

Strathroy Middlesex General Hospital

External Review Report

March 22, 2009

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Executive Summary

The Southwest Local Health Integrated Network (SWLHIN) announced in September that an External Review would be undertaken at Strathroy Middlesex General Hospital (SMGH). The purpose of the Review was to assist the hospital in developing a Hospital Annual Planning Submission (HAPS) that would achieve a balanced operating position within existing approved funding allocations, and enable SMGH to execute the 2008-10 Hospital Service Accountability Agreement (H-SAA).

The Review Team (RT) included:

Mike O’Keefe	Consultant
Dr. Eric Fonberg	Medical Consultant
Norman Rees	Financial Consultant

Senior Management at SMGH contracted with Health Care Management Group (HCM) to assist in operational and cost performance benchmarking.

The review has found opportunities for SMGH to improve its performance through operational efficiencies and the RT is recommending SMGH retain external experts to conduct a clinical efficiency review.

The HCM performance benchmarking process resulted in a theoretical savings target of \$5.07 M. HCM report that in their experience Clients who participate in the process have been able to achieve 23% to 52% of this target.

In a recent workshop conducted by HCM with SMGH Senior and Departmental managers \$2.68 M in cost savings measures were identified through operational improvement initiatives. Implementation is well underway and it is significant to note that senior management were active participants in the process and major contributors to the outcome.

The viability of continuing with obstetric services at SMGH was extensively discussed during the review. The volume of cases has been declining during the past five years and there is a declining number of family physicians who perform obstetric services. There are currently challenges accessing epidural anaesthesia at SMGH and operative obstetrics is not being performed by obstetricians.

It is the opinion of the RT that the number of patients and physicians will continue to decline. Given the above and the proximity to primary, secondary and tertiary services available in London it is the recommendation of the RT that Obstetric services at SMGH be phased out within six months.

The RT recognize implementation of this recommendation may impact on other Providers of obstetric services in the region and falls within the “voluntary integration” framework as defined in the Local Health System Integration Act (LHSIA)2006, Section 27.

SMGH projected deficits of \$2.2 M in 2008/09 and \$2.6M in its HAPS submission. As a result of the early implementation of cost savings strategies and effective controls, Senior Management currently projects the 2009/10 deficit at \$522,000. This does not include the savings that will result from the closure of Obstetrics.

Based on cost savings measure that have/are being implemented, the cost reductions resulting from the phasing out of Obstetrics, and the SWLHIN providing one time restructuring costs, the RT contends that SMGH can achieve a balanced budget in 2009/10.

1.0 Introduction

The Southwest Local Health Integrated Network (SWLHIN) appointed an External Review Team (RT) to undertake a review of Strathroy Middlesex General Hospital (SMGH) to assist the Hospital in the development of a Hospital Annual Planning Submission (HAPS) that would achieve a balanced operating position within existing approved funding allocations, and would enable the Hospital to execute the 2008–10 Hospital Service Accountability Agreement (H-SAA).

1.1 Objectives of the Review

- Identify cost drivers within the organization;
- Examine workload measures, current services provided, cost of services provided, efficiency of services provided and clinical outcomes;
- Examine Hospital decisions to expand and /or limit service levels within the previous two fiscal periods;
- Review analysis conducted by the Hospital in considering measures to achieve a balanced operating position put forward as part of the 2008-10 HAPS/H-SAA process;
- Examine the scope of current services compared to the mandate of the Hospital and assess the appropriateness of current services and service levels; and
- Identify and quantify any other barriers preventing the Hospital from achieving a balanced financial operating position and identify mitigation measures in response to these barriers.

1.2 Role of the External Reviewer

- Provide input and experience to work with the Hospital senior leadership team in recommending measures to bring the Hospital into a balanced financial operating position;

- Consult with Hospital and Medical staff with respect to efficiency opportunities, management of existing services and other impediments to operational performance improvement;
- Provide recommendations that enable the Hospital to reach a balanced operating position within the existing approved funding allocation;
- Work with the Hospital senior leadership team including the Chief of Staff to present the recommendations to the Hospital Board for approval;
- Remain available for further advice to the Hospital and/or the South West LHIN as required following approval of the 2008-10 H-SAA.

The Terms of Reference for the External Review at SMGH are included in Appendix 1 of this report.

1.3 Process for the Review

The Review Team (RT) included:

Mike O’Keefe	Consultant
Dr.Eric Fonberg	Medical Consultant
Norman Rees	Financial Consultant

SMGH contracted with Health Care Management Group (HCM) to assist in operational and cost performance benchmarking (Phase1). The contract was extended to include HCM working with SMGH management to help apply a consistent approach and common understanding of overall objectives and processes, and challenge management’s assumptions and constraints in order to identify cost saving initiatives that could be taken in the current environment (Phase 2).

2.0 Internal Factors affecting SMGH Deficit

All references to deficit are related to total margin deficits as per LHIN policy (excludes building depreciation).

Up to 2005/2006 SMGH had a long history of balanced budgets. In 2006/2007 a number of major cost drivers changed this trend, including:

- Participation in the Regional Shared IT program without additional base funding \$800,000.

These costs were verified through an internal audit by BDO Dunwoody and an audit by Ernst & Young on behalf of the Regional Shared IT Program. SMGH maintain that this program with capital funding provided by Infoway Canada and the MOHLTC was approved by Government while it is the understanding of the RT that the SWLHIN hold a position that SMGH did not receive government authorization to proceed with this strategy.

SMGH has decided to cap expenditures for Regional Shared IT in light of its financial position, however this will have implications on future regional IT initiatives.

- Major increase in Orthopaedic procedures (elective and emergency) \$700,000.

SMGH had a long history in orthopaedic surgery and enhanced this service through the recruitment of a second orthopaedic surgeon in response to the Wait Time Strategy. The hospital maintains this expanded service of elective and emergency orthopaedic services are cost saving to the region and particularly the very busy London hospitals. However, SMGH did not have any base adjustment to cover the additional costs.

SMGH has now capped elective orthopaedic surgery.

- Increase in liability insurance premiums \$250,000

These costs are verified through a hospital internal audit. SMGH is in the process of re tendering its insurance business

- Increased costs of Physician recruitment \$200,000

SMGH were facing a similar challenge as other hospitals in the recruitment of physicians and retained a Search firm with a successful track record in recruiting physicians for smaller community hospitals. This firm is used by Leamington, Woodstock and some other area hospitals, however their rates are considerably higher than some of its competitors. They were successful in finding candidates for SMGH.

- Interest costs on loan to correct asbestos issue \$150,000

SMGH made submissions to the MOHLTC for funding to correct this problem but was not successful. The hospital went forward and borrowed the money to complete the project. The annual interest costs on this project are \$150,000.

The SMGH Foundation has now given a commitment to eliminate the 5 year loan obligation.

The outcome of these increased costs, inflation, and insufficient revenues or offsetting cost measures resulted in SMGH submitting deficit budgets in 2008/2009 (\$2.2 M) and 2009/2010 (\$2.6 M).

3.0 Operational and Cost Performance Benchmark Findings & Recommendations

Health Care Management Group (HCM) was contracted by SMGH to undertake a productivity bench marking analysis. A summary letter is attached (Appendix 2). SMGH then extended the contract with HCM to assist the SMGH management team to identify cost saving and revenue initiatives, using an approach that would build on benchmarking and operational improvement principles. A summary letter is attached (Appendix 3).

3.1 Process for HCM Performance Benchmarking & Operational Review

HCM conducted a productivity benchmarking exercise consistent with approaches and methodologies utilized in a number of hospital operational improvement engagements. The exercise consisted of the following:

- Editing of SMGH MIS Trial Balance data for 2007/08 (actual), and making changes where appropriate, and editing/review of detailed trial balance files;
- Preparation of SMGH data (past four years) and 2007/08 peer data for purposes of performance benchmarking (this included a review of peer performance results and removal of outliers);

- Setting of preliminary performance targets (based on peer performance benchmarking at the best quartile performance levels for labour and median performance levels for non-labour) for all departments;
- Preparation of reports by department with identified FTE/cost savings and a summary listing of the potential savings;
- Review of factors that may affect/explain productivity differences;
- Review of reports with the Senior Management Team and revision of reports where needed to account for data issues.

HCM then conducted a workshop with senior management and department heads to ensure a consistent approach and common understanding of the overall objectives and processes related to this project. The workshop:

- Provided orientation to performance benchmarking, the performance targets and expected savings and approaches to improving performance;
- Distributed performance reports and calculated screening targets for cost savings;
- Ensured that all department heads are in tune with the organization's serious need to reduce costs quickly and that senior management commitment is demonstrated;
- Presented ideas for other opportunities to reduce costs (inventory control, supply cost reductions) and/or increase revenues;
- Provided a framework for departments as to how to contact some better performing hospital peers to understand practices that help them achieve high levels of performance (not to compare data, as this would have been a fruitless undertaking);
- Provided a guide to assist managers in identifying potential initiatives to achieve targets; and
- Provided department heads with follow-up work and a workbook for completion/submission that identify how they plan to achieve or exceed the savings targets for their areas.

3.2 Results of Benchmarking and Operational Improvement Process

The benchmarking performance at a functional centre level presented a theoretical target savings of \$5.07 M for 2007/08, at the peer hospital best quartile. The total theoretical savings target for SMGH equaled 14.5 % of net operating costs for 2007/08. HCM clients who have participated in this process, have achieved 23 to 52% of the theoretical savings targets.

SMGH Managers have identified operational improvement initiatives of \$2,685,909 in cost savings and increased revenues.

SMGH Operational Improvement Target Savings/Revenues	Total Initiatives
	Total \$
Labour Related (Salaries & Fringe Benefits)	(\$2,188,189)
Non-Labour Related	(\$459,369)
Potential Recoveries/Revenues	(\$38,350)
Total Potential Savings/Revenues	(\$2,685,909)
One-Time Costs Identified	\$5,471
% of 2007/08 Calculated (Theoretical) Targets Achieved	53.0%
Percentage Change in 2007/08 Net Operating Costs	-7.7%

The strategies for achieving these targets have been outlined in the workbooks prepared by department / program managers and result from improving efficiencies without reducing services. A major portion of these savings arise from bed closures achieved through efficient and effective management of alternative level of care (ALC) patients.

The following is a summary of the cost reductions by Functional Centre Grouping:

Functional Centre Grouping	Total \$	% of Net Costs	% of \$ Target Realized
Corporate	381,484	8.2	52.5
Support	329,089	6.2	63.2
IP Nursing	1,110,252	8.5	62.4
Ambulatory	250,658	4.5	24.7
Diagnostic	371,638	7.0	42.6
Therapeutic	190,187	16.4	120.4
Other	52,600	N/A	No target
Total	2,685,909	7.7	53.0

Senior Management was an active participant in the process and a major contributor to the outcome. Implementation is well underway.

Recommendation:

- #1. The RT recommends senior management finalize implementation of the approved cost saving initiatives to effect a net reduction in its operating deficit of \$2,685,909.**

Recommendation:

- #2. The RT recommends senior management develop a restructuring budget related to the one time costs of implementing the recovery plan, particularly those associated with staffing changes, and submit the plan and costs to the SWLHIN. At this point the estimated cost is \$400,000.**

Recommendation:

- #3. The RT recommends the SWLHIN provide additional funds to cover the one time restructuring costs.**

4.0 Clinical Findings and Recommendations

Senior Management at SMGH, the Board Executive and the RT discussed the merits of SMGH undergoing a Clinical Efficiency Review by external experts. It was decided not to proceed given the number of consultants at SMGH at the same time (HCM/RT) and a position taken by the hospital that given its size the potential for savings may not be cost effective.

However the RT recommends this decision be revisited and the review be undertaken. This will provide benchmarking information that can be used to assist in current / future planning and decision making.

Recommendation:

- #4. The RT recommends that SMGH contract with external experts to deliver a Clinical Efficiency Review before April 30, 2009.**

4.1 Obstetric Services

During the Peer Review, the RT identified areas pertaining to the viability of the obstetrical service at Strathroy Middlesex General Hospital.

In 2005, two physicians resigned their GP/OBS privileges. These two physicians delivered 60% of the caseload which at that time was approximately 250 primary level births annually.

The number of obstetrical deliveries continues to decline. There are supply and demand factors that appear to be influencing this trend. These factors will be discussed below.

To date, the RT is not aware of adverse outcomes or sentinel events associated with the obstetrical service at the Hospital during the period under review. That being said, the RT is also concerned that the continuing decline in the volume of obstetrical deliveries at the hospital may create unnecessary and unintended risk in the future.

The following issues were identified:

1. Decline in volume of obstetrical cases.

The volume of obstetrical deliveries has been declining steadily during the last five years. The most annualized caseload was approximately 140 obstetrical deliveries. The Cesarean Section rate is about 25%, meaning that the number of vaginal deliveries per year could drop to around 100 deliveries per year. Professional societies are reluctant to commit to a specific number as a definitive standard critical mass for obstetrical deliveries performed by family physicians. However, 25 – 30 deliveries per year are a number that has been used as baseline for critical mass for a family physician in obstetrical practice.

Obstetrics is a high risk medical service. Critical mass is defined as a certain number of cases required to ensure the maintenance of skills by family physicians engaged in obstetrical practice. Given that on average there is one obstetrical delivery every three days at SMGH, maintenance of skills can also be challenging for nursing staff.

Furthermore, the catchment population is aging. While there are some young families moving to and living in the community, it is likely that the volume of obstetrical cases will continue to decline in the catchment area in absolute terms.

2. Limited number of family physicians to perform obstetrical deliveries.

It is a general trend that the number of family physicians committed to obstetrical practice is declining. There are number of reasons for this which may include lifestyle and the avoidance of risk. This trend is particularly evident in communities that have access to obstetrical services provided by obstetricians. Recruitment may be a problem in the future given that the number of obstetrical deliveries is declining and given the current lack of clinical support services for obstetrics at the Hospital.

There are currently four family physicians performing obstetrical deliveries at SMGH. There were six approximately three years ago. The number will be reduced to three through a resignation of privileges in July, 2009 and there is further concern another is considering resigning privileges, potentially leaving just two. The service is in danger of collapse due to physician supply alone.

3. Lack of support services for obstetrical care

There are currently challenges accessing epidural anesthesia at SMGH. There is no access to specialized services for neonatal resuscitation. The local pediatrician has recently stopped attending at the hospital for new born care and resuscitation.

Operative obstetrics (e.g. cesarean sections) are not provided by obstetricians. Overall, consumers of obstetrical services are selective about access to such support services in order to optimize outcomes and their personal experience with obstetrical delivery.

4. Proximity to Obstetrical Services

There is a major provider of primary, secondary and tertiary obstetrical services in nearby London, Ontario. While the vagaries of the weather may impact the length of time for the journey to London, the journey typically takes 30 minutes. It seems clear that a proportion of patients are prepared to travel this distance in order to access services in London, Ontario. Although in theory, it would be possible for obstetrical patients who travel to other communities to be repatriated, this would require regional

planning by the Local Health Integration Network. There does not appear to be any immediate plans to regionalize obstetrical services.

Based on our experience, it is the opinion of the RT that the number of obstetrical patients and possibly the number of physicians engaged in the provision of obstetrical services at the Hospital will continue to decline. It is the further opinion of the RT that Strathroy Middlesex General Hospital should phase out its obstetrical service within the next six months. This should be done prior to a sentinel event or a bad outcome which could occur and be attributed to issues pertaining to coverage for the availability of support services. The demise of the obstetrical service may be a challenge for the community to accept. If such a strategic decision is communicated in terms of safety for mother and baby, it would be a difficult position to argue against.

Cost Implications

The RT wishes to emphasize that the recommendation to close the obstetrical service is based primarily on quality management. That being said, in addition to risk avoidance, decanting the service will result in cost savings.

Decanting obstetrical services also avoids annual costs of approximately \$30,000 associated with the necessary extended obstetrics orientation at SMGH and additional training at London Health Sciences Centre, as well as medical supplies and medications of \$20,000.

Please see the cost data set out below.

Projected savings based on closing 4 Obstetrical beds

Obstetrics Related Cost Centres	Estimated Annual Costs
Salaries and Benefits	\$ 509,865
Annual Orientation	\$ 30,000
Supplies	\$ 20,000
Annualized Savings	\$ 559,865

Recommendation:

#5. The RT recommends an action plan be developed for the phasing out of obstetric services at SMGH by July 31, 2009. The RT recognizes implementation of this recommendation may impact on other Providers of obstetrics services in the region. This will require a process to facilitate the dialogue, sharing of information, and a structure to consider the integration plan. As well, there will be a need to gather information on where patients served by SMGH reside in order to determine where they could be referred if SMGH obstetric service is phased out. The RT believes its recommendation falls within the “voluntary integration” framework as defined in the Local Health System Integration Act (LHSIA) 2006, Section 27. The Act outlines the process for SMGH to undertake; the engagement of other health service providers that is required; and a structure for the SWLHIN to consider the integration plan.

4.2 Orthopaedics

The addition of a second full time orthopaedic surgeon with a joint replacement interest was a major cost driver leading to the SMGH deficit. This addition impacted costs in the operating rooms (staffing /supplies), diagnostics, physiotherapy, in-patient and out-patient services.

SMGH had been providing orthopaedic services for many years but did not perform joint replacements.

The Provincial Wait Times Strategies (WTS) became a major factor in making the decision to recruit the additional surgeon and SMGH relies on one time funding through the WTS and resources through the hospital’s global budget to support elective and trauma surgery.

It appears SMGH has been a “victim of its own success”. It is making a valuable contribution to reduced wait time in the region in a cost effective and high quality manner. The Hospital reports its output of joints per regular surgical day exceeds other community hospitals in Southwestern Ontario and SMGH a waiting list.

The RT supports SMGH continuing its objective of developing/expanding its priority in surgery, which the RT believes is within the mandate of a hospital such as SMGH. However, Senior management must ensure it applies a comprehensive cost impact analysis to any future new or expanded services and can deliver within approved budget allocations.

Recommendation:

#6. The RT recommends that extensive impact analysis be undertaken when adding or replacing specialist staff. Decisions must be made as to what programs/services will need to be reduced or terminated to cover any offsetting cost increases.

5.0 Balanced Budget 2009/2010

SMGH had projected deficits in the HAPS submission of \$2.2M in 2008/09 and \$2.6M in 2009/10.

As a result of the early implementation of cost savings measures and effective controls there has been a significant reduction in the projected 2008/09 deficit. The actual total margin deficit as at the end of December was \$628,000 and senior management have projected a year end deficit in the \$750,000 range. This estimate includes unfunded severance costs that have been made at end of December.

The annualized total savings of \$2,685,909 will result in a total change to the 2009/10 budget of \$2,418,512 as some savings are not budgeted on an annual basis (e.g. overtime, standby).

As well other issues have surfaced since the HAPS submission that were not budgeted in an estimated amount of \$300,000, including:

- Interest on line of credit

SMGH has a \$2M line of credit and is currently incurring bank overdrafts. Depending on interest rates, rate of transformation plan implementation and inflation the expense could range from \$5,000-\$25,000

- Unfunded early adaptor e-health initiatives

SMGH is exposed to the risks of unfunded operating costs related to electronic patient record early adapter initiatives. The hospital will not implement any unfunded initiatives but assumes RSS 4% increase at an estimated cost of \$32,000

- Regional Shared Service – Electronic Patient Record (RSS-EPR) equipment refresh operating lease

- The EPR equipment refresh is occurring in 2009/10 at an estimated cost of \$900,000. The RSS 2009/10 original budget did not include these costs. SMGH are assuming increased 2009/10 costs of \$40,000.

- Pharmacy unit dose initiative

This initiative will require additional pharmacy technician hours at an estimated cost of \$47,000.

- New service contract for fluoro gastric equipment

Current equipment 10+ years old with increasing down time. New maintenance contract will cost \$26,000.

- Property and liability insurance

SMGH have received an additional claim. Insurance will be tendered in July, 2009 and estimating a premium increase of 10% at a cost of \$39,000.

- Physician Recruitment Costs

There will be recruitment activity in Internal Medicine and General Surgery.

This could be offset if SMGH are able to secure London based specialists to provide the service and the ED physician group agreeing to Tier 1 recruitment funds flowing to the hospital. If not successful SMGH is estimating recruitment cost at between \$75,000 to \$150,000.

- Clinical Efficiency Review

If this RT recommendation accepted, the cost is estimated at \$35,000

The result of the above leave the following shortfall:

Identified Savings in 2009/10	2,418,512
Subsequent cost pressures	-300,000
Net	2,118,512
Original 2009/10 Budget Target	2,640,925
Current Identified Shortfall (Gap)	522,413

The above table does not reflect the savings (\$559,000) that will accrue through the phasing out of obstetric services. The RT recognizes that obstetric patients currently being served by SMGH will require services from other hospitals. However, the impact of an additional primary care delivery every 3 days will be marginal to the system.

Based on approved savings initiatives, the phasing out of obstetrics, and the SWLHIN providing one time funding for restructuring costs, the RT agrees that SMGH can achieve a balanced budget in 2009/10.

Recommendation:

#7. The RT recommends a detailed variance tracking process be established to monitor progress to plan and the results reported to the SMGH Board monthly and the Board report to the SWLHIN on quarterly basis.

The implementation of cost savings measures that are occurring this year and next will add further interest expense and cash flow challenges.

Recommendation:

#8. The RT recommends SMGH prepare a cash and working capital forecast through to March 31, 2010 that details on a monthly basis its forecasted cash position incorporating:

- 1. the phasing of generated savings**
- 2. restructuring costs**
- 3. strategies to defer/substitute cash outflows (Equipment Purchases)**

SMGH has been managing and leveraging its cash position for several months:

- Vendor and physician payments are made weekly and aged accounts payable are acceptable
- Capital purchase funded by the SMGH Foundation transfers have been deferred until latter part of fiscal year
- good working relationship with Bank
- operating line of credit of \$2 M is used for timing purposes, particularly a few days before the transfer payments on the 15th and end of month

#9. The RT recommends the SWLHIN provide the necessary assistance to SMGH with cash flow challenges that may occur as a result of the timing associated with the implementation of cost savings initiatives through the advance process or some other means.

#10. The RT recommends that Senior management develop a three year rolling operating, cash, and working capital forecast to assist the hospital in its program, capital investment and cash flow planning and that it be approved by the SMG Board.

6.0 Leadership

Leadership will be a critical success factor in SMGH achieving a stable financial position in these challenging times. The Board, Senior Management and Clinical Leaders must be committed, determined, vigilant, and take the necessary measures to meet this objective.

The RT has been extremely impressed with the action taken by the leadership to deal with the current deficit issues and the co-operation they received throughout the review process.

7.0 Summary of Recommendations

- #1. The RT recommends senior management finalize implementation of the approved cost saving initiatives to effect a net reduction in its operating deficit of \$2,685,909.
- #2. The RT recommends senior management develop a restructuring budget related to the one time costs of implementing the recovery plan, particularly those associated with staffing changes, and submit the plan and costs to the SWLHIN. At this point the estimated cost is \$400,000.
- #3. The RT recommends the SWLHIN provide additional funds to cover the one time restructuring costs.
- #4. The RT recommends that SMGH contract with external experts to deliver a Clinical Efficiency Review before April 30, 2009.
- #5. The RT recommends an action plan be developed for the phasing out of obstetric services at SMGH by July 31, 2009. The RT recognizes implementation of this recommendation may impact on other Providers of obstetrics services in the region. This will require a process to facilitate the dialogue, sharing of information, and a structure to consider the integration plan. As well, there will be a need to gather information on where patients served by SMGH reside in order to determine where they could be referred if SMGH obstetric service is phased out. The RT believes its recommendation falls within the “voluntary integration” framework as defined in the Local Health System Integration Act (LHSIA) 2006, Section 27. The Act outlines the process for SMGH to undertake; the engagement of other health service providers that is required; and a structure for the SWLHIN to consider the integration plan.
- #6. The RT recommends that extensive impact analysis be undertaken when adding or replacing specialist staff. Decisions must be made as to what programs/services will need to be reduced or terminated to cover any offsetting cost increases.

- #7. The RT recommends a detailed variance tracking process be established to monitor progress to plan and the results reported to the SMGH Board monthly and the Board report to the SWLHIN on quarterly basis.
- #8. The RT recommends SMGH prepare a cash and working capital forecast through to March 31, 2010 that details on a monthly basis its forecasted cash position incorporating:
 - i. the phasing of generated savings
 - ii. restructuring costs
 - iii. strategies to defer/substitute cash outflows (Equipment Purchases)
- #9. The RT recommends the SWLHIN provide the necessary assistance to SMGH with cash flow challenges that may occur as a result of the timing associated with the implementation of cost savings initiatives through the advance process or some other means.
- #10. The RT recommends that Senior management develop a three year rolling operating, capital, cash and working capital forecast to assist the hospital in its program, capital investment and cash flow planning and that it be approved by the SMGH Board.