The road to recovery

Lessons learnt from working with NHS leadership teams addressing financial challenges
The NHS is facing unprecedented financial difficulty. And it isn’t just limited to a few failing trusts; it’s becoming endemic across the system. Pressures are growing and performance is deteriorating.

The NHS needs a long-term sustainable funding settlement to allow it to navigate the real challenges it faces – and to seize the opportunities that new medical breakthroughs, new technologies and new knowledge bring. A major programme of reform is needed too. The elements of what will make the NHS sustainable are becoming clear: population-based, outcome-focused, integrated organisations working to empower patients and communities.

Helping local organisations to help themselves

None of this is easy, of course. It’s going to take strong leadership at a national level. But there’s a lot that local NHS organisations and systems can do to help themselves.

At PwC, we’ve worked with a significant number of NHS organisations to help them get their finances in order. We have nothing but respect and admiration for NHS management, and we see ourselves as a partner who can complement their skills.

This report outlines some of the themes we’ve spotted in our work with the NHS over the recent years. By sharing them, we hope we can help our NHS partners avoid common problems which can lead to financial difficulties.

Every situation is different, but these problems include: not having the right leadership in place; not knowing or understanding the underlying causes of financial difficulties; losing control of discretionary spending; a lack of planning for sustainable change; and ineffective communication with staff about what they need to do to change.

Paving the way for a transformation

We recognise that local organisations aren’t always fully in control of their own destiny. In our view, the current focus on moving from institutions to systems is the right one: many of the big inefficiencies in the NHS arise because processes across institutions aren’t as effective as they could be.

But this report suggests that NHS institutions can do more to ensure they have the processes and systems in place to avoid financial trouble. Financial control is the vital first step to making the NHS – and its local systems – sustainable. It is the platform upon which long-term transformative change can be built.

I hope the report is useful for all those in the NHS who are looking to make that journey from turnaround to transformation.
How much time have you got?

If you’ve got 45 minutes, you can read the whole report.

If you only have five minutes, you can get the key messages from the espresso summaries at the end of each section.
The NHS is an institution we should all be proud of.

Day in, day out, 1.7 million staff provide world-leading care to a fast-growing population with ever more complex challenges and higher expectations.

But the NHS delivers its services with a budget 0.4% of GDP less than our European peers. For those working in the sector, the challenges of delivering services within budget are real. And they’re not going to go away: with the NHS looking at a £30bn funding gap by 2021.

The PwC health team in the UK are working alongside the NHS every day. We help them spot opportunities to improve how they deliver their services and we give increasingly stretched management teams and their staff additional capability and capacity to help make change happen. At any one time we have teams working across the country, helping them overcome all kinds of stress and distress more times than not as a result of some form of financial challenge.

This report sets out what our teams on the ground have learnt from working with NHS leadership teams and staff. In particular it describes what we have learnt and observed from working with the most troubled organisations in the sector, those in real crisis. With the extent of financial challenge these lessons, whilst basic, are relevant to everyone: providers, CCGs and now newly forming STPs as a means of either avoiding further decline in performance or as a way to improve.

Our report should be useful to anyone seeking to address or avoid a financial challenge. With the average deficit per NHS provider and CCG now growing, it should resonate with all leaders and frontline staff alike. And our recommendations are intuitive enough for any NHS organisation to put in place. We hope you find it useful.

“We while the deficit incurred by the provider sector in 2015/16 maybe offset by under spend elsewhere across the NHS, the legacy of this deficit will dominate the new financial year... Despite the financial rescue package, finance directors remain very pessimistic about the financial position for 2016/17.”

Quarterly Monitoring Report 19, The King’s Fund, May 2016

We want to hear from you

We hope you find this document useful. We would very much like to hear your thoughts if you have views and experiences to contribute to this issue.

Please email us at: newhealth@uk.pwc.com
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The challenges

The NHS is facing unprecedented financial stress. And the challenges leadership teams are having to deal with keep getting bigger. There are multiple reasons for these both national and local, many of which are linked and include:

National factors

- **Restricted funding.** The UK spends 8.5% of its GDP on healthcare, 0.4% below the OECD average and significantly below other developed countries like Switzerland and the Netherlands.
- **An increasing and possible imbalance in the relationship between discretionary spend/cost of care and quality of care.** For example, after high-profile failures (Mid Staffordshire Hospital, for example). This has had a significant impact on the cost of care and shifted the focus away from balancing the books.
- **The way the NHS is configured.** Because it’s broken into silos, there’s often a lot of duplication.

Local factors

- **Leadership capability and capacity.** There’s a high turnover of senior roles and organisations aren’t nurturing their talent pipelines effectively enough.
- **Social care provision is also under pressure, impacting on transfers of care.**
- **A lack of clear regional strategy yet to emerge.**
- **The early stage of development of most STPs.**

Steps for positive changes

We believe the current strategy of healthcare moving towards being delivered through the systems including the STP footprints rather than single institutions to be the right direction of travel. On this journey to new delivery models and when focussing on addressing short to medium term financial stress and distress we have noticed a number of things that NHS leadership teams have done to either address or avoid financial challenges. The list is by no means exhaustive but in our view it represents steps organisations take to enable positive change:

- Get the right leadership in place. Strong organisations recognise they need people with the capability, time and commitment to lead and deliver financial recovery programmes, while also improving operational performance and quality of care.
- Find the underlying causes that support the financial challenges they are facing, share these widely and gain buy in to these factors before acting on them.
- Make sure they have discretionary spending under control, gripping the organisation tightly.
- Build a credible and easy recovery plan that acts quickly to stop the situation getting worse and improves things in the short and medium term whilst also understanding what needs to happen to make the change sustainable in the long term.
- Communicate clearly to staff about what they need to do to change things.

The scale of the challenge

- 67% of all providers ended FY 15-16 in deficit
- 84% of trust finance directors reported their forecast position for FY16-17 would depend on significant financial support
- 20% of CCGs expect to overspend in FY16-17
- 38% of finance directors are concerned about meeting their savings plan this year – the most pessimistic since the Quarterly Monitor report began
- 95% When asked their views about the financial state of their wider local health and care economy over the next 12 months, 95% of trust finance directors feel fairly pessimistic or very pessimistic

**The leadership challenge**

Strong, visible leadership underpins the success of most high performing organisations across all industries. Sadly, within the NHS, leadership is becoming a thankless task.

The stats speak for themselves. There’s a high turnover of CEOs and accountable officers. And the challenges Boards and leadership teams face are so significant that CEO and FD posts are becoming increasingly difficult to fill: nearly all NHS organisations have at least one executive level vacancy or interim executive board member.

Addressing financial challenges is a real test for NHS leaders. Despite these challenges and possibly because of them we have seen some excellent leadership stories, here are some of the lessons we have learnt:

**Spotting and addressing leadership gaps**

Whether a leader is new to the organisation or facing up to a new challenge, the first thing they should look at is leadership capability and capacity. Their diagnosis doesn’t need to be based on complex analysis. But objectivity is important, and often a fresh pair of eyes will help bring missed or hidden challenges to the surface.

Important questions to consider:

- Do leaders feel qualified to do what they’re being asked to do?
- Do they fully understand what’s expected of them?
- Do they have enough time alongside existing roles to focus on cost reduction efforts?
- Do they have the teams around them with the right capability and capacity to deliver what is expected of them?

It’s crucial to then communicate these findings and put together an action plan on the back of them.

Leaders can (and often do) do this appraisal at any time. If they’re tackling a significant financial challenge, it’s even more important.

**Making the most of NEDs in change programmes**

In our experience, organisations often don’t understand the role of NEDs well enough, or the benefit they can have in periods of difficulty. They typically bring a diverse set of skills and experience and peer review ability, which organisations don’t make the most of.

We have however seen some excellent examples of NEDs supporting financial improvement programmes and in our view it’s important to use the skills of the NEDs in change programmes. In recovery programmes, NEDs can give leaders extra support and help challenge their thinking, which makes the programme more likely to succeed.

To make the most of their NEDs, the following things might be considered:

- Regular capacity planning for NED time. This will make sure they’re sharing their responsibilities appropriately and that they have enough time to get involved in improving finances.
- Nominating a NED to each large cost improvement scheme to oversee, support and challenge exec leads.
- Having a NED at weekly change or programme boards to provide scrutiny to programme progress.

“As a CEO – newly arrived or facing a new challenge – I have only ever been as good as my senior team – clinical and executive. For me, the quality and effectiveness of that team hinges on ‘Four Cs’ – capability, capacity, commitment and clinical engagement – with each being equally important. If the ‘mind set’ is wrong, the team cannot lead and if the doctors don’t back you, your impact will only be superficial and temporary.

On occasion I have found the top team wanting in terms of capability, with a need to purge one or two individuals. More commonly it lacks capacity – which then needs bolstering rapidly –, commitment and most often, it has failed to engage clinicians. Hatchets and ‘slash and burn’ don’t work. What does work is careful observation and listening to the team themselves and to the staff and stakeholders about your team. Above all, though, the key is articulating an ambition for the trust and telling stories to clinical staff which link quality and money, showing that trusts which deliver great care are also the most efficient and offer best value for money.”

*Peter Reading*
Former trust Chief Executive
**Getting a consistent message around financial recovery**

Clear leadership is critical at times of change. Leaders must agree on what they want to achieve, and what they do and say. If they don’t, it’s almost impossible for the wider organisation to get the message, especially when cost reduction is the main aim of change. We have seen some great examples of strong, honest messaging from NHS leadership teams. The following represent lessons learnt:

- Take time out as a team (including senior and non-executives, clinical, operational and financial leaders) to agree a clear set of intentions around financial improvement, what the organisation needs to do, and who’s going to do it.
- Agree a set of priorities and objectives that strike the correct balance between importance and urgency.
- Meet regularly, both formally (programme boards, governance committees, etc.) and informally (CEO forums, exec teams, board away days, etc.), to overcome challenges as they come up and build trust.
- Evaluate success regularly and act on the findings so they can change their approach if they need to.

**Strengthening your support functions**

Support functions can be engine rooms of change. But in NHS providers and CCGs, finance, IT and HR teams suffer from high staff turnover, with vacancies often left unfilled. This makes it difficult for these teams to support the change programme alongside their day to day responsibilities.

It’s important to assess each of these functions to spot gaps and strengthen them. We’ve seen some excellent examples of support functions being turned around. Evaluate success regularly and act on the findings so they can change their approach if they need to.

"As a CEO you are only as good as your senior team and therefore understanding the environment you are working within, which ultimately determines your team leadership requirements, is essential. Taking time to understand the team you are inheriting and the team dynamics is critical to identify any gaps in capacity and skill sets. It is being clear with the team your objectives, vision and expectations as often individuals self-select whether they wish to contribute to be part of your leadership team going forward. However, it is important to support staff during this decision making process. In attracting senior leaders to the organisation you have to create a competing, inspirational and exciting vision to attract the leadership you want, in order to create the culture that facilitates success.

In order to address the future sustainability of the trust a ‘burning platform’ created an opportunity for a new vision for the future (an Integrated Care Model) which could be endorsed by local stakeholders and the trusts and then Monitor. Strong system leadership during this phase was essential as there was considerable uncertainty and from a historical perspective a lack of trust between the organisation and the health economy. Demonstrating a united approach and keeping to the principles of collaboration ensured the work came to a positive conclusion which all stakeholders could endorse. System leadership is much more difficult than being a system leader within your own organisation.”

Karen James
Chief Executive
Tameside Hospital NHS Foundation Trust
“Having led on the development and delivery of a number of recovery plans my most important lesson has been to engage clinical leadership from the outset. Our clinical leaders are the driving force of our services and often have the innovative solutions thought through. Being able to support those leaders with the right capacity, tools and motivations to implement those solutions is the single biggest determinant of success. Too often, turnaround programmes use financial rigour and discipline as their cornerstone – these alone are unlikely to drive the improvements needed. Looking at delivering efficiencies through the lense of quality, safety and experience improvements most often yields the best results and is a much more positive platform for engagement.”

Aaron Cummins  
Deputy Chief Executive  
University Hospitals of Morecambe Bay  
NHS Foundation Trust
The road to recovery

Nurturing future leadership talent

Tackling financial challenges calls for decisive action from today’s leaders. But to sustain that change for years to come, organisations need continuity of leadership. In the absence of regional high potential and leadership development training, which have all but vanished, it’s important for individual NHS organisations to spot and nurture their talent.

Financial improvement programmes are a great opportunity to spot and nurture talent.

The good news is that, even though financial improvement programmes can be intense, it does bring out the best in high performers and future leaders – and make them easier to spot.

Case study

The HR function in a large NHS trust was struggling with its culture and the behaviour of its staff. Absence levels were high, and staff were transactional, rather than focused on actively managing the workforce.

The CEO instigated an improvement programme to turn the function around. The trust assigned a NED and buddy exec to support the acting HR director and put together an action plan. Over six months, the HR department was supported by a NED with relevant experience, bolstered with new HR trained staff and supported by the finance team with dedicated HR finance capacity.

As a result, attrition levels came down and the perception of the HR department improved dramatically.

Espresso summary

Spot leadership capacity, capability and commitment gaps and address them quickly.

Get NEDs involved in financial recovery: their scrutiny, peer review, rigour and expertise are important.

Make sure leadership teams have a consistent message around financial recovery and communicate it clearly.

Invest in and value support functions.

Use financial recovery as an opportunity to nurture future talent.
Understanding the causes of your financial challenge

In our experience, the acute providers in the strongest position to effect change are those who not only know how big their deficit is but also what drives it. They can build a credible financial recovery plan that combines short and longer term improvements, and they have a clearer idea of who should own it.

Understanding the causes of your deficit

Here’s how, in four steps:

**Step 1**  
Understand your current financial position  
Agree on the size of the [forecast] deficit and make sure everyone understands the forecast challenges.

**Step 2**  
Develop an initial view on the likely causes of your deficit  
Assess all the causes (quantitative and qualitative) of the deficit, engaging a wide cross section of staff to make sure you’re taking everyone’s views into account.

**Step 3**  
Assess the value of each cause  
Do a detailed assessment to work out the financial value of each of the causes. Application for authorisation.

**Step 4**  
Decide who’s responsible for addressing each cause  
Decide whether the solution is within or outside of the trust’s immediate control. Build the findings from this review into organisational and system wide recovery plans.

“In my experience, it is vital for finance to work closely with operational teams to develop a detailed understanding of the financial challenges facing the organisation. With growing pressures on service budgets establishing a clear narrative on the size of the financial challenge, and establishing the main causes whether structural, operational, quality driven or related to inefficiency is of the utmost importance.”

Jane Payling  
Head of Health & Integration, CIPFA
The diagram below shows potential areas of expenditure that might contribute to deficits.

**Local health economy**
- Market share
- Delayed transfer of care

**Trust deficit**

**Internal factors**
- PbR
- Non PbR
- Cost
- Estates and facilities
- Stranded building costs

**Income**
- Clinical coding
- High cost drugs
- Best practice tariff
- Clinical case mix

**Workforce**
- Shape
- Size

**Resource consumption**
- Theatres
- Outpatients
- Length of stay

**Resource consumption**
- Resource consumption

**Cost**
Creating a targeted financial recovery plan

Understanding the causes of your deficit means you can create a targeted recovery plan both within your organisation and across the wider health system. Whilst underlying causes of financial challenge will vary by organisation, below we’ve shown how a number of possible causes are divided up, between those that are within the control of the trust and those that either sit outside their control or are controlled by other stakeholders.

In our experience, targeted financial recovery plans are far more likely to succeed if they’re aimed at reducing the individual elements of a deficit rather than the whole thing.

Communicating the true deficit position

It’s crucial to communicate how much financial risk there is in your organisation and what the opportunities are to address it, so people will get behind the need to change.

It’s important to communicate in a way people can understand, as this case study shows.

Case study

In this large multi-site District General Hospital (DGH) a significant deficit emerged quickly. The Trust came under significant scrutiny from their regulator and were unable to provide a clear enough narrative around how their issues had emerged. Likewise the local CCGs were not fully engaged with the steps required to address the long term viability of the Trust or the responsibilities of the health economy.

Once the Trust established the underlying drivers of their financial challenge the complexity of the issues became clearer and included: the multi-site nature of the Trust and the fact that tariff failed to reimburse adequately, the geography and demography the Trust served which meant elements of their staffing model were higher than average. There was also a clear inefficiency value (c. 1/2 of the overall deficit value) and a significant amount of activity being delivered out of area, eroding their captive markets.

The Trust spent considerable time communicating the findings of this review and has built a thorough recovery programme that tackles the short to medium term inefficiency identified in the review.
“Having established the facts into a narrative summary, communication of the messages clearly and simply is key. In my experience clinicians, operational teams and external stakeholders welcome increased exposure to the financial realities and the debate that such information generates is crucial to ensuring real changes will be made.”

Jane Payling
Head of Health & Integration, CIPFA

**Espresso summary**

1. Understand the true size of the financial challenge.

2. Understand the underlying causes of the financial challenge and communicate them effectively.

3. Build a recovery plan that addresses the individual, root causes of the deficit, rather than the deficit as a whole.
Getting discretionary spend under control

We’ve seen some very credible NHS leadership teams build strong cost improvement plans but still fail to keep other spending areas under control. This can lead to poor year end performance even though cost improvement plans have been delivered. Quite often, teams focus on Cost Improvement Programmes (CIPs) at the expense of solid cost management and control, especially around areas of high volume discretionary spend.

Organisations need to develop robust cost scrutiny and control early on to complement their cost improvement plans. Those that do give themselves the best chance of hitting their cost reduction targets and forecast out turns.

“A failure to manage discretionary spend has been the undoing of many good cost reduction programmes. Often I have seen good, well constructed cost reduction programmes delivered only to see discretionary spend spiral out of control and the net end of year position not as expected. Establishing the governance around appropriate discretionary spend and changing the culture in organisation around when discretionary spend can be used is critical. Likewise putting in place the governance controls to make sure spend is monitored and managed long term is important.”

Mike Farrar
Former Chief Executive, NHS Confederation and PwC Adviser

Areas of spend to focus on

• **Bank and agency staff.** A lot of organisations are still seeing an increase in the use of bank and agency staff, even though considerable management time is spent on assessing spend, new targets are being set and regulators are sharing best practice.

• **Centrally held contracts.** Most large acute providers will have over 500 contract lines, which are often scarcely managed, reviewed or re-tendered. Similarly, CCG organisations tend to focus on patient activity contracts and not on the commercial viability of contracts in other areas of spend.

• **Patient activity contracts.** Few provider organisations scrutinise things like activity recording, or billing accuracy.

Here’s what successful organisations do to get discretionary spend under control:

• Set up a tight, centrally managed grip and control process, with a review panel that meets regularly and is chaired by exec members, senior clinical staff, etc.

• Set out clearly what people below executive level need to do, in terms of their behaviour and their area’s financial performance, to earn autonomy over discretionary spend.

• Put reporting mechanisms in place that allow the robust tracking of key areas of discretionary spend.

• Restate the organisations Standing Financial Instructions, defining the limits around discretionary spend, and communicate them across the organisation.
Espresso summary

1. Focus on reducing discretionary spend alongside your standard cost reduction programmes.

2. Put control mechanisms in place with defined criteria.

3. You can relax these criteria over time through a process of earned autonomy, rewarding budget performance.

4. Monitor discretionary spend and review SFI spend from time to time.
Planning for recovery, and communicating about change

Organisations facing significant financial challenges often start putting together recovery or turnaround plans because a regulator tells them they have to. It’s often the first time they’ve had to formally commit to taking action on their finances.

But putting together a good plan takes time and commitment. And should really be the story of improvement in the short, medium and longer term.

In our experience, the best recovery plans have:

• **A logical structure.** The structure will vary depending on the issues the organisation is facing, and the audience for the plan. But generally speaking, a short, easy-to-read plan with a logical structure will have the most impact and credibility. See right column.

• **System wide engagement.** The most successful recovery plans we see combine the efforts required of the organisation alongside those agreed of wider system players. With STP this will hopefully become common place, a welcome addition.

• **Radical thinking on longer term redesign.** Unlike any other time in the history of the NHS, there’s an appetite for radical long-term solutions. Whether that’s through vanguard, STPs or just good, constructive, system-wide working, organisations need to challenge their own thinking. The best financial recovery plans we see combine a focus on short term turnaround with longer term sustainable recovery.
The lessons shared in this document are important. Many organisations muddle efforts to improve financial performance by making them too complex and failing to grasp the basic building blocks of change. This article sets out our view of these critical first steps to either avoiding further decline or consciously planning improvement.

The timeline below brings to life the key lessons in this document.

**Closing summary**

Spot leadership capacity, capability and commitment gaps and address them quickly. Do not neglect finance and HR teams.

Make sure leadership teams have a consistent message around financial recovery and communicate it clearly.

Use financial recovery as an opportunity to nurture future talent.

Get NEDs involved in financial recovery: their scrutiny, peer review, rigour and expertise are important.

Invest in and value support functions.
Understand the true size of the financial challenge.
Understand the underlying causes of the financial challenge and communicate them effectively.
Build a recovery plan that addresses the individual, root causes of the deficit, rather than the deficit as a whole.

Put control mechanisms in place with defined criteria.
Focus on reducing discretionary spend alongside your standard cost reduction programmes.
Monitor discretionary spend and review SFIs from time to time.
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Health Industries

Tomorrow’s healthcare today
Healthcare matters to us and it matters to our clients. We all want better healthcare, sooner and the potential is there to make it happen. New technology, new breakthroughs, new ideas. But while there are opportunities, there are challenges too: constrained budgets, an ageing population and an increase in chronic conditions. At PwC we’re working with clients to steer a course to success in this new health economy so we help improve healthcare for all.

We’re working with the NHS, nationally and locally, as well as the private sector and the pharmaceutical and life sciences sector to deliver real, workable solutions to today’s challenges.

We’re delivering transformation and integration projects with patient outcomes at their heart. And we’re supporting organisations through testing financial times, often developing bespoke operational and digital systems. We give strategic support to organisations across healthcare and pride ourselves on convening different parts of the system to solve problems.

We also bring insight and expertise to healthcare as well as engaging in the public policy debate. For more information, sign up for our Health Matters blog at: www.pwcblogs.com/health_matters

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