Rouge Valley Health System and The Scarborough Hospital Facilitated Integration Process

Preferred Integration Plan

Final Report

An integration facilitated by the Central East Local Health Integration Network

LEADING FOR PATIENTS

Author: Integration Leadership Committee (ILC)

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1 Executive Summary

Background

The Central East Local Health Integration Network (Central East LHIN) Board passed a motion at the March 2013 meeting directing Rouge Valley Health System (RVHS) and The Scarborough Hospital (TSH) to participate in a Facilitated Integration process to design and implement a Scarborough Cluster hospital services delivery model – through integration of front-line services, back office functions, and leadership and/or governance – in order to improve client access to high quality services, create a readiness for future health system transformation and make the best use of the public's investment.

The Central East LHIN took the lead in establishing the planning structure for the Facilitated Integration, an Integration Leadership Committee (ILC) to oversee the process and activities. The ILC prepared and submitted a Planning Framework within 60 days, as required by Motion 3 (referenced as "directional plan" in Motion 3). Key to the Planning Framework are the guiding vision and principles that were developed to support identification and evaluation of integration options. The following is the shared vision and the guiding principles.

We wish to create an integrated system of health care services that meets the needs of the people in our community, provides appropriate access to care, delivers an outstanding experience for patients and their caregivers, and uses our resources efficiently so that these services are sustainable into the future.

We will be leaders in health care transformation guided by the following principles:

Collaboration - We believe that collaboration will lead us to better solutions

Accessibility - We believe in providing accessible patient care to our community

Sustainability - We believe we must find new solutions to sustain our health care system, and

Excellence - We believe we must never waver from our responsibilities to provide quality patient care and to be accountable to our stakeholders.

The ILC discussed and debated a variety of approaches to integration. After exploring the value of different integration approaches, from simple cooperation through to merger of the corporations, the ILC concluded the most effective way to evaluate the potential benefits of integration was through high-level opportunity analysis of what would be possible with a merger of the two organizations. It was the view of the ILC that a merged entity offered the greatest likelihood of achieving the benefits of integration because of a single management and governance accountability structure.

RVHS and TSH proceeded with stakeholder engagement and due diligence *(referred to in this document as "opportunity analysis")* to determine what benefits and risks a merger of the two hospital corporations would provide to the Scarborough and west Durham communities.

The rationale for focusing on the merger option is to:

- Develop a **long-term vision** for hospital services for the Scarborough and west Durham communities,
- Develop a solution that has the potential to maintain **access** and maintain or improve **quality** while dealing with ongoing health system transformation and **funding constraints**,
- Develop a solution that will make the two hospital corporations **more competitive** in response to changes in how the government is changing the funding model,
- Ready the two hospital corporations for continuing health system transformation by developing a platform for **better connecting** with other sectors, such as primary care and community agencies,
- Ensure that separate governance and management structures would not be a barrier to realizing benefits as they have in the past, and
- Overcome a history of limited collaboration between the two hospital corporations over the last 40 years.

The Current Landscape

The health care system is facing unprecedented challenges, with the most prominent being demographic and fiscal challenges. *"These demographic changes are happening concurrently with the province's need to reduce the historical growth of health spending in order to cope with the global economic downturn, and eliminate the provincial deficit."* (*Ontario's Action Plan for Health Care, 2012*, p. 6).

Status Quo is Not an Option

These financial pressures are common to all Ontario hospitals. For RVHS and TSH, this has resulted in:

- Both hospitals are facing flat or negative Provincial funding (similar to all hospitals) – combined with increasing patient volumes, complexity and a growing population
- Both hospitals are facing inflation of 4-5% with flat revenue and a requirement to balance their budget
- Both hospitals have weak balance sheets with constrained liquidity and cash flow, although one has cash resources and has not drawn on its short term borrowing facilities
- Both hospitals have varying, but constrained or limited financial means to replace aged equipment and buildings and to invest in improving services, although investments have been made over the last 5 years.

To respond to these financial pressures, both hospital corporations have introduced a number of initiatives, including:

- Reduced administration and changed service delivery models to respond to revenue shortfalls
- Implemented programs to constantly drive efficiency, including the deployment of Lean management tools
- RVHS recently divested of its lower-volume, higher-cost (per patient) cataract surgeries, to TSH to sustain provision of these surgeries, and
- TSH has commenced shifting services into community clinics, which is likely to continue (consistent with Ontario's Action Plan for Health Care).

The bottom line is that the two hospital corporations are running out of capacity to restructure services to improve efficiency. The next steps will have to include service reductions or eliminations. The ILC believes this can be avoided, minimized or deferred through merger. RVHS and TSH will be stronger and more resilient together.

Other Environmental Considerations

In addition to the financial context, there are a number of other external considerations:

- **Provincial Context** – In *Ontario's Action Plan for Health Care*, the Ministry of Health and Long-Term Care (MOHLTC) emphasizes the need to focus on integration for better quality, better access and better value. A number of initiatives have been rolled out provincially to incent integration between health service providers such as new funding models, Health Links (to better support patients with complex conditions) and the Home First initiative (to provide care in the right place). Hospital systems, throughout Ontario, are establishing partnerships with other health providers to improve the way care is provided and to streamline transitions between hospitals and community care services, including primary care and long-term care.

- **System Context** – Heath Services Funding Reform (HSFR) implemented by the provincial government is creating an increasingly competitive environment between hospitals for patients, funding, capital and health human resources. The new funding models will benefit organizations that are competitive, deliver high quality care, efficiently and partner effectively with other providers in the system. Currently, RVHS and TSH compete with each other for the same patients and funding. Both hospitals are also experiencing loss of market share to other hospitals in the Greater Toronto Area (GTA). This leakage of market share has a significant financial impact. Relative to other hospitals in the GTA, the ability to compete and influence planners and funders as independent corporations is not strong.

- **Community Context** - Given the close geographic proximity of the four hospital campuses (minimum distance is 6 km between sites, while maximum distance is 30 km), community characteristics are very similar. The hospital sites in Scarborough are located in disadvantaged communities with high hospital utilization. Based on a recent study, 83.1% of all Scarborough neighbourhoods are low to very low income, compared to 2% in 1970.[1] The west Durham community, with similar community diversity, has a higher socio-economic base and one of the highest growth rates in the province (~10%). Although the health care needs of the community have been front and centre, the hospital system is poorly integrated, which is a disservice to the community. Furthermore, the Scarborough community has not benefited from significant capital investment in hospital infrastructure.

- **Facility Context** – There are four primary sites associated with the two hospital corporations. When the condition of these facilities is compared to other hospital facilities in the province, it becomes clear that there is a significant burden in terms of ongoing maintenance, needed facility upgrade and operational cost penalties. The TSH Birchmount site is in the lowest 10% of hospital facilities in Ontario and both the TSH General site and the RVHS Centenary site rank in the bottom half of facilities. Using the standardized facility evaluation methodology used by the MOHLTC, it is anticipated that just to maintain these four facilities at an acceptable operating level will cost $1 billion over the next 20 years. This does not take into account either the submitted or contemplated facility upgrades to meet current demand or standards which are another $0.5 billion. The RVHS Ajax-Pickering site ranks in the top 10% reflecting recent significant upgrades. However, this site is at maximum capacity and does not have the physical capability to absorb further population growth, let alone repatriate a proportion of the almost 70% of the west Durham community who seek in-patient care and surgical services elsewhere.

It is clear that each hospital has many strengths and both have introduced initiatives to strengthen their position within the health care system. Based on the current environment, understanding of the changing landscape and the current situation of the hospitals, the question is whether or not the two hospital corporations are better positioned to provide sustainable and quality care to their communities as independent corporations or as a merged organization.

Exploring Possible Integration Opportunities, Benefits and Risks

Since June 2013, the two hospitals have participated in a process to learn more about each other with a view to identifying opportunities where they have the potential to be stronger together. Fifteen groups made up of front line leaders, physicians, clinicians and administrators were established to look at the current state of 11 clinical programs and 4 back office areas and to generate integration ideas that would improve quality, access and care for the citizens of Scarborough and west Durham. The groups were tasked with soliciting input from key stakeholders to inform the completion of workbooks that identified over 40 potential integration opportunities with associated benefits, risks and mitigation strategies.

In addition to the work of the clinical and back office Working Groups, an extensive stakeholder engagement process was undertaken to solicit input from community groups, staff and physicians, citizens of Scarborough and west Durham, politicians, and other stakeholders to explore the benefits and risks of a possible merger. Over 400 stakeholders provided direct input and were engaged over a three month period. Furthermore, some 16,000 persons participated in telephone town halls and there were more than 130,000 social media hits.

The following is a summary of the internal and external stakeholder input:

- There are opportunities to provide better coordination of care and access through a single hospital organization.
- There are opportunities to build on each hospital's strengths to create stronger local, regional and provincial programs and position the hospital system as a strong player in other health system

[1] Toronto's Vital Signs, 2013 Report, Toronto Community Foundation

integrations and partnerships, such as with primary care, long-term care and other health and community service providers.

- Better opportunity to improve facilities together than independently – both hospital corporations require significant facility infrastructure renewal and expansion and as a united organization, will have a stronger voice with the province for capital investments.
- There are opportunities for financial savings through the elimination of duplication, such as back office services and management, as well as efficiency opportunities.
- Working together, instead of competing, the hospitals could increase their market share and repatriate patients travelling to other GTA hospitals.
- Scarborough and west Durham residents deserve a strong hospital system with a shared vision for the future, a competitive brand and one voice.
- The community is open to the idea of a merger – there is overall neutral to positive support for the merger.

Based on the analysis of the Working Groups and understanding of experiences of mergers in other jurisdictions, including Ontario, stakeholders do not believe the value proposition can be solely financial. The value proposition must be a combination of qualitative and quantitative opportunities, and ultimately, it must demonstrate value for the patients and communities.

Possible Integration Opportunities

Extensive internal and external engagement activities and analyses were completed by the clinical and back office Working Groups. The two organizations have developed a strong understanding of the current state and identified opportunities for strengthening the delivery of care through the introduction of leading and emerging practices from within the organizations, as well as other jurisdictions. This portfolio of opportunities and their required investments contribute to the longer-term vision for a strong hospital system for the Scarborough and west Durham communities; a vision that would improve quality, access and value for the residents.

Short- to mid-term opportunities included:

- **Improving access to care for patients –** broader range of common services available, providing a single point of access, reduced wait lists and increased hours for some services
- **Sharing clinical expertise to make more specialized or complex care more easily available for patients –** examples included performing a broader range of laboratory tests locally and making more complex procedures, such as advanced endoscopy, available to a wider range of patients to reduce travel out of the local communities
- **Enhancing the patient experience** – by providing a seamless continuum of care through navigation supports and “one number to call” technologies to simplify appointment processes
- **Efficiency and improved resource utilization** – driven from economies of scale and elimination of unnecessary duplication, such as multiple registration processes
- **Consolidation of back office resources** – gaining efficiencies through increased organizational capacity, elimination of duplicate roles, increased buying power, and leveraging best practices
- **Investing in foundational systems** – a unified Information Management/Information Technology (IM/IT) system would allow staff and physicians access to a single electronic medical record, which can lead to improved patient safety, reduced errors in medication and discharge planning and reduced the duplication of laboratory/radiology testing - benefiting patients and reducing costs

Long- term opportunities included:

- **Centres of Excellence** – Centres of Excellence provide more local access to a broader and deeper range of clinical expertise to our communities. Examples already exist for Cardiology and Nephrology and further development of these services is feasible. These services provide local access to world-class clinical care for our communities. Future opportunities could include Maternal Child, Oncology, Orthopaedics, Urology, Palliative Care and Post Acute Care.

- **Development of Ambulatory Centres/Clinics** – Growth or creation of new outpatient services; including multiple surgical outpatient clinics, as well as disease site clinics for Oncology provide better access to residents of Scarborough and west Durham.
- **More effective integration with all sectors of the broader health care delivery system** – These opportunities had strong potential for increasing the quality of care and the patient experience. For example, in the Mental Health program, by combining the Psychogeriatric Outreach Programs the relationship with long-term care homes could be simplified and provide more seamless care. Another example involves Palliative Care where a single hospital organization could standardize transitions with community providers to make them more seamless and less complex for patients and families.

One clear, but not necessarily directly quantifiable, benefit is that the combined organization would be of a size that could more easily withstand the impacts of funding reform and health system transformation, over the next few years, by adjusting services, programs and staffing such that services could be retained rather than reduced. In essence, the larger the size of the organization, the greater the flexibility to adapt how services are delivered and to maintain those services than could be achieved through the independent hospital corporations.

Specifically, from a financial perspective:

- The estimated net cumulative operating savings impact is in the range of $7.6 million to $9.6 million by the end of year three. Investments to enable the integration are estimated at $29.5 million, which would need to be front-end loaded. Net savings represent an approximately three year payback on the investments (post the initial 3-year Implementation Phase). If possible facility renewal were to occur, then the total potential benefits from operational efficiencies and economies of scale increases up to $41 million. This would need to be confirmed as part of detailed facility planning exercise.

Benefits and Risks

At every point in the engagement process, discussions on the benefits of a possible merger were balanced by consideration of risks. Section 5 of the report provides a comprehensive description of the benefits, risks and mitigation strategies. The following section highlights a few key benefits and risks organized by the Guiding Principles – *Collaboration, Accessibility, Sustainability and Excellence*.

Collaboration

Key Benefit	• **Implementing a common hospital vision for the Scarborough and west Durham Communities** – Alignment with a common vision and goals would give the merged hospital corporation a position as a leader within the Central East LHIN, region and Province providing increased influence and access to resources, including clinical talent and expertise thus helping to secure the community's access to health care for the future. In essence, size matters.
Key Risk and Mitigation	• **Organizational culture and trust** – Establishing a new organization-wide culture is a significant undertaking. Some see this as a significant challenge given the perceived differences in culture today within each organization; others see this challenge rooted in the current trust deficit among physicians and clinical leaders. It is certainly a risk that is well articulated in much of the literature on mergers in general. • *Mitigating this risk* is the clear documented evidence that cultures can be brought together effectively. Both organizations have implemented Lean as a common management system and continuous quality improvement methodology. Best practices exist today in the organizations for the integration of Board, management and medical leadership under a common vision and working protocol.

Accessibility

Key Benefit	• **Improving navigation and access to a broader range of services** – A stronger hospital system would be created with the capacity to meet the needs of the Scarborough and west Durham communities. Patients and families would benefit from the expansion of existing regional programs (e.g., Cardiology and Nephrology) and the introduction of new centres of excellence (e.g., Maternal Child, Orthopaedics, Cancer and Palliative Care) providing access for patients and families closer to home. More broadly, navigation would be improved from the first point of entry into the hospital system to the supports provided in transitioning home. Therefore, enhancing the patient experience and delivering the right care in the right place at the right time.
Key Risk and Mitigation	• **Access to services -** Both the Scarborough and west Durham communities are worried about possible reductions in service and reduced accessibility because of potential consolidations. Current transportation networks do not allow patients and families easy movement to, from or between hospital sites. This risk is also reflective of the ongoing funding restraint facing the province and the health care system. • *Mitigating this risk* are current examples of how services are consolidated today and how access is supported and maintained for the benefit of patients and families while also providing high quality, cost effective care. Cardiac Services, and in particular dealing with heart attacks, is an excellent example. A patient with chest pain who calls 911 is diagnosed in the ambulance and, if a heart attack is diagnosed, they are transported directly to RVHS Centenary site where the interventional cardiac procedure is performed typically within 90 minutes of entering the ambulance (this is the worldwide gold standard of care). If the patient goes to any local Emergency Department, they are immediately triaged and, if an interventional procedure is required, they are transported (using hospital funded transportation) to RVHS Centenary site for the procedure. In both cases, follow-up care, including ongoing monitoring and rehabilitation, is available through the local hospital site or hospital managed community-based rehabilitation service. This model could be used as a key design template for future service consolidations.

Sustainability

Key Benefit	• **Increasing funding opportunities** – By coming together, the hospitals would generate a larger stronger and more sustainable platform for increased funding. From an operating perspective, increased volumes would translate into additional future operational funding. Increased size and critical mass offer the opportunity to attract new and expanded services as government funding is targeted to specific needs. From a capital perspective, a unified hospital organization with increased size and profile would be in a better position to compete for the much-needed capital investment in hospital infrastructure. It is of paramount importance that a common, long-term vision and master facilities plan be developed to address the aging infrastructure needs in Scarborough and the inadequate capacity in west Durham.
Key Risk and Mitigation	• **Health Human Resource issues** – The possible merger may bring forward a number of health human resource issues including restructuring of positions, increased turnover, increased anxiety, increased strain on clinical teams, engagement of staff and physicians and limitations of collective bargaining agreements. • *Mitigating this risk* comes through the ability to develop and communicate a critical path to guide proper workforce planning and to implement proactive change management processes that support health human resources. This path must include constant messaging to staff, physicians and volunteers, around key information as it becomes

	available, facilitated through ongoing union/management consultation as appropriate. The communication needs to reinforce that a merged organization could offer the chance to minimize involuntary separations through increased opportunities for redeployment within a larger workforce group. A common theme in many of the stakeholder engagement activities has been concern about impact on staff. Although during this planning stage of the review process the outcomes have not been discussed in detail, it is important to address this issue. In the existing fiscal environment, ongoing restructuring with or without a merger will occur and the possibility is likely greater without a merger. In the case of management and non-union workers, if restructuring results in job loss, all individuals who leave the organization will be treated with respect and dignity and will be provided with transitional support. In the case of the unionized workforce, the merged organization will respect the Collective Bargaining Agreements (CBAs). Both existing hospital corporations have undergone regular staff reduction programs over the last few years. It is instructive to note that virtually no unionized employees have left involuntarily.

Excellence

Key Benefit	• **Comprehensive high-quality clinical programs** are already delivered by both existing hospital corporations as recognized by the recent Exemplary Standing under Accreditation Canada achieved by both hospitals, performance under various other independent rating reports and the publically reported performance statistics required by the MOHLTC. A merger could provide the ability to cross-pollinate the clinical best practices between the organizations providing even safer and effective care for patients. It also supports the standardization of clinical training and best practice implementation. Patients would also benefit from the standardization of training approaches for customer service providing a more holistic care experience.
Key Risk And Mitigation	• **Implementation challenges** – There is no doubt that merging any two organizations is a complex and challenging exercise. However, both organizations are faced with fundamental change whether or not they merge, so similar challenges exist even under the status quo. There are risks that raising the bar on excellence may be hampered by potential business and clinical continuity issues and variability in implementation of changes across a large, multi-site organization. • *Mitigating this risk* would be provided through the extensive experience of successfully managing and implementing significant change that both organizations have achieved to a greater or lesser extent. The best practices that have been successful, such as ongoing management through Lean philosophy, the integration of Board, clinical leadership and management into key decision-making bodies, driving decision-making down to the appropriate level in the organization and building on the outstanding teamwork already set in motion through the Workbook process bodes well for managing this risk. Strong leadership from a new Board and selection of the best leadership team would strengthen the opportunity for success.

Summary

Using the framework of the four guiding principles – Collaboration, Accessibility, Sustainability and Excellence – significant opportunities and benefits have been identified to improve care, access and value. Stakeholder input and the output of the Working Groups have provided concrete ideas that would benefit the communities of Scarborough and west Durham. These opportunities can be achieved from designing a strong, single hospital with a new brand and a shared vision. Together the two hospitals can position themselves to

better respond to the needs of their communities, address fiscal challenges more effectively, and take advantage of the fast changing health care environment.

A number of stakeholders emphasized the importance of creating a hospital system to support the attraction and retention of talented physicians, clinicians and care providers. A strong hospital system is an essential component of a strong, local health care system. Some stakeholders summarized the new hospital system as a "magnet hospital" for patients, donors, physicians, clinicians, staff and community partners.

There are financial benefits to the merger of the two hospitals, albeit not in the short-term. The analysis indicates cumulative savings by the end of year three in the $13 to $15 million range providing a payback of three years (post the 3-year Implementation Phase) on the needed upfront investments.

Consistently, stakeholders described a vision of a new hospital system that includes significant facilities renewal and expansion for the Scarborough and west Durham communities. Without these investments in facilities infrastructure, the merged hospital would have some of the oldest operating rooms in Ontario (circa 1957), undersized emergency departments and physical constraints that would limit additional economies of scale and operating efficiencies. With improved facilities and capacity, then the financial opportunities could increase to a total of $41 million.

Along with benefits always go associated risks. These have been well articulated by stakeholders. One significant risk is the challenge of implementation. This can be mitigated through strong governance and executive and physician leadership. The selection of a strong Board of Directors with a broad range of skills and expertise and the capacity and willingness to devote substantial time and energy to the integration process over the next three years will be key to success. This Board must also in turn select a strong and experienced CEO and Chief of Staff to lead and manage the organization going forward.

A merged hospital would be the seventh largest of over 150 in Ontario. It would rank (based on 2011/12 figures) first in surgical cases and second in overall emergency department visits. With this size would come influence, which would only benefit the residents of Scarborough and west Durham. A merged hospital would continue to provide regional programs; it would strengthen existing programs; and it could develop new or enhanced services for the community through Centres of Excellence, clinics and partnerships with other providers.

The merger of the two organizations has the potential to create a hospital system that is positioned to succeed through the broader health system transformation, to deliver increased quality, access and range of services not currently available to the citizens of Scarborough and west Durham. Overall, the strength of this value proposition is not in the short-term, but rather in the longer-term in which the hospitals are able to position themselves to better serve their communities, create a shared vision for a transformed local health care system, address fiscal challenges together, and take advantage of the fast changing health care environment.

2 Introduction

2.1 Background

The Central East Local Health Integration Network (Central East LHIN) Board passed a motion at the March 2013 meeting directing Rouge Valley Health System (RVHS) and The Scarborough Hospital (TSH) to participate in a Facilitated Integration process to design and implement a Scarborough and west Durham hospital services delivery model – through integration of front-line services, back office functions, and leadership and/or governance structures – in order to improve client access to high quality services, create a readiness for future health system transformation and make the best use of the public's investment.

The Central East LHIN took the lead in establishing the planning structure for the Facilitated Integration, an Integration Leadership Committee (ILC), to oversee the Facilitated Integration Planning activities. The ILC prepared and submitted a Planning Framework (please see Appendix H), key to which are the guiding vision and principles that were developed with full engagement and support by the ILC to guide the work of the two hospitals in the identification and evaluation of integration options. The following is the shared vision and the guiding principles.

We wish to create an integrated system of health care services that meets the needs of the people in our community, provides appropriate access to care, delivers an outstanding experience for patients and their caregivers, and uses our resources efficiently so that these services are sustainable into the future.

We will be leaders in health care transformation guided by the following principles:

Collaboration
We believe that collaboration will lead us to better solutions. We will collaborate and engage with our community and patients, as well as other health service providers to enhance care outcomes and increase service efficiencies. We will be transparent and honest in our relationships. In doing so, we will share information and knowledge, promote teamwork and fairness, and ultimately work towards providing patients with timely, effective, and efficient care.

Accessibility
We believe in providing accessible patient care to our community. Services and patient care are accessible if they are delivered in a timely manner, are seamless for patients to navigate, and address other barriers such as culture, language and transportation. User-friendly patient care can be achieved through streamlined processes throughout the continuum of care. We strive to ensure timely diagnosis, treatment, and follow-up care.

Sustainability
We believe that we must find new solutions to sustain our health care system. Services are sustainable if they respond to the community's health care priorities while achieving best use of public funds. Sustainability requires our hospital corporations to pursue partnerships with each other and with other health providers whenever it is appropriate and possible. Sustainability also requires engaged stakeholders and the appropriate human and technical resources to provide high-quality services.

Excellence
We believe that we must never waver from our responsibilities to provide quality patient care and to be accountable to our stakeholders. Quality has many dimensions, and for this planning exercise we define it to include effectiveness, safety and high standards. Services are considered effective if they lead to best possible patient care outcomes, safe if they are responsive to patients' needs while minimizing risks and of a high standard if they use leading practices, the right information and the most appropriate technology. To be accountable, our hospital corporations must report to their stakeholders, in a transparent fashion, the performance achieved relating to our stated goals and targets.

Guided by the Central East LHIN's Board Motion, the ILC discussed and debated a variety of approaches to integration. After exploring the value of integration options, the ILC concluded the most effective way to evaluate the potential benefits of integration was through a focused analysis of what would be possible with merged leadership and governance of the two organizations.

The ILC includes equal representation from each hospital: Board Chairs, two Directors, CEOs, Chiefs of Staff, two physicians (MSA representatives), and two community representatives. The ILC also includes the Central East LHIN CEO and Facilitated Integration Communications Lead.

RVHS and TSH proceeded with stakeholder engagement and opportunity analysis to determine what benefits and risks a merger of the two hospital corporations would provide to the Scarborough and west Durham communities.

Why Consider a Merger?

The rationale for focusing on the merger option is to:

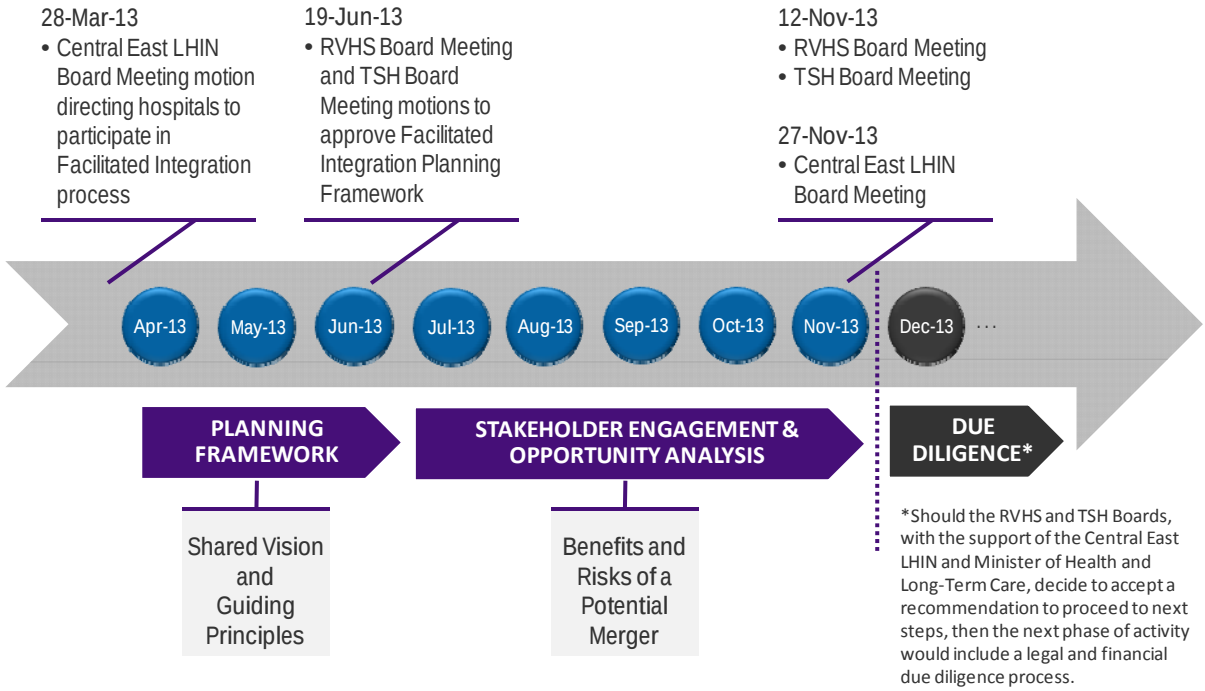
- Develop a **long-term vision** for hospital services for the Scarborough and west Durham communities,
- Develop a solution that has the potential to maintain **access** and maintain or improve **quality** while dealing with ongoing health system transformation and **funding constraints,**
- Develop a solution that will make the hospitals **more competitive** in response to government changes to the funding model,
- Ready the two hospital corporations for continuing health system transformation by developing a platform for **better connecting** with other sectors, such as primary care and community agencies,
- Ensure that separate governance and management structures would not be a barrier to identifying benefits as they have in the past, and
- Overcome a history of limited collaboration between the two hospitals over the last 40 years.

The status quo is not an option for the two hospitals, and this Facilitated Integration process looks at whether the two hospitals may be 'better together' to face the current challenges and be in a stronger position to serve the Scarborough and west Durham communities.

2.2 The Facilitated Integration Process

The following diagram shows an overview of the Facilitated Integration process. Please refer to Appendix A for further information on the approach and methodology.

Diagram 1: Overview of Facilitated Integration process



Since June 2013, the two hospitals have been engaged in stakeholder engagement and opportunity analysis in order to determine what benefits a merger may provide to the community. The process included: (1) an extensive communications and engagement plan to obtain feedback from the hospitals' many stakeholders; and (2), high-level "order of magnitude" assessment and analyses to evaluate the potential benefits and risks of a possible merger of the two hospitals (referred to as "opportunity analysis").

The opportunity analysis stream of work included the establishment of Working Groups to conduct the analyses in three phases to explore the opportunities, benefits and risks of a possible merger, including:

1. High-level Current State Assessment
2. Assessment of a Portfolio of Options and Leading Practice Review
3. Evaluation of Opportunities.

A total of 15 Working Groups were created to conduct the work within each of these phases – 4 back office Working Groups and 11 clinical Working Groups. In addition to the work of the Working Groups, sessions were held with clinical and administrative leaders, Board members, Senior Leadership Team members and Medical Advisory Committee members to explore the benefits and risks of a possible merger.

Overall, the current phase of the Facilitated Integration process, of which this report is the output, is designed to capture the qualitative benefits and risks and, where possible, "order of magnitude" quantitative benefits and risks.

Should the hospitals, with the support of the Central East LHIN and Minister of Health and Long-Term Care, decide to accept a recommendation to proceed with a merger, then the next phase of activity would include a legal and financial due diligence process.

The ILC Vision and Guiding Principles have been used as a framework to guide the work of the clinical and back office working groups, stakeholder engagement, and the identification of integration opportunities and their evaluation.

Commitments

At the time of the writing of this report, no decisions to merge the two hospitals have been made. RVHS and TSH have undergone an extensive community engagement and a thorough review of the benefits and risks of a possible merger. The input received through this extensive stakeholder consultation will assist the hospital Boards in their decision-making process regarding a preferred integration plan.

As the hospitals explore how they might be able to better work together, they made the following collective commitments at the beginning of this Facilitated Integration process:

- All hospital sites will continue to be relevant, viable and essential parts of Scarborough and west Durham's hospital and health care system. No hospital will close as a result of a merger;
- The Emergency Departments will stay open at the four hospital sites;
- Patient care services currently offered at RVHS Ajax-Pickering site will continue to be offered there, regardless of this process; and
- Our hospitals will continue to provide high-quality and safe care during any health care system transformation.

Stakeholder Engagement

The ILC committed to a robust engagement strategy to ensure the hospitals' stakeholders contributed to the identification of benefits and risks of a possible merger to better address the health care needs of the residents of Scarborough and west Durham.

The objectives of the stakeholder engagement strategy were to:

- Inform and gather input from stakeholders on benefits and risks of a possible merger
- Understand how the potential benefits and risks are perceived by Scarborough and west Durham communities.

The internal and external stakeholder engagement strategy had a broad reach, and included invitations to roundtable discussions for over 100 community groups. ILC estimates that more than 400 internal and external stakeholders contributed to the identification of the benefits and risks of a possible merger.

Key Facts:

- Facilitated Integration website (www.leadingforpatients.ca) – more than 4,700 visits and 15,400 page views
- Two Telephone Town Halls – 8,380 on call Sep. 24 and 7,500 for Oct. 8
- Staff Town Halls – two sessions reaching four hospital sites, videos posted online
- Media relations – community newspapers, ethnic media, television and radio resulting in more than 72 stories
- Media ads – reached more than 2 million via newspapers and radio ads to promote Telephone Town Halls
- Social media on Twitter and Facebook – more than 140,000 views on Facebook
- Reach out to elected officials – weekly calls to MPPs, regional and municipal councils
- Online survey – 126 responses
- 22 community roundtables with more than 150 participants

The Core Principles for stakeholder engagement included:

- Careful planning and preparation
- Inclusion and demographic diversity
- Collaboration and shared purpose
- Openness and learning
- Transparency and trust
- Impact and action
- Sustained engagement and participatory culture.

Overall, the stakeholder engagement process has provided tremendous value to the ILC and supporting project teams in the evaluation of the benefits and risks. The alignment of feedback between the diverse stakeholder groups has been particularly helpful in focusing the efforts of the analyses and mitigation strategies.

Internal Engagement Key Facts:

- 2 Administrative and Clinical Leadership Sessions (60 participants per session)
- Patient Care Working Groups – 199 participants (68 physicians)
- Back Office Working Groups – 44 participants
- Surgical Programs Session – 67 participants (36 physicians)
- 2 Joint Leadership Sessions – 63 participants (32 Board members, 17 Medical Advisory Committee representatives, 14 Senior Leadership Team members)
- Union Leadership Session – 13 participants

2.3 Purpose and Structure of the Report

The purpose of this report is to provide a direct response to the Central East LHIN's motion to move forward with the implementation of the Facilitated Integration – Planning Framework. Specifically, this report documents the analyses conducted in response to the hospitals' approved motions, "RVHS and TSH should proceed with stakeholder engagement and opportunity analysis in order to determine what benefits a merger of two hospitals will provide to the Scarborough and west Durham communities."

In determining this, this report provides important contextual information. The potential opportunities identified by the Working Groups are organized into themes to describe the potential value a merged entity could deliver to patients and the communities. In order to confirm whether a value proposition exists, a fulsome review of benefits and risks is provided.

Exploring the potential of a merger also requires consideration of the critical enablers that must be in place to successfully support integration activities. To this end, the report describes not only the investments required, but also key organizational transition considerations for governance, culture, health human resources, facilities and infrastructure.

Overall, the report is structured with the following sections:

- Context
- Integration opportunities
- Benefits and risks
- Financial and implementation considerations
- Value proposition
- Other considerations
- Recommendation

3 Context

3.1 The Fiscal Context

The health care system is facing unprecedented challenges, with the most prominent being demographic changes and fiscal constraints, driven by:

- Changing population age structure – on the whole, people living longer,
- Baby boomers reaching the age where they may need more health care, and
- Growth of the population, particularly due to immigration and migration into the hospitals' communities.

"These demographic changes are happening concurrently with the province's need to reduce the historical growth of health spending in order to cope with the global economic downturn, and eliminate the provincial deficit." (*Ontario's Action Plan for Health Care, 2012*, p. 6).

These financial pressures are common to all Ontario hospitals. For RVHS and TSH, this has resulted in:

- Flat or negative provincial funding (similar for all hospitals) – combined with increasing patient volumes and complexity and a growing population, this puts tremendous pressure on hospital budgets; and
- Inflation of 4-5% with a flat revenue stream from the provincial government and a requirement to balance budgets.

Both hospitals have introduced a number of initiatives to respond to these financial pressures:

- Both hospital corporations have reduced administration and changed service delivery models to respond to revenue shortfalls;
- Both hospital corporations have introduced programs to constantly drive efficiency, including the deployment of Lean quality improvement tools;
- RVHS recently divested of its lower-volume, higher-cost (per patient) cataract surgeries to TSH to sustain provision of these surgeries; and
- TSH has commenced shifting services into community clinics, which is likely to continue (consistent with *Ontario's Action Plan for Health Care*).

3.2 The Provincial Context

The aging population and fiscal challenges require changes to how we deliver health care. To respond, the provincial government released *Ontario's Action Plan for Health Care*. Of particular importance is the Plan's focus on integration, noting that "if we are to meet the needs of a growing population with multiple, complex and chronic conditions, our health care system must be even better coordinated, with seamless levels of care." (p. 12) The Ministry of Health and Long-Term Care (MOHLTC) continues to emphasize integration for better quality, better access and better value.

A number of initiatives have been rolled out provincially to incent integration between health service providers such as new funding models, Health Links (to better support patients with complex conditions) and the Home First initiative (to provide care in the right place).

Furthermore, Heath Services Funding Reform (HSFR) is creating an increasingly competitive environment between hospitals for patients, funding, capital and health human resources. The new funding models will benefit organizations that are competitive through the provision of high quality, efficient care and can effectively partner with other providers in the system, such as primary care, long-term care, rehabilitation services, etc.

RVHS and TSH are currently not as strong as they could be. Due to the size of each hospital, relative to others in the Greater Toronto Area (GTA), the ability to influence planners and funders independently, compared to other hospitals, is not strong. Currently, RVHS and TSH compete with each other, as well as with other similar hospitals, for the same patients, funds and resources.

Both RVHS and TSH recognize that, in order to support the plan for health care, they must continue to adapt to the growing needs of their communities, continue to explore integration opportunities and draw upon their previous integration experiences, including strategic alliances with primary care and other community partners. This is aligned to the broader vision for Ontario's health care transformation, and to pursuing an integrated health system approach to delivering high-quality and responsive care for the Scarborough and west Durham communities.

3.3 The Hospital Corporations

Information in the table below clearly shows that the hospital corporations share commonalities. Each offers a similar base of services, and each has experience as a regional provider of specialized services. For clinical site profiles, please see Appendix B.

Though the two hospitals have many strengths on their own, in the current state, the Scarborough and west Durham communities do not have a strong hospital "system".

Table 1: RVHS and TSH "At a Glance" (2012-2013 fiscal-year numbers)

	#of Beds	Budget	#of Staff	Medical Staff Appointments
RVHS	494	$327 M	2,963	560
TSH	552	$356 M	3,171	599

The two hospitals have experience with successfully integrating programs such as:

- Cataract program
- Cardiac program
- Ear, nose, throat (ENT) program
- Call groups for ophthalmology

Both organizations offer a similar range of services and have comparable workforce demographics and people indicators. Organizational culture is also more similar than distinct in terms of the mission, vision and values of each organization. Human resources policies, procedures and practices are largely aligned with minor differences. The labour relations environments at both organizations are also similar. For additional information on human resource profiles, please see Appendix C.

Table 2: RVHS and TSH "At a Glance" (Mission, Vision, Values)

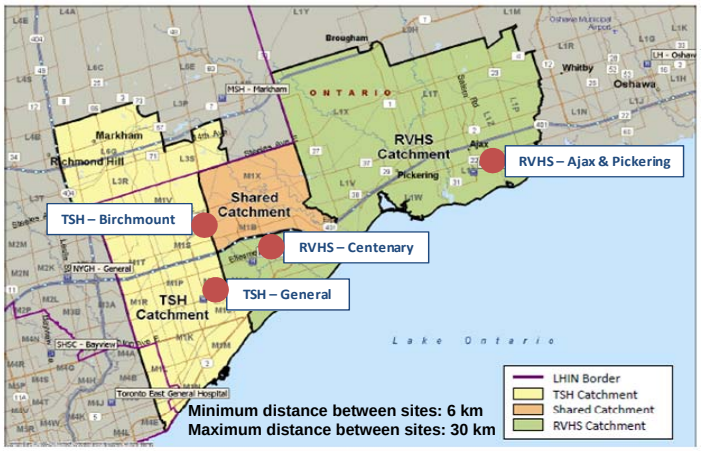
	Mission	Vision	Values
RVHS	To provide the best health care experience for our patients and their families	To be the best at what we do	Accountable Responsive Diversity Trust Innovation
TSH	To provide an outstanding care experience that meets the unique needs of each and every patient	To be recognized as Canada's leader in providing the best health care for a global community	Integrity Compassion Accountability Respect Excellence

3.4 The Community Context

RVHS and TSH are the results of previous integration efforts dating back to 1999. Since that time, the Scarborough and west Durham communities have grown and changed. The Scarborough cluster represents 40% and west Durham represents 20% of the total Central East LHIN population.

The communities served are among the fastest growing regions in the province and one of the most diverse and multicultural areas of the GTA.

- RVHS catchment area: 612,022
  - 6.3% growth from 2006; higher than Ontario average at 5.7%.
  - Centenary: 3.2%
  - Ajax-Pickering: 9.8%
- TSH catchment area: 926,994
  - 3.1% growth from 2006



Both the RVHS and TSH communities are anticipating significant growth. The overall population growth in the Central East LHIN is forecasted to be 17% from 2011 to 2021[2]. As the communities grow, inpatient cases are anticipated to grow by 13.3% over five years and 27.7% over 10 years. Over the next 10 years, percentage growth in cases will be the largest in specialized medical and surgical care such as vascular surgery, urology and cardiac care and the smallest in psychiatry, obstetrics and plastics. Please see Appendix B for further details on population growth projections by patient clusters.

Given the close geographic proximity of the four hospital sites (minimum distance is 6 km between sites, while maximum distance is 30 km), demographic challenges and age characteristics are largely similar, including an aging population, high population growth in west Durham and high density, as well as lower income levels and higher unemployment in Scarborough. Overall, both the RVHS and TSH communities have vulnerable populations.

The two hospital corporations serve similar populations and experience similar challenges related to market share. Due to increasing competition with other GTA hospitals, both hospitals have experienced loss of market share for their catchment areas. A significant number of Scarborough and west Durham residents travel to

[2] Ministry of Finance Population Projections by LHIN from C2011-2036, based on Census Survey data up to 2010.

other hospitals for care due to a number of perceptions and issues related to physician referral patterns, perceptions related to the strength of the hospitals' brands relative to other GTA hospitals, perceptions related to quality and in some cases, due to the condition of the facilities.

To illustrate the financial impact of market share leakage and reduced volumes on the hospital, a portion of funding at one of the hospitals had to be returned to the government due to volume targets not being met. It is anticipated that the volumes of a merged hospital would ensure funding remains in the community hospital system.

3.5 Current Financial Profile

Both RVHS and TSH have a challenging financial starting point to manage going forward. To varying degrees, both organizations have weak balance sheets with constrained liquidity and cash flow. As a result, both have very limited financial means to replace aged equipment and buildings and to invest in improving services. The average age of equipment is 17 years at RVHS and 19 years at TSH, compared to the peer hospital average of 10.4 years.

Table 3: Financial Liquidity

Financial Liquidity	RVHS	TSH	Peer Average
Average age of equipment	17.0	19.0	10.4
Working Funds Deficit ($000s)	($31,700)	($38,200)	($10,600)
Current Ratio	0.62	0.33	0.74
Long-Term Debt as % of Total Revenue	4%	6%	2%

At the same time, use of hospital services is very high compared to other communities and continuing to increase. The hospital sites in Scarborough are located in very disadvantaged communities with high hospital utilization. Based on a recent study, 83.1% of all Scarborough neighbourhoods are low to very low income, compared to 2% in 1970.[3]

Under the HSFR, both hospitals have experienced near flat or negative funding, while having to address budget gaps driven by cost inflation, increasing patient volumes and patient complexity. While these gaps have been addressed for the 2013/14 fiscal year, the effort to balance the budget means that, in some cases, capital investments have been limited. Further analysis of the state of facilities infrastructure is provided in Appendix D.

Table 4: HSFR Funding Increase/ (Decrease)

HSFR Funding Increase/ (Decrease) from 2012/13 to 2013/14 ($000s)	RVHS	TSH
Health-Based Allocation Model (HBAM) Funding	($4,400)	$1,900
Quality Based Procedure (QBP) Funding	($1,500)	($100)
Total Funding Mitigation	$4,800	-
2013/14 budget balancing gap closed	($9,600)	($17,800)

[3] Toronto's Vital Signs, 2013 Report, Toronto Community Foundation

Based on these funding and budget pressures including inflation, population growth and increasing acuity, each hospital will need to continue to find ways to reduce costs.

The Context Overall:

- Both hospitals are facing flat or negative Provincial funding (similar to all hospitals) – combined with increasing patient volumes, complexity and a growing population
- Both hospitals are facing inflation of 4-5% with flat revenue and a requirement to balance their budget
- HSFR being rolled out by the provincial government is creating an increasingly competitive environment between hospitals for patients, funding, capital and health human resources
- Both hospitals have tight balance sheets with constrained liquidity and cash flow although one at least has cash resources and has not drawn on its short-term borrowing facilities
- Both hospitals have varying but constrained or limited financial means to replace aged equipment and buildings and to invest in improving services, although investments have been made over the last five years.

4 Integration Opportunities

4.1 Program and Service Opportunities

Specific opportunities to improve the hospital system in Scarborough and west Durham can occur over the short-/medium- and long-term. Below, they are presented in these two categories. The short-term improvements include those that can be achieved through clinical and back office synergies, such as consolidation of resources, process improvements and standardization. Such opportunities show promise for cost reductions/efficiencies and improved patient outcomes. From a long-term perspective, a possible merger may be seen as an opportunity to shape a new hospital system that is positioned to respond to the fiscal imperative in the long-term, as well as the patient and community needs.

Short-/Medium-Term Opportunities

Stakeholders perceive the short-/medium-term opportunities of a merged organization to be focused on efficiency gains from reducing duplication and administrative functions, and from improving utilization of resources and coordination of patient services. More specifically, below is a summary of the key opportunities:

- **Improving access to care for patients –** broader range of common services available, providing a single point of access, reduced wait lists and increased hours for some services.
- **Sharing clinical expertise to make more specialized or complex care more easily available for patients –** examples include performing a broader range of laboratory tests locally and making more complex procedures, such as advanced endoscopy, available to a wider range of patients to reduce travel out of the local communities.
- **Enhancing the patient experience –** by providing a seamless continuum of care through augmenting the scope of services provided, including navigation supports and eliminating barriers between the organizations (e.g. reduced competition in oncology, shared waitlists for outpatient procedures, etc.). While these enhancements would not come without additional costs, they would provide tangible benefits to patients.
- **Efficiency and resource utilization** – economies of scale and reduction in unnecessary duplication are key components (e.g., patient registration). Additional examples include sharing expertise and practices, pooling resources and streamlining processes.
- **Consolidation of back office resources to improve efficiencies and leverage leading practices** – Within a merged organization, efficiencies can be gained through increased organizational capacity, elimination of duplicate roles, increased buying power, and leveraging an organization's current successes. For example:
    - Within the human resources function, increased organizational capacity and efficiency can be achieved through the sharing of tools, resources and training material.
    - Enhanced ability to leverage best practices from each organization. For example, proven retail strategies at RVHS provide an opportunity for increased revenue generation at TSH.
    - Consolidation of key service areas, such as capital planning and finance, presents the opportunity for specialization, efficiencies and improved patient and staff experience (e.g. better coverage of departments, similar processes/services across sites). Notably, critical mass achieved through a merged organization can lead to significant efficiencies in procurement due to increased purchasing and negotiating power.
- **Standardization of support processes** – Adoption of common processes across a merged organization can lead to lower operational costs, while providing the opportunity to adopt leading practices and reinvest savings in patient care. Opportunities include: streamlining processes and activities, further utilizing Lean tools, reviewing existing policies and processes at each organization and identifying areas of duplication, overlap and inefficiency in all areas of practice.

- **Back office cost optimization** – Across all back office areas, sharing of expenses can reduce costs. Specifically, economies of scale can be realized in contract prices and negotiations based on larger numbers of staff across both organizations, including opportunities for outsourcing. New economies of scale emerge for procurement for operating and capital expenditures. In addition, there are opportunities to maximize existing investments by leveraging/extending the investments and successes from one organization to the other.

Investing in Foundational Systems – There are several foundational investments that will be required for a merged organization to function. In order to achieve the desired benefits of both back office and clinical systems the hospitals have identified investments in core systems/platforms as an opportunity to achieving a long-term vision. Opportunities include: consolidated finance system and Human Resource Information System (HRIS), as well as a unified Information Management/Information Technology (IM/IT) system. Notably, the latter, will allow staff and physicians access to a single electronic medical record, which can lead to improved patient safety, reduced errors in medication and discharge planning and reduced duplication of laboratory/radiology testing.

Long-Term Opportunities

Many long-term opportunities were also identified that require more strategic investments. More visionary and transformational in nature, these opportunities include the following themes:

- Developing a Centre of Excellence to further enhance quality, safety and expertise
- Evolving to a Regional Program to leverage increased volumes and geographical presence
- Consolidating service to achieve a smoother continuum of care, reduce duplication and find efficiencies
- Developing new services based on higher patient volumes to hone and maintain specialized skills
- Investing in infrastructure in order to provide a higher level of service to more users (e.g. HRIS, capital equipment, etc.)
- Increasing capacity through community partnerships that allow easier, faster, more equitable access for patients to a full continuum of care

At a macro-level, two distinct categories of long-term, transformational opportunities were apparent: **Service Models** and **System Partnerships**.

1) Opportunities related to Service Models

- **Centres of Excellence** – The development of a Centre of Excellence in one or more areas was identified by multiple clinical groups. In several cases, these Centres of Excellence represented large, high-volume practices that would have a regional impact and represent an evolution in the model of care (e.g. Nephrology, Cardiology, Oncology or Orthopaedics that are already large, established programs). In other areas, the development of a Centre of Excellence represented a unique value proposition that would not only fill a gap in the Scarborough and west Durham communities, but also create a platform for the development and dissemination of leading practices and innovations where they currently do not exist. The combination of resources and expertise from both organizations has been embraced as a catalyst for the development of much needed, but previously unattainable due to smaller size, Centres of Excellence that represent uncharted territory for areas such as Palliative and Post Acute Care.
- **Development of Ambulatory Centres/Clinics** – The growth or creation of new outpatient services was also a strong theme echoed across Working Groups. These included multiple surgical outpatient clinics (e.g. Orthopaedic Surgical Centre, High Volume Plastics/Ears Nose Throat/Oral/Ophthalmology) as well as disease site clinics for Oncology. Driven by a focus on enhancing the patient experience, many opportunities were identified where joining forces would enable services that are both more convenient for patients and more conducive to high quality care for physicians and clinicians (i.e. avoiding hospital stays, while providing necessary volumes to support sub-specialty practices).

- **Development of Regional Programs** – The potential of combining patient volumes for similar programs between the two organizations provides the critical mass to move to a regional care model for many services that currently could not support such a mandate individually. Examples include Maternal Child, Ambulatory Endoscopy, Urology Oncology and several other surgical examples. Given the current disparity of services in certain areas, several opportunities to unify expertise and develop a strategic approach to service delivery – beyond the four walls of each site – were developed to bring more comprehensive services to the region. Combined with the increased profile afforded by a merged entity, as well as targeted branding/marketing campaigns, the potential for developing 'magnet' programs 'close to home' was emphasized in areas from Palliative Care to Obstetrics.

Possible Integration Opportunity: A Centre of Excellence in Cancer Care

Oncology services in the Scarborough region are fragmented making access and transitions sub-optimal for patients. 52% of Scarborough residents have cancer surgery outside of Scarborough and non-Scarborough residents account for slightly more than half of the total cancer surgeries at RVHS and TSH.

This fragmentation, combined with competition between the hospitals for existing market share provides a compelling case for a merger, including taking on a leadership role with the development of a Centre of Excellence. The opportunity to be the leader in Cancer Services for Scarborough includes:

- Patients in Scarborough having access to the full band of services close to home
  - Repatriating cancer patients who live in Scarborough who are seeking care outside of the Central East LHIN – Estimate recapturing 50% of the cancer surgeries that Scarborough patients receive at other GTA hospitals (anticipated additional 192 surgeries per year)
  - Potential to increase chemotherapy visits by 1,658
- Cultivating and developing new partnerships in the community (eg: screening, referrals, etc.)
- Developing a unified corporate brand

2) Opportunities Related to Health System Partnerships

- **Collaboration, integration and enhancing partnerships** – While the scope of the Facilitated Integration process did not include community providers, there were several opportunities related to more effective integration with all sectors of the broader health care delivery system (e.g. primary care/Health Links, Long-Term Care (LTC), community health providers, social support services, etc.). These opportunities often involved lower investment requirements, yet had strong potential for increasing the quality of care and the patient experience. For example, combining the Psychogeriatric Outreach Programs identified by Mental Health is a low one-time cost, short-term opportunity that would enhance the relationship with LTC homes and provide more seamless care. Similarly, Oncology described cultivating and developing new partnerships in the community with primary care providers around screening and referrals. Leveraging the community as a merged organization was also identified as a way to help better align the system to increase capacity and smooth transitions for patients. For example, in the case of Palliative Care, where episodic inpatient care could be delivered to palliative patients under general care from other organizations enabling the patient to exit the hospital and return to the community setting.

For a full list of opportunities categorized by timeframe, please see Appendix E. For additional details, the final workbooks submitted by the Working Groups are provided in Appendix F.

4.2 Facilities Opportunities

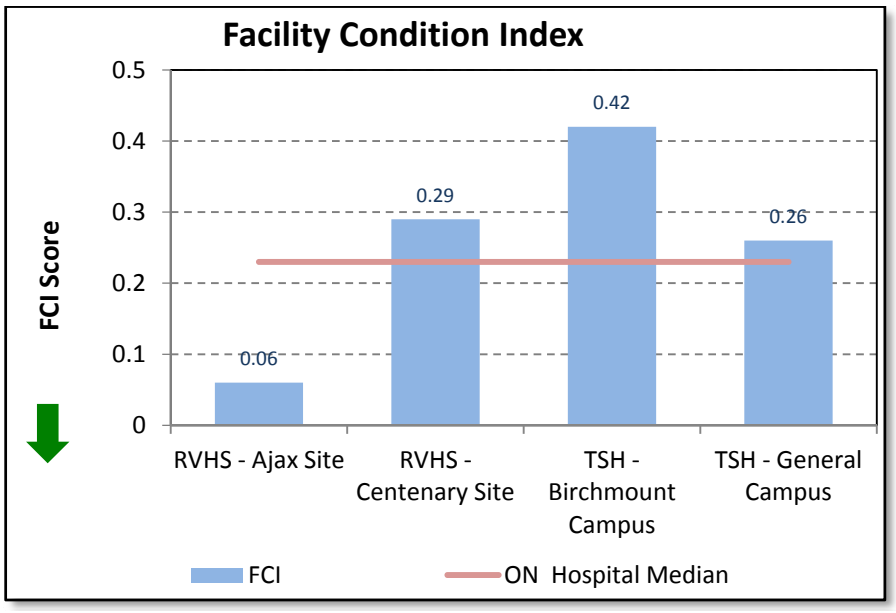
Planning for Facilities Renewal

Stakeholders believe that a merged organization would better position the hospitals for much needed investments in facility infrastructure. The majority of stakeholders consulted, including most working groups, identified opportunities for renewed and/or new facilities as a key enabler to achieving quantitative and qualitative (i.e. improved patient safety, improved patient and provider experience, etc.) benefits. Independently, the reports rate the two organizations' physical facilities in Scarborough as poor or very poor. The hospital sites located in Scarborough do not meet contemporary standards for planning, systems, and infrastructure requirements. The RVHS Ajax-Pickering site has undergone significant renovation, but cannot meet the needs of one of the fastest growing populations in the province (almost 10%) because of its lack of physical capacity. This facility is at physical capacity, yet it is only serving the needs of 30% of its catchment area. A combined organization with a shared vision for a hospital system strengthens the imperative to begin planning for updated facilities infrastructure.

Currently, the two organization's physical facilities, particularly in Scarborough, are in need of renewal as evidenced by the Facility Condition Index (FCI) scores. The FCI is a standardized measure of the extent to which a building requires repairs or replacement and is calculated as the ratio of deferred maintenance dollars to replacement dollars. A high FCI score indicates a higher need for remediation or renewal investment relative to the facility's value.

The FCI scores for RVHS Centenary ,TSH General, and TSH Birchmount sites are above the median (0.23) for Ontario hospitals and the TSH Birchmount score of 0.42 is high (bottom 10th percentile).

Diagram 2: Facility Condition Index Scores



The hospital sites located in Scarborough do not meet contemporary standards for planning, systems, and infrastructure requirements. Given the state of these buildings, it is imperative to begin planning for updated facilities infrastructure. In the case of the RVHS Ajax-Pickering site, there is an immediate need to assess impact of growth and aging of hospital infrastructure for west Durham. The future spend requirements for maintenance of assets over the next 20 years is roughly $1 billion in order to bring the facilities up to a satisfactory condition.

A merged organization would be the seventh largest of more than 150 hospital corporations in Ontario. It would rank first in surgical cases, but it would have some of the oldest operating rooms in the province at the TSH General site (circa 1957). It would rank second overall in total emergency department visits, with severely undersized emergency departments at the RVHS Centenary and TSH Birchmount sites. It is also important to note that these older facilities negatively impact the organization's ability to generate operating efficiencies and achieve top quartile cost performance. Identified potential/emerging capital requirements for both organizations (e.g. TSH Master Plan, RVC Tower Retrofit) total approximately $500 million over the next five years.

In summary, delivering similar services at four separate sites, in very old facilities that do not meet contemporary standards, would severely constrain the merged organization's ability to improve quality of care, realize further operating efficiencies and improve performance.

The merged organization would need financial support to begin planning and designing new hospital facilities infrastructure for Scarborough and west Durham. The hospitals believe there is a compelling need for detailed capital planning for facility enhancement and expansion for these communities.

5 Benefits and Risks

At every point in the engagement process, discussions on the benefits of a possible merger were balanced by consideration of risks. The following section summarizes the key benefits and risks organized by the Guiding Principles – *Collaboration, Accessibility, Sustainability and Excellence*. At the end of each section, there is an overview of the possible risk mitigating strategies generated by stakeholders.

5.1 Collaboration

Benefits

- **Implementing a common vision for the Scarborough and west Durham communities –** One hospital vision, goals and brand with a renewed profile can be a powerful signal that unifies the community, aligns partners and strengthens relationships with stakeholders.
- **Strengthening the continuum of care** – A possible merger would create one hospital system that provides a full continuum of services. Transitions of care between the community and acute sectors would be simplified and streamlined. For example, it would be easier for community-based providers to access and refer patients and more seamless for patients when transitioning back into the community.
- **Enhancing partnerships and building system capacity** – For all partners, it would be easier to collaborate with one organization. Stronger partnerships can help build capacity with other health care sectors – primary care, long-term care and community agencies. For example, for primary care there are opportunities to enhance the knowledge and relationships with family physicians so non-acute patients can be cared for in the community. For the long-term care sector there are opportunities for enhanced outreach services that would improve the standard of care.
- **Integrating expertise – one, unified health care team** – A possible merger would allow for the pooling of health care expertise and, through that integration, the sharing of knowledge and creation of stronger teams for patient care. Whether focused on a clinical program or an administrative function, there is opportunity for enhanced team performance that would improve services and enhance quality.

Risks

- **Staff and physician engagement and change fatigue** – Staff and physicians may be reluctant to accept the possible merger and may resist the change. For some physician groups, there may be a conflict or lack of cooperation in working together. For many staff groups, job security (related to position and seniority) is a significant concern. Both hospitals have undertaken significant planning and operating changes in recent years with varied outcomes. The lack of stability in the environment will continue to challenge individuals' tolerance for more change.
- **Stakeholder support** – A possible merger may create dissatisfaction and confusion for stakeholders. For example, a merger may be seen as a loss to the local communities. Some community members are concerned about loss of services and others that current commitments would not be honoured. For health system partners, there may be potential impacts to their organizations. For example, community providers may need to be ready to handle more referrals in certain areas.
- **Organizational culture and trust** – Establishing a new corporate-wide culture is a significant undertaking and it may impede success if not achieved. Some see this as a significant challenge given the perceived differences in current practices and behaviours across the hospital sites. Others see this challenge rooted in the current trust deficit among physicians and clinical leaders – attributed to previous processes that engaged clinicians to generate plans for the future that resulted in no change.
- **Hospital foundations** – Currently, each hospital has a separate, legal charitable foundation that is responsible for fundraising. Should the two hospitals proceed to merge, the Foundations would have to decide how to organize themselves to support the new merged hospital. There is a risk that they would not be able to reorganize themselves in a manner that supports the overall interests of the merged

organization. This may be particularly problematic in Scarborough where the two Foundations may continue to compete with each other in the same community.

Possible Mitigating Strategies

- **One compelling long-term vision for the future –** Continued integration discussions should be framed by one, compelling long-term vision for the future that excites and engages all stakeholders – leaders, staff, physicians, volunteers, patients, partners and community – to achieve.
- **Physician engagement –** The physician engagement activities have been extensive and beneficial with conversations moving from a "getting to know you" discussion to insightful and challenging dialogue about the future. It is important that this degree of physician engagement continue in a similar design to build on the collaboration and commitment established.
- **Physician leadership –** Identify respected leaders and involve them throughout the entire process.
- **Community engagement –** The engagement process brought together people from across the communities served by the two hospitals, and it has mobilized a network of community members eager to provide their input. Based on insights gathered, the community is generally receptive to the prospect of a merger. However, it should be noted that stakeholders did express various concerns. It is important to keep community members engaged. If a decision is made to merge, the trust of the community will be essential to success. Even if a decision is made not to proceed, the goodwill that has been built up through this process should be maintained.
- **Clear, timely and transparent communications –** The only way to maintain the trust of members of the hospital communities and to avoid fierce opposition to change is to keep lines of communication open between the hospitals and the communities and for people to see action based on that openness. It is difficult to rush change or to implement it without building a base of support first. Any integration process that tries to do so would be highly unlikely to succeed.

5.2 Accessibility

Benefits

- **Improving navigation and access to broader range of services –** By combining expertise to create critical mass, growing existing programs and developing new, more specialized services, a stronger hospital system could be created with the advanced capacity to meet the needs of the Scarborough and west Durham population *in their community*. Navigation could be improved from the first point of entry (e.g. centralized intake and services that move to the patient), as well as the supports for transitioning home.
- **Enhancing the patient experience: right care, right place, and right time –** in addition to receiving their care close to home, the patient experience would be enhanced through timely access to comprehensive and seamless care. Patients will received the *right care at the right place at the right time* with better access to local expertise, high-quality health care teams and effective coordination of services. Many groups expressed hopes that such improvements in care coordination could potentially reduce wait times.

Possible Integration Opportunity: Amalgamate Child & Adolescent Services

Currently Mental Health services at each organization have their own individual gaps in terms of meeting the diverse needs of patients. Multiple points of access, fragmented services, and service gaps have been identified as current opportunities for improvement. By merging the existing functions of the two hospitals the following benefits can be achieved:

- Access to full range of services; one place to make referrals to a full spectrum of service
- Better options for patients with co-morbidities
- Access to greater expertise
- Providing patients with improved access to other groups and modalities.

- **Planning for hospital infrastructure renewal** – For the Scarborough and west Durham hospitals, it is of paramount importance that a common, long-term vision and master facilities plan be developed to address the aging infrastructure. This cannot be successfully completed as two separate, legal entities, but rather under the governance and leadership of one hospital Board.

Risks

- **Inability to support increased volumes –** There is a risk that the existing capacity will not be able meet the demand. Capacity concerns include staffing, beds, equipment and physical space. It should be noted that both hospitals have very high inpatient bed occupancy rates that limit opportunities for additional efficiencies to be achieved.
- **Access to services –** Although location of services was not in scope for this stage of the Facilitated Integration process, many expressed related accessibility concerns. For example, many stakeholders are concerned about the possibility of patients and families having to travel further from home to receive care. For seniors and newcomers, there is concern that changes in services would have an adverse impact due to an inability to easily access services in unfamiliar locations. Serious risks were raised for mental health patients, who could experience reduced access if, for example, mental health services were consolidated at one site.
- **RVHS Ajax-Pickering site –** Community members expressed concern about what the possible merger would mean for the RVHS Ajax-Pickering site. They are concerned that the benefits of the merger would reside entirely with the Scarborough community and believe that there is potential for the Ajax-Pickering site to be underutilized and, therefore, increase the potential for Ajax-Pickering patients to get "lost" in a larger system.

Possible Mitigating Strategies

- **Explore possible options to improve access to services –** Accessibility options may include partnerships with transportation providers and community agencies, a comprehensive patient and family navigation model, hospital-based transportation coordination resources and effective marketing and communications. The funding and costs of these strategies would also need to be considered.
- **Unique issues faced by the RVHS Ajax-Pickering site –** The engagement process highlighted the fact that the RVHS Ajax-Pickering site faces unique issues. Despite guarantees that the facility and its Emergency Department will remain open and all services currently offered will continue, members of the community are skeptical about the future of this campus in the event of a merger. If a decision is made to proceed with a merger, the concerns of Ajax, Pickering, and Whitby residents will have to be addressed.

5.3 Sustainability

Benefits

- **Realizing efficiencies and optimizing resources** – A possible merger would help drive enhanced value into every health care dollar invested into the Scarborough and west Durham community. With both hospitals already demonstrating successes in adopting Lean principles for operational performance, coming together would build a greater platform for continued success. Efficiencies that could be gained include: leveraging new economies of scale, reducing duplication, increasing process efficiencies through standardization, consolidation and centralization. Resources could be further optimized through the *synergy* created – by sharing expenses, organizational knowledge, skills and capacity, specialized expertise, infrastructure and equipment.
- **Increasing funding opportunities** – By coming together, the hospitals generate a stronger, and more sustainable, platform for increased funding opportunities. From an operating perspective, the increased volumes from a strengthened referral base, market share repatriation and enhanced programs and services may translate into additional operational funding. In some cases, the increased volumes may create the critical mass required to enter into new service agreements with funders. With the continued focus on quality and efficiency, additional gains could be realized in performance-based funding. Finally,

from a capital perspective, a unified hospital corporation with increased size and profile is deemed to be in a better position to compete for the much-needed capital investment in hospital infrastructure.

- **Strengthening competitive position** – For many, the possible merger generates conversation related to *competition* – the opportunity to stop competing with each other (i.e. RVHS and TSH) and create a strengthened competitive position. With one voice and a stronger profile, there is an opportunity to increase fundraising revenues through renewed branding and marketing. As a larger hospital corporation, there are also benefits to be gained where *size really does matter* – increased influence with stakeholders and funders, and an improved position to pursue innovations on behalf of the Scarborough and west Durham community.
- **Magnet organization: retaining and attracting top talent** – The creation of one organization that combines the strengths, successes and values of RVHS and TSH has the potential to become a *magnet organization* for the best talent and expertise. A merged hospital could create a workplace environment with enhanced opportunities for continued professional development, increased professional fulfilment and improved support for work-life balance. The enhanced ability to attract top talent is not just about recruiting specialists – it is also about succession planning for program sustainability and creating a more robust learning environment by expanding the teaching affiliation with the University of Toronto. This also enhances the organization's reputation, thus increasing the ability to recapture market share and patient volume.

Risks

- **Financial impact of a possible merger** – Financial costs and investment requirements were noted as one of the key risks by stakeholders. Many are concerned about the upfront, one-time investment for transition and integration costs related to a merger, including: the need to harmonize wages, benefits and physician stipends where differences currently exist; unavoidable costs of severance for redundant positions; legal, professional fees and other costs to conduct financial and legal due diligence to effect the merger; and capital cost of harmonizing existing clinical and business systems to enable operational integration. Others recognize that many of the longer-term integration opportunities identified depend on some form of financial investment in order to realize the identified benefits. Alternatively, some concerns exist about the inability to realize targeted efficiencies and savings. Many factors may contribute to this risk, including variances between actual and projected volumes and lack of focus on and alignment in realizing large-scale program efficiencies.

  The working funds deficit of the merged organization would be one of the worst in the province – about seven times the average of Ontario peer community hospitals. Both hospitals currently qualify, but have not accepted funding under the MOHLTC's Working Funds Relief Program. One of the key conditions of this funding is a requirement for the hospital to contribute 1% of total revenue per annum, which will make it extremely difficult for the merged hospital to balance its budget, invest in capital equipment and contribute to working funds improvement over the first three years post merger.
- **Integration is time and resource intensive** – The complexity and scope of a possible merger cannot be understated. In the first few years, the hospitals would not have the capacity to effectively establish their merged organization while concurrently pursuing other transformational changes, particularly operating plans and budgets that may result in significant labour and/or service changes. Experiences in Ontario and other jurisdictions clearly show that hard savings and quality improvements take years to mature and fully realize. Due to limited capacity and resources, it is unrealistic to expect a merged organization to effectively achieve significant operating budget reductions while attempting to establish foundational pieces for the new hospital (e.g. governance structure, recruitment and establishment of management team, integrating IT systems, establishing common policies, new strategic plan, etc.).
- **Health Human Resource issues –** The possible merger may bring forward a number of health human resource issues including restructuring of positions, increased turnover, increased anxiety, increased strain on clinical teams, engagement of staff and physicians and limitations of collective bargaining agreements.

Possible Mitigating Strategies

- **Secure investments for success** – Investments for one-time transition costs and on-going operating costs would need to be pursued with the Central East LHIN and the MOHLTC to ensure long-term success.
- **Achievable and transparent plan** – Having an achievable, transparent plan that people are involved in developing could increase engagement and reduce anxieties.
- **Critical path for workforce planning and support** – It will be important to develop and communicate a critical path to guide proper workforce planning and to implement proactive change management processes that support health human resources. This path must include constant messaging to staff, physicians and volunteers, around key information as it becomes available, facilitated through ongoing union/management consultation as appropriate. The communication needs to reinforce that a merged organization could offer the chance to minimize involuntary separations through increased opportunities for redeployment within a larger workforce group.

  A common theme in many of the stakeholder engagement activities has been concern about impact on staff. Although during this planning stage of the review process the outcomes have not been discussed in detail, it is important to address this issue. In the existing fiscal environment, ongoing restructuring with or without a merger will occur and the possibility is likely greater without a merger. In the case of management and non-union workers, if restructuring results in job loss, all individuals who leave the organization will be treated with respect and dignity and will be provided with transitional support. In the case of the unionized workforce, the merged organization will respect the Collective Bargaining Agreements (CBAs). Both existing hospital corporations have undergone regular staff reduction programs over the last few years. It is instructive to note that virtually no unionized employees have left involuntarily.
- **Leveraging the energy and momentum** – The stakeholder engagement model has sparked new or renewed energy in clinical integration discussions and the value of collaboration. It would be important to leverage this momentum going forward, especially for clinical programs that demonstrate the will and leadership to move forward with integration opportunities.
- **Pace the change** – Design and implement a success-based change management program that allows "early adopters" and "winning ideas" to proceed, to achieve gains and build experience. Successful integrations involve planning, engagement and consideration for capacity.

5.4 Excellence

Benefits

- **Comprehensive, high-quality clinical programs –** For many of the potential integration opportunities identified, one of the key benefits is enhanced quality of care through the development or strengthening of comprehensive clinical programs. Whether the opportunity is shaping a Centre of Excellence, creating a regional service or improving the care delivery model, enhanced quality of care is enabled through *specialization and standardization in practices*. As volumes increase, clinical programs are better able to specialize and provide higher quality patient outcomes. Advancing specialization would deepen the skills of the clinical team and improve access to more highly-specialized procedures close to home. Improving standardization would ensure a seamless, integrated and consistent approach to services. This continuity and consistent high standard would directly contribute to improved patient safety and clinical outcomes.
- **Advancing innovation and research –** For some, a possible merger creates the platform to infuse innovation and research into clinical programs. Innovations could represent new models of care, evidence-based decision-making and access to state-of-the-art equipment and information technology systems. With critical mass, there is also an increased ability to attract research opportunities (e.g. clinical trials) and expand the role that research plays in providing high-quality patient outcomes.
- **Leading in culturally-sensitive care** – Both hospitals service diverse communities. The stakeholder engagement process reached out to a variety of multicultural groups. Many of these groups believe that a

possible merger creates the opportunity for the hospital corporations to continue and enhance their focus on becoming a leader in providing culturally-sensitive patient care.

Risks

- **Achieving standardization in practice –** The lack of standardization in clinical and clinician practice is a risk for the possible merger. In order to create alignment and integration in programs, and advance the quality of patient care, the current variability in practice should be addressed and compared to leading practice standards. Achieving standardization is a significant change endeavour for people, processes and technology **–** and requires investments in capacity.
- **Knowledge and skills** – Given the opportunities being explored and the advancements being considered, there is a risk that the current knowledge and skills base will need to be strengthened. Investments would need to be made in education, training and development.
- **Implementation challenges** – There are risks that raising the bar on excellence may be hampered by potential business and clinical continuity issues and variability in implementation of changes across a large, multi-site organization.

Possible Mitigating Strategies

- **Standardization in practices –** A comprehensive plan should be developed to implement standardized practices across the corporation. The plan should include a review of current practices, policies and protocols, and an assessment against leading, evidence-based practices. Efforts to standardize work should engage key stakeholders in the design and implementation, including education and training.
- **Focus on Lean principles –** Realizing efficiencies requires a focus on Lean principles, which are embedded in the operational fabric of both organizations. The Operational Improvement teams at RVHS and TSH would be critical in leading the way and supporting the path towards optimal efficiency.
- **Integration performance management –** The complexity of implementation requires accountability for ongoing integration performance management. Measurement and monitoring of performance-to-plan should be regularly examined and, if required, course-corrections put in place.

6 Financial and Implementation Considerations

This section presents the key financial impacts in terms of one-time and ongoing costs, savings and revenues related to possible merger activities. It is important to note that the financial analyses were completed at a high level or "order of magnitude" in order to assess the value proposition of a possible merger of the two hospitals.

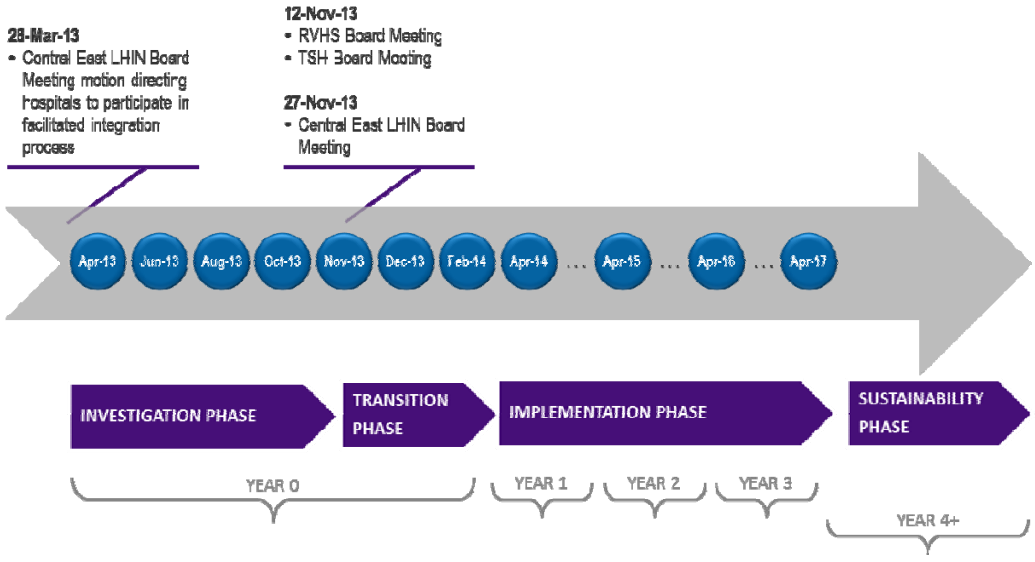
The financial and implementation considerations are organized into the following sections:

- **Investments Required to Support Integration** – These investments represent several upfront considerations to address the unique needs of merger activities, regardless of ultimate outcomes and possible integration opportunities. This section summarizes the costs related to the merger transaction and merger process.
- **Summary of Financial Impacts** – This section moves beyond the merger transactions and includes potential savings and costs related to outcomes of the merger. These may include specific opportunities, economies of scale and one-time integration investments.
- **Implementation Capacity and Timing** – In order to help set up the new organization for success, it is important to structure the merger activities in a way that is manageable. This section outlines these considerations and provides context around the larger picture of investments and anticipated returns.

6.1 Investments Required to Support Integration

Successful mergers come at a price. Significant up-front investments would be needed in key areas to ensure the merged organization is positioned for success. These investments are primarily one-time, with some smaller ongoing investments in key areas. The timing of these investments can be split into four phases: (1) Investigation; (2) Transition; (3) Implementation; and (4) Sustainability.

Diagram 3: Investment Phases



- **Investigation Phase –** to November 2013
  The Investigation Phase, which has produced this report, involved internal and external stakeholder engagement, analytical work, staff augmentation, project management and facilitation support to help inform the hospital Boards of Directors' recommendation to the Central East LHIN. The cost of

this work was $1.3 million. Note this cost is not included in the summary of implementation costs outlined in Section 6.2.

- **Transition Phase –** December 2013 to March 2014
  If a decision is made to merge, then there will be transition costs including legal and professional fees to carry out the formal legal and financial due diligence necessary to amalgamate the two corporate entities. Major elements of this phase would include: ensuring the new entity complies with legislative requirements and has a single set of administrative and professional staff by-laws, policies and procedures; legally registering the new corporation; valuing and transferring capital assets to the new organization, etc. In addition, continued stakeholder engagement and communications would be necessary throughout this phase. The estimated cost of this phase is $2.5 million.

- **Implementation Phase** – April 2014 to April 2017
  The Implementation Phase is the foundational work that will enable the two organizations to come together and operate effectively. Major activities will would include workforce restructuring, labour adjustment plans, new collective agreements with labour unions, information management and technology integration, and back office integration.

  - *Workforce Restructuring*
    Combining the workforces of the two organizations will result in the elimination of some positions (primarily management and back office functions) resulting in severances and associated termination costs. The new hospital will need to align collective agreements, employment terms and conditions, human resource policies and procedures, employee benefits and medical administration. The one-time cost of workforce restructuring is estimated to be $5 million.

  - *Workforce Harmonization*
    In addition to the one-time workforce restructuring cost, a merger will trigger some incremental, ongoing human resource costs. RVHS and TSH workforces are not unionized to the same extent and wage and benefit rates vary. The ongoing operating cost to harmonize wages is estimated to be $5.4 million, which would equate to approximately 0.7% of the merged organization's total annual funding.

  - *Information System Integration Requirements*
    There are immediate IM/IT investments needed just to enable the merged organization to operate. The hospitals are fortunate in that many of the systems and applications they use are supplied by the same vendors (approximately 50% overlap), including the core enterprise Health Information System (HIS). However, none of the systems and databases are linked, they are not configured the same way, and in many cases, are provided by different vendors. These include core systems such as finance, human resources and operating room systems. In some cases, convergence to a single system or replacement to accommodate the larger organization's business needs will be required.

    The merged hospital will also need to consolidate its computer network, e-mail, telephony systems and selected departmental applications to enable efficient operation of the combined organizations. The ability for staff and physicians to communicate access and share information, and in some cases perform their duties at multiple sites, is foundational to achieving some of the operating efficiencies identified in this document. The cost of the IM/IT requirements for operation of the merged organization is approximately $12.0 million.

  - *Transformation Management*
    The Implementation Phase will involve establishment of a new governance and leadership structure for the merged entity. A significant focus of the new leadership team over the first three years will be to bring together and reorganize the former organizations and realize benefits from the merger. The new leadership team will need a formal transformation management

structure and resources to successfully execute the merger, while managing the new organization's operations. The estimated one-time funding required over this period to support successful execution of the merger is $10 million.

6.2 Summary of Financial Impacts

Benchmarking Analysis – Estimated Savings

The savings outlined below represent amounts calculated based on application of provincial hospital benchmarking and experiential data in order to provide high level estimates.

- **Potential Economies of Scale** - Provincial cost per case data, based on previous integration experience, has shown that savings can be achieved by spreading direct and indirect fixed costs over a larger number of patients. In the case of RVHS and TSH, an estimated $5.0-$7.0 million could potentially be saved primarily through back office and administrative efficiencies by the end of year three.
- **Potential Operating Efficiencies -** Provincial data is also available for the hospitals to compare their current operating costs against peer community hospitals. As part of their budget strategies, both hospitals have implemented initiatives to become more efficient and shift their cost structures towards top quartile performance. A merged organization may be in a better position to realize these efficiencies, in addition to economies of scale, through back office service and selected clinical program consolidations. In the case of RVHS and TSH, an estimated $8.0 million in operating efficiencies could potentially be saved by the end of year three (cumulative total).

When possible facilities renewal is factored into the benchmarking analysis, then the total potential benefits from operational efficiencies and economies of scale increases significantly. Specifically, the total economies of scale savings estimate increases up to $25 million, and the total operating efficiencies savings estimate increases up to $16 million. A more precise estimate of potential savings linked to facilities renewal would require more detailed business planning taking into consideration alternative facilities options and capital equipment investments.

Table 5 below summarizes the estimated operating cost savings based on the benchmarking analysis as well as the incremental operating costs and one-time investments required for a successful merger, as more fully described in Section 6.1.

Table 5: Summary of Estimated Operating Cost Savings, Incremental Costs and One Time Investments

Opportunity Category	Cumulative savings for the first three years ($000's)	Estimated Incremental Operating Costs ($000's)	Estimated One-Time Investments ($000's)
Economies of scale*	$5,000 to $7,000		
Operating efficiencies**	$8,000		
Transition costs			($2,500)
Workforce restructuring			($5,000)
Workforce harmonization		($5,400)	
Information system integration requirements			($12,000)
Transformation management			($10,000)
Total	$13,000 to $15,000	($5,400)	($29,500)

**Total estimated Economies of Scale savings increases to $25 million with facility renewal*

***Total estimated Operating Efficiencies savings increases to $16 million with facility renewal*

The net financial impact outlined above is $7.6M – 9.6M in savings (cumulative savings for the first three years), however requiring $29.5M in one-time investments.

All opportunities for savings through economies of scale and operating efficiencies will not be achievable immediately. As implementation progresses over the first three years, savings will gradually approach their full potential of $13 to $15 million with a payback in the range of three years (post the 3-year Implementation Phase) on the needed upfront investments.

It is also important to note that the estimated economies of scale and operating efficiency savings are not separate and distinct from the estimated savings outlined by the Working Groups (i.e. the amounts are not additive). Rather the Working Group opportunities represent possible ways to achieve the economies of scale and operating efficiency potential. This "top down" analysis validated and supported the analysis provided through the outputs of the Working Groups (the "bottom up" analysis) as detailed in Appendix J.

Potential Funding Impacts

Health Services Funding Reform (HSFR) presents a merged organization with opportunities to attract funding. QBP funding, which is one component of HSFR, is provided on a specified price times volume basis for certain procedures and patient cohorts. The other major component of HSFR is based on the HBAM formula. HBAM adjusts a portion of each provider's funding each year based on its expected cost performance and servicing its catchment area.

Analysis of RVHS and TSH services utilization indicates significant numbers of patients travelling to hospitals in the Central LHIN, Markham, and the downtown core. A merged hospital has the potential to improve local residents' access to services and increase market share by pooling resources, expanding current service capacity and introducing new services not currently available in the Central East LHIN.

Under the current HBAM methodology, there is the potential to increase the combined organizations' funding by an estimated $2.1M for each 1% gain in market share. It is important to note that this funding is not net of additional expenses which would be required to deliver higher levels of service. Furthermore, HBAM funding flows to hospitals two years after market share gains begin. During the intervening time, hospitals must cover the associated costs of increased activity out of largely fixed revenue streams, creating additional budget pressures. Once funding catches up with activity, hospitals must ensure the cost of delivering these additional volumes does not outstrip the incremental revenue. The additional expenses cannot be accurately calculated in advance as they are dependent on the types of cases that are regained, but are likely to be within a few percentage points of increased revenue.

6.3 Implementation Capacity and Timing: Striking the Right Balance

A merged organization has the potential to perform better financially than RVHS and TSH are performing independently today. There are opportunities to leverage economies of scale, converge to top quartile performance by understanding and extending each organization's strengths, and attract funding through combined critical mass and delivering higher quality, more cost-effective care.

Some opportunities represent low hanging fruit, which can be realized immediately or within the first few years of a merger. Some are medium-term opportunities, which may involve adjustments to policies and procedures, business processes, roles and responsibilities, and supporting infrastructure changes such as extension or integration of existing information systems. The rest are longer-term and require more substantial and complex change, including: consolidation across sites, alternative service delivery models, hospital and/or medical staffing models, and major infrastructure investments such as information system replacement, capital equipment and facility infrastructure renewal.

Successful execution of change will require an appropriate level of organizational focus and capacity, recognizing that routine hospital operations must also be effectively managed. Taking on too much, too early is a significant risk management issue. Planning and managing the various changes across the organization will

require the collective efforts of many of the same people, who also have day-to-day responsibilities. The organization will have limited capacity at any point in time to lead and absorb the various changes needed and organizational fatigue is also a risk. Which opportunities to take on, in what order, and over what period of time are key decisions that must be carefully made, to ensure implementation success while continuing to deliver high quality, efficient patient care.

There will be significant pressure to implement opportunities that generate savings in order to offset costs associated with the merger. However, it is important to note that the potential savings will not be achieved early enough to cover the estimated costs over the first three years. Key investments over this period from the Central East LHIN and the MOHLTC, as outlined in section 6.1, will be crucial to position the merger for success.

While it is clear that there are no immediate or short-term financial gains – mergers cost money – these are investments that are being made for the future of the Scarborough and west Durham communities. What will result is better patient care, higher quality, increased satisfaction and a healthier population. These long-term returns, however, are critical to a sustainable system that will meet the needs of patients now and in the future.

7 Value Proposition

7.1 Value Proposition Defined

Defining the value proposition of a possible merger is based on a review and analyses of the costs, benefits, and risks that an integrated hospital system could deliver to its patients and other stakeholder groups within and outside the organizations. Where value is defined by the net of benefits and risks, a value proposition assumes that the benefits outweigh the risks. This section links together the opportunities, possibilities and other considerations identified by stakeholders to illustrate a value proposition for a possible merger.

It is important to reiterate that no decision has been made regarding a possible merger, and that the framing of a value proposition within this report is not the presumption of such a decision. Rather, the value proposition that is outlined within this section is framed in direct response to the hospitals' approved Board motion, stating to "proceed with stakeholder engagement and due diligence [that is, opportunity analysis] in order to determine what benefits a merger of two hospitals" will provide to their communities.

7.2 Value Proposition of a Possible Merger

Data shows that as a merged entity, RVHS and TSH would be positioned to take on a new role within the Ontario health care landscape. The new entity would be larger, more influential and better able to capture market share and revenue gains.

As a single corporation, the hospitals would be one of the largest acute and ambulatory providers in the province, thereby strengthening its position within the Central East LHIN and within the provincial hospital sector. Together, the combined organization would have the following volumes:

- Rank 1st in day surgical cases: 75,000
- Rank 2nd in emergency visits: 235,000
- Rank 2nd in acute separations: 57,000
- Rank in the top ten for intensive care days (25,000), ambulatory care visits (728,000) and average beds staffed and in operation (1,046)
- Rank in the top 25 for inpatient days for Mental Health (32,000), Rehabilitation (18,000) and Complex Continuing Care (26,000)

In a provincial environment where hospitals are specializing to increase patient volumes and revenues and to achieve efficiencies, a merged organization would have the potential to combine assets to increase market share and build a sustainable hospital system for the Scarborough and west Durham communities. It is possible that a merged organization would also improve access to local services resulting in the repatriation of patients travelling outside of the region. Furthermore, as one entity, the hospitals may be better positioned to take advantage of the emerging changes to the hospital funding formula.

Many stakeholders perceive that a merged organization would have the potential to perform better than RVHS and TSH are performing independently today. They have identified opportunities to leverage economies of scale, converge to top quartile performance by understanding and extending each organization's strengths, and attract funding through combined critical mass and delivering higher quality, more cost-effective care.

In addition, stakeholders believe that a merged corporation would better position the hospitals for much needed investments in infrastructure. The physical facilities of the two organizations are in greater need of investment as compared to other facilities in the province. A combined organization with a shared vision helps strengthen the case for facilities infrastructure investment.

A merging of the organizations will impact each of the various stakeholder groups differently. Therefore, it is important to articulate any value proposition for a possible merger from the various stakeholder perspectives. These perspectives include:

- Patients and Community
- Health Care System
- Organizational/Financial
- Staff and Physician
- Providers and Partners

Each perspective is highlighted below with a summary of the key areas of value identified through the Facilitated Integration process.

Patients and Community

- **Enhanced patient experience** – With a larger continuum of services under one organization, patients would experience smoother and fewer transitions and hand-offs as they move through the system contributing to better outcomes and higher satisfaction.
- **Enhanced quality of care** – A merger presents an opportunity to better serve our local residents by improving care through increased specialization, better transitions and better sharing of expertise and resources by combining the best of both organizations. Additionally, Scarborough and west Durham communities have not benefitted from significant capital investments like other hospitals in Ontario and a merged entity would be in a stronger position to attract the investment needed to enhance infrastructure and equipment.
- **Easier access to one system** – Currently, both hospitals serve the same communities with only a 6-30 km distance between sites. A merged organization will reduce the "silos" and the complexity of transitions for patients. Previous experience with clinically integrated programs (e.g., cardiology, cataracts, ear, nose, throat program, etc.) has shown positive results.
- **Equitable access to care –** Currently, Scarborough and west Durham communities do not have a unified vision for the hospital system that could improve equitable access and stronger linkages across the continuum of care. One larger organization with a shared vision will be in a better position to establish regional programs and Centres of Excellence for specialized services, hence providing improved access to care.
- **Better linkages to community care –** A merger will facilitate consistent community partnerships to improve care for patients and provide the ability to navigate patients to community services in a more timely and efficient manner.

Health Care System

- **Alignment with system strategies and directions** – Other key system strategies, such as *Ontario's Action Plan for Health Care*, emphasizes integration for better quality, better access and better value. Also, as this process has been initiated by the Central East LHIN, there is an alignment to regional directions.
- **Stronger system positioning** – It is becoming an increasingly competitive environment for patients, funding, capital and health human resources. Currently, RVHS and TSH serve the same communities, yet they compete for patients, funds and other resources. As a merged organization, the hospitals can focus on shared opportunities that will benefit their communities and patients.

Organizational/Financial

- **Financial challenges** – Both organizations face difficult economic outlooks in the near future: flat or negative funding; increasing inflation; increasing patient volumes and complexity; growing and aging population. Constrained liquidity and cash flow on each organization's balance sheet compounds these challenges. A unified hospital system will be better positioned to respond to these challenges.

- **Facilities challenges** – Facilities at both hospitals are poor and there is limited financial ability to replace equipment. The current average age of equipment is 17-19 years compared to peers at 10.5 years. A strong and unified hospital system will be better positioned to address the facilities challenges.
- **Economies of scale and operating efficiencies** – Both organizations have introduced initiatives to achieve efficiencies and economies of scale within their respective hospitals. A combined organization will be better positioned to achieve additional economies and efficiencies. There is the potential savings from economies of scale and efficiencies of $13-$15 million in the initial three years, subject to upfront investments of $29.5 million. A payback of three years is estimated (post the initial 3-year Implementation Phase). Additionally, operational efficiencies and performance improvements with investments in facility renewal are estimated to be considerably higher to a total of $41 million (see section 6 for details).
- **Funding gains –** HBAM funding can be expected to increase by an estimated $2.1 million for each 1% gain in market share. A combined organization will be better positioned to recapture market share and access such funding gains.

Staff and Physicians

- **Retention and attraction of top talent** – The ability to retain and attract top talent is enhanced through a larger organization by providing larger and more specialized programs and services. Increased adoption of leading practices in evidence-based care, as well as enhanced research opportunities through greater volumes, will create further incentives for top talent.

Providers and Partners

- **Leading through partnerships** – A merger will better equip and ready our hospitals for partnership and leadership with other integrations to improve care for patients. Benefits include being better able to influence provision of care in the right place, at the right time, by the right provider. Examples of health system partners include family physicians, Community Care Access Centres, Community Health Centres, Long-term Care, etc.
- **Growing through partnerships** – A larger organization creates new opportunities for partnerships with universities and other sectors to expand the profile of the organization and leverage new relationships and knowledge to enhance patient care.

7.3 Summary

Using the framework of the four guiding principles – Collaboration, Accessibility, Sustainability and Excellence – significant opportunities and benefits have been identified to improve care, access and value. Stakeholder input and the output of the Working Groups have provided concrete ideas that would benefit the communities of Scarborough and west Durham. These opportunities can be achieved from designing a strong, single hospital with a new brand and a shared vision. Together the two hospitals can position themselves to better respond to the needs of their communities, address fiscal challenges more effectively, and take advantage of the fast changing health care environment.

A number of stakeholders emphasized the importance of creating a hospital system to support the attraction and retention of talented physicians, clinicians and care providers. A strong hospital system is an essential component of a strong, local health care system. Some stakeholders summarized the new hospital system as a “magnet hospital” for patients, donors, physicians, clinicians, staff and community partners.

There are financial benefits to the merger of the two hospitals, albeit not in the short-term. The analysis indicates cumulative savings by the end of year three in the $13 to $15 million range providing a payback of three years (post the 3-year Implementation Phase) on the needed upfront investments.

Consistently, stakeholders described a vision of a new hospital system that includes significant facilities renewal and expansion for the Scarborough and west Durham communities. Without these investments in facilities infrastructure, the merged hospital would have some of the oldest operating rooms in Ontario (circa

1957), undersized emergency departments and physical constraints that would limit additional economies of scale and operating efficiencies. With improved facilities and capacity, then the financial opportunities could increase to a total of $41 million.

Along with benefits always go associated risks. These have been well articulated by stakeholders. One significant risk is the challenge of implementation. This can be mitigated through strong governance and executive and physician leadership. The selection of a strong Board of Directors with a broad range of skills and expertise and the capacity and willingness to devote substantial time and energy to the integration process over the next three years will be key to success. This Board must also in turn select a strong and experienced CEO and Chief of Staff to lead and manage the organization going forward.

A merged hospital would be the seventh largest of over 150 in Ontario. It would rank (based on 2011/12 figures) first in surgical cases and second in overall emergency department visits. With this size would come influence, which would only benefit the residents of Scarborough and west Durham. A merged hospital would continue to provide regional programs; it would strengthen existing programs; and it could develop new or enhanced services for the community through Centres of Excellence, clinics and partnerships with other providers.

The merger of the two organizations has the potential to create a hospital system that is positioned to succeed through the broader health system transformation, to deliver increased quality, access and range of services not currently available to the citizens of Scarborough and west Durham. Overall, the strength of this value proposition is not in the short-term, but rather in the longer-term in which the hospitals are able to position themselves to better serve their communities, create a shared vision for a transformed local health care system, address fiscal challenges together, and take advantage of the fast changing health care environment.

8 Other Considerations

8.1 Health Human Resource Considerations

While RVHS and TSH have many similarities in their human resources processes and structures, a possible merger will require the planning and implementation of a number of important health human resource integration considerations, which are outlined in detail in Appendix C.

8.2 Governance Process and Transition Plan Considerations

Legal Review of Letters Patent and By-Laws

Borden Ladner Gervais LLP (BLG) reviewed the Letters Patent and By-laws (Corporate and Professional Staff) of each of RVHS and TSH with a view to determining if there were any issues that would impact a potential amalgamation. BLG has concluded that there are no provisions in the Letters Patent or By-laws of either RVHS or TSH that would present an impediment to the ability of the corporations to amalgamate.

Legal Critical Path

A critical path was drafted to provide the Boards with an overview of the key steps required to support a merger if such a decision is taken, from a governance perspective. This tentative critical path outlines the steps from the point of Board approval in principle through to final Board approval. This process is outlined in Appendix K.

Community Engagement

RVHS and TSH are committed to continued engagement of the Scarborough and west Durham communities throughout the transition process. With oversight from the Joint Transition Committee, a formal mechanism will be established for robust community outreach and consultation to help guide and address issues raised by the community.

The Transition Plan

In addition to the legal critical path, the Governance Task Group was tasked with developing a proposed Transition Plan that would outline the key activities that the Board needs to consider between Board approval in principle through to amalgamation, and post-amalgamation.

As a first step in this plan, the formation of a Joint Transition Committee is recommended. The mandate of the Joint Transition Committee will be to oversee the development of the governance structure and processes to support the new organization in accordance with the Guiding Principles prepared by the Governance Task Group.

The Joint Transition Committee will be comprised of the following individuals:

RVHS	TSH
• Chief Executive Officer	• Chief Executive Officer
• Chief of Staff	• Chief of Staff
• Board Chair	• Board Chair
• Board Independent Directors (4 total, not including Board Chair)	• Board Independent Directors (4 total, not including Board Chair)
• Medical Staff Association Representative (2 total)	• Medical Staff Association Representative (2 total)

The Board Chairs will Chair the Joint Transition Committee.

The following principles were drafted to guide the work of the Transition Committee:

1. Adopt best governance practices
2. Come together as equals
3. Stay focused on creating a healthy, sustainable, skills-based, representative Board committed to the new organization
4. Respect the relationships with stakeholders
5. Build on the strengths of each organizations existing governance practices
6. Be mindful of the connections to the community from a governance perspective
7. Look at what may be "new best practices" in each other's By-Laws (unique considerations from "lessons learned").

The Transition Plan below outlines the key activities that the Joint Transition Committee will need to consider in the case of a possible merger:

- *Decision Point:* Board resolution to agree in principle to go to next step of Due Diligence
- Formation of Joint Transition Committee
- Legal and financial due diligence to confirm value proposition
- Development of a Community Engagement Planning Framework
- Stakeholder engagement
- Develop recommendation for new Board structure and identify initial Directors of the Board
- Amalgamation Agreement and draft Corporate and Professional Staff By-laws
- *Decision Point:* Hospital members' approval
- *Decision Point:* Board resolution to proceed with merger
- Minister's Approval for merger
- Selection of CEO
- Selection of Chief of Staff

9 Recommendation

Whereas, on March 27, 2013, the Board of Directors of the Central East Local Health Integration Network (Central East LHIN) passed a motion requiring The Scarborough Hospital to partner with Rouge Valley Health System in a facilitated planning process to design and implement a Scarborough Cluster hospital services delivery model through integration of front line services, back office functions and leadership and governance, and

Whereas the hospitals have submitted a Directional Plan outlining their expressed intent to explore benefits of a hospital merger, and to conduct the due diligence as required, and

Whereas the hospitals have complied with this requirement under the direction of an Integration Leadership Committee by developing the Preferred Integration Plan attached to this motion, and

Whereas it is the unanimous agreement of the members of the Integration Leadership Committee,

Be it resolved that the Integration Leadership Committee recommends to the Boards of Directors of Rouge Valley Health System and The Scarborough Hospital to proceed with a merger of the two hospital corporations subject to resolution of the following matters:

- Completion of financial and legal due diligence satisfactory to the Boards of each hospital;
- Preparation of the necessary legal documents required to implement the merger including documents to be submitted to the Central East LHIN and the Ministry of Health and Long-Term Care;
- Central East LHIN and/or Ministry of Health and Long-Term Care support to address unavoidable one-time costs and ongoing operating costs associated with merger activities;
- Required government approvals including pursuant to section 4 of the Public Hospitals Act;
- Given that the full benefits of a merger can only be achieved if the capital infrastructure issues at the Scarborough and west Durham sites are resolved, grants to commence the feasibility, planning and design for two facility projects (one for the Scarborough community and one for the west Durham community) are requested;
- Hospitals' membership approval; and
- Final approval of the merger from the Boards of Directors of the hospitals.