

Section 172 Statement - Year ended 31 December 2019

Cygnnet is responsible under Section 172 (1) of the Companies Act 2006 ('s172') to have relevant matters where appropriate. To the extent necessary for an understanding of the development, performance and position of the entity, an explanation of how the group board has considered the matters set out in the s172 statement below.

Principal Activities

Cygnnet is a leading UK provider of behavioural health services, focusing on delivering a diverse range of services to optimise the service user experience through its network of sites. Cygnnet provides a broad coverage of the behavioural health spectrum from Secure, PICU / Acute, Mental Health Rehabilitation and Recovery, Personality Disorder, Children and Adolescents, Eating Disorder, Learning Disabilities, Autism Spectrum Disorder, Neuropsychiatric, Older Adults, Deafness and Mental Health. Cygnnet operates across health and social care.

Cygnnet is supported by its long term strategic partner Universal Health Services Inc. ("UHS"), the leading provider of behavioural health care in the USA. UHS helps Cygnnet to focus more on investing in the delivery of high quality, value-for-money services.

Cygnnet is proud of its positive history of working alongside its commissioners to implement CQUIN schemes, which are embraced and recognised organisationally as a significant driver of innovation and service improvement. Individual CQUIN schemes are developed around areas of national best practice and are initiated by NHS England and various local commissioning groups (CCGs and Trusts), these schemes challenge providers to reflect on their current practices and encourage them to innovate and develop new ways of working.

Cygnnet has received recognition nationally by other industry leading organisations and NHS bodies, for instance, NHS England South West MH produced a case study on Cygnnet to share as best practice for achieving 100% compliance with NHS England's Child and Adolescent Mental Health Services (CAMHS) Inpatient Transition CQUIN scheme.

In addition to the above, in the year 2018 -2019 Cygnnet were involved in 12 separate CQUIN schemes that cover a range of clinical best practice areas, ranging from reducing the length of inpatient stay, implementing Recovery Colleges in secure services, improving physical Health Care of those suffering from serious mental illness, reducing restrictive practices, collaborating with primary care providers and many more.

Cygnnet remains focussed on quality and delivering clinically effective shorter lengths of stay with lower episode costs so that our customers receive better value, and service users are rehabilitated faster.

Cygnnet recognises that its most valuable asset is its staff – their health, well-being and career development is crucially important. We fundamentally want to deliver on our vision and mission of working together in a positive culture of openness, honesty and

inclusivity, which includes those who use our services. This means ensuring that everyone's voice is heard and acted upon. Therefore, we plan to look critically at all aspects of our work and develop long term outcome driven action plans for inclusion, equality and diversity. Not only will this ensure that we deliver services where no one suffers racism, prejudice or discrimination, and that everyone can access the right help they need at the right time, but also, ensure we recruit, support and retain talented people who exemplify our values and feel proud to be part of Cygnet in the delivery of person-centred care.

Business Review

Cygnet continued to invest its cash flow to fund capital expenditure to maintain its existing sites, to invest in the operational infrastructure, its IT and systems infrastructure, and to develop further capacity. During the period the business spent £42m (2018: £38m) on capital expenditure.

The business operates in a highly competitive market. Most competition is based on local catchment areas and the funding body's procurement initiatives with the NHS and Local Authorities.. Our business continues to be supported by strong relationships with customers; in 2019 Cygnet did business with 257 (2018: 228) NHS and Local Authority purchasing bodies. We are pleased to be partnering with our commissioners on working together in new innovative ways that are mutually beneficial to us both clinically and from an efficiency point of view but also in a way that puts service users first.

Our Corporate strategic priorities

Our **purpose** is to make a positive difference to the lives of the individuals we care for, their loved ones and all those who work with us.

Our **vision** is to provide high quality, sustainable specialist services that: Ensure service users and residents feel safe and supported, staff are proud of, commissioners and service users and residents select, and stakeholders trust.

Our **mission** is to work together in a positive culture of openness, honesty and inclusivity, where we deliver safe, compassionate care for our service users and staff enjoy a fulfilling, rewarding environment in which to work.

Our Strategic priorities are:

- **Be the best:** To work together to enable people to achieve their personal best by creating opportunities for them to reach their true potential.
- **Support more people:** To care for as many people as possible through the provision of specialist services in communities across the country.
- **Deliver excellence:** To be seen as a provider of choice for the delivery of high quality, evidence-based, specialist care services that are always aligned to the needs of service users, staff and policy.
- **Value our staff:** To recruit and retain talented people who exemplify our values and feel proud to work with us in the delivery of person-centred care.
- **Innovation in services:** Continuously measure our progress, identify key needs and strive to continually enhance our services and outcomes.

Corporate Governance and Clinical Delivery

Cygnet has continued to focus on striving for the highest quality corporate and clinical governance throughout everything we do. Clinical excellence and governance are the foundation of our business.

Cygnet has a range of corporate, as well as regional specialist roles and structures which support the local operational needs and delivery of our services and provide the organisation with external mechanisms to gain assurance and identify where further support is required.

We use a governance matrix approach which includes processes at a local, regional and corporate level. This structure encourages increased opportunities to improve communication and learning across the organisation from ward to board. In addition to local teams there are regional quality assurance and governance leads, regional clinical directors, regional nursing directors, regional psychology and regional Occupational Therapy support.

Our continued focus on quality and governance has seen investment in people and a more streamlined reporting structure for the governance team with Quality Assurance Managers for each region. The governance team delivers evidence and assurance of systems and processes ensuring that we have evidence of our high standards and service delivery at individual service user level and across the whole group, learning from experience as we go.

During September 2019 we commissioned an external review of our Corporate Governance arrangements in response to a period of significant growth over the past 3 years, through merger and acquisition, and in response to a Care Quality Commission (CQC) Well-Led inspection of our headquarters function in July and August 2019.

As a result we have reviewed our corporate governance structures and are implementing the following sub committees of the Board in 2020: Clinical Governance Committee, Audit and Risk Committee, Nomination and Remuneration committee. Cygnet has also appointed a Senior Independent Director, Lord Kamlesh Patel.

We continue to work with our regulators aiming to be the market leader in our sector in delivery of clinical quality. We are pleased to report 100% compliance with Commissioning for Quality and Innovation ("CQUIN") in 2018/19 in line with the relevant NHS financial year. During the year we achieved 82% Good or Outstanding CQC ratings (85% in 2018).

Our commitment to Service Users

Cygnet remains committed to ensuring that our Service Users receive the highest standards of care across each of our sites and services. Service User experience is at the heart of this, and everything we do at Cygnet, and we continue to do our utmost to involve our Service Users in shaping their services to ensure they continue to be responsive to their needs.

Our People's Council meetings are held locally at site level and provide our Service Users with a forum where they can discuss their experiences with other Service Users and local managers. The views and discussions from these meetings are anonymised and reported on through local governance structures to identify any areas that may require further focus and identify if any themes or hotspots are emerging across the business.

We also assure ourselves of our progress in this key area regularly by utilising a number of different methods to capture our Service Users views and experiences to track our progress. We conduct a number of surveys throughout the year to capture our Service User's views and use this valuable data to shape our improvement programmes across the business. Using our existing governance structures, we put this data in the hands of leaders and key members of staff across the business who are able to translate these comments into real improvements for our Service Users.

Visibility of this data is key to driving our programme of continual quality improvement across the business and disseminating results through our Ward to Board governance structures ensures that results get discussed at each level of the business and improvements are fully embedded and sustained.

Expert by Experience

Cygnnet has a full programme of Expert by Experience visits within the organisation. These are primarily to ensure our service users views are heard in the provision and development of our services. Our clinical services ensure our service users voice is at the heart of our provision of high quality services. Cygnnet has entered into a service level agreement with Choice Support who manage the contracts with Expert by Experience. This ensures there is a robust governance around experts by experience and that they are looked after and all references and DBS checks are performed on all those who we use as experts by experience.

Our commitment to operational excellence

Cygnnet's services provide individuals and their families with compassionate, quality care based on proven therapies and treatments that result in successful, long-term recovery and qualities of life that are recognised among the country's best.

We remain committed to our top priority — taking care of people. This includes a relentless focus on treating individuals with respect, operating with integrity, building trust, empowering our teams and in providing a superior quality care.

At Cygnnet, employees from all levels of the organisation constantly strive to improve our services. In support of these efforts, progress is continually measured against our goals. Our teams focus on patient satisfaction and we quantify our clinical care. These measures allow Cygnnet to benchmark, improve and report on the high-quality care provided.

Our resolute clinical and quality outcomes enable our ability to measure a broad set of evidence-based clinical and therapeutic practices that are linked to positive service user outcomes.

Our commitment to community and the environment

As a leading provider of hospital and social care services, Cygnet delivers high-quality, compassionate care to those in need. Our dedicated and talented staff treat service users and residents with dignity and respect throughout our care pathways.

Our facilities have an established history as care providers and as supporters of initiatives important to the local community. As an employer of choice, provider of high-quality health and social care services, and value-generating business partner, we are proud to contribute meaningfully to the communities we are privileged to serve.

Energy

Cygnet is actively engaged in fulfilling its commitments under the Energy Savings Opportunity Scheme (ESOS).

We aim to reduce our energy consumption and seek renewable sources as and when they come on to the market. Cygnet are currently in long term contracts with our electricity suppliers; renewables make up circa. 15% of their generation mix. As our existing electricity contracts expire our target is to exceed the UK average renewable generation mix.

Waste

Waste generation is minimised with an active commitment to reduce landfill by ensuring paper, cardboard, cans, glass, plastics, cooking oil and food is recycled.

Our commitment to our people

Cygnet has a very experienced Human Resources ('HR') department to support our people, including operational HR Business Partners, a Learning and Development team covering our mandatory and developmental training programmes, and a Resourcing team who specialise in award winning branding and campaigns, international recruitment, innovative recruitment strategies.

Cygnet has introduced a new HR strategy which includes:

- Ensuring we have the right people in the right roles;
- Having a clear and sustainable recruitment strategy;
- Providing focus on retention of our staff;
- Ensuring our staff are appropriately skilled to undertake their roles safely; and
- Having up to date and effective HR processes.

In addition to the national recruitment strategy, Cygnet has a clear international staffing strategy to recruit for skill shortages. Working alongside an external company of expert recruiters we have sourced many more sponsorship visas than have ever before been available to us so that we can attract doctors and nurses from overseas.

Cygnet has introduced a central on-boarding team to ensure a positive candidate experience and speed up the process from the candidate applying to their start date.

Our HR Business Partners carry out HR site reviews with service managers regularly. This is a full review of the employee life cycle and includes staffing, turnover, retention, employee issues including disciplinary, grievance, ill health, etc.

HR Clinics are conducted every 6 months or more frequently for sites if required. The clinics are an open forum for all staff to speak to HR in confidence about anything they may be experiencing or with queries and for HR to gauge staff morale and take positive action and work with local management on action plans if required.

Cygnet undertakes Mental Health First Aider training. To date Cygnet has around 70 Mental Health First Aiders in Cygnet to ensure that not only the individuals in our care receive mental health support but also our colleagues.

Cygnet has further expanded its apprenticeships programmes including Trainee Nurse Associate and Leadership and Management. In 2019 we had 295 staff on apprenticeships. Cygnet also regularly reviews its induction processes.

In 2019 Cygnet put together an inclusion and diversity working party including a wide range of people across the business. Cygnet conducted a staff survey into issues and also created an information and support area on the intranet.

Cygnet continues to review our benefits packages and have introduced a number of new features recently. Cygnet benchmarks its approach to pay and reward annually, both across the sector and geographically. We also continue to report on gender pay gap, comparing men and women's average pay across the organisation.

In order to obtain staff feedback an annual staff survey is carried out. Cygnet's staff engagement score for 2019 was 70% (2018: 65%). The 2019 survey showed the following:

- 70% (2018: 63%) of staff recommend Cygnet as a great place to work;
- 93% (2018: 94%) of Cygnet staff understand Cygnet's values;
- 8 out of 10 (2018: 8 out of 10) people feel supported by their managers;
- 7 out of 10 (2018: 7 out of 10) people would be happy for their relatives to be supported by Cygnet; and
- 82% (2018: 77%) of people think Cygnet's top priority is the care of service users.

Cygnet is very proud to have a first class team of management and staff in our organisation who combine a unique set of skills to drive our business forward. It is the expertise of our people and the culture of passion and commitment that enables us to do such a fantastic job of caring for our service users and improving their lives day by day. We believe in our core values of Care, Respect, Empower, Trust and Integrity.

We would like to take this opportunity to thank all of our staff for their dedication to the business and service users.

People with disabilities

It is the Group's policy to give fair consideration to the employment needs of people with disabilities and to comply with current legislation with regard to their employment. Wherever practical, we continue to employ and promote the careers of existing employees who become disabled and to consider employment for people with disabilities, subsequent training, career development and promotion on the basis of their aptitudes and abilities.

Key Performance Indicators ('KPIs')

Cygnnet uses a range of financial and non-financial indicators to measure and monitor its progress.

Financial

These include EBITDA, which reflects the earnings before interest and tax, depreciation and amortisation. Adjusted margins are also considered and reflect the causes for changes in EBITDA, such as changes in occupancy rates.

Management consider other KPIs including occupancy, average daily fees, EBITDA margin and agency hours, these are considered commercially sensitive and therefore specific examples are not included in this report.

Non-financial

We use a variety of Quality KPIs to ascertain our performance and compliance with standards.

A monthly Quality Dashboard by region is produced which summarises performance by unit, this includes published Regulatory Ratings as well as the Internal Quality Assurance Manager Rating of the service. The Dashboard includes Audit Submissions as well as identifying underperforming audit compliance ratings, Resuscitation Simulations, surveys and results of Medication Audits.

This year we have developed a sophisticated Incident Management System, which links into our other electronic systems and enables real time reporting and the early identification of risks and key themes and trends, this will be rolled out across the business by April 2020.

We have worked with Experts by Experience to further improve our process to manage and learn from Comments, Complaints and Compliments this includes a new Complaints Procedure and information in accessible formats. We have appointed a new Group Quality Standards Leads and will be rolling out the new Complaints Dashboard in 2020.

Staffing KPIs include: Recruitment of staff, Retention of staff, Training compliance.

Future prospects

Cygnet's strategy is to continue to consolidate the business, to focus on quality and to grow and develop the business through:

- Putting services users and residents at the centre of everything we do;
- Looking after our staff;
- Maintaining and improving CQC ratings and CQUINS;
- Integration of policies and procedures;
- Furthering geographical coverage;
- Development and broadening of current service lines;
- Extension of service lines and care pathways;
- Reacting to the changing dynamics of our market and customers, in particular the NHS; and
- Providing an environment and culture which promotes excellence in what we do and a fulfilling place for staff to pursue their careers.

Key risks and uncertainties

The Group faces many risks and uncertainties from external factors. The following are the most significant risk and uncertain facing the Group:

COVID-19

At Cygnet as the effects of COVID-19 are becoming clear our focus continues to be keeping those in our care. We have very dedicated teams who are closely tracking the situation. Our teams meet every day, from Ward to Board, to help ensure business continuity and adaptation to the evolving situation.

Even more than ever, we are reliant on our complement of dedicated staff and it is vital that our staff are as protected and as safe as possible.

Cygnet is informed of government guidance and able to respond to the guidance as it changes. Our priority is to make sure we can provide safe continued care. We are working closely with our business partner, the NHS.

Loss of funding

Cygnet relies on publicly funded entities in the UK such as the NHS, Clinical Commissioning Groups (CCGs) and Local Authorities for substantially all of its revenues and the loss or reduction of such funding, or changes in procurement methods, could negatively impact the Company's occupancy rates which could have corresponding material adverse effects.

Competition

Cygnet monitors competition closely to ensure that it remains competitive in the market place. Cygnet manages the risk associated with demand fluctuations by

offering diversified services and monitoring demand, converting unused capacity to alternative services when appropriate. Cygnet monitors prices charged both internally and externally to ensure that its services are appropriately priced to compete and provide value for customers.

Brexit

Cygnet is monitoring closely the legal and political developments in the process towards Brexit as a result of the 2016 referendum. We have established a Brexit working group which reports to our Executive Team.

We have undertaken planning to prepare the Group for trading post transition period. We take business continuity very seriously and our priority is to mitigate the risks to continuity and safety of patient care, alongside critical issues related to other stakeholders be they employees, customers or consultants.

Although the Withdrawal Agreement was signed 24th January 2020, the absence of an agreed and binding post-transition trade arrangement with the EU, means that a no-deal Brexit remains a principal risk for Cygnet. Cygnet has considered the impact in a number of areas including:

- **Suppliers**
 - Cygnet buys from UK suppliers but the source of their products can be from or via the EU.
- **Employees**
 - Whilst a relatively small portion of our employees are EU citizens we are keeping a watching brief over this area and continue to strive to recruit the highest calibre of candidates.
- **Increased Costs**
 - It is reasonable to anticipate that EU imports could be subject to customs charges and tariffs. We do not yet know what duties will be levied so cannot quantify the impact.
- **Mitigation**
 - We have been working closely with our key suppliers over recent months to understand their Brexit plans.

We have also been undertaking detailed contingency planning for some time to mitigate the impact of a no-deal Brexit in accordance with Government guidance.

We believe we are taking the reasonable steps to ensure that disruption to our patients and other stakeholders is minimised. However, given the uncertainties around the impact of a no-deal Brexit, we cannot rule out some disruption to the business as there may be some circumstances outside of our reasonable control.

Reputational risk

Reputational risk is the risk arising from adverse publicity. Cygnet believes this is only likely to occur in relation to poor customer and/or service user care and has multi-

layered systems to help prevent the risk occurring and manage any challenges arising.

Regulatory risk

Regulatory risk is the risk arising from adverse regulatory inspections, or employees failing to adhere to Cygnet's policies and procedures. All themes and trends arising from CQC inspection reports are disseminated and action planning for improvements is shared across the group for learning purposes and to confirm Board Assurance. Health and Safety regulations are reviewed and internal policies, procedures and training updated in line with those regulations.

The Group engages in clinical audit, internal audit of systems, controls and continuous monitoring of performance of employees and customer and service user satisfaction.

Cygnet has an external whistleblowing phone line to ensure that any concerns felt by staff can be assured of a full hearing and action as a consequence this is in addition to having a Freedom to Speak Up Guardian (FTSU).