Executive Limitations Monitoring Report
EL-2 Planning: Financial
Lake of the Woods District Hospital

For period ending August 31, 2017

Board policy is indicated in bold typeface throughout.

I hereby present my monitoring report on the Executive Limitations Policy "Financial Planning" according to the schedule set out. I certify that the information contained in this report is true, and represents reasonable achievement of all aspects of the policy unless specifically stated otherwise.

Signed  , CEO Date: September 1, 2017

The CEO shall not permit financial planning for any fiscal year or the remaining part of any fiscal year to deviate materially from the Board's Ends priorities, risk fiscal jeopardy, fail to show a generally accepted level of foresight, or be inconsistent with a long-range plan capable of achieving the Ends.

CEO Interpretation (*changes in italics*)

I interpret "financial planning" to mean the operating budget and capital plan of the Hospital
I interpret "deviate materially from Board's Ends priorities" to mean not to stay within the Board's Ends priorities by ensuring that planned services and expenditures are directed toward items or services which contribute toward the Board's *Organizational End of "People we serve achieve the best possible health outcomes for a justifiable use of resources".*
I interpret "risk fiscal jeopardy*"* to mean run a deficit which cannot reasonably be recovered within a time period approved by the LHIN or to cause a situation where the financial obligations cannot be met within the operating or debt guidelines as stipulated in EL-3.
I interpret "generally accepted level of foresight*"* to mean planning is based on the best information available at the time of the projection.
I interpret "long-range plan" to mean a Strategic Plan which defines specific goals and objectives that are consistent with priorities defined in the Board's Ends.

Compliance will be achieved when a balanced budget and a positive working capital position is projected, taking into account the Board's Ends priorities and the Board Quality Improvement Plan, and based on assumptions which are reasonable in accordance with the interpretations above, or if a deficit is projected, it does not exceed the amount approved by the LHIN through a balanced budget waiver, and can reasonably be expected to be recovered within a time period approved by the LHIN,

Evidence: **Compliant**

The preparation of the Hospital Annual Planning Submission (HAPS) is a requirement of the Hospital Service Accountability Agreement (H-SAA), and includes a projection of operating revenues and expenses based on a comprehensive review of all aspects of the hospital's operations, resource requirements, and projected service levels. The Hospital and the LHIN have jointly signed an interim H-SAA which extends the existing H-SAA to March 31, 2018.

As part of the planning process, information is gathered with the input of managers, departmental staff, and medical staff to formulate strategic directions. One of the five main strategic directions of the 2014-17 Strategic Plan is to "Ensure Effective Stewardship of Resources," and the budget process guides decisions regarding financial and human resource allocations to fulfill this direction as well as the other four Strategic Directions. The Strategic Plan also outlines the Board's Ends, Mission, Vision and Values and each Strategic Direction is linked to the Board Ends.

The Hospital Accountability Planning Submission (HAPS) is used in the determination of how available resources will be used to meet the Board's Ends. The underlying planning assumptions used to arrive at the

financial figures are disclosed in the HAPS documents. The Hospital Services Accountability Agreement (HSAA) also outlines Performance Obligations that the hospital must meet in order to ensure continued flow of funding. Compliance with the performance obligations is monitored throughout the year. One performance obligation is for the hospital to submit a balanced budget, and upon failing to do so, to formulate a Hospital Improvement Plan to outline how a balanced budget will be achieved within a time period approved by the LHIN.

The 2017-18 HAPS was presented to the Board at the January 5, 2017 general Board Meeting in advance of being submitted to the LHIN. Based on funding information available at the required time of submission LWDH did not submit a balanced budget for 2017-18. However, subsequent funding received from the Ministry has placed us in a position of moving toward the achievement of a balanced budget, brining the Hospital into compliance under this section . (See further details in section 2 below.)

Further, without limiting the scope of the above statement by the following list, the CEO shall not:

1. **Allow budgeting which contains too little information to enable credible projection of revenues and expenses, separation of capital and operational items, cash flow, and disclosure of planning assumptions, and any significant changes in the organization's financial position.**

CEO Interpretation: (no change from previous)
I interpret "too little information" to mean insufficient information to formulate a reasonable projection of the revenues and expenditures and/ or insufficient disclosure of the information on which the projections have been based
I interpret "credible projection of revenues and expenses" to mean a plausible financial forecast projecting anticipated revenues and anticipated expenses for the fiscal period.
I interpret "separation of capital and operational items" to mean that the capital and operating budgets will be presented separately. The capital budget is comprised of planned purchase of long term assets, ie. furniture, equipment, land, buildings, building service equipment and computer software which have a useful life greater than one year and a value of over $3,000 in accordance with hospital policy
I interpret "cash flow" to mean the timing of when funds are expected to be received and to be spent
I interpret "disclosure of planning assumptions" to mean the documentation of the information on which the planning assumptions are based
I interpret "significant change in the organization's financial position" to mean any material increase or decrease in the surplus/deficit and/or working capital position

Compliance will be achieved when:
a) the components of the budget are based on credible and timely information sources and can be verified based on supporting documentation and communication of underlying assumptions
b) capital items are supported by documentation giving rationale for purchase and evidence of how the item will affect service provision
c) disclosure of projected cash flow and working capital position reflect the underlying assumptions as stated in the HAPS
d) the HAPS identifies any new programs or material changes to existing programs or services that may impact the surplus/ deficit position within the operating statement and/or the net assets in the statement of financial position.

Evidence **Compliant**

Operating Budget
The HAPS document includes a specific schedule which discloses the underlying assumptions used to prepare the financial and statistical budgets. Expenditure forecasts are based on resources required to provide the targeted service levels as laid out in the schedules to the H-SAA. Assumptions pertaining to revenues, employee compensation, benefits, physician compensation, medical surgical supplies, drugs, and other specified expenses are all disclosed in the schedule. Details of major assumptions and significant changes to services are also disclosed in the HAPS narrative, and are communicated to the Board, hospital management, and to the Fiscal Advisory Committee through meetings with those groups. In the event that there is a major change to services other internal and external stakeholders are consulted.

Detailed supporting schedules of projected revenues and expenses are contained in the hospital's budget working paper files.

The basis for revenue projections are as follows:

- For Ministry/LHIN revenue - most up to date allocations communicated by the MOHLTC and the LHIN or best estimates based on previous year allocations and projected service volumes
- For other revenue - best estimate based on analysis of the previous year's actual revenues, known future circumstances, rate changes and projected service volumes.

The employee compensation budget is based on the FTE complement generated by the Human Resources software system. Departmental Managers are requested to review and approve the staffing component, which is based on the individual staffing schedules within each department. Each position is budgeted at the level of the current incumbent on the salary grid and is adjusted to include the known or expected salary increases as per union negotiated agreements.

Information sources used to project the annual estimate of expenditures include: the prior year's actual expenses, prior year budget, changes in staffing, adjustments in program and services levels, projected inflationary and market increases, GPO pricing projection reports, as well as occupancy and statistical data. Many of our group purchasing contracts are for an extended number of years, which strengthens our ability to project costs for supplies.

Capital Budget
Furniture, equipment, infrastructure additions and information technology exceeding a cost of $3,000, and which have a life expectancy of greater than one year are separately identified as capital items. The capital plan is updated annually. Updates to the plan are requested from mid-managers annually and priorities are determined through a consultative process. Budget prices are determined through list prices and budgetary quotes from suppliers. Documentation must be submitted for each item requested, outlining detailed information, including rationale for purchase, substantiation for prioritization, effect of the item on patient care and services, and effect on annual operating costs, The capital budget is based on the anticipated funding that can be expected to be received from our donors, (primarily the LWDH Foundation and Hospital Auxiliary).

Specific schedules in the HAPS outline projected cash flow and working capital position and reflect the assumptions as disclosed in the HAPS schedule of Operating Assumptions.

2. Allow budgeting which plans the expenditure in any fiscal year of more funds than are conservatively projected to be received in that period.

CEO Interpretation (changes in italics)

I interpret "plans the expenditure *in any fiscal year*" to mean the *forecasted expenses for the fiscal year April - March*.
I interpret "more funds than are conservatively projected to be received" to mean that the projected revenues need to be greater than the projected expenditures and that revenues should be projected based on reasonably moderate assumptions that are not excessively optimistic or pessimistic

Compliance will be achieved when a balanced budget (operating margin of 0% or greater) is presented, based on supportable underlying data and assumptions that are derived from the best information available.

Evidence **Compliant**

Based on the original funding levels indicated by MOHLTC and statistical planning projections for the 2017-18 HAPS, the Hospital initially submitted an operating deficit of $1,660,471 and was granted a balanced budget waiver by the LHIN in the amount of $1,400,471. In the ensuing months LWDH management has worked closely with the MOHLTC and the LHIN to identify measures to address the impending deficit and to produce evidence to validate our assertion that Health System Funding Reform (HSFR) has unduly reduced operating funding for LWDH and has restricted our ability to produce a balanced budget. As a result, on February 6, 2017 LWDH received a base funding enhancement of $1,400,000 which was intended to mitigate the financial challenges associated with the implementation of HSFR and ultimately to allow the hospital to balance its budget. In addition, additional base funding increases to all Ontario hospitals, and permanent and one time

increases for medium sized hospitals have provided LWDH with the necessary resources to revise our budget to project a balanced position for 2017-18. The revised projection was formulated under the assumption that LWDH will meet all of it's Quality Based Procedure target volumes for 2017-18. If this is not the case, the Hospital may still realize a deficit by the end of the fiscal year.

The "balanced budget" performance obligation is noted under Section 6.1.3, and Schedule C3 of the H-SAA. The NW LHIN has waived the balanced budget requirement under the conditions that the LWDH engage an independent third party to conduct an Operational Review in accordance with mutually agreed upon (LWDH/NW LHIN) Terms of Reference and that the Hospital assume responsibility of payment for this review. A consultant has been engaged to conduct the Operational Review which has already commenced and is expected to span approximately 5-6 months. It is expected that as a result of this operational review LWDH will develop and implement a Hospital Improvement Plan (HIP). The HIP will contain reasonable strategies associated with the recommendations of the Operational Review in order to improve and sustain services and maintain a balanced budget.

The Board has also set a target of 0% operating margin as an effectiveness initiative in the Board Quality Improvement Report. LWDH is on target to achieve this performance indicator for 2017-18.

Despite the improvement in our financial position, LWDH is still in jeopardy of falling into a deficit position if the Hospital continues to be funded under the HBAM/QBP components of Health System Funding Reform. The Hospital has met with and corresponded several times with representatives from the MOHLTC and the LHIN to review the impact of the funding methodology on LWDH and will continue to advocate for changes in the funding methodology for LWDH and other medium sized hospitals.

All of the Community and external programs which are administered by the Hospital are required to operate within their funding allocations and all have projected a balanced budget for 2017-18.

3. Allow budgeting which reduces the ratio of current assets to current liabilities below 1:1.

CEO Interpretation (*changes in italics*).

I interpret "current assets" to mean cash, short term investments, accounts receivable, inventory *and any other assets that could potentially turn over or be converted to cash within a one year period*
I interpret "current liabilities" to mean accounts payable, deferred contributions and other obligations which will generally have to be fulfilled within a period of under one year.
I interpret "ratio*"* to mean the current liquidity ratio (current assets / current liabilities) *used to examine the ability of an organization to pay off its short term obligations as they become due.*
Compliance will be achieved when an examination of the balance sheet contained in the HAPS indicates a budgeted current ratio of 1.0 or higher (ie total current liabilities do not exceed total current assets.) Note: The Hospital Report Card and MOHLTC HIT Tool define current ratio as (current assets) / (current liabities minus current deferred contributions).

Evidence: **Compliant**

As can be verified by a review of financial statements for the past several months and years, despite rapid erosion of working capital prior to the infusion of additional funding this year, the Hospital has been consistently compliant in maintaining a working capital ratio of at least 1:1. Schedule C1 of the H-SAA defines a performance standard to achieve a Current Ratio of greater than .75. LWDH has agreed to a performance target of .80 for this indicator which is below the target set for compliance with this Ends limitation. As of the date of this report we are still maintaining a working capital ratio of greater than 1:1. The working capital position is reported monthly to the Board in the VP Corporate Services Report.

Allow budgeting which fails to provide a sufficient amount for Board prerogatives during the year as is set forth in the Cost of Governance policy.

CEO Interpretation (*change in italics*)

I interpret "fails to provide a sufficient amount" to mean a budget which does not provide adequate funding for Board education, Board self-evaluation, and ownership linkages

I interpret “Board prerogatives” to mean those goals and objectives covered under policy GP-10 *(Investment in Governance)* that includes Board orientation, ongoing Board education; Board self-evaluation and external monitoring, including the financial audit and Canadian Council of Health Services Accreditation.

Compliance will be achieved when the amount that has been budgeted for Board prerogatives includes an amount consistent with the previous year’s expenditures plus amounts identified by the board as required for the following year.

Evidence **Compliant**

The Board has allocated $35,000 for 2017-18 for expenditures directly associated with the Board of Directors, including education, travel and self evaluation activities. This is a reduction of $3,000 in the amount that was provided in the previous year and is deemed sufficient given that the full $38,000 previously allocated to governance has not been expended for the past several years. The Board endeavors to utilize video and teleconferencing where possible to deliver education/information to the maximum number of Board members for a lower cost. Monthly and annual self evaluation procedures are completed locally utilizing tools that incur minimal cost. The financial audit and CCHSA accreditation costs are adequately provided for separately under the Finance and General Administration functional centres respectively. Accreditation costs are budgeted based on Accreditation Canada’s actual fee schedule. Audit services are tendered every five years, and costs are budgeted based on amounts disclosed in the proposal issued by the successful proponent.

4. Allow budgeting that fails to reserve a reasonable amount for replacement/repair of capital assets.

CEO Interpretation (no change from previous)
I interpret “fails to reserve” to mean to not set aside dollars for capital replacement and repair of existing capital equipment.
I interpret “reasonable amount” to mean an amount which covers those expenses that are a high priority for the current fiscal year.
I interpret “capital assets” to mean capital that includes land, buildings, furniture and equipment, and computer equipment/software with a value in excess of $3,000 as per Hospital policy and general industry benchmark

Compliance will be achieved when actual projected expenditures incorporate funding for all capital items that have been designated as urgent or high priority, and when a review of the financial records indicates that sufficient amounts have been budgeted for existing preventative maintenance agreements with a contingency for unforeseen equipment repairs.

Evidence: **Compliant**

The size of the capital budget depends on the projected availability of capital dollars from grants and donors. A listing of specific capital needs designated as high priority has been provided to both the LWDH Foundation and the LWDH Auxiliary who are the primary conduit for donations to the Hospital. Approved grant funding from various government initiatives such as the Hospital Infrastructure Renewal Fund (HIRF) are also taken into account during the capital budget process. If funding does not materialize capital purchases are re-evaluated and may be deferred if it is possible to do so without jeopardizing patient care.

In determining the amount to be included in the operating budget for the repair of capital assets, management reviews existing maintenance agreements, prior year repair and maintenance costs, age and condition of capital assets, recent asset acquisitions, and disposals. The Hospital utilizes software (Maintenance Connection) to track equipment service requirements and servicing records, as well as to identify equipment that has been subject to frequent malfunction or breakdown. Equipment maintenance contracts are in place for specific equipment and some equipment is maintained internally by our Plant Services or Biomedical Services. Our Biomedical Technologists continue to upgrade skills in maintaining specific equipment, and we conduct preventative maintenance to identify potential problem areas before malfunctions occur. When certain equipment items are nearing end of life or if the manufacturer has notified us that availability of parts and service will be reduced or discontinued, they are given priority for replacement. An examination of historical trends in specific departments and monitoring of our repair expenditures indicates that, barring any large unforeseen circumstances in equipment breakdown, sufficient funding has been allocated to the Plant Maintenance and Biomedical budgets to cover capital asset repairs.

We continue to be diligent and compliant with requirements regarding inspections and preventative maintenance of major plant service equipment, however as our buildings continue to age the possibility of failure of major equipment such as boilers and other major electrical and mechanical systems becomes greater. Continuing deterioration of the hospital buildings and infrastructure is also evident, and identified major structural deficiencies are becoming more much expensive to address than the annual HIRF funding and Hospital capital budget will cover. Legislative requirements regarding accessibility, code compliance and safety also are placing increasing pressure on our maintenance/infrastructure budgets. As a result, one of the major Strategic Directions of our Strategic Plan identifies the Optimization of Infrastructure with a specific effort to focus on and pursue total hospital redevelopment. We have recently been grated funding by the Ministry of Health and Long Term Care Capital Planning Branch in the amount of $2.5 million to move ahead with the initial stages of planning for a new hospital. Management and the Board have begun consultations with healthcare and community partners to move forward with the vision of an all nations healthcare system of which the new hospital will be an integral component.

5. Operate without a Fiscal Advisory Committee consistent with the requirements of the Regulations under Public the Hospitals Act, Section 965 5(1).

CEO Interpretation (no change from previous)

I interpret "Fiscal Advisory Committee" to mean a hospital committee consisting of membership as noted in the Terms of Reference of that committee.
I interpret "requirements of the Regulations under the Public Hospitals Act, Section 965 5(1) to mean that the hospital's Fiscal Advisory Committee complies with the Public Hospitals Act

Compliance will be achieved when an examination of the minute books indicates that there is an active Fiscal Advisory Committee at the Hospital and when the terms of reference and committee membership are in compliance with the Public Hospitals Act.

Evidence **Compliant**

The Hospital has a Fiscal Advisory Committee that meets on an ad hoc basis as required. Meetings held since the last EL-2 report were as follows: February 27, 2016, November 22, 2016 March 23, 2017

A review of the above section of the Public Hospitals Act confirms that the committee membership includes the individuals required by the Act.

6.1 Prevent the Fiscal Advisory Committee from making direct representation to the Board.

CEO Interpretation (no change from previous)

I interpret "direct representation to the Board" to mean the full disclosure of information is made available through the committee's presentation to the Board.

Compliance will be achieved when there is no indication from any FAC members that they have not been given the opportunity to have their concerns and/or recommendations voiced to the Board through a fair process.

Evidence **Compliant**

The committee makes recommendations to the Board through the President & CEO. Recommendations are reported in the President & CEO's monthly report to the Board or through verbal reports by the President & CEO at the monthly Board meetings. The Board has not had any requests from any other Fiscal Advisory Committee members to make a direct presentation since the last EL-2 report.