of the identified deficits:

- harmonization of the Meditech information system across all sites
- harmonization of the unique patient identifier across all sites
- initiation of a process to establish the statistical general ledger
- commitment to HRIS

There is a clear direction and plan to further improve the usefulness of management information with a focus on improving data quality. However, management information is only part of the issue. Analytical support to all levels of management, especially program management, will be critical to the hospital's success in effectively managing clinical utilization and improving clinical and operational efficiency

and thus managing the corporation's operating costs. HCCSJ should increase the level of analytical support available to managers through the creation of a decision support function that:

- interprets and analyzes health information and provides standard and adhoc reports that integrate clinical and statistical data
- conducts inter-hospital comparisons of clinical and operational efficiency, content of care and cost per case
- conducts benchmarking of clinical and operational processes to improve quality and efficiency of hospital care and service
- ensures data quality and corporate consistency
- collects, integrates, and organizes data into a data warehouse

It is recommended that:

(21) The CFO should establish a data quality task force chaired by the Director of Finance and Budgeting to develop a strategy to improve data integrity.

(22) The CFO should establish a management information task force to define the information requirements of managers and the key performance indicators that should be used to monitor organizational performance.

(23) The Director of Finance and Budgeting should compile an inventory of all statistics by source that are reported internally and externally, and clearly establish the authoritative source of each statistic

(24) The CFO should increase the level of analytical support through the creation of a decision support function

2.4 Human Resources Management

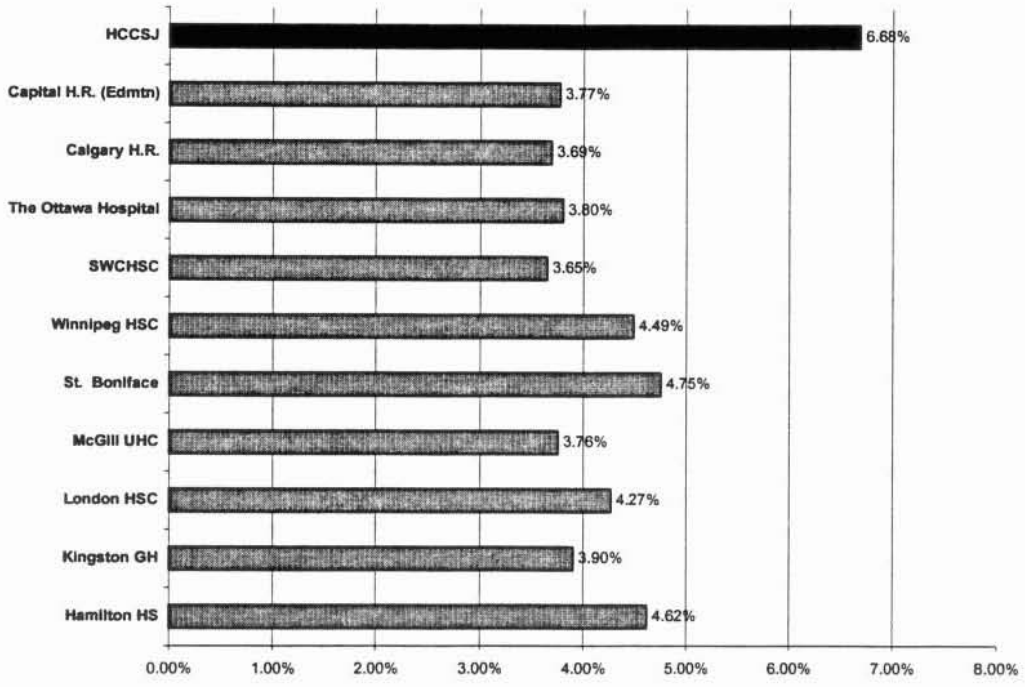
There are three major areas of human resources management at HCCSJ that require attention: Attendance Management, Performance Management and Labour Relations. These have been identified by the corporation and have been the subject of recent studies by Hewitt Associates who have recently

completed an Operational Review of Human Resources[52] at HCCSJ and Morneau Sobeco who conducted a Sick Leave Study[53] in 2001. To ensure completeness of this report, we address similar issues to the findings of these studies. It should be noted that these issues are being addressed by the corporation and the structural prerequisites for effective action have been or are being put into place. What is now required is effective and sustained implementation of these improved human resources management processes.

Attendance Management

The Human Resources leadership team acknowledges that there is significant opportunity and need to reduce the amount employee absence due to illness and/or accident. Senior management has identified improvement in this area as a strategic imperative[54]. Sick time usage at HCCSJ exceeds that of any other major academic health science centre in Canada. The exhibit following shows paid sick time as a percentage of total worked hours for each of the comparator hospitals used in this review.

Exhibit 2.2
Sick Time Percentage of Total Worked Hours



[52] Hewitt Associates HR Operational Review Status Report , November 2001

[53] Morneau Sobeco Sick Leave Study, October 2001

[54] It should be noted, although sick time usage at HCCSJ is extremely high in relation to other Canadian hospitals, HCCSJ has the lowest lost time experience of all the Health Boards in Newfoundland and Labrador.

With more effective interventions, the corporation should be able to reduce employee absences and generate significant cost savings. The hospital should develop and implement an Early Intervention Management Program to reduce employee absenteeism. The critical features of such a program include:

- High level support from the C.E.O. and all members of the senior management team.
- Collaboration among Human Resources, Occupational Health and Unions.
- Clearly written guidelines communicated to all employees, supported by education for all employees and managers.
- Consistent application of the program for all employees, full and part time,
- Consistent application of the program for all absences due to illness, accident or personal issues. These include short and long term, compensable and non-compensable absences.
- Regular monitoring and evaluation of the outcomes of the program.

The pending introduction of new provincial legislation governing absence due to work related illness and/or accident that will require early intervention and return to work will provide opportunity to implement a new culture to attendance management. St. John's has enjoyed some recent success with their management of absence resulting from work-related illness and/or accident. A consistent approach should be taken for all absences both work and non-work related absences and should include the following core elements:

- Clear guidelines that define sick for both short and long term absences
- Tracking and analysis of employee absences at the employee, program/department and hospital wide levels
- Regular contact with and monitoring of the health status of the absent employee
- A team approach to early intervention and return to work involving the employee, union. manager, occupational health and human resources
- Return to work programs that address the needs of individual employees, their work areas giving

consideration to safety issues and the impact on patient care and co-workers.

It should be noted that these suggestions with respect to attendance management and proposed changes to the collective agreement provisions governing sick leave are consistent with the findings of the Morneau Sorbeco Sick Leave study commissioned by HCCSJ in the Fall of 2001.

It is recommended that

(25) The Vice President, Human Resources should develop and implement an Early Intervention Management program to reduce employee absence due to illness and/or accident.

Performance Management

The recent Human Resources operational review (and confirmed by our investigation of management processes at HCCSJ) found deficiencies in performance management and evaluation processes.

Accountability is supported and enhanced through performance management. Given the changes in management and the number of new managers, performance management is essential to communicate the organization's expectations of its managers and to address their developmental needs. The corporation needs to ensure that it has an active performance management program for its managers. This program should include, at a minimum:

- Accountability for the achievement of objectives which support the Corporation's strategic direction.
- Reinforcement of the Corporation's core values as critical in guiding management team behaviours
- Identification of the training and developmental needs of manager's.
- Clear articulation of performance expectations and targets
- Regular review of performance of each manager

It is recommended that

(26) The Vice President, Human Resources should develop and implement a Performance Management program for managers at HCCSJ.

Labour Relations Issues: Management of Grievances

Restructuring, staff layoffs and a continuous experience of difficult labour disputes have resulted in a challenging labour

relations environment at HCCSJ. The level of trust required for management to work collaboratively with employees and their unions has been significantly compromised. Of particular concern are the costs of managing up to 600 new grievances each year and the potential liability associated with a backlog of some 2000 outstanding grievances. This issue needs speedy resolution to restore a collaborative, supportive working culture at HCCSJ. Human resources should develop and implement a plan to:

- Identify the potential liability that could result from the backlog of grievances.
- Actively pursue the resolution of these grievances through negotiation and/or arbitration as provided for by the collective agreement.
- Ensure that future grievances are addressed in a timely manner respecting the grievance resolution process and time limits provided for by the collective agreement.

It is recommended that:

(27) The Vice President, Human Resources should resolve outstanding grievances and develop a process to expeditiously deal with grievances.

Labour Relations Issues: Provisions of the Collective Agreement

It is recognized that the St. John's Health Care Corporation is but one participant in the provincial bargaining process and is therefore unable, on its own, to negotiate changes to the provincial agreements. There are, however, three areas where leadership is required in advancing change that could result in significant cost savings for the organization.

Overtime payments to nurses for providing report

Over time for nurses is calculated in 30-minute intervals at 1.5 times their rate of pay. Nurses working beyond their daily hours of work are therefore entitled to a minimum payment for 45 minutes, regardless of the actual time worked. Nurses have a professional responsibility for communicating the status of their patients to their peers at the change of shift. The fulfillment of this professional responsibility should not result in an automatic payment of 45 minutes. An overtime grace period not exceeding 15 minutes at shift exchange should be considered for the purpose of providing report and fulfilling this professional responsibility of nurses working at HCCSJ.

Sick time provisions

The collective agreement provisions that provide for the accumulation of a "bank" of sick days are contributing to a culture of entitlement to days off as opposed to the intended

purpose of providing income protection for employees experiencing legitimate illness. And yet, the agreement does not provide any income protection for employees who experience a non-work related long term illness or disability. Additionally, the voluntary nature of employee participation in early return to work programs is not in either the employer's or the employee's interest.

Personal Paid Leave

The collective agreement also provides for personal paid leave in addition to paid leave for vacation, holidays and illness. We understand that employees are taking on average 2 of the 3 days of paid personal leave available to them subject to the qualifying criteria. Paid personal leave does not exist in most other jurisdictions. The high rate of utilization of this entitlement is further exacerbating the hospital's high replacement costs.

The current provisions of the collective agreement both inhibit the ability of employer to legitimately manage employee absence and do not meet the income protection needs of employees.

It is recommended that:

(28) The Vice President, Human Resources should play a leadership role in advancing through the provincial bargaining process changes to the collective agreement provisions governing over time for nurses and sick leave and personal paid leave provisions for all union employees.

2.5 *Medical Staff Involvement in Management*

The Corporate Team includes one physician, the Vice President of Medical Services. The program management structure provides an opportunity for involvement of the medical staff in the management of hospital operations and in management decisions regarding the use of hospital resources. Additionally, the MAC is available to allow the medical staff to exercise direction and control over the quality of medical care at the hospital. Unfortunately, neither of these two structures is as effective in their respective roles as is needed by the hospital.

Relations between medical staff and management and board

Overall, the relations between medical staff and management and board are apparently quite good. The prevailing opinion among the medical staff seems to be that senior management

and board are doing the best they can (and that it is the government that are creating the problems due to lack of adequate funding).

Relations between the medical staff, administration, and the university/medical school

The relations between the medical staff, administration, and the university/medical school are remarkably good. There is widespread recognition of the critical importance of the medical school in helping to provide the tertiary services for the province through recruiting and attracting appropriate personnel. There is no question that most of the tertiary services in the province would collapse in the absence of the medical school, with the resultant serious access and cost problems for the population to obtain appropriate services. There is no dispute about the policy concerning all medical staff having university appointments. The functional relationships are good and there is strong support and trust for the Dean.

All medical staff recruitment is done jointly between the hospital corporation and the university. There is a structured process for impact assessment for new appointments. There is a significant problem about the lack of critical mass for many subspecialties, which is inevitable in an organization of this size in a province of this size.

Physicians in administrative positions

The physicians in administrative positions have varied experience and expertise in their roles. There are some excellent individuals who understand well their role within the overall governance and management structure; whereas others, although well intentioned, lack sufficient training and experience to adequately understand and/or fulfill their roles and responsibilities. Some have misinterpreted their role to be advocates for themselves and their colleagues. Comments like the following suggest that some of the appointments to clinical chiefs of service may need to be revisited:

- "It is important for clinical chiefs to represent and work on behalf of their colleagues".
- "If clinical chiefs are paid significantly they just become tools of administration."
- "I do not want a large stipend as that would mean my loyalty is to the hospital, whereas I see my loyalty being to my colleagues."

It is recommended that:

(29) The Vice President Medical Services should ensure that all appointees to a position of clinical chief participate in a formal management training program designed for physician leaders such as the PMI courses.

(30) The Vice President Medical Services should ensure that all clinical chiefs have a contract that includes a job description, accountabilities, expectations, required time commitment and appropriate remuneration.

Medical Advisory Committee (MAC)

The Medical Advisory Committee is not effective in ensuring the quality of medical care at the hospital. It appears to discuss issues repetitively but has difficulty coming to resolution and decision. The MAC does not seem to have any formal mechanism for measuring, monitoring or ensuring the quality of medical care at the hospital. As will be discussed later in this report, The MAC also plays a very passive role related to utilization management.

The MAC seems unwilling to deal with difficult and sensitive issues, especially related to necessary discipline of medical staff. The medical staff bylaws clearly place the responsibility for initiating disciplinary action with the clinical chiefs through the MAC (medical staff bylaws June 29, 1999, page 8, section M3:22, M3:23). A critical example of this failing is the recent issue regarding anaesthetists involvement in the pre-admission clinic. In summary, the Department of Anesthesia withdrew their services from the pre-admission clinic in May 2001 as they considered their earnings from that source to be insufficient. (There has been an ongoing dispute between anesthetists and the province on fees in general.) However, it is obvious that a modern hospital cannot function effectively without a pre-admission clinic (PAC) that includes specialist anesthetists. Withdrawal of services compromises both the quality of care at the hospital and its efficient operation. There was and continues to be an important role for the MAC in dealing with medical who have refused to fulfill their responsibilities to the medical staff of the hospital and to the hospital as a whole. Suspension or removal of privileges and perhaps dismissal from the medical staff of the hospital should be considered as potential disciplinary actions. This situation remains unresolved. Although not the focus of our review, it

is likely that a small number of anesthetists have behaved in a manner that should have been remarked upon by the MAC, perhaps resulting in disciplinary action. But the MAC did not act. The current PAC situation is completely unacceptable and requires urgent resolution. To facilitate action by the board in the future, the Board and the MAC should ensure that appointment to the medical staff of the hospital includes clearly articulated expectations for participation in the medical care of patients. These should be structured as performance contracts to be signed at the time of each appointment or reappointment to the medical staff.

Program Management

The most important role of the clinical chiefs in program management is to provide leadership and direction for medical staff participation in managing the effective and efficient use of hospital resources. As is demonstrated clearly by the lack of attention to clinical efficiency at HCCSJ, the clinical chiefs have not been effective. HCCSJ is the most inefficient of the major Canadian Academic Health Science Centres. The clinical chiefs have not provided the leadership necessary to correct this situation. And management has not insisted on participation. As has been suggested the success of program management is dependent on strong medical leadership of the programs who are supported by management processes and management information that facilitate their activity. HCCSJ has neither. So that even those program clinical chiefs who have the experience, expertise and desire to fulfil their roles are not provided with the necessary tools to be effective. And, management does not seem willing to be aggressive on insisting on medical staff adherence to processes for improving the efficient use of hospital resources. Success in these efforts will be critical to the future viability of the hospital (and the medical school). The hospital must have sufficient resources to ensure that it keeps up technologically and clinically with the other leading health science centres in Canada. It cannot look only to the Department of Health to provide these resources. It must generate some of these resources through improved efficiency. The major AHSCs used as comparators in this operations review are good examples of hospitals that have, out of necessity followed this route to creating the some of the necessary resources to support their academic (and patient care enterprises). If it is to be successful, HCCSJ must follow their lead.

Joint Conference Committee

The hospital has a Joint Conference Committee. The purpose of the Joint Conference Committee is to provide a liaison mechanism between the Board and the Medical Staff. The Joint Conference Committee is composed of three Trustees, one of whom is the Chairperson, and three members of the Active Medical Staff, one of who is the President of the Medical Staff Association. The CEO, VP, Medical Services and Chair of the MAC attend meetings as ex-officio members.[55] In some organizations, the Joint Conference Committee is expanded to include the full board, the members of the MAC and senior management. There are no regularly scheduled meetings of the Joint Conference Committee; meetings are held at the request of the Chairperson or the President of the Medical Staff. The most recent meeting of the Joint Conference Committee was held in June 2001. The previous meeting was held in April 2000.

Meetings of the committee provide a forum where medical staff leadership can articulate the issues and concerns of the medical staff regarding the governance and management of the hospital directly to members of the board. The meetings also provide an opportunity for board members to articulate the issues and concerns that they may have regarding the participation of physicians in the management, operations and clinical processes of the hospital. It provides an opportunity for hospital leadership to exchange and discuss ideas, opinions and feelings. Less formally, it provides an opportunity for medical staff leadership and board members to get to know each other and can be an effective communications tool. In the absence of conflict between the medical staff and the hospital, annual meetings are adequate. However, it is important to meet so that this mechanism remains available for the medical staff and the board to be able to communicate and discuss their issues and concerns.

[55] Health Care Corporation of St. John's. Medical Staff By-Laws. Joint Conference Committee Terms of Reference.