

Road to Recovery

Achieving financial balance and sustainability in healthcare providers

February 2019





Contents

Foreword	1
Introduction	4
What's happened in the last year?	7
National challenges	9
Introducing the recovery curve	13
Fundamental principles	17
Decline	21
Recovering from within	27
Recovering across the system	31
Sustainability	35
Contacts	40

Foreword

The NHS Long Term Plan highlighted “three big truths”:

1. pride in the service;
2. concerns about funding, staffing, growing pressures and increasing inequalities; and
3. optimism about the possibilities for continuing medical advancement and better outcomes of care.

The first of these is well established. Last year the NHS was ranked as the nation’s greatest source of pride. And now approaching its 71st birthday, it has been rated as one of the best healthcare systems in the world.

The second “big truth” remains a pressing issue, particularly for NHS providers. The underlying provider deficit has been estimated as £4.3bn. The service is treating more patients every year and staffing pressures continue, with 100,000 vacancies equivalent to around one in 11 posts being vacant.

The third “big truth” of optimism is reflected in the Long Term Plan’s continuity of the direction of policy towards greater integration and cooperation within health and care systems. The reference to legislative change in the Long Term Plan is indicative of a growing appetite for reform in the service. The tension between the current direction of travel in policy and a statutory framework based on competition adds complexity to dealing with immediate funding, operational and staffing challenges.

It is in this context that we have produced this third iteration of the Road to Recovery. It is intended to be helpful to NHS leaders going about recovery and financial improvement in the current climate and especially those NHS leaders of trusts with deficits. It is based on experience of things that have worked in the past, things that people have told us would be helpful for today’s challenges, and a look toward the challenges that are on the horizon.

We know that previous publications on the Road to Recovery have been organisationally-focused, and recognise the opportunities and challenges from the increasing focus on cross-system working. In response, we have developed our thinking to reflect the need for system action, as well as internal action, to bring about sustainability. We are planning to release further publications looking at financial improvement and recovery solely through a commissioner and whole system lens later this year. We would welcome any feedback on this document, or contributions in advance of this further publication. Please email me at damien.j.ashford@pwc.com.



Damien Ashford
Partner





Introduction

This is the third iteration of our Road to Recovery publications . All have been based on our experience of supporting NHS organisations seeking to drive financial improvement rapidly and safely, including those who describe this as ‘turnaround’. The basic principles of approaching a turnaround situation are consistent across industry sectors and whether an organisation is experiencing financial stress or distress. But the specifics of why and how these principles are applied change based on the circumstances, and so it seems right to establish NHS-specific thinking on the subject, and to update this as the circumstances in the sector change over time.

In this publication, we have refreshed the elements of the content we have been told and that we believe are most useful, and adding to it with new content that reflects the current demands, pressures and wider environment facing NHS providers today. The document is primarily focused upon the acute provider sector, as the vast majority of provider trusts in deficit are within the acute sector.

What’s new in this edition?

- The recovery curve – an outline of the process an organisation goes through in its journey back to sustainability.
- The “CFO mind map” – an exploration of different considerations and challenges relevant to leadership in navigating through financial difficulty.
- Current common areas of focus to identify internal efficiency and productivity improvements.
- Increased emphasis on system-working, with key areas of focus.
- A look to the future and long term planning for sustainability, with a particular focus on technology.


This report should be a helpful resource for anyone seeking to address or avoid financial challenge, irrespective of the type of provider organisation. While its focus is on financial recovery within the acute sector, the principles and approaches outlined in this document are applicable to quality and operational turnaround situations. We hope that you find this document useful and we welcome your feedback. If any community or mental health providers have any particular feedback, we can produce blogs in future providing an alternate stance on the content of the document.



Shamil Ganatra
Director

We want to hear from you

We hope you find this report 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: damien.j.ashford@pwc.com



How much time do you have?

If you've got 60 minutes, you can read the whole report which is recommended.

If you only have 5-10 minutes, you can get the key messages from the **espresso summaries** at the end of each section.



What's happened in the last year?

We all have much to be proud of in the NHS. Progress is continuing to be made within the service, delivering better outcomes of care and continuing in the fundamental principle of being free at the point of care.

The recently published NHS Long Term Plan sets out some great examples of how our health service is delivering care, such as being far less likely to be hospitalised for a chronic health condition in the UK than in most other European countries.

National successes

- The Long Term Plan sets out the priorities and programmes that aim to tackle some of the fundamental issues that have faced our sector for years, such as technology investment. The long term plan also sets out, at least for the initial five years of the plan, further detail on the funding plans for the NHS in England, representing a step change in the real terms funding.
- As a result of the increasing collaboration between NHS Improvement and NHS England, we have a better direction of travel towards greater system working, and executive and financial control. Furthermore, there are an increasing number of system-related strategic changes that are already happening across the NHS. The devolution of health and social care accountability (in regions such as Greater Manchester), increased integration of systems (such as Frimley Health and Care), and the Care Quality Commission's (CQC) introduction of system-wide reviews are great examples of this.
- The year has seen increasing discussion around how money moves around the system. At the 2018 NHS Providers Annual Conference and Exhibition plans for the future of the health and care system were discussed with reference to changes in the current financial framework. This included reductions in the provider sustainability fund, and the ending of the marginal rate emergency rule and 30-day readmission fines, as well as a move away from individual financial control totals, meaning there will be greater recognition of system-based performance across NHS organisations.
- Providers across the country have had another year of working towards addressing the multitude of factors impacting their financial and operational positions achieved in 2017/18, including delivery of £3.2bn of cost improvements. Furthermore, providers spent less on agency staff in 2017/18 than the previous year.
- Compared to the outturn reported last year of a £960m deficit, providers are targeting significant improvement, with a budgeted deficit of £519m set for FY18/19.

£3.2bn (3.7%)

of cost improvements in FY17/18

£527m (18%)

of agency expenditure reduced from the previous year

6.8%

more admissions via A&E during the final quarter of FY17/18, compared to the previous year, were seen by staff

Despite these highlights, the NHS continues to face unparalleled financial stress. The Q2 2018/19 results showed providers are facing significant challenges.

£1.65bn deficit at the end of Q2 2018/19

155 out of 230 providers are in deficit at Q2

118 out of 133 acute providers are in deficit at Q2

£4.3bn of underlying deficit in sector carried forward into FY18/19

Overall, providers have forecast a £119m year-end overspend against a revised planned deficit of £439m



National challenges

At a national level, there is significant change and uncertainty, and as our population continues to grow, so do its needs, all of which increases the pressure within the provider setting.

Political challenges

Brexit



May have far-reaching implications on the health and social care sector.

The supply of medicines and clinical supplies; freedom of staff movement; immigration; funding and finances; and, research initiatives, to name a few, could all have potential and wide-reaching implications for the health service.

The configuration of the NHS



A move towards integrated care will help bring a togetherness to the health sector.

Currently competition between organisations has resulted in the duplication of effort and limited efficiencies of scale.

Restricted funding



Healthcare spending in the UK (9.7% of GDP in 2017) was higher than OECD member states like Italy (8.9%) and Spain (8.8%), although significantly below the USA (17.2%), Germany (11.3%) and the Netherlands (10.1%).

If the UK wishes to deliver a more tech-driven health service, additional investment is needed, at least in the short to medium term.

The population being served by the NHS will continue to age further, and expects to have a continued increase in chronic health conditions.

Population challenges

Ageing population



Between 2003 and 2015, the number of people aged over 85 increased by nearly 40% (Office for National Statistics).

If this trend continues, the financial and operational pressures on our healthcare system from, rightfully, caring for our elderly will only increase further, putting ever increasing pressure onto the NHS, as well as social care.

Increases in chronic health conditions



The prevalence of chronic health conditions such as diabetes, obesity and dementia have increased significantly in recent years. For example, between 2015 and 2017 the NHS experienced an 18% increase in admissions for obesity and obesity-related diseases.

Furthermore, the prevalence of obesity in school age children is rapidly increasing so this challenge shows no sign of reversing.

Treating diabetes and its complications currently accounts for around 10% of all NHS spend - increasing prevalence of this and other conditions will have a significant financial impact on the NHS in future.

Technological advances



How people interact with and within the NHS means there is even more need for an integrated NHS that enables effective tech adoption. This includes increased capability of wearable tech; tech that provides quick access to healthcare; and apps that can improve operational effectiveness and drive quality standards (such as 'Perfect Ward' and Scan4Safety).

Three in five people use technology to monitor their health, meaning the ability for individuals to collect their own data has significantly advanced. The NHS faces pressure to not only integrate this with existing processes across the population, but to do so in a safe and secure way, especially in light of high-profile security breaches, such as the 'WannaCry' malware attack of 2017.

The impact of the Government's commitment to invest in technology as reinforced in the NHS Long Term Plan published recently, will play a crucial part in how the NHS addresses technological challenges.

Local issues

At a local level, there are a number of factors that contribute to financial and operational pressures in providers, as well as across health and social care systems.

- **Social care provision** – social care is under increasing pressure, leading to delayed transfers of care, with spending by councils on social care per adult falling by 11% in real terms between 2009/10 and 2015/16 (Kings Fund/Nuffield Health).
- **Continued 'front door' pressure** – A&E departments have seen an average increase in attendances of 2% per year since 2008/09, compared with the average England population growth of 1% per year over a similar period (NHS Digital). This no doubt reflects the pressures seen at the 'front door', which remain a significant challenge for providers to balance, though the 10 year plan does set out some of the ways that NHS England foresees managing this relentless demand, such as through further Urgent Treatment Centres, as well as increased funding into primary and community providers which may help relieve some of the pressure.
- **Cost base inflation** – costs of delivering services, most notably pay costs, are subject to year on year inflation that continues to put all providers under pressure.



Espresso summary



Continued challenges

The NHS continues to face unparalleled financial pressure:

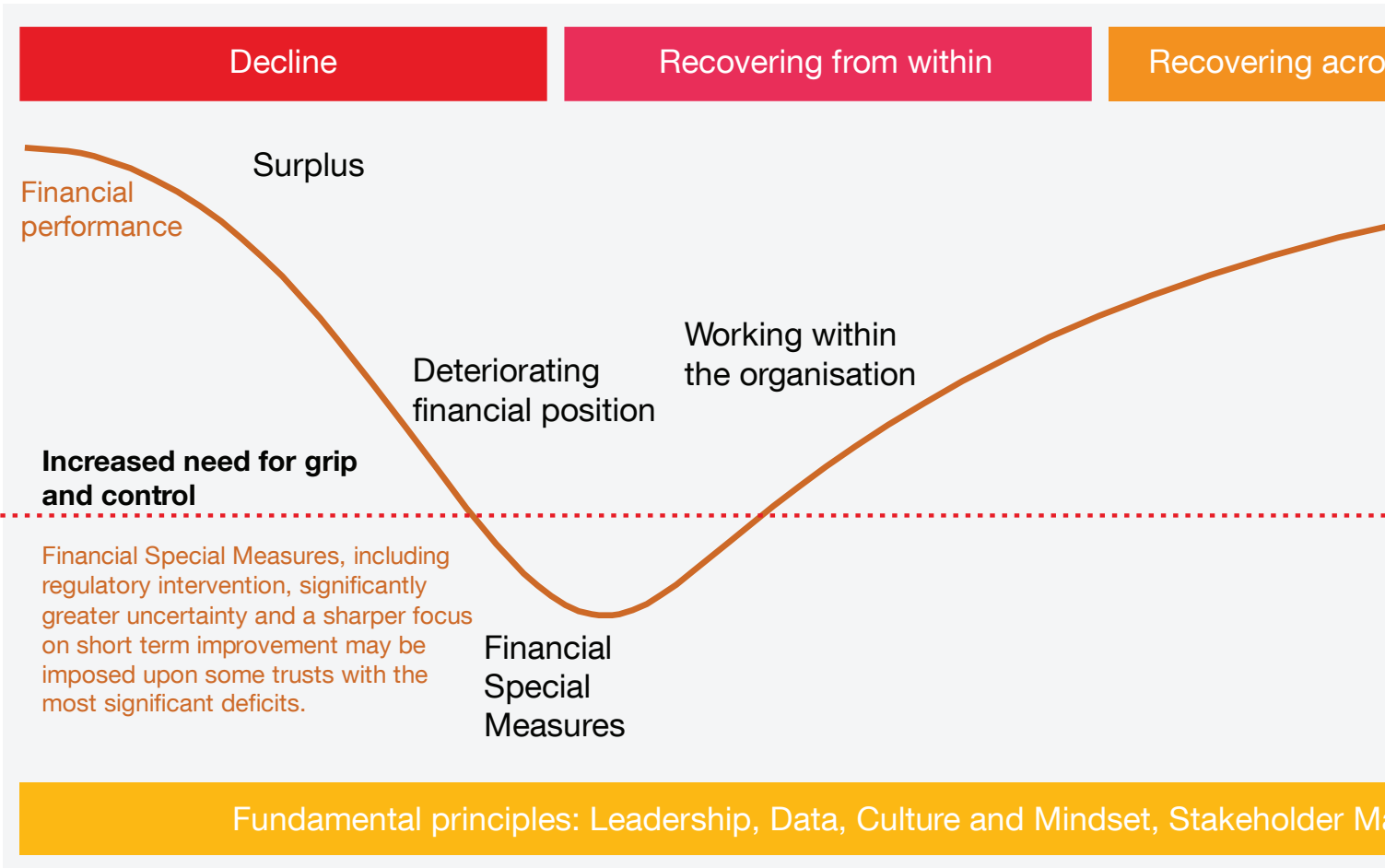
1. £1.65bn deficit at the end of Q2 (pre PSF)
2. 155 out of 230 providers are in deficit at Q2
3. £4.3bn of underlying deficit in sector; all of which is significantly worse in FY18/19 than it was in FY17/18
4. Providers have forecast a £119m year-end overspend against a revised planned deficit of £439m

Introducing the recovery curve

In this report, we have used a traditional corporate demise curve to illustrates a range of considerations and priorities for organisations during a journey of financial improvement and recovery.

The demise curve refers to the period of time from the decline of an organisation through to its recovery, before becoming sustainable. We have refined this for the NHS and are terming it ‘the recovery curve’.

The recovery curve



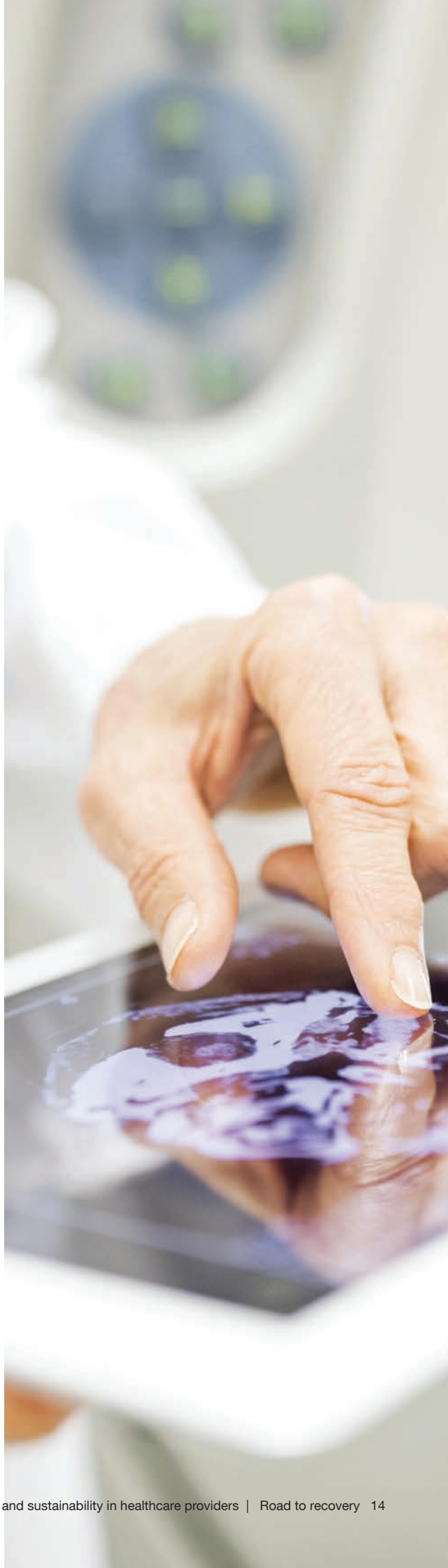
ss the system

Sustainability

Looking forward

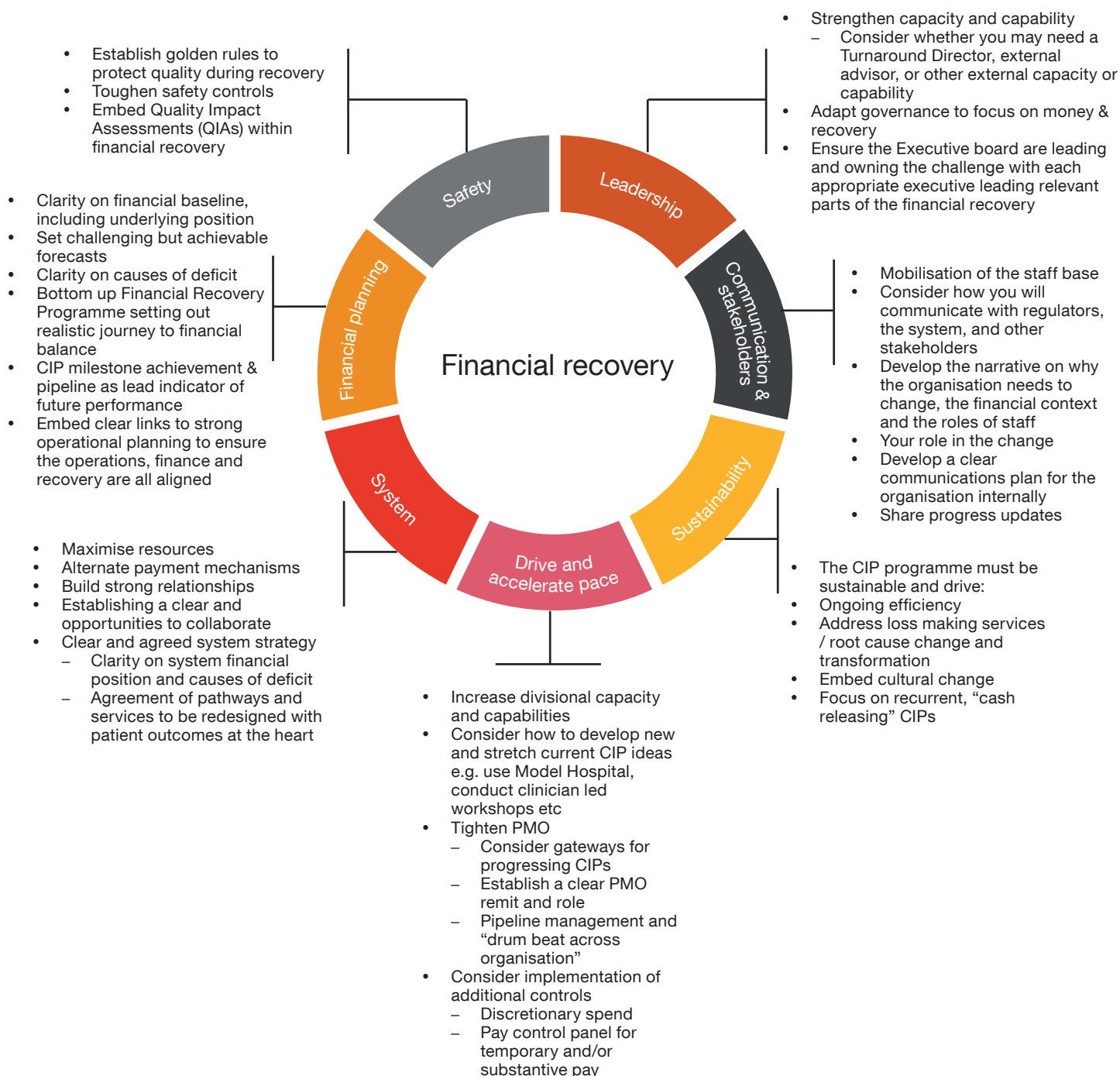
System wide
approach

Management, Technology, Governance



CFO mind map

Our 'CFO mind map' sets out our views on the key areas for CFOs to consider as they lead a financial improvement. This mind map is here to help readers ensure they are considering wider-ranging factors than simply the money when looking at a financial recovery.



Espresso summary

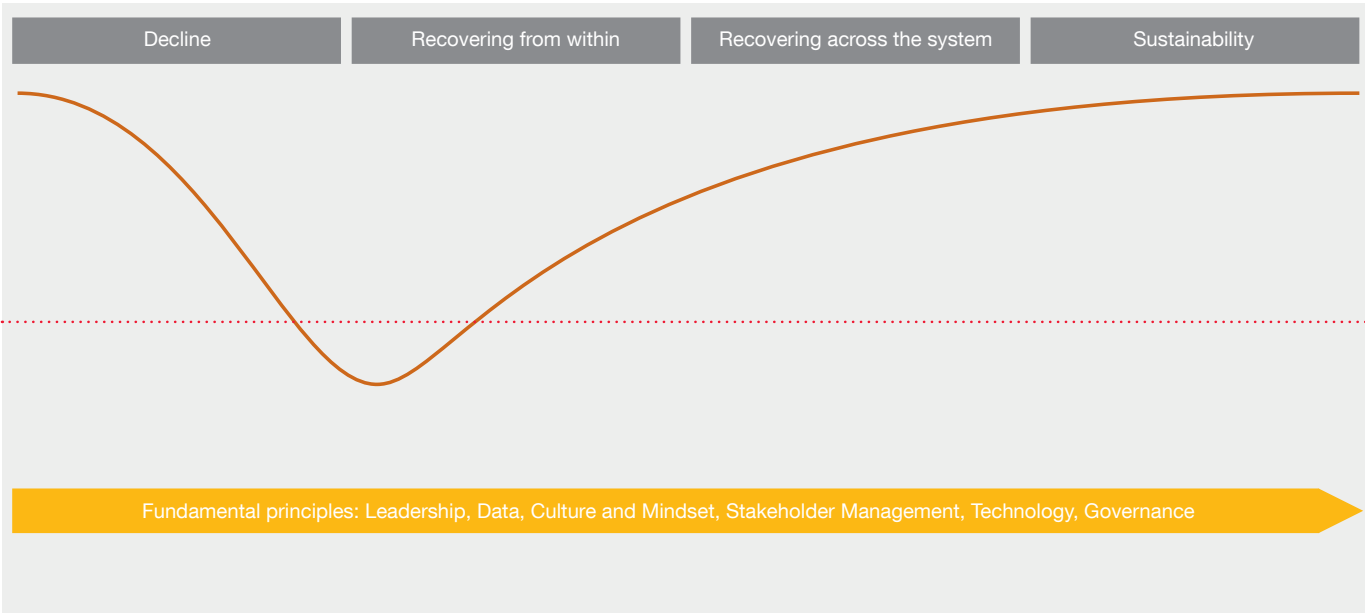


The five stages to the recovery curve

1. **Fundamental principles** – a set of principles that apply to an organisation's journey from Decline through recovery to Sustainability.
2. **Decline** – how an organisation understands and then starts to resolve some of the drivers of its deficit.
3. **Recovering from within** – how an organisation can take some greater and more radical steps to improve its financial position.
4. **Recovering across the system** – how an organisation can look outside its own walls and start to solve some of its challenges through improved system working.
5. **Sustainability** – how a more futuristic and technology-based approach could support the sustainability of systems and organisations.

1. Fundamental principles

We have identified six key principles that underpin the success of any high-performing organisation. Fundamental to them all, across any industry, is strong, visible leadership.



Six fundamental principles to achieve a successful turnaround

1	2	3	4	5	6
Leadership	Data	Culture and mindset	Stakeholder management	Technology	Governance
Reacting to the changing requirements of turnaround	Ensuring all decisions are based on good quality, widely-trusted data	Fostering a genuine belief at all levels that turnaround is possible	Clearly stating the purpose internally and managing the health economy	Increasing efficiencies and minimising duplication of effort	Strengthen all aspects of governance to support the turnaround

1. Leadership

As organisations move up the recovery curve, a progressive change of style in leadership is needed and engagement with the organisation must be maintained and evolve.

The health landscape has been changing rapidly with many management teams focused on immediate control of their financial positions while at the same time managing operational and quality pressures. These same executive teams will need to engage with the wider system within which they operate.

Some of the recent partnerships and regional enterprises are excellent examples of this. There are still some good lessons from the private sector that are yet to be adopted in public health.

PwC view

- Having the right capacity and capability in place is key, in an environment where the executive agenda continues to grow.
- Speaking with one voice, to a cohesive and well thought through strategy based on stability and system integration.

2. Data

The importance of good quality data has always been crucial to ensure organisations are able to make informed and well-planned decisions. All too often, a lack of reliable data, or inappropriate use of systems, leads to poor, often costly, decision making.

The development of the Model Hospital has been a welcome step in this direction, and the Long Term Plan discusses some of the areas where the NHS will be investing in technology to help drive better quality, more insightful data that can help more informed decision making.

PwC view

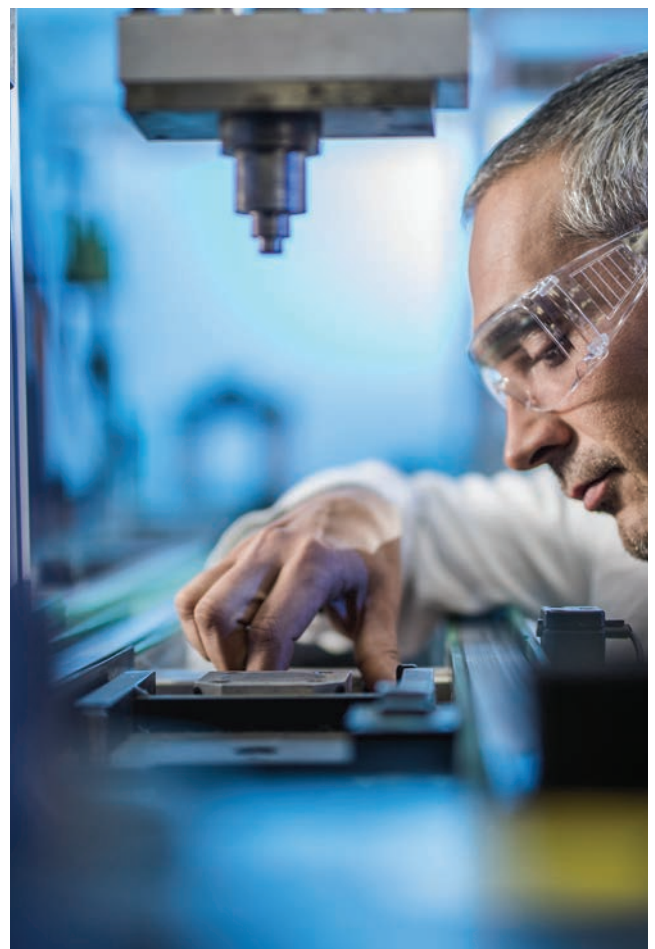
- Using your existing tools, conduct simple data mapping to what types of data are available to you, and what you can use it for. The gaps that are highlighted are the areas to then invest in.
- Take time and dedicate resource to understanding national benchmarking such as the Model Hospital. Applying business intelligence to the Model Hospital outputs is key for trusts to truly understand where their accessible opportunities lie.
- Trusts may want to consider investing in 'off-the-shelf' digital solutions to enhance data quality or digitising operational tasks. They should make time for front-line care staff and add insight to executive teams alike.

3. Culture and mindset

Much has been written in the last year about morale in the NHS and it is of pivotal importance where people are routinely called on to undertake difficult and demanding work. The need for a clear and positive culture applies to all staff in the organisation and is key to change. Improving accountability and appropriate consequences are opportunities.

PwC view

- Make sure that all staff in management positions model the values and professional standards of the organisation and are given support and tools to apply them to everyday situations.
- Consider offering executive board mentors to key junior influencers in the organisation.
- Consider starting a reverse-mentoring programme for all B9 and above staff, whereby they are mentored by a B6 or lower staff member (including appropriate mentoring training). This will aid the flow of positive culture up and down the organisation.
- Look widely into the leadership and culture training opportunities available in public health, such as the NHS Leadership Academy.



4. Stakeholder management

During times of financial challenge, managing the various stakeholders in the system is even more essential and yet demanding, given the time constraints and periods of high stress or intensity. A clear consistent set of core messages which can be nuanced is normally helpful.

PwC view

- Invest the time in a clear stakeholder communications plan; who are you stakeholders, both internal and external, and what do you want them to think, feel and do to support your recovery?
- Be transparent and honest about the financial challenges you have and the consequences. Be appropriately proactive in sharing your own or an independent view of the financial status.
- Regaining credibility in times of crisis is key, so setting clear steps for your recovery and meeting those milestones to gain confidence will give more pace to your financial improvement.
- Ensure you have clear senior relationships with all required stakeholders, including other trusts, CCG and STPs, your regulators, and other regional and national NHS bodies.
- As an executive or senior team member, set time aside for peer challenge and opportunities to let off steam a little, so you can maintain a united front with your stakeholders.
- Have one person in the organisation who manages and signs out information and data relating to your financial position, especially to regulators or the public. Timely, consistent and accurate messages when you're in recovery is essential.
- Actively engage regulators in major decisions. A collaborative and open approach will help to break up the, sometimes, combative relationship between providers and commissioners.
- Expose non-exec senior managers to their peers in similar trusts to create 'regional communities of interest' to share best practice and build system-wide relationships.

5. Technology

Greater use of technology and flexible working for back office may be a way to reduce costs and engage the workforce, bringing working practices more in line with the private sector and staff expectations. This could include sharing back office functions across trusts and across a health care system.

This will not happen as a by-product of change; the private sector has taken years to adapt and evolve to the needs and changing desires of the workforce. 'Smarter' more flexible working enabled by technology must be a deliberate effort that may require initial expenditure on hardware, training and collaboration opportunities. But the benefits include reduced infra and office space requirements, more agile teams and staff satisfaction.

PwC view

- Invest in Model Hospital training across all senior clinicians and management staff.
- Review and agree which staff roles could be flexible, performed remotely or done more efficiently for multiple organisations.
- If infrastructure allows, then create open-plan working and functional groupings and reduce use of smaller offices.
- Deliberately invest in hardware and software to facilitate flexible working.
- Set challenges to reduce meeting lengths, time and attendance. However, this will need to be counter-balanced against maintenance of appropriate governance.

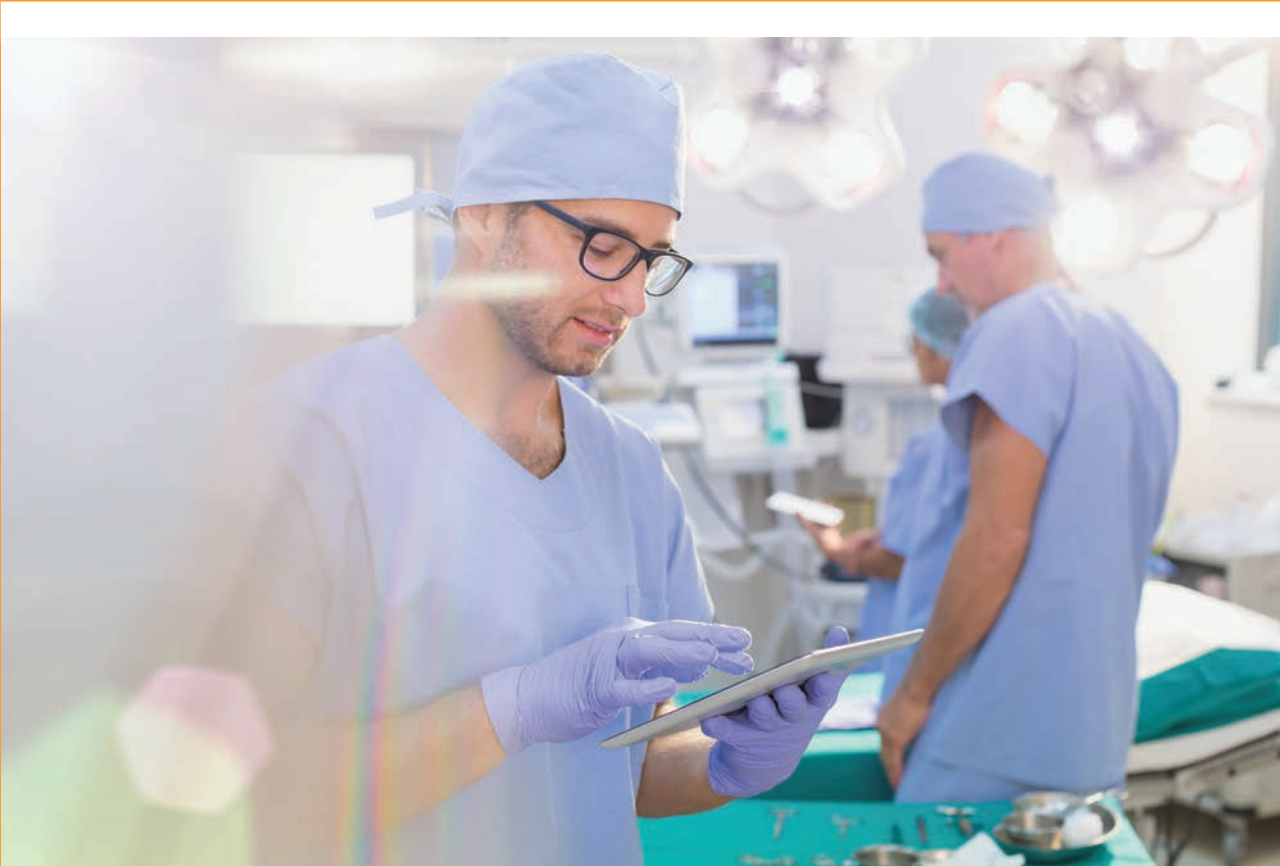
6. Governance

It is key during times of change to strengthen all aspects of project, programme and operational governance, to counteract the effect of more pressure being placed on cost control, cash management and use of data analytics.

PwC view

- A single, unambiguous aim is the keystone of successful turnaround. It should be well-publicised, short and linked to a clear financial end state and sustainability.
- Assign project status to discreet workstreams to avoid wasted effort through the considered use of staff time and resources in relation to the completion of projects. Consider giving project responsibility to mid-grade managers or clinicians who report directly to the exec SRO.
- Review documentation and reporting to boards and leadership teams.

Espresso summary

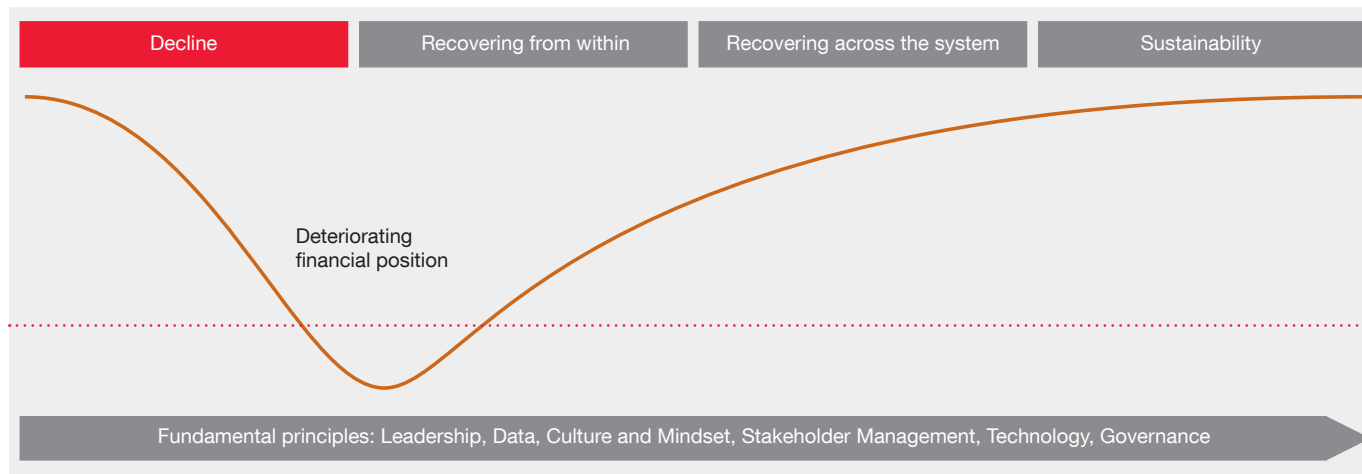


Six fundamental principles to achieve a successful turnaround

1. **Leadership** – reacting to the changing requirements of turnaround and sustainability.
2. **Data** – ensuring all decisions are based on good quality, widely-trusted data.
3. **Culture and mindset** – fostering a genuine belief at all levels that turnaround is possible.
4. **Stakeholder management** – clearly stating the purpose internally and managing the health economy.
5. **Technology** – increasing efficiencies and minimising duplication of effort.
6. **Governance** – strengthen all aspects of governance to support the turnaround.

2. Decline

In our experience, organisations at this stage of the curve must focus on what can be done to stabilise this year, and also plan for building for recovery in the following year. Having the right capacity and capability to address these issues is crucial. Understanding the drivers of the deficit allows leadership to plan appropriate interventions that address the root causes. It also enables them to know early on which stakeholders to involve.



Addressing your decline

In our view, there are four key steps to go through to start understanding and addressing your financial decline.



Identify the causes and drivers of financial performance

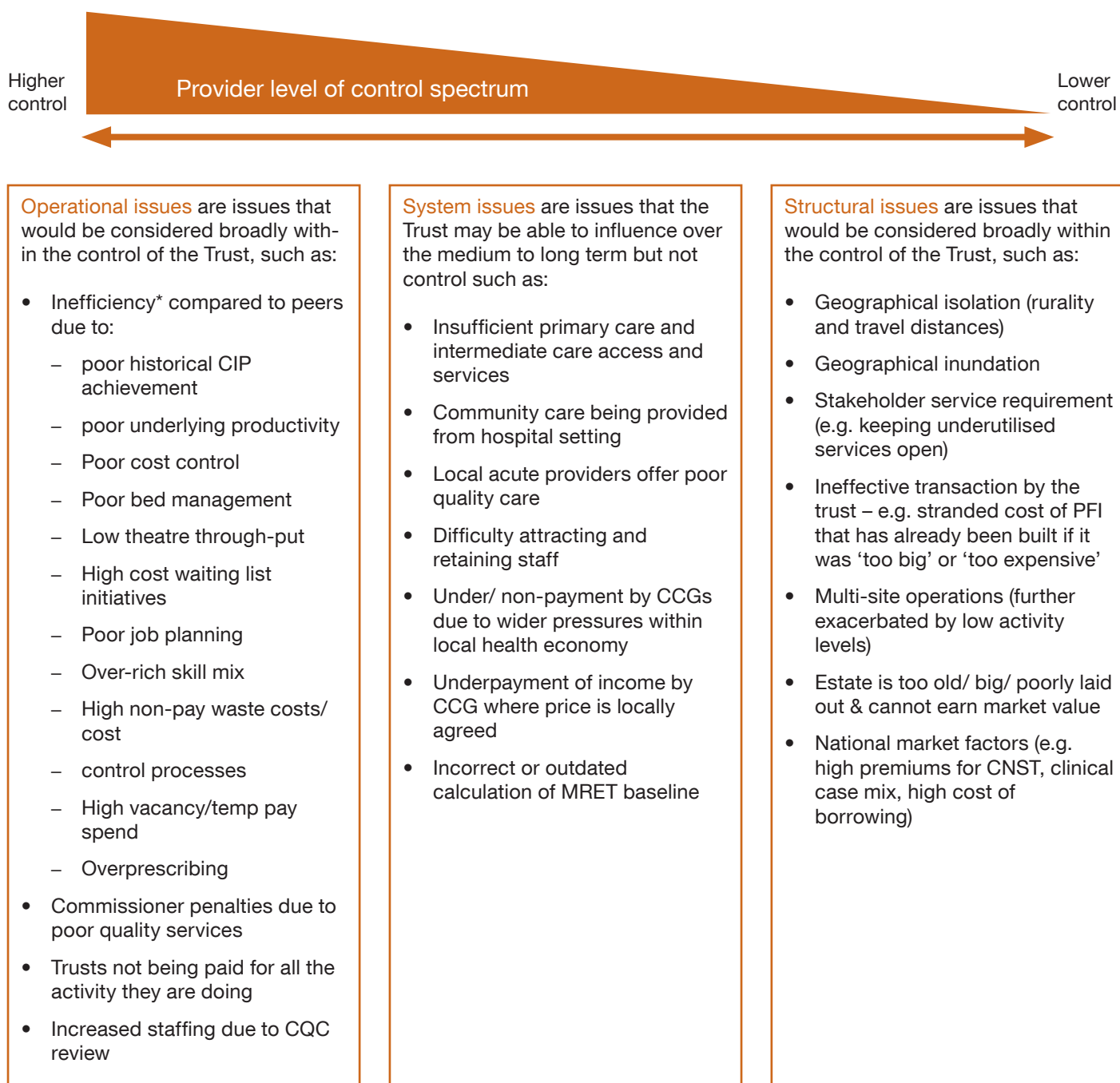
In order for trusts to determine the drivers of their financial position, they need to understand what is causing the deficit and, where relevant and potentially in spite of improvements made, what has continued to cause it. Alongside a clear understanding of the underlying financial baseline position, this is a key step to building a financial recovery plan.



While underlying causes of financial challenges will vary by organisation, the diagram below shows potential areas of expenditure that might contribute to deficits, together with the associated level of control that an organisation has over that factor.

Causes of the deficit

The chart below defines the three key buckets for categorising the causes of the deficit, with the associated level of control that the providers has over each.



*Inefficiency may be a symptom rather than cause with the underlying driver being either a system or structural issue.

Discretionary spend review

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 being set and regulators sharing best practice.
- **Centrally held contracts** – most large acute providers will have over 500 contracts, which are often scarcely managed, reviewed or retendered.
- **Patient activity contracts** – provider organisations rarely scrutinise things like activity recording or billing accuracy. This is discussed in more detail in chapter 3: Recovering from within.

How 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 executive team members and involves senior clinical and operational staff in the decision making.
- Set out clearly what staff 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 organisation's Standing Financial Instructions, defining the limits around discretionary spend and communicate them across the organisation.

Rapid assessment of in-year cost improvement

Every organisation will have its cost improvement plans for the year, but as the financial year progresses, the need for in-year savings increases, organisations may need more immediate focus on cost out across clinical and corporate areas. This can include:

- **Tighten controls on discretionary spend** (more detail on the right) – this includes bank and agency staff.
- **Focus on workforce** – are there high-cost interims or long-term temporary staff that could either be converted to substantive posts, or an alternative, cheaper cost solution, particularly in non-patient facing areas?
- **Rapid review of an organisation's contracts** – are any expired? Could discount rates be negotiated for a period of time? What opportunities are there to streamline contracts?
- **Inventory control** – are there areas of stock loss (clinical supplies or drugs) that could be focused upon to reduce spend?
- **Review of best practice tariff adherence** – are there further opportunities that could be pursued for little or no cost?

The organisation will need to drive focus through all its clinical and corporate areas on the need to focus on sustainable cost out.

Prepare your financial recovery plan (FRP)

Ultimately sustainable recovery must be underpinned by a detailed and operationally focused plan. Understanding the causes of your deficit means you can create a targeted financial recovery plan both within your organisation and across the wider health system.

In our experience, the very 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. Generally speaking, a short, easy-to-read plan with a logical structure will have the most impact and credibility.
- system-wide engagement. The most successful recovery plans we see combine the efforts required of the organisation alongside those agreed with the wider system.
- Radical thinking on longer-term redesign. There is a continued desire and appetite in the NHS for more radical long-term solutions. The best financial recovery plans we see combine a focus on short term turnaround with longer term sustainable recovery supported by detailed diagnosis of loss making services.

The overall structure of a finance recovery plan





Espresso summary



There are four key steps to go through to start understanding and addressing your financial decline

1. Identify the causes and drivers of financial performance, including a financial baseline review to understand your underlying financial position
2. Undertake a discretionary spend review
3. Rapid assessment of in-year cost improvement opportunities
4. Prepare your financial recovery plan (FRP)

3. Recovering from within

Having arrested the decline in financial performance and stabilised positions, organisations have decisions to make as to where to go next.



The changing nature of efficiency improvements

In our experience, a step change is absolutely required in the nature of how inefficiencies are driven out of organisations at this stage of the curve. These should be on operational improvements within divisions, workforce planning, as well as focusing on optimising flow, and outpatient and theatre productivity.

Workforce

As your demands change, so do the needs from your workforce. Regular reviews can help establish the best way to satisfy demand. Below are some steps that can be taken to achieve this.

- **Medical productivity** – does the capacity of your medical workforce meet your changing demand? Undertaking granular reviews of job plans, alongside theatre and outpatient systems, can highlight more efficient ways to repurpose and reorganise sessions. Not only could this help to reduce spend on additional sessions but it gives the divisional team more control and visibility on the best way to satisfy demand.
- **Nursing establishment review** – collect acuity and dependency data and review in line with an appropriate tool (e.g. the Safer Nursing Care Tool) testing appropriateness of ward staffing levels. An establishment review should extend to cover outpatients, A&E, maternity, and non-ward based nurses including PDN's and CNSs.

- **Non-medical / non-nursing staffing review** – applying similar principles to the above, undertake a review to understand the value driving from each function and role, and whether it is appropriately required.

Operational improvement

It's imperative that organisations are operationally set up to succeed. Below are key areas that we would expect a trust to be concentrating on, and indeed making genuine sustainable change within, at this stage of the curve.

- **Theatre productivity** – review and understand the productivity of your theatres. Do all specialties need the theatre time they have? Where are you outsourcing activity, or paying for additional sessions for activity to be undertaken out-of-hours? Understand where your theatres are not running efficiently, and either close capacity (and take the money out), or use the capacity to generate additional income or improve RTT performance. Having the right tools in place to do such a review is often a critical enabler that is overlooked by organisations.
- **Outpatient productivity** – as with theatres, understand what capacity your organisation is using effectively. From this springboard, understand where gains can be made including through the efficient use of workforce, the balance between clinician-led and nurse-led clinics, and technology that could expedite the bookings process.

- **Patient flow** – are patients moving through your hospital process as efficiently and effectively as possible? Mapping the flow of patients across specialties and the potential ‘blockers’ to a better patient experience could also allow you to identify cost efficiencies. Improving the flow of patients can benefit everyone, including the wider system.

Carter & GIRFT

The outcomes from Lord Carter’s review into unwarranted variation across the NHS, and the Get It Right First Time programmes cut across several of the above initiatives. Indeed when embarking upon a review of any of them, they should not be looked at in isolation, but considered how they impact other areas such as:

- Organisational strategy reviews
- Pathway redesign
- Current system interaction and support already available
- Clinical capacity reviews

Zero-based budgeting

Zero-based budgeting is a way to reset costs based on the organisation’s priorities by helping management to strip out any cost-generating activities and external spend while maintaining optimum service levels and quality. Trusts can approach this in various ways to drive out such unnecessary costs, but below are some specific examples:

- **Activity value analysis** – this technique can help to find opportunities to stop or reduce an activity that the trust deems to be non-value adding, or is just a lower priority against key/more important functions, by analysing the value that is driven by each activity. It can be particularly insightful around back-office functions.
- **Workshops looking at five lenses** – specification, price, efficiency, exit and demand. A trust can challenge its internal activities and external spend. Such an approach can often result in a ‘do without’ or ‘do differently’ answer for questions posed.

Budget setting

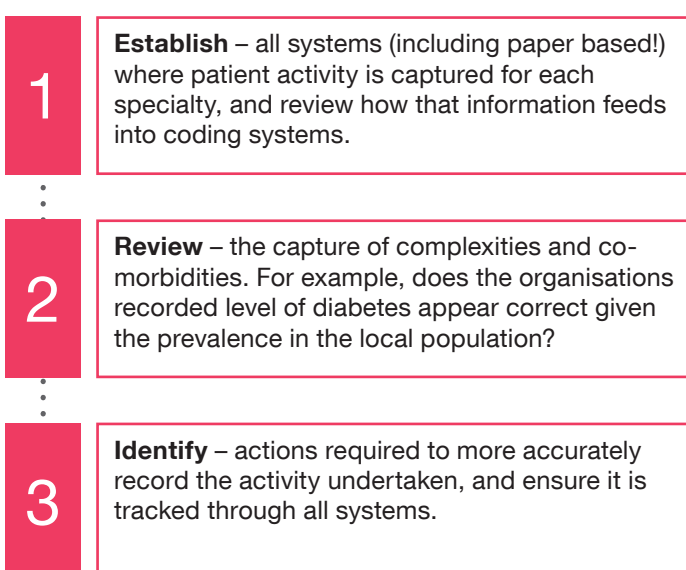
When setting budgets, having a focus on achievable, bottom up establishment and the activity plans triangulated with capacity are important considerations. Approaching budgets this way will help to create a deliverable and realistic plan that the organisation is fully engaged with, and therefore accountable for. In our experience, a challenge is often the lack of early engagement across the organisation in the budget setting process and local ownership of them, which often leads to accountability continuing to be a risk.

Understanding the activity value stream

As pressure upon the organisation increases, it becomes more important that it understands the value stream underpinning its activities, regardless of any current contracting mechanism. Understanding the activity value stream will give the trust:

- **Insight into its loss-making services** – this can allow informed decisions to be made when reviewing business cases for future investment, and insight when considering how and where services are delivered. This may reduce the loss a service makes.
- **An informed position for discussions with stakeholders** – this will include commissioners, other providers, and staff within the trust.
- **An improved understanding of the trust’s position** – in relation to its contracts with commissioners. This can better inform future contracting discussions.

Three steps to review your income recovery



Making the most of the Model Hospital

The Model Hospital has proved to be an extremely useful tool for organisations to identify areas where they are potentially inefficient against the national median or, often more meaningfully, against a selected peer group.

The key for organisations, and indeed the expectation from the regulator, is to take the data and indicative opportunity areas, investigate and understand them, with a view to realising benefits where relevant. It is this local business intelligence that will enable you to harness what the true opportunity is.

- The data within the Model Hospital, and therefore the outcomes it shows, are only as good as the data that your organisation submits – it is therefore key that data submissions are of a standard to make sure you can utilise the tool to its maximum effect (see Chapter 1: Fundamental principles).
- You can self-select peers, and peers can be changed. Organisations should consider whether the peer group should change for different specialties.
- It will show you where to look for efficiencies, but it will not ‘tell you the answer’. You will need to delve in to the data to understand the results it is showing, and then to consider the actions you may want to take to realise benefits.
- Many organisations investigate the opportunities for efficiency in Model Hospital data, but then fail to either record the results, or to demonstrate to Boards or sub-committees how all opportunities are investigated and added to efficiency plans where appropriate. This feedback loop is important to ensure the organisation has a record of how it has responded to opportunities presented.



Espresso summary

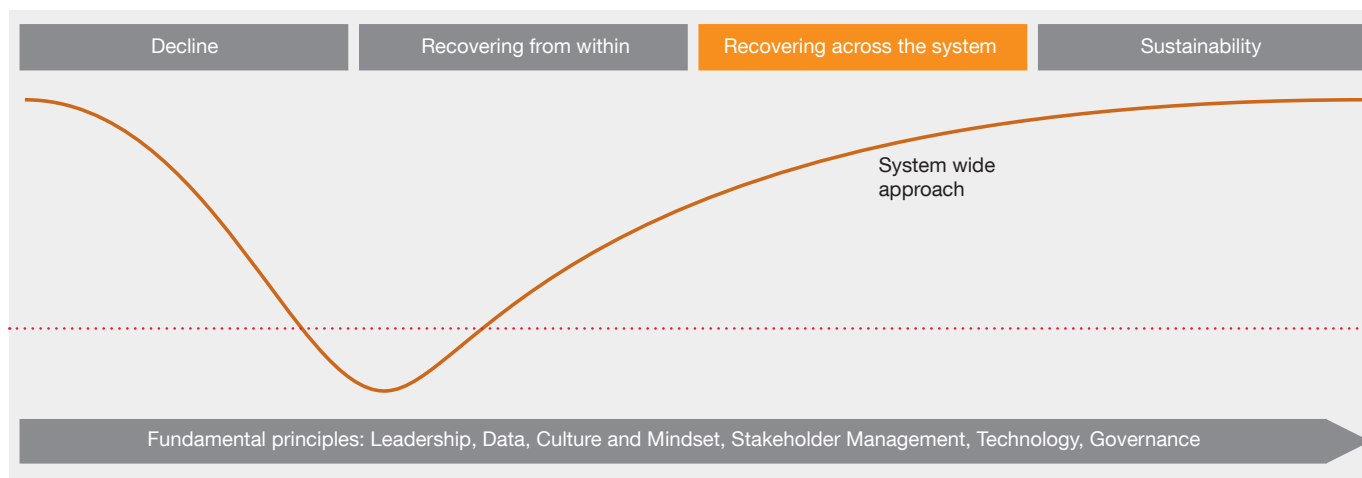


How to move beyond cost improvement plans and focus on enduring sustainability

1. **Workforce** – reviewing the demand and capacity of workforce can give rise to both cost out and productivity opportunities.
2. **Operational improvement** – theatre productivity, outpatient productivity and patient flow are three key opportunities that should be focused upon.
3. **Budget setting** – engage the whole organisation in the budget setting process as early as possible. and consider alternative approaches to budget setting such as zero-based budgeting, rather than simply basing budgets on last year.
4. **Activity Value Stream** – consider how you can understand the value driven from every activity in the organisation to give greater insight.
5. **Use Model Hospital** – it is an extremely useful tool for helping guide an organisation to where potential opportunities may lie.

4. Recovering across the system

As an organisation moving up the curve, the next steps are to consider how to work across the system, rather than focusing more heavily within the organisation itself.



“

The NHS will increasingly be more joined-up and coordinated in its care.

Source: NHS Long Term Plan

Collaboration within the system

Integrated Care Systems (ICSs) will play a central role in the future of the NHS, providing a platform for organisations to work cooperatively. Provider management teams are seeing a shift in accountability and responsibility towards system-wide outcomes including financial sustainability.

The NHS Long Term Plan published in early January 2019 set out how some of this collaboration will work, such as through dissolving the historic divide between primary and community health services, and rolling out ICSs everywhere in England. In our view, a number of benefits should result from this greater collaboration including:

- **Temporary pay** – working collaboratively across the system will accelerate benefits around temporary pay, for example offering the flexibility to operate joint banks, negotiate and align agency rates across the system, and share highly-specialised medical resources to remove the need for locum cover.
- **Pathology collaboration** – pathology was a key area identified by Lord Carter's review, with a hub and spoke model widely advocated as a significant opportunity to ease pressure on prime hospital estate. There are clear opportunities to leverage scale and make effective use of pathology resource. However, care must be taken to make sure baseline data on costing and activity levels are accurate and does not lead to unrealistic proposals that may fail or underdeliver.
- **Service configuration** – by considering the potential to stop services and/or reconfigure pathways across the system, providers can make sure they offer world class service and the best patient experience through minimised contacts with the acute provider, shifting care closer to home.
- **System-wide estates planning** – many acute providers have ageing estates that require significant capital investment to maintain, are often hard for patients to get to, and don't lend themselves to high levels of productivity (due to facilities downtime, and poor configuration of estate). Detailed, system-wide estate planning across the short, medium and long term will be critical in delivering sustainable change. We expect to see systems working together to use their combined estate in order to spread the work load and improve efficiencies.

Data quality and sharing information across the system

For ICSs to achieve their potential, there must be alignment and sharing of data across systems. While there is plenty of data already available, and organisations will need to work closely together to understand, analyse and form 'one version of the truth'. Without this shared foundation it becomes difficult to agree and steer system-side productivity and efficiency requirements. Similarly, alignment of provider CIP and commissioner QIPP programmes will also be important.

Typically successful system efficiency programmes have strong clinical engagement and leadership, and often incorporate a shared Programme Management Office (PMO) to facilitate information sharing and manage information governance and GDPR. At a minimum however, clear terms of reference should be in place and key metrics agreed across the system.

As we described in chapter 1 'Fundamental principles', getting the data right relies on accurate data capture, which can be a barrier to system progress. The quality of data underpins any system efficiency programme, and the development of contracting and commercial models (see below) that share risk and reward between parties. Systems also need to make sure GIRFT and other quality data is considered in parallel with system efficiency work.

Contracting and commercial model

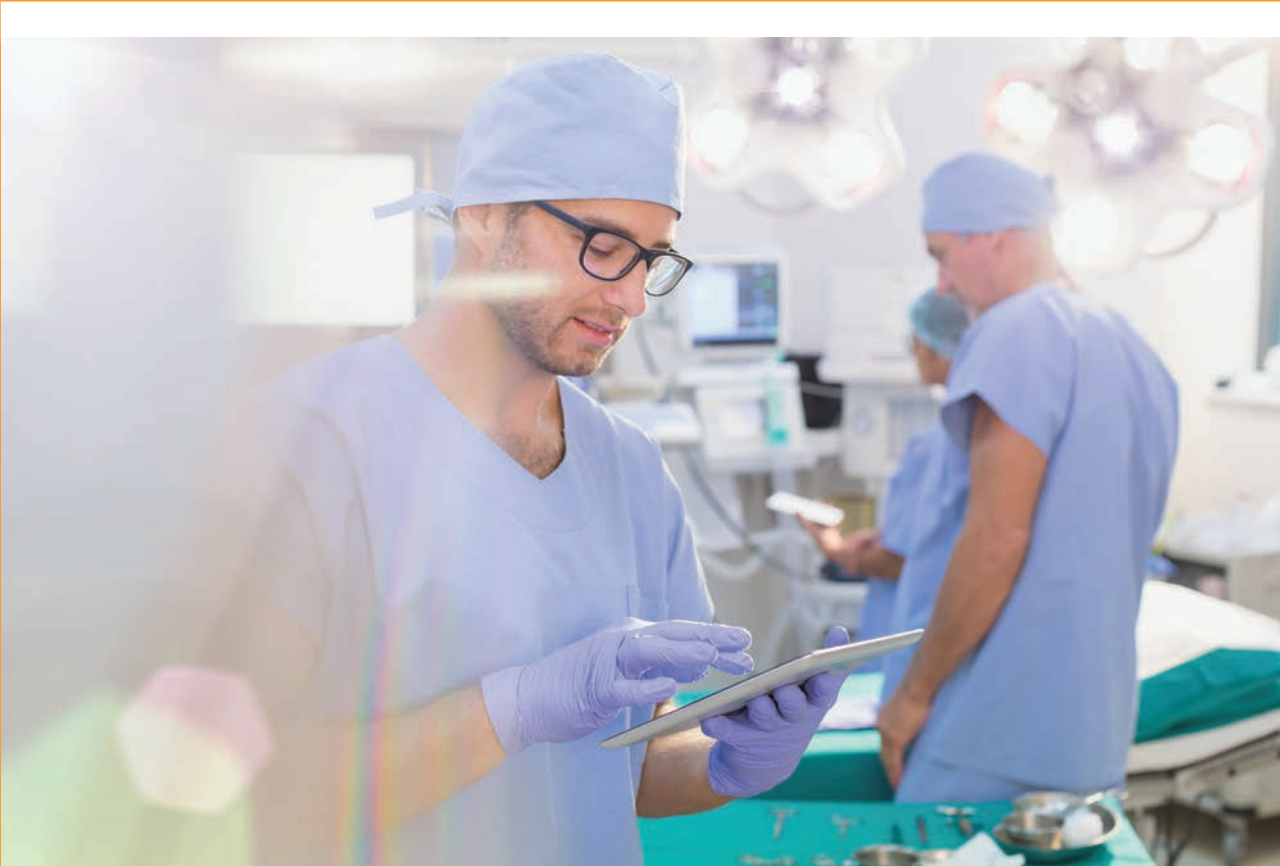
Payment by Results (PbR) is the most common contract mechanism for acute providers in the NHS for both locally and specialised commissioning services, rewarding providers based on the level of activity performed. This approach however, does not support the integration of health and care locally, nor does it drive a sharp focus on outcomes.

There is a clear need for improved connectivity within local health systems. NHS Improvement has announced its intention to formally move away from the PbR system towards blended payment mechanisms. This approach is centred on collaborative working and a shared responsibility for ensuring that NHS resources are used efficiently and appropriately across systems. Over the last two years we have seen this reflected in a move towards new types of contract mechanism, such as Aligned Incentive Contracts (AICs), which place greater emphasis on outcomes as opposed to activity, and balance the sharing of risk between providers and commissioners.

We expect to see an increase in the prevalence of these mechanisms as providers place greater consideration on the needs of their local health economy, alongside the needs of their individual organisations. Whichever contracting mechanism is selected however, significant work must be undertaken across systems to understand demographics, complexities, volumes, pathways and service models to start aligning the needs of the population. Without this understanding there is a high risk that the new objectives will not be successfully implemented and the system transformation will be unable to achieve its goals.



Espresso summary

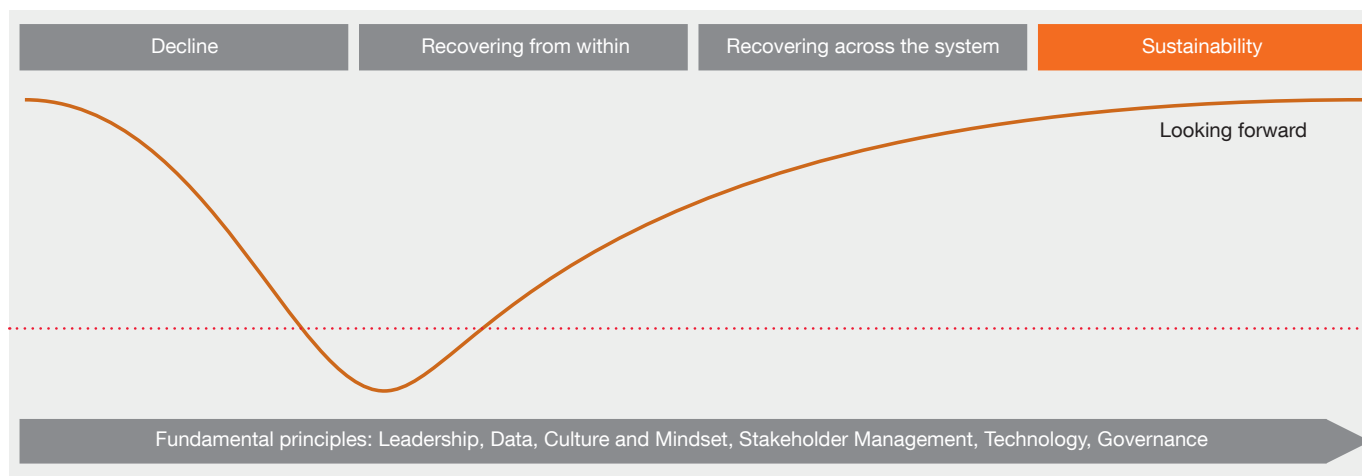


ICSs will bring a range of benefits in driving system-wide collaboration

1. **Collaboration within the system** – benefits should include: temporary pay efficiencies, opportunities through pathology collaboration, and, system-wide service configuration and estates planning.
2. **Data quality and sharing information across the system** – for ICSs to succeed, organisations need to work closely together to understand, analyse and form ‘one version of the truth’.
3. **Contracting and commercials** – explore innovative ICS focused solutions and draw on the best and most applicable models from the private sector.

5. Sustainability

As organisations look to the longer term, reaching a sustainable position requires more radical approaches.



Technology is the key

With the rapid pace of development and availability of new technologies, significant transformation is expected across the health sector in the coming years. This will have direct operational and financial implications for providers, particularly in the context of a move towards ICSs, where technology will be a key enabler to collaborative and sustainable working.

Technology will have the potential to save the health sector time and money, both through short-term focus on costs, where technology will allow for more visibility on the true cost of delivering services and long-term changes to how healthcare is delivered and managed, improving services to patients and improving quality and safety, through initiatives such as Scan4Safety. Organisations must tackle day-to-day financial pressures alongside long-term investment in technological advancements.

While historically technological innovation within the healthcare system has been focused on product innovation and evidence-based care, in recent years we have seen a shift in focus towards real-time outcome-based care where technology is used to transform how services are provided to key stakeholders. In the short to medium term, focus will inevitably remain on how technology can be used to drive financial savings. Providers must maintain and invest in transformational initiatives that will help deliver long-term financial sustainability.

Technology is impacting the sector in the ‘here & now’ in four key areas:

New technologies are changing how patients and the wider public manage their own health and wellbeing which is challenging the way the sector collects data beyond traditional methods. Wearable technology such as fitness bands and smart watches provide real time data that not only enables smarter decision making but harnessing such data to proactively manage high risk patients could save lives. In time, this may well be a critical factor that saves the NHS from its operational pressures.

1

Migrating systems onto online and digital platforms is revolutionising how the sector monitors its patients and move through the system (such as automated referrals and Perfect Ward). Further adoption by the sector would have a dramatic effect on reducing DNAs, front-end delays, as well as the efficiency of monitoring patients. Our experience is that whilst the technology exists, its uptake is often slow and hindered by previous projects.

2

Data analytics is having a profound effect on the way the sector is challenging its clinical effectiveness, patients experience and outcomes. Delays to taking corrective actions often worsen the pressures faced, therefore having access to ‘quality’ information will mean faster and more focused decision making that the sector needs to do more of.

3

In recent years, the sector has an increase in the use of robotics in healthcare provision. As one example, procedures involving surgical robots to facilitate minimally invasive surgery takes our capability into uncharted territory. As such technology’s move forward from trial/testing through to integration in our healthcare, the sector has to move forward with it by adapting behaviours and its processes.

4





Case study: West Midlands to become UK's first large-scale 5G testbed

The multi-million-pound trial of new high-speed connectivity will pave the way for the future rollout of 5G across the UK, making the West Midlands the first region in the UK ready to trial new 5G applications and services at scale.

Subject to formal approval, initial plans include:

- Hospital outpatient appointments and emergency consultations carried out remotely by video link no longer subject to dropage or latency barriers. As well as being more convenient for patients, this means they can play back their appointment at a later date or share it securely with a family member or carer to help keep them informed of their care.
- 'Connected Ambulances' - Paramedic crews at an incident could access specialist advice while they are at the scene (e.g. video conferencing with consultants or other clinical specialists). Live streaming of patient data from ambulance en route to hospital would help prepare the immediate care patients receive on arrival.

"This announcement is game-changing for the West Midlands economy," says Andy Street, Mayor of the West Midlands.

"This will be the backbone of our future economy and society.

"We have been working to put the foundations in place to grow the industries that will create the jobs of the future, particularly around driverless vehicles and life sciences, where we have a genuine advantage. To deliver the future of these industries we need the power of 5G.

"The potential of this technology is endless – and we will enjoy the benefits first.

"From monitoring the health of babies and the elderly, to the way people are linked to the economy of the future, how companies do business, how we provide public services, the experience of travellers on public transport and the way we deliver City of Culture and the Commonwealth Games – everything can be made better thanks to the power of this technology."

Espresso summary



How technology is impacting the sector

1. Technology will have the potential to save the health sector both time and money, through both a short-term focus on costs where technology can enable greater visibility on the true costs for deliver, and longer-term changes to service delivery.
2. Technology such as 5G, robotics and automation will increase accuracy and speed of back-office functions and add clinical facing time to ensure patients get the best and most appropriate care.



Contacts

National



Damien Ashford
Partner
T: +44 (0) 7787 120228
damien.j.ashford@pwc.com



Quentin Cole
Partner, UK Government and
Health Industries Leader
T: +44 (0) 7770 303846
quentin.r.cole@pwc.com



David Morris
Partner, Public Sector
Health Leader
T: +44 (0) 7841 784180
david.x.morris@pwc.com



Iain Alexander
Partner, Government
& Health Industries
Restructuring Leader
T: +44 (0) 7739 874619
iain.a.alexander@pwc.com

Regional

London



Shamil Ganatra
Director
T: +44 (0) 7852 191622
shamil.d.ganatra@pwc.com



Nancy Park
Director
T: +44 (0) 7725 633066
nancy.park@pwc.com



Hannah Cross
Senior Manager
T: +44 (0) 7850 516673
hannah.e.cross@pwc.com



Jacqui Dudley
Director
T: +44 (0) 7841 570653
jacqui.a.dudley@pwc.com

South East

North

Midlands

West and Wales



Matthew Lynn
Director
T: +44 (0) 7912 427204
matthew.r.lynn@pwc.com



Julie Aitken
Senior Manager
T: +44 (0) 7872 815782
aitken.julie@pwc.com



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2019 PricewaterhouseCoopers LLP. All rights reserved. PwC refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

190221-110405-ON-UK