

For Information Only

SHS Laundry Plant Economic Impact

Presented To:	City Council
Presented:	Tuesday, Feb 28, 2017
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Type:	Correspondence for Information Only

Resolution

For Information Only

Finance Implications

There are no financial implications.

Background

In early October 2016, Health Sciences North (HSN) announced plans to change providers for the hospital's laundry services – moving from the current provider Sudbury Hospital Services (SHS) to Mohawk Shared Services, located in Burlington effective April 1, 2017. The decision will result in the elimination of 42 local jobs and a savings to HSN of roughly \$500,000 per year.

At the January 10th meeting of Greater Sudbury City Council, a motion was passed directing staff to conduct an economic impact analysis of HSN's decision (Resolution CGS2017-18 attached as Appendix A).

Economic Development staff researched the issue from a broad perspective and analyzed the economic impact. Detailed information was requested from HSN and SHS, and this was provided in an open and timely manner.

Sudbury Hospital Services (SHS)

Sudbury Hospital Services (SHS) was created approximately 50 years ago by the four existing hospitals at the time (The Community General Hospital, Sudbury Memorial Hospital, The Sisters of St. Joseph, and Laurentian Hospital – later joined by The Sudbury and Algoma Sanatorium). SHS is a non-profit, non-share capital corporation and a separate legal entity with member representation on its board. Over time, as hospitals merged or left SHS, membership dwindled down to just one institution, HSN which accounts for more than 90% of SHS business. The board of SHS now consists solely of HSN management, as it is the only remaining member. Its management team consists of the General Manager, Controller, Maintenance Manager and two Production Managers.

Mohawk Shared Services

Originally established as a central laundry service for partner hospitals, Mohawk Shared Services has since expanded into supply chain management services; employee assistance counseling; and, a diagnostic imaging repository. Its membership includes Cambridge Hospital, Brant County Healthcare System, Grand River Hospital, Hamilton Health Sciences, West Haldimand General Hospital, Groves Memorial Community Hospital, Hotel Dieu Shaver, St. Joseph's Villa Dundas, Guelph General Hospital, Haldimand War Memorial Hospital, North Wellington Health Care, Joseph Brant Hospital, St. Michael's Hospital, St. Joseph's Health Centre Guelph, Niagara Health, St. Mary's General Hospital, St. Joseph's Healthcare Hamilton, and, Health Sciences North.

HSN and other member hospitals currently purchase many medical, surgical, and other supplies through Mohawk. HSN has already realized savings of \$300,000 to date through this bulk purchasing model.

SHS Historical Business Context

- In April 2007, Nipissing Area Joint Hospital Laundry wound down its operations. As a result, North Bay Regional Health Centre, Mattawa General Hospital, West Nipissing General Hospital, and the Northeast Mental Health Centre (North Bay Campus) made the decision to send their laundry to SHS.
- In 2012, these institutions decided not to renew their contracts with SHS. The move cost SHS one third of its business and resulted in job reductions. At that time, SHS had 90 employees (full-time and part-time).

Signed By

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- In February 2014, St. Joseph Complex Continuing Care (CCC) ceased to be members of SHS and ended their laundry service arrangement, leaving HSN as the sole remaining member.
- The loss of these members/customers negatively impacted on the economies of scale being achieved by dividing laundry costs across multiple customers, resulting in significant increases in laundry costs over the past five years. These cost increases were ultimately passed on to the remaining members/customers.
- SHS currently has six customers with service level agreements (HSN, Air Ambulance, Manitoulin-Sudbury DSB Paramedic Services, Greater Sudbury EMS, North East CCAC, and Reliable Maintenance). Of these, HSN constitutes more than 90% of SHS' business.
- While Greater Sudbury EMS maintains a service contract with SHS, EMS linens are embedded within HSN's linen service. Both HSN and EMS soiled linens are provided to SHS for cleaning however, EMS is provided with its own clean linens on-site at HSN. It would be logistically challenging for EMS to design, monitor, and maintain a separate system for its own laundry separate from the hospital. Best practice across the province is for EMS and hospitals to share the same laundry provider in order to provide seamless service to its patients. As a result, it will not be possible for EMS to maintain its current contract with SHS and a decision regarding EMS' linens will be required in the near future.
- SHS undertook an analysis of current financial constraints, lack of potential future customers, plus the capital required to sustain operations and identified a need for an increase in pricing. SHS's price per kg for laundry is already one of the highest in the industry (inclusive of transportation) and has been the largest barrier in securing additional customers. Any further price increases would make them even less competitive.
- Their current facilities are facing a \$2.3 million capital requirement over the next five years, \$1.2 million of which would be required within the next 18 months. These investments would be over and above the \$1.5 million SHS has already invested in its facilities over the past five years. SHS does not have the capacity to borrow the funds necessary to make these required investments due to its financial position.
- Even with significant capital investments in SHS, a significant move towards increased automation and mechanization would be required in order to provide competitive rates to attract clients. This would still result in job losses at SHS.
- Further, Mohawk Shared Services currently has 18 members, representing over 5,500 inpatient beds. In comparison, the four largest hospitals in Northeastern Ontario (Sault Area Hospital, North Bay Regional Health Centre, Timmins and District Hospital, and HSN) represent just over 1,200 in-patient beds. It would require significant investments of time and financial resources to coordinate a new collaborative shared laundry service and would also require nearly every hospital and long-term care facility in Northern Ontario to join in order to reach similar volume levels that would allow for similar economies of scale as to what is currently offered by Mohawk Shared Services.

Economic Impact Analysis

An overall sector analysis shows that the laundry services sector is experiencing a restructuring both locally and regionally and will provide employment and sector-specific data to support the above narrative.

Economic impacts are usually measured in the expansion or contraction of an economy resulting from changes in economic activity in a particular sector or area of the economy. The total economic impact is the result of changes in capital and operational expenditures of a particular organization, and can include direct financial contributions or purchases from the local economy, the number of individuals employed directly by the organization, the result of changes in activity by local suppliers, the jobs or additional expenditures supported by the organization through its local purchases as well as the incremental or continuing impact resulting from reduced spending. Other economic impacts may also include reduced or increased household spending due to changes in spending patterns of individuals employed directly or indirectly by the organization.

Sector Profile

The laundry services sector has seen interesting changes over the past five years. The dry cleaning and laundry services sector (NAICS 8123) employs a variety of occupations, more specifically "Other services supervisors" (NOC 6316), "Tailors, dressmakers, furriers and milliners" (NOC 6342), "Delivery and courier service drivers" (NOC 7514), "Retail salespersons" (NOC 6421) and "Dry cleaning, laundry and related occupations" (NOC 6741). As seen in the chart below, all occupations in this sector have seen growth except for the Dry cleaning, laundry and related occupations.

Occupations that are employed by the Dry cleaning and laundry services sector					
Description	2011 Jobs	2016 Jobs	2011-2016 Change	2011-2016 %Change	2015 Avg. Hourly Wages
Other services supervisors (NOC 6316)	61	119	58	95%	\$20.88
Tailors, dressmakers, furriers and milliners (NOC 6342)	68	116	48	71%	\$13.87
Delivery and courier service drivers (NOC 7514)	220	334	114	52%	\$17.63
Retail salespersons (NOC 6421)	3,131	3,438	307	10%	\$14.41
Dry cleaning, laundry and related occupations (NOC 6741)	262	169	-93	-35%	\$15.74

Since the sector has seen an overall employment growth of 2.7%, we can extrapolate that the sector saw an increase in employment in other occupations while seeing a decline in laundry service labour jobs. This shift in the sector could be attributed to a larger trend towards increased mechanization and automation in the laundry services sector. In general, this sector in Greater Sudbury (+2.7% percentage change in general employment) has fared better than the overall comparison to Ontario and Canada, each having seen a percentage change in general employment of -6.1% and -3.9% respectively in the same time period. In 2015, the total number of full-time and part-time jobs in the Dry cleaning and laundry services sector was 305, which is 105% above the national average. In other words, at the provincial and national level, this sector is in decline, but we are seeing small growth in Greater Sudbury.

Looking specifically at dry cleaning, laundry and related occupations (NOC 6741), we have seen a steady decline in employment in this occupation in the City of Greater Sudbury over the past five years (see chart below). There are a number of industries that rely on this occupation, namely dry cleaning and laundry services (NAICS 8123), traveler accommodation (NAIC 7211), nursing care facilities (NAICS 6231), residential developmental handicap, mental health and substance abuse facilities (NAICS 6232) and general medical and surgical hospitals (NAICS 6221). Average wages per job (2015) were \$29,255/year while in Canada, wages were slightly higher at \$32,983/year. The median hourly wage (2015) was \$15.28.

Number of jobs in Dry cleaning, laundry and related occupations in Greater Sudbury								
Description	# Jobs						2011-2016	2011-2016
	2011	2012	2013	2014	2015	2016	Change	%Change
Dry cleaning, laundry and related occupations	262	215	210	222	170	169	-93	-35%

Direct Impacts

A total of 42 positions will be affected as a result of the loss of the contract for HSN's laundry services. Of these, 38 are unionized workers and 4 are non-union workers. Of these 42 positions, 34 are full-time, 7 are part-time, and 1 is casual. With regards to benefits, all the full-time employees were provided with health benefits while none of the part-time employees were provided with benefits. For 2016/17, SHS budgeted \$2.1 million for payroll. For 2017/18, SHS is expected to reduce its payroll to \$878,000.

Breakdown of jobs affected		
		Average Age (Yrs.)
38 unionized workers	8 early retirement	58
	30 voluntary exit	45
4 non-union workers	2 management laid off	50
	2 non-management laid off	50

Direct purchases into the Greater Sudbury economy also include the purchase of utility services as well as purchases from suppliers within the Sudbury Hospital Services laundry service supply chain. A breakdown of the current and projected utility purchases is listed in the table below.

Annual Utility Costs for SHS			
GSU Utilities	Water/Wastewater (\$)	Hydro (\$)	Total (\$)
Current Average	168,000	192,000	360,000
Projected Future Average	39,480	100,416	139,896
Difference +/-	-128,520	-91,584	-220,104

Further, a number of local suppliers provide goods and services within SHS's supply chain. The current annual value of these purchases is \$754,047 and the future projected value is \$690,589, resulting in a loss of \$63,459 of purchases in the local economy, net of increased purchases from other local suppliers under the new business model. Of note is that these purchases are spread out over 36 local supply and service companies currently used by SHS.

The indirect impacts include the short and long-term changes in spending behavior of local supply and services companies impacted as a result of SHS's reduced local purchases. Considering the total loss of local purchases is of \$63,459, this is a relatively small number and would require longer term monitoring and analysis to determine the resulting incremental and continuing impacts.

Multiplier Effect

Impact analysis reflects the changes (increases or decreases in expenditures that are multiplied throughout the economy, or in this particular case, the decrease in spending on some goods and services as a result of loss of income and employment. Input-output calculations generate economic impact multipliers, which estimate the total effect of a change in spending in a particular area of the economy.

According to Prairie Research Associates^[1] the creation of input-output tables is a detailed and lengthy procedure that is usually performed by central statistical agencies such as Statistics Canada. The formula used to calculate the multiplier in this example is simplified.

The formula used for the multiplier is:

$$\text{Multiplier} = \frac{1}{(1-\text{MPC})}$$

Where, the multiplier represents the multiple by which spending will decrease in response to a decrease in income and MPC stands for the Marginal Propensity to Consume (MPC).

The MPC is equal to the change in consumption divided by the change in income. By calculating the marginal propensity to consume from Greater Sudbury's household spending report, we attempt to provide a picture of the average spending change of all employees affected. As such, we assume that consumption is 0 and income is 0 after the loss of employment with SHS.

	Decrease in expenditures	Economic Impact
Decrease in wages*	\$1,345,732.80	\$6,187,317.53
Decrease in purchases of local goods and services	\$63,459.00	\$291,767.42
	Gross Economic Impact	\$6,479,084.95

* Wage calculations are based on 37.65 FTEs

Services Provided to Affected Staff

SHS employees who have chosen to accept a layoff will receive severance of one week's pay for every year of service up to a maximum of 26 weeks. Laid off employees are entitled to "call back" opportunities within the next 24 months. Those who have chosen to accept a voluntary exit will receive two weeks pay for every year of service up to a maximum of 26 weeks, but are precluded from being called back to work.

SHS management has indicated that employment counseling, financial planning and, career counseling has been, and continues to be provided to its employees with the help of a range of service providers.

Service Provider	Services Provided
Government of Canada	Explained process, rights, documentation related to accessing Employment Insurance. Returning in March to assist with filling out documents.
Sudbury Vocational Resource Centre	Presentation on Ontario's Second Career program which assists with costs related to retraining (tuition, books, transportation, childcare, etc.)
Employment Options	Résumé building and interview preparation.
CTS – Canada Career College	Presentation of courses, second career and financing options.
Schuster, Boyd, McDonald (Benefits)	Presentation of benefits after job loss – how to secure and transfer.
Healthcare of Ontario Pension Plan (HOOPP)	Pension options.

[1] Prairie research associates is a research company with offices in Winnipeg and Ottawa. Since 1988, they have provided program evaluation, market research, and economic analysis to Canadian industry, government, and non-profit sectors.

City Council Resolutions



Moved By

No. CC2016- ~~20~~ 18

Seconded By

Date Tuesday, January 10, 2017

Whereas unemployment in the City of Great Sudbury is very high and the loss of 38 jobs at Sudbury Hospital Services represents permanent loss of jobs from the City and,

Whereas the job losses at Sudbury Hospital Services represents a removal of more than \$1,500,000 in economic activity in the City and,

Whereas Sudbury Hospital Services is a major user of water/wastewater, the reduction of which will increase the cost burden to other users in the City and,

Whereas Sudbury Hospital Services is a major user of Greater Sudbury Utilities, the reduction of which will increase the cost burden to other users in the City and,

Whereas other public service providers in the City that currently use the services of Sudbury Hospital Services will need to find alternative service suppliers at unknown cost and,

Whereas the supply chain for supplies and services to Sudbury Hospital Services will suffer negative economic impact and,

Whereas the loss of these jobs appears to be the first of a number of employment transfers out of the City by Health Sciences North and,

Whereas the loss of these jobs is not consistent with the stated objective of the City of Greater Sudbury to not only promote economic development but also that the economic development be sustainable and,

Whereas the employer Health Sciences North, an Ontario Government institution serving the local community will only see minimal cost benefits from the employment transfers out-of-town and,

Whereas the foundation of Health Sciences North was constructed by local funding and considerable local funding contributions continue to be made towards the Health Sciences North institution and,



Moved By _____

No. CC2016-

Seconded By _____

Date Tuesday, January 10, 2017

That the loss of these jobs from Sudbury will place undue hardship on the City of Greater Sudbury at a time when economic activity in the City is at risk and major efforts are being made to improve the economics of the City.

Be it therefore resolved that the City of Greater Sudbury hereby directs the Economic Development Department to prepare an economic impact evaluation of the proposed job losses, the potential for future job losses from Health Sciences North. The city is also hereby directed to prepare a letter for sending to the Ontario Government requesting re-evaluation of the proposed change in employment locations in consideration of the economic impact on the City of Greater Sudbury, the economic impact on north-eastern Ontario and the impact on the people of those areas.

and to others who can influence this decision

CARRIED
Tuesday, January 10, 2017

Mayor Bigger, Chair