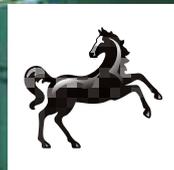


COMMERCIAL BANKING

HEALTHCARE CONFIDENCE INDEX

Insight from primary healthcare professionals

APRIL 2014



LLOYDS BANK

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FOREWORD



Ian Crompton.
Head of Healthcare
Banking Services, Lloyds
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Welcome to the Spring/Summer 2014 edition of the Lloyds Bank Commercial Banking Healthcare Confidence Index, the fifth wave of research based on primary healthcare providers' outlook for their businesses in both the short term (12 months) and longer term (five years).

The Index engages directly with primary healthcare professionals. Seeking insight from GPs, dentists and pharmacists, it examines issues and agendas that are specifically relevant to the sector, such as the impact on business confidence following the passing of the Health and Social Care Bill.

It is positive to see that confidence amongst healthcare professionals has improved from the last Index, not to a point of stability but to a stage where progress is beginning to be made against a backdrop of ongoing change.

In the last wave pharmacists lacked confidence in their capability to maintain margins, but this time we have seen a sharp upturn in short-term confidence from -23 to +7. This renewed confidence may also reflect their entrepreneurial approach, and it is interesting that 94 per cent intend to bid to provide additional healthcare services over the next five years.

Whilst optimism is rising amongst pharmacists, we are seeing a lot of GPs that want to leave the profession as well as 46 per cent that are ready to retire. Alongside the continued demise of the single handed practice, there are increasing numbers of GPs that are reluctant to become full partners and this, coupled with other financial pressures, seems to be accelerating the move towards more mergers and consolidation.

The wider economic uplift has boosted dentistry morale, with dentists again the most confident profession in the short-term, and it is interesting that there has been a noticeable shift in the number of dentists expecting private practice to again become more profitable than NHS.

Primary healthcare is going through unprecedented change; some continue to wish it wasn't happening, but others are rising to the challenge. We asked respondents how 'happy' they were working in healthcare – the results between the professionals reflected their overall business confidence, but the average was 6.3 out of 10 – so perhaps a hint of a smile?



Whilst optimism is rising amongst pharmacists, we are seeing a lot of GPs that want to leave the profession early.



METHODOLOGY AND OVERALL RESULTS

A blended figure of both the short and long term projections is used to provide a measure of overall business confidence within the primary healthcare sector.

As in our previous indexes, we have sought to gain responses from three primary healthcare professions: GPs, dentists and pharmacists.

The responses for each profession are given equal weighting within the overall index figure. This is a dispersement index, so any figure greater than zero represents a positive outlook.

The maximum value achievable is +100 and the minimum is -100.

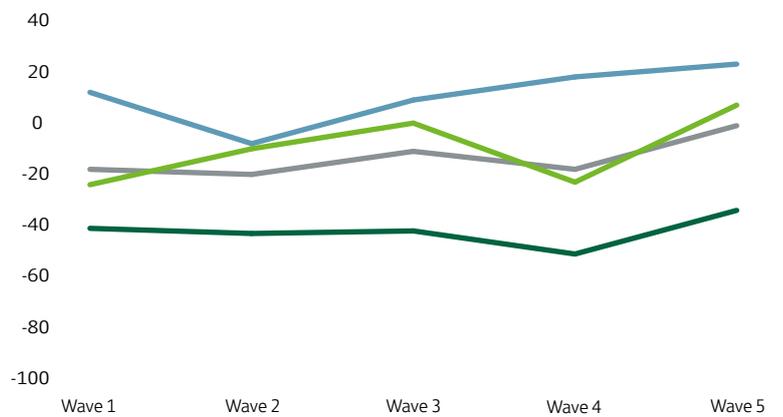
The previous survey recorded a long term combined figure of -70, indicating a low level of confidence across the three primary healthcare sectors collectively. This wave however has seen overall confidence improve further to -65.

In the short term, both pharmacist and dentist confidence has increased considerably to +7 and +23 respectively. The only profession now showing a negative outlook in the short term is GPs, which at -34, is still the highest level of confidence reported by this group since the index was launched back in 2011.

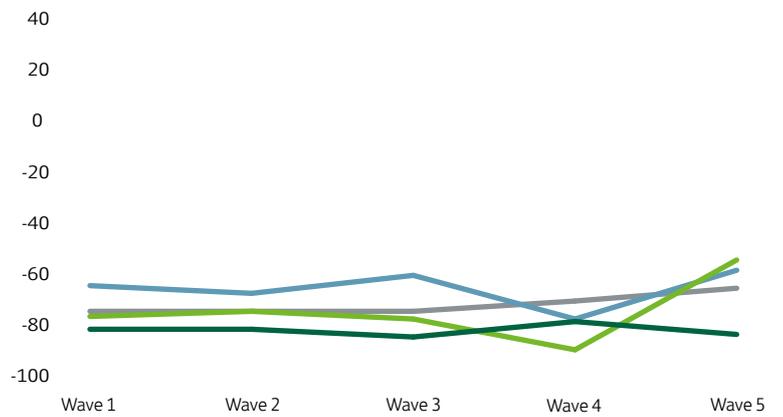
Key

- GP
- Pharmacist
- Dentist
- Combined

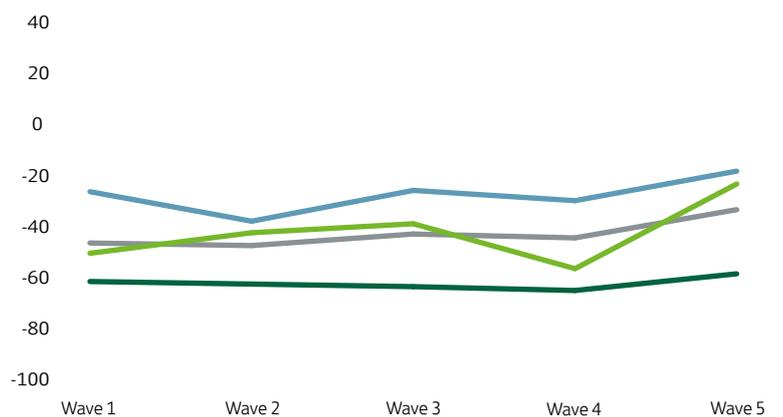
SHORT TERM HEALTHCARE INDEX



LONG TERM HEALTHCARE INDEX



COMBINED HEALTHCARE INDEX





94%

Nearly all pharmacists intend to bid to provide additional healthcare services within the next five years.

34%

Over a third of dentists would encourage their son or daughter to follow them into the profession.

42%

Nearly half of GPs are happy working in healthcare.

GP RESULTS

BOB SENIOR

Head of Medical Services, Baker Tilly

It is interesting that short-term confidence amongst GPs is marginally more optimistic than their long-term feelings, and higher than it has been for a year, but I would attribute this to the fact a third are heading for retirement.

With a limited time left in the sector for those GPs, it is natural that they are less concerned about the changes in the sector, whilst there is a real sense of on-going unease for GPs facing upheaval into how they deliver healthcare.

It is realistic that 90 per cent of GPs envisage mergers will become a dominant feature in the next five years, but I have noticed a lack of clarity as to how federations will perform. Yes they allow for greater workload share amongst partners and staff, but with the possibility of a seven day working week becoming a reality, it is unclear as to where the capacity will come from to meet the demands this entails.

Clearly GPs don't think single handed practices will be around for much longer, with 77 per cent expecting them to be a symbol of the past in five years time. Again this isn't surprising, since I am seeing increasing numbers of small practices imploding due to financial pressures and partners leaving.

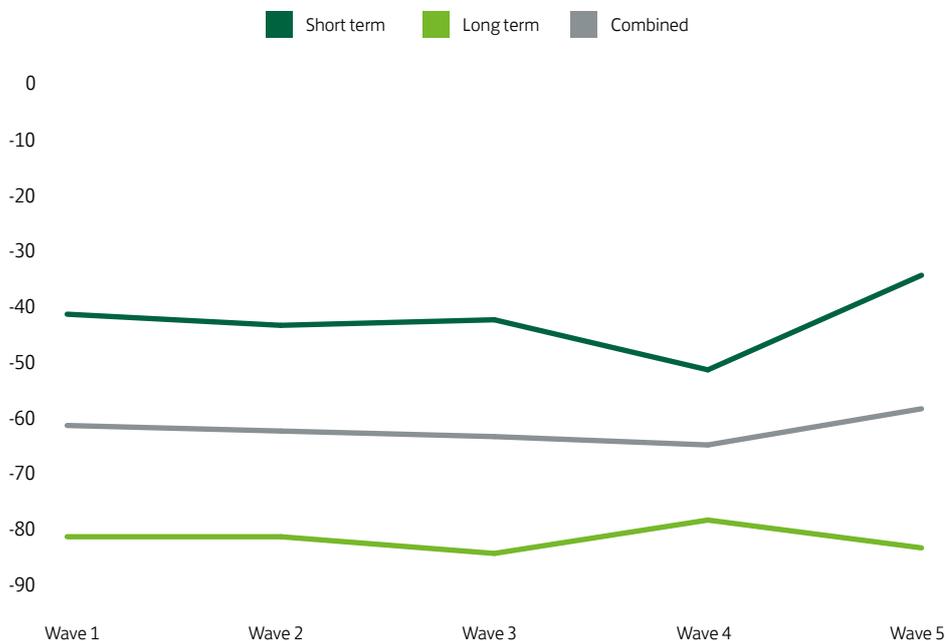
With these changing business models challenging even the most entrepreneurial GPs, recruitment is becoming an increasing concern, and with less than a third of the GPs surveyed set to encourage their children to enter the profession, the challenge looks set to be a long term one.

The topic of moving NHS services into the community is heated, and I have seen many practices realise how onerous contract tendering is. It's a new process for most parties, and whilst larger practices often look to bring in external consultants to help prepare their bid, they need to look carefully at the direct relevant experience, and successful track record, that the chosen consultant has.

91%

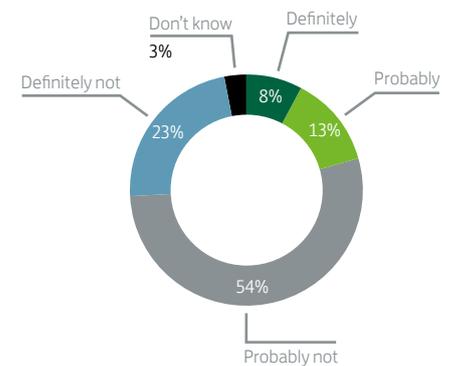
of GPs envisage mergers will become a dominant feature in the next five years.

GPS' CONFIDENCE INDEX



QUESTION ONE

Do you expect single handed practices to still be around in five years time?



DR ARVIND MADAN

Managing Partner, Strategy and Business Development, Hurley Group

Each time we do this survey I hope for a surge in confidence from GPs, but yet again the results show how optimism remains low amongst GPs.

It is not surprising when you consider the growing demands from both our bulging waiting rooms and also the commissioners, who are keen to continue pushing GPs towards mergers and collective provision so that the new services being tendered are under fewer roofs and therefore easier to control.

Many GPs have or are planning to embrace consolidation because they believe it is the only way to survive the cuts, but with our already stretched capacity likely to become more fraught in the coming months, perhaps now is the time to embrace change rather than fight against it.

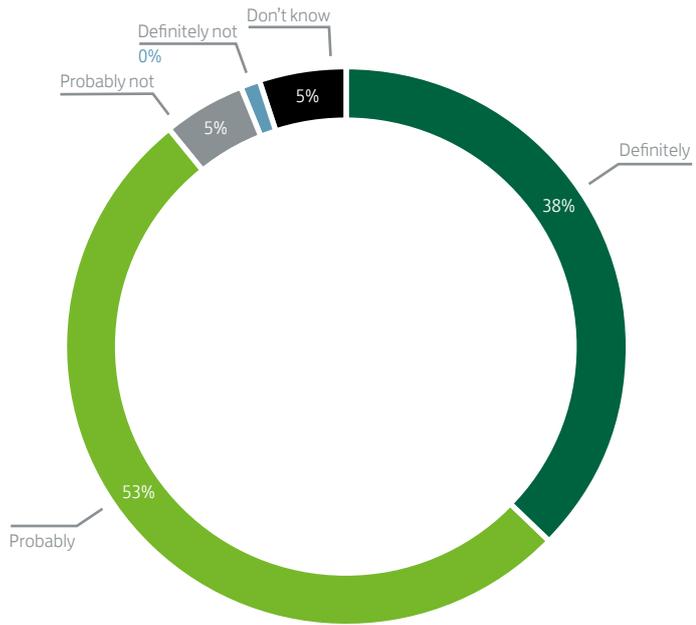
Something must be done as the expectation to provide varied services is increasing despite the means to do so being constantly eroded. 37 per cent of GPs have plans to bid for upcoming contract opportunities, and I believe this leads to a desperate need to educate patients so that they understand who in a multi-service health centre they need to turn to for care.

This wave of the Healthcare Confidence Index sees GPs retain their place as the most pessimistic profession in the long-term, and with 95 per cent of respondents expecting their financial pressures to increase over the next five years this is an understandable reflection on widespread sentiment.

The changes are unrelenting and inescapable. I believe that the growth of federations into mature provider entities that hold significant contracts, which ultimately gives the commissioners confidence in our capabilities, is essential to help GPs turn the corner and regain morale and pride in what for many is still a vocation.

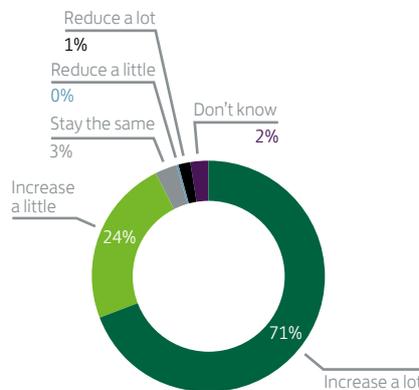
QUESTION TWO

Are you expecting more practice mergers, co-locations and/or larger practices over the next five years?



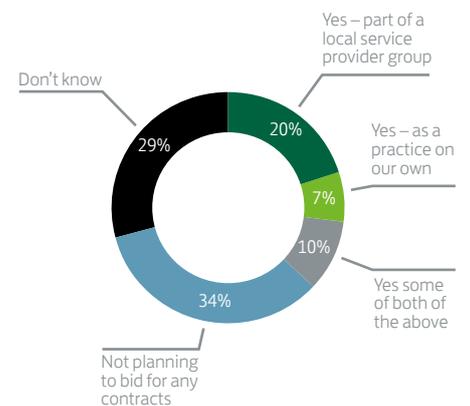
QUESTION THREE

To what extent do you expect the financial pressures of the business/practice to increase over the next five years?



QUESTION FOUR

Are you currently or planning to bid to provide services under the new AQP (or similar) criteria?



PHARMACISTS RESULTS

RAFIQUE BHOJANI

Pharmacist and Director, Order Line Limited

Compared to six months ago the mood amongst pharmacists has improved dramatically, particularly in the short-term with confidence increasing from -23 last time to +7 this wave.

This optimism stems from a stronger economy and practitioners capitalising on funding opportunities. With pharmacists more qualified than before they are better placed to take advantage of growth opportunities and to increase their future earning power – over a third of those surveyed expect their profits to increase over the next five years.

Nearly all pharmacists questioned want to bid for primary healthcare services over the next five years. This presents a solid opportunity to generate income, but many pharmacists do not have the time to complete what can be a complicated process.

It means reaching out to experienced parties that have successfully bid to take on

NHS services for guidance, as we see that the accreditation of winning a contract often leads to increased confidence from patients having to utilise a traditionally hospital-led service from an untraditional source.

Tied in with the 84 per cent of pharmacists that expect consolidation within the sector to increase and the resurgent economy, pharmacists are taking positive steps to embrace the role they have in providing integrated healthcare.

Expanding businesses is a key focus for 80 per cent of pharmacists, which reflects the number of ambitious pharmacists that are ready to make changes. The uncertainty within the NHS surrounding contracts and services continues to rumble on and pharmacists are working to prepare for any upheaval.

Change is afoot, but there is generally a much improved frame of mind than six months ago. Whilst the older generation seem more content to move on from an industry they do not recognise anymore, younger pharmacists increasingly have the ambition to win services and drive their practice forward.

84%

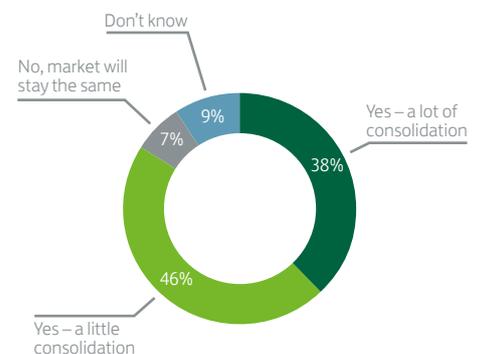
of pharmacists expect consolidation within the sector in the next five years.

PHARMACISTS' CONFIDENCE INDEX



QUESTION ONE

Do you expect to see further consolidation in the pharmacy market over the next five years?



KEVIN NICHOLS

Managing Director, The Pharmacy Consultancy

For the first time since this survey was launched in 2011 it is pharmacy that is the most confident sector, with pharmacists quickly recognising that bidding for and ultimately uploading new primary care services is key to help drive their businesses forward.

Short-term confidence is growing within the industry, in stark contrast to the uncertainty reported across the board six months ago. I have seen this reflected with a significant increase in the number of pharmacists keen to bid for additional primary healthcare services in the next five years, which is noticeable by the surge of pharmacy owners that I have seen looking to source viable acquisition opportunities to develop larger networks that can help to deliver these care services.

The general degree of optimism in the sector is being further propelled by an increasing number of ambitious first-time buyers entering the market and opening new pharmacies, as they look to quickly capitalise on the growth opportunities available to them.

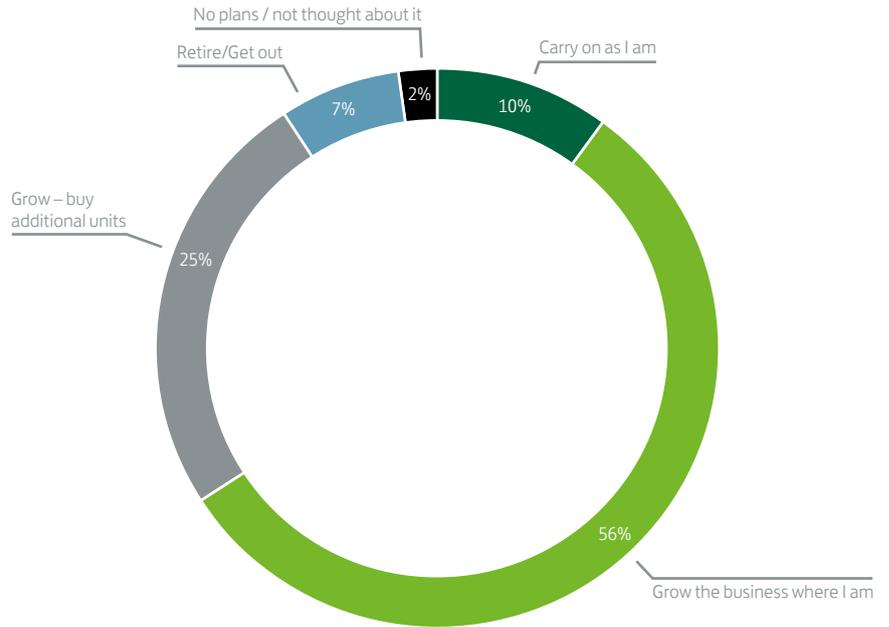
This has been an increasing trend over the past few months, and with the commercial nature of pharmacy businesses, they are well suited to innovate and offer services such as inoculations and blood testing to patients in a cost-effective manner. This results in both a simple service solution for patients in a familiar location and increased profit opportunities for the business, which is an area that nearly half of pharmacists are expecting to see growth in over the next 12 months.

We are seeing more pharmacies plan for consolidation, with 84 per cent of respondents expecting this to become a reality in the next five years. Relocating into larger health centres is becoming an increasingly popular move to facilitate a more efficient working model, and I think as more pharmacists look to secure funding support from their banks this will increase further over the next 12 months.

Morale amongst pharmacists is climbing, and long may it continue.

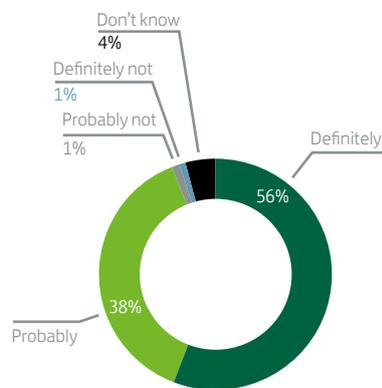
QUESTION TWO

Which of the following statements is closest to your current plans for the next five years?



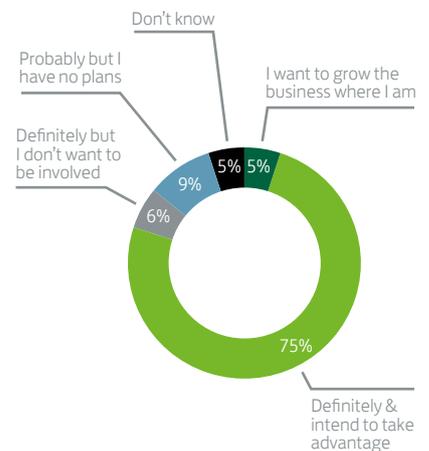
QUESTION THREE

Do you intend to bid to provide additional primary healthcare services within the next five years?



QUESTION FOUR

Do you expect your pharmacy to be undertaking more primary care services over the next five years?



DENTISTS RESULTS

GRAHAM REW

Specialist Dental Accountant at Hazlewoods and NASDAL member

What is unsurprising about these results is that dentists are again the most confident regarding their overall future prospects. A recovering economy reflected by a steady return to private dental care is helping to drive confidence and short-term profitability growth, against a backdrop of change sweeping the industry.

What is surprising however is that whilst dentists demonstrate short-term buoyancy, their morale reduces when looking five years down the line, falling from +7 to -54. Uncertainty regarding the funding structure of the impending NHS dental contract is damaging confidence, with 80 per cent apprehensive that adequate financial support will be introduced, leading to many dentists foreseeing a significant shift from NHS treatment to private dental care.

The results also show an interesting insight into the future of NHS dentistry. Whilst the last wave suggested that NHS practitioners would

continue to generate larger profits than their private sector colleagues, it now appears that this is likely to reverse over the next five years.

The lack of clarity surrounding the implications of the contract could be why 86 per cent of dentists feel that financial pressures will increase over the next five years. But dentists aren't the sort to sit back. An entrepreneurial sector by nature, 69 per cent are planning to grow their business to help overcome any possible financial pressures brought on by the NHS contract.

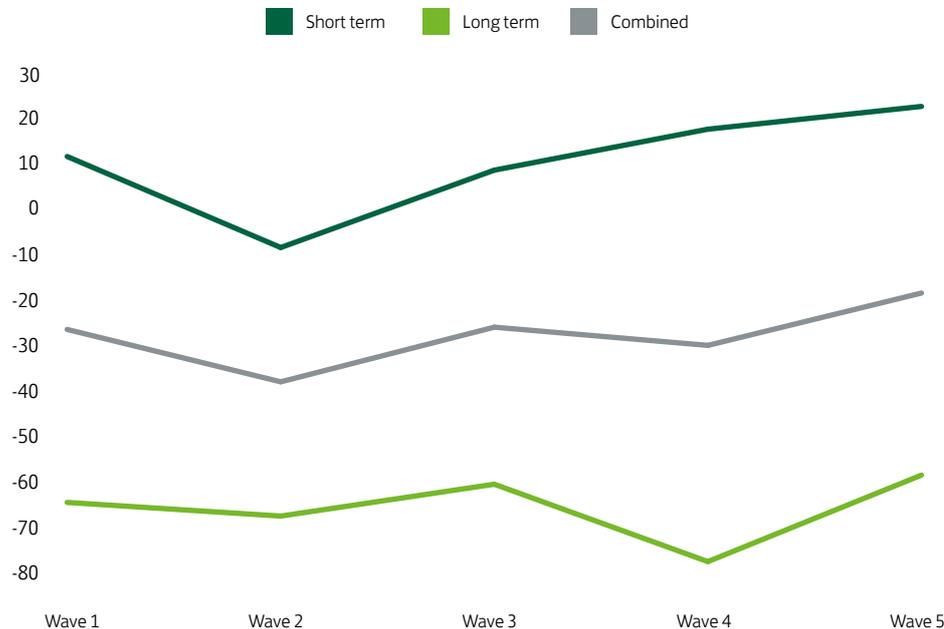
Over a fifth of dentists want to acquire new sites, but the primary focus for organic growth is by expanding existing practices. I have seen an increase in the number of dentists opening additional surgeries to attract more patients and accelerate profit margins, as competition within the sector continues.

The sector is in a strong position, and long may confidence remain positive. It will be interesting to see how the NHS contract shapes out over the coming months if uncertainties are resolved.

69%

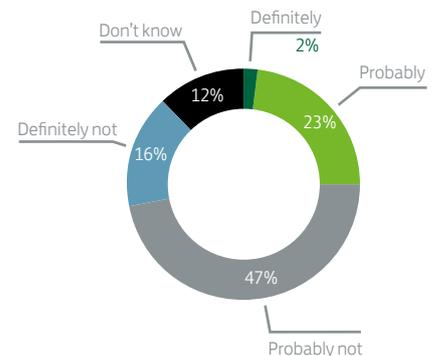
of dentists are planning to grow their business to help overcome any possible financial pressures brought on by the NHS contract.

DENTISTS' CONFIDENCE INDEX



QUESTION ONE

The latest statistics show NHS dentists are more profitable than Private; do you expect this to be the case in five years time?



JAS MATHAROO

Director, Nice Teeth Limited

When you ask a dentist how optimistic they are feeling, the response can vary dramatically depending on whether they are reviewing their prospects for the immediate future or how things are set to pan out further down the line.

The survey reveals for the fifth wave running that the sector is the most confident in the short-term, with over half of those questioned expecting their practice profits to increase over the next 12 months. This show of positivity comes despite the uncertainty surrounding the impending introduction of the new NHS contract, which is causing long-term confidence to dip considerably.

With NHS contracts dentists are usually in the position where they are aware of the levels of cashflow available to them over an agreed period of time, but with 80 per cent unsure that the proposed new contract will be adequately funded it is unsurprising that 89 per cent of dentists believe that the financial pressures on their business will increase over the next five years.

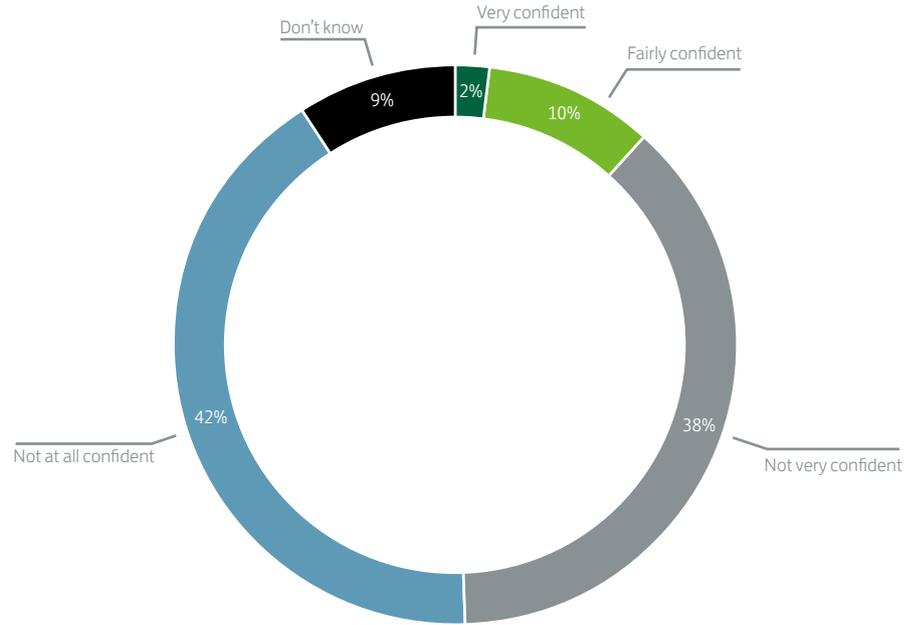
Over two thirds of dentists are planning to grow their business over the next five years, as they look to build their practice as we emerge from the recession and put themselves in a strong position to overcome any potential fallout from future contract allocations. With a limited number of NHS contracts available, many practitioners are focusing on introducing added value services, such as aesthetic and dental whitening solutions, as offering private services becomes an increasingly popular choice for dentists as a route to boost profits.

An interesting new trend is emerging for dentists to team up with opticians and pharmacists to offer their services in one clinic. In a time when reducing costs remains a driving force of business plans, this leads to shared premises costs, shared footfall from patients and the convenience of having multiple skill sets under one roof. Unlike traditional consolidation these are independent of GPs, and I expect to see more of these partnerships facilitated over the next six to 12 months as entrepreneurial dentists seek to make innovative changes.

Dentists are bracing themselves for the impact of the new NHS contract, and with younger, forward thinking dentists entering the market and exploring ways to offer new services cost-effectively, it is set to be an interesting few years in the sector.

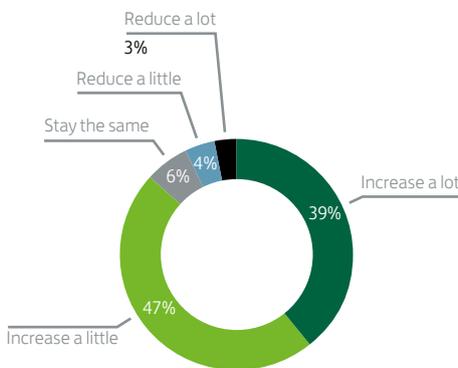
QUESTION TWO

Even if you have a Private Practice how confident are you that the proposed new NHS dental contract will be adequately funded?



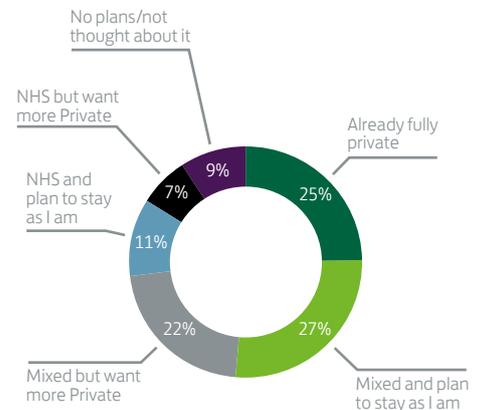
QUESTION THREE

To what extent do you expect the financial pressures of the business/practice to increase over the next five years?



QUESTION FOUR

On the NHS v Private issue, which best describes your current status & thinking?





BRINGING ESSENTIAL DENTAL CARE TO THE LOCAL COMMUNITY

7,800

Treetops Dental surgery now provides services for around 7,800 patients in its local community, including routine dental care, orthodontics and cosmetic dentistry.

Treetops Dental Surgery in Wolverhampton extended and completed the refurbishment of its property, after securing a £180,000 loan from Lloyds Bank Commercial Banking.

Providing services for around 7,800 patients in its local community, including routine dental care, orthodontics and cosmetic dentistry, the dental practice now has modern facilities including two additional surgeries, decontamination suite, disabled access, baby facilities and a laboratory.

Treetops Dental Surgery's owner Polly Bhabra recognised the need to extend and update the practice's 1930's art deco building, in order to better service more patients and create a more welcoming atmosphere for visitors.

She said: "We were very pleased to complete the refurbishment of Treetops Dental Surgery and open the new surgeries, which have enabled us to reach a greater number of patients and increase our capabilities and access.

"The refurbishment means we are in a better position to service the local community. The funding and support we received from Lloyds Bank's specialist team of healthcare managers has been vital to make these plans a reality."

Keith Willett, relationship director at Lloyds Bank Commercial Banking, said: "As is reflected in the latest healthcare confidence index findings, we've seen a notable shift in confidence in dentists in the last six months. The expansion and refurbishment of Treetops Dental Surgery is evidence of this, and shows that dentists are going the extra mile to provide the best service and meet increasing demand. The extended practice serves as an excellent healthcare facility for local residents and has allowed for even more patients to register."



BENEFITS OF CONSOLIDATION TO OFFER INTEGRATED HEALTHCARE



The relocation enabled the pharmacy to extend its opening hours, allowing patients to collect their medication after work and making its services more accessible for the public.



Ovenden Pharmacy relocated from its original premises to Beechwood Medical Centre in Ovenden. The pharmacy offers a full range of services including NHS prescription dispensing and additional specialist on-site treatments.

The pharmacy relocated to a larger building, closer to the GP's surgery for patients, with two on-site pharmacists and eight staff. It also extended its opening hours, allowing patients to collect their medication after work and making its services more accessible for the public.

Pharmacist and owner of Ovenden Pharmacy Qasim Ashraf said: "The move to new premises marks a new chapter in our growth, enabling us to offer more services within the pharmacy, including out of hours prescription dispensing.

"An advantage of the new location within the Beechwood Medical Centre is that we are located close to the GP's surgeries and are more easily able to offer prescription collections for patients, as well as staying open much later on weekday evenings and at weekends."

Stephen Midgley, healthcare banking relationship manager at Lloyds Bank Commercial Banking, said: "In line with the latest healthcare index findings which show that pharmacists are adapting to change, Ovenden Pharmacy is a great example of a local business that has turned to consolidation to provide a better service for the community.

"Our specialist Healthcare Banking teams receive regular training to ensure that they can help pharmaceutical businesses through their growth. The new premises are larger and more modern, and the location is ideal for both the business and its customers, creating more opportunities to collaborate with the medical centre to further develop its range of services in the future."

BUILDING CONFIDENCE



Adam Thompson.
Director, Primary Care
Surveyors

With the full ramifications of the widespread industry upheaval yet to take full effect, the uncertainty reported six months ago is still evident amongst most GPs.

The admission of 90 per cent of GPs that practice mergers are set to become the norm over the next five years is to be expected, but what many practices are concerned with is succession planning.

These latest index results show that a third of GPs are nearing retirement, and with many of them practice partners, recruitment of new partners must be a priority. With the management and financial pressures that come with leading a merged practice, and the number of younger GPs not currently in a position to afford to take on this level of commitment, I often see practices that are struggling to find the right partner candidates.

Because of this I believe we will see a rise in multi-faceted partnerships, with an increasing number of salaried GPs working alongside property owning partners to share the

responsibilities of managing a larger practice and bidding for NHS services.

It needs to be clearer for GPs as to how these services will be paid for. With the current NHS England system there is a lack of clarity regarding who GPs turn to when they are looking to open a new surgery or bid for a contract. I believe the process needs to improve to help GPs understand where they are getting their money from, and I think this confusion is why more than third of GPs aren't planning to bid to provide additional services.

As different models of healthcare are evolving, it paints an interesting five years ahead for GPs. Combined with the looming possibility of weekend hours and the concerns over how these will be remunerated, there is a growing pessimism amongst GPs, who are again the least confident off all those surveyed.

I feel it needs to be clearer as to how partnerships can facilitate contracts and longer hours, as the likelihood of single practices diminishes, so that the fragile confidence of GPs can be rebuilt.



Almost a third of GPs are nearing retirement. With many of them practice partners, recruitment must be a priority.

21%

Over a fifth of GPs have a formal partnership agreement that needs updating.

CLOSING THOUGHTS



Lynne Abbess.
Partner, Hempsons

What was before a closed market is now more open for the taking, with primary healthcare services that were once solely the domain of GPs or the “pure” NHS, now open to other providers.

The opportunities this presents may well be the main driving force behind pharmacists' rising confidence, with the results showing an upsurge in the number bidding to secure new services to grow their business - nearly three times as many pharmacists are planning to bid for new services compared with GPs.

A steady income has been shown to result in improved confidence amongst GPs, but as the latest results show that most of them do not expect their financial pressures to improve over the next five years, it seems any rise in optimism within this sector is likely to be some way off.

The upheaval GPs are facing is resulting in a significant number of mergers, particularly as we see more single handed practitioners reaching retirement. It is becoming commonplace for

innovative practices to swallow up smaller practices, and many retiring GPs are enthusiastic about this prospect as it ensures continuity for both their staff and patients.

GPs are also facing practical restraints in their ability to develop their businesses through lack of available NHS funding to support the development/extension of new premises, notwithstanding the availability of bank funding.

In stark contrast to this is the buoyancy reported by dentists, who are diversifying by introducing more private practice hours and add-on services.

GPs aside, there is renewed short-term confidence amongst dentists and pharmacists, but concern in the long-term in all three professions. Healthcare is currently characterised by change, and there is a need to get through this transitional period before real confidence is likely to return.



Nearly half of all GPs, dentists and pharmacists are happy in their profession.

32%

Nearly a third of all GPs, dentists and pharmacists expect their profits to increase over the next 12 months.

For more information



Go to lloydsbank.com/healthcare



Call us on 07802 750707



Email Ian.Crompton@Lloydsbanking.com

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