

Section 172 Statement - Year ended 31 December 2020

Under Section 172 (1) of the Companies Act 2006 ('s172'), the Board of Directors are required to have regard to the relevant matters set out in S172 (1) (a) to (f). The Board of Directors of Cygnet consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2020.

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 is set out in the s172 statement below.

Principal Activities

Cygnet 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. Cygnet 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. Cygnet operates across health and social care. During 2020, Cygnet has further developed its specialist services and supported living portfolios, in addition to opening new services working collaboratively with our customers to meet their changing needs.

Cygnet 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 Cygnet to focus more on investing in the delivery of high quality, value-for-money services.

Cygnet are proud of their positive history of working alongside its commissioners to implement the Commissioning for Quality and Innovation ("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.

Cygnet has received recognition nationally by other industry leading organisations and NHS bodies, for instance, NHS England South West MH produced a case study on Cygnet 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 the year 2019 - 2020 Cygnet were involved in 3 separate NHS England (NHSE) CQUIN schemes that covered a range of clinical best practice areas, including Healthy Weight Management in adult secure services, implementing staff training in Child and Adolescent Mental Health Services (CAMHS) and implementing the nationally

recognised Sunburst Deaf Communication Assessment tool across all its adult deaf services. Cygnet was involved in 4 local CCG / Trust CQUIN Schemes across 6 customer contracts.

These CQUIN schemes cover a variety of Cygnet services including rehab, PICU and Acute services. These schemes were based on the following areas; staff flu vaccinations, preventing ill health through risky behaviour (alcohol and tobacco), staff training for sepsis and safeguarding training and protocols. Additionally, Cygnet's specialist residential services have engaged in CQUIN schemes with their local CCG / Host Local Authority commissioners.

Cygnet 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.

Cygnet 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 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 £28.5m (2019: £42.2m) on capital expenditure.

The business operates in a highly competitive market. Most competition is based on regional catchment areas and the funding body's procurement initiatives with the NHS and Local Authorities usually being the dominant provider. Our business continues to be supported by strong relationships with customers; in 2020 Cygnet did business with 357 (2019: 426) NHS and Local Authority purchasing bodies. The 2020 NHS numbers have reduced due to some consolidation within NHS purchasing bodies. We are pleased to be partnering with our commissioners on working together in new innovative and strategic 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 **values** are to care for our service users, staff and visitors, to respect them, to ensure a bond of trust is built among us, to at all times empower those we look after as well as our staff, to deliver quality services with integrity.

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 and engage more people:** To collect, value and harness the opinion and suggestions of our service users, the public, staff, visitors and external partners, with a view to always enhancing service quality.
- **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

Cygnnet is committed to providing high quality care through a robust governance framework that is transparent, accountable and inclusive. Clinical excellence and governance are the foundation of our business. Cygnnet apply the broad principles of UK corporate governance best practice, drawing on the UK Corporate Governance Code and comply with the Wates principles.

Locally each service has its own local risk register and governance arrangements that feed up into regional and corporate framework to ensure transparency and provide a clear line of sight from Board to ward/service and vice versa.

Services are organised into either our Health Care or Social Care directorates. Within these directorates, services are clustered into geographical regions which are overseen by Operations Directors and supported by Regional Clinical Directors, Quality Assurance Managers, Regional Nurse Directors, Regional Psychology and Regional Occupational Therapy support.

The services within our Social Care directorate are overseen by a Managing Director who reports to the Chief Operating Officer. Due to the size of our Health Care directorate, we have two Managing Directors who cover North and South, both of whom report to the Chief Operating Officer.

Our central service functions provide support to our operational and clinical colleagues and provide the organisation with external mechanisms to gain assurance and identify where further support is required. This includes a weekly virtual meeting of the Senior Management team. People's Councils remain a key feature of our governance framework to ensure the voice of the people who use our services is heard.

Our regional, and through them local structures, report into 4 new Executive quarterly meetings that enable us to hear and respond to issues directly and work more collaboratively across our teams. They are:

- Group Clinical Governance Meeting;
- Operational and Commercial Meeting;
- Quality, Risk and Safety Meeting; and
- Finance Meeting.

These four Executive quarterly meetings report to the Cygnet Executive Management Board (EMB) which is chaired by the CEO, which in turn report to the Board Committees. They are:

- Clinical Governance Committee;
- Remuneration, Nomination and Leadership Committee;
- Audit and Risk Committee; and
- Quality Safety and Improvement Committee.

Cygnet has a newly established Advisory Board, with members having senior experience and expertise to support the Board's Committees. Advisory Board Members are independent and hold non-executive positions, this is chaired by Cygnet's Senior Independent Director, Professor Lord Patel OBE, and attended by Mark Stephens CBE, Stephen Firn OBE and Dame Clare Gerada MBE.

The Cygnet Advisory Board members are the Chairs on each of the Non-Executive Board sub Committees. Feedback from each of those committees is fed up through to the Main Board by the Senior Independent Director.

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 2019/20 in line with the relevant NHS financial year. During the year we achieved 79% Good or Outstanding CQC ratings (78% in 2019).

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 persistent focus on treating individuals with respect, operating with integrity, building trust, empowering our teams and in providing a superior quality care.

Our operations team work closely with HR, Clinical and Estates teams to ensure fluid communication and collaboration occurs between departments to deliver the best quality care to our service users.

Using our existing governance structures, we put data in the hands of leaders and key members of staff across the business who are able to communicate real improvements for our service users.

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 Cygnet 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

In 2020 the Group made major steps towards reducing our environmental impact:

- We procured 100% REGO-certified electricity for over 150 meters and all meters being added to the portfolio will follow suit. This will mean Cygnet should be able to meet the goal of using 100% Renewable electricity in 2021;
- All new builds or fit-outs are completed to high environmental standards including LED lighting, high-efficiency boilers, full insulation and double glazing;
- All light fittings in existing sites are replaced with suitable LED units where possible when they reach end of life;
- All boilers replaced with high efficiency condensing boilers when they reach end of life;
- With a large fleet we have undertaken a study on the impact of procuring suitable Electric Vehicles and are looking to further develop this in 2021; and
- The results of the 2019 ESOS report were carefully considered and acted upon appropriately to reduce energy usage at several of the larger and older sites in the group.

Covid-19 had a major impact on all elements of Cygnet businesses, so the focus of 2020 has been on delivering Covid-safe services successfully. As we move into a post-Covid world Cygnet will continue to further advance our Environmental goals to play our part in the UK Government's Road to Net Zero.

Waste

2020 and the Covid-19 pandemic saw an increase in the PPE utilised at our services leading to an increase in clinical waste. However Cygnet have actively worked to reduce landfill by switching general waste bins for recycling containers. The result has been a 5% drop in landfill waste since January 2020, and a 2% increase in recycling for the same period.

In addition, Cygnet have actively promoted cooking oil recycling, recycling 6,000 litres of cooking oil in to bio-diesel.

Our long term goal is to promote recycling within our sites, and reduce our requirement for landfill where possible.

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, and 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;
- Having up to date and effective HR processes;
- Having a clear international recruitment strategy; and
- Implementing a central on-boarding team.

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.

During 2020 TRiM (Trauma Risk Management) and StRaW (Sustaining Resilience at Work) peer support networks were added to the wellbeing and resilience initiatives.

Cygnet has further expanded its apprenticeships programmes including Trainee Nurse Associate and Leadership and Management. In 2020 we had 359 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.

During 2020 a separate BAME (Multicultural) network was created to play an instrumental role in providing a credible and unified voice for BAME staff. This will help shape relevant strategies and policies based on the shared unique experiences of BAME staff and identify and provide the necessary support.

Cygnet continues to review our benefits packages and have introduced a number of new features recently and bolstered others. 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 average positive score for 2020 was 68.3. The 2020 survey showed the following:

- 62% of colleagues completed the survey;
- 82% of people think Cygnet's top priority is the care of service users;
- 85% of people enjoy working for Cygnet;
- 8 out of 10 people feel supported and valued by their manager; and
- 92% of staff feel confident in knowing how to report concerns.

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')

Cygnet 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.

Other financial and related KPI's include occupancy and revenue levels, debtor days, customer satisfaction e.g. CQUIN, and levels of agency.

Non-financial

We use a variety of Quality KPI's 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.

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 was rolled out across the business in 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 Lead and rolled out a new Complaints Dashboard in 2020.

Staffing KPI's include: Recruitment of staff, Retention of staff, Training compliance.

Future prospects

Cygnets' strategy is to continue to consolidate the business, to focus on sustainability of quality, embedding best practice, implementing quality systems, governance process and policies across the business to ensure the delivery of the best care in the industry:

- putting service users and residents at the centre of everything we do;
- looking after our staff;
- improving CQC ratings and CQUINS;
- integration of policies and procedures;
- furthering geographical coverage;
- developing and broadening of current service lines;
- extending service lines and care pathways;
- reacting to the changing dynamics of our market and customers, in particular developing strategic partnerships with 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 will face many risks and uncertainties from external factors. The following are the most significant risks and uncertainties facing the Group:

COVID-19

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

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.

Cygnet continues to place significant emphasis on supporting the workforce, patients and residents of services to become protected through acceptance of the Covid vaccination. To date we have approximately 5,500 staff who have received their first vaccination.

In addition to vaccination we continue to focus on surveillance of the workforce and users of services through regular testing in accordance with national guidance. This includes providing all staff with access to LFD and where appropriate PCR testing. In addition we provide PCR testing to all patients / residents in accordance with national guidance.

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

The United Kingdom left the European Union on 1st January 2021. The Trade and Cooperation Agreement ensures tariff free movement of goods between the European Union and the United Kingdom.

Cygnets have worked closely with key supply partners to ensure continuity of supply of essential products and stored additional inventory of any high risk items that support business continuity. So far in 2021 this strategy has ensured all such items have remained readily available.

Free movement of people between the European Union and the United Kingdom ceased on 1st January 2021. Whilst a very small proportion of Cygnets' workforce are from the European Union, a potential consequence of the restrictions on free movement could be a tightening of the labour market. Changes in the hospitality sector have deferred the influence of Brexit on the labour supply.

Whilst Cygnets remain cautiously optimistic of the UK's post Brexit future and its impact on our goods and labour supply chains, we will retain a watching brief.

Reputational risk

Reputational risk is the risk arising from adverse publicity. Cygnets 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 Cygnets' 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.

Cygnets 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).