



Laboratory services and the Healthscope sale

Introduction

This paper looks at issues associated with the sale of Healthscope's laboratory services and the wider political issue of privatisation of laboratory services in New Zealand.

Laboratory testing plays a critical role in health care, providing clinicians with information that enables disease prevention, diagnosis and treatment. However, like all public health care systems, laboratory services face increasing pressures from marketplace, environmental and political factors.

Background

In July 2020, Healthscope sold its New Zealand pathology business, Asia Pacific Healthcare Group (APHG), to the New Zealand Super Fund (Super Fund) and the Canadian Ontario Teachers' Pension Plan (Ontario Teachers') who will each have a 50 percent share. Although media reports have stated that the transaction is expected to close by February 2021 (subject to customary approvals, including from New Zealand's Overseas Investment Office), the ASMS understands that the new owners hope to take over on 30 November 2020.

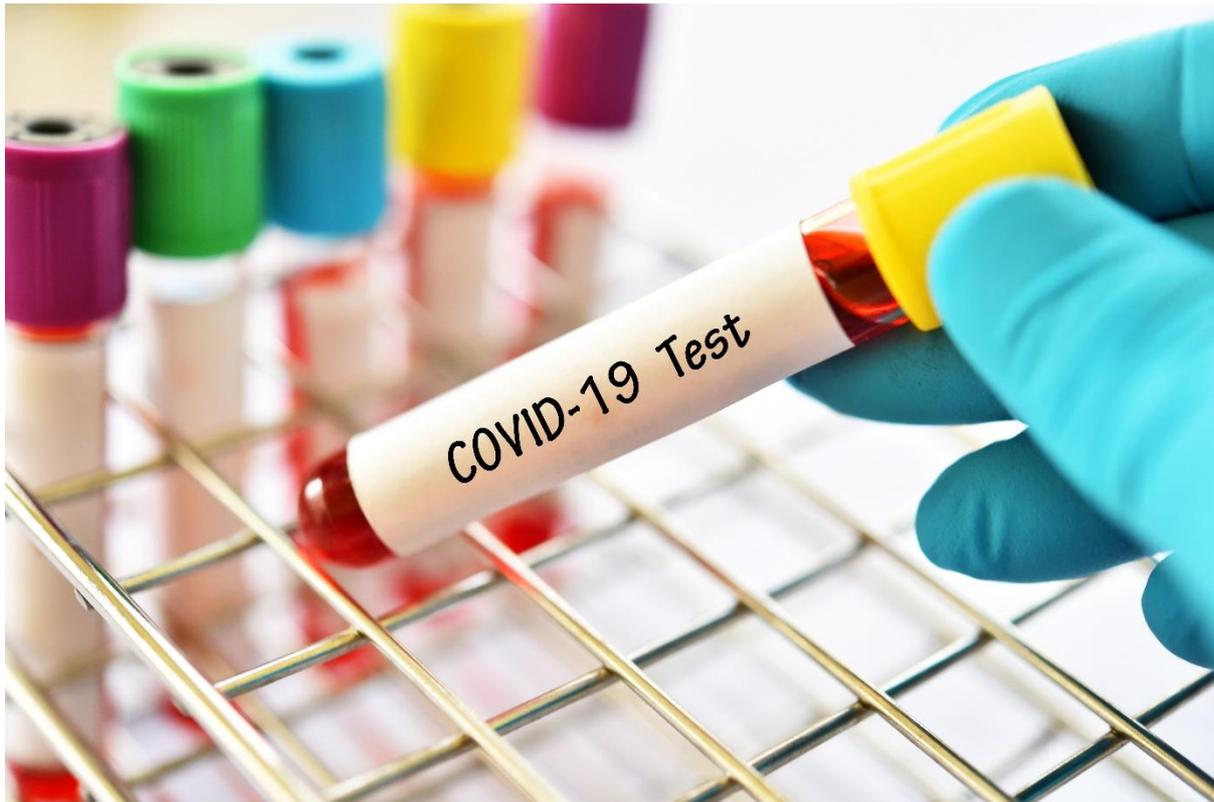
The sale represents a major transaction in the New Zealand market and a significant investment for the Super Fund. APHG operates as Labtests Auckland, Northland Pathology, Taranaki Pathology Services, Southern Community Laboratories, Wellington SCL, Canterbury SCL, and Medlab South. The primary aim of this investment is to generate revenue and to make a profit.

Appendix 1 provides further information on the parties involved in the Healthscope sale.

Private ownership of laboratory services

There are wider political issues regarding the privatisation of laboratory services, which began in New Zealand 15 years ago. At present, Healthscope Ltd and Sonic Healthcare are the main players. Appendix 2 provides a breakdown of the ownership of private laboratory service providers in each DHB area.

A rationale given for the privatisation of laboratories is to make financial savings for DHBs. ASMS raised concerns about privatisation in a report published in 2014 on the proposed privatisation of Wairarapa, Hutt Valley and Capital & Coast DHBs' laboratory services. The laboratories in these districts were sold to Southern Community Laboratories (SCL). The report noted that there is little evidence of the cost-effectiveness of private laboratory services compared with public services, due in part to the variations in the services provided, the way the data are collected, and a lack of transparency and public reporting. Private corporations are protected by law from the public disclosure of 'confidential business information'. This lack of transparency hinders an evaluation and comparison of private vs. public health laboratories. The available evidence, however, does not support the notion that private provision represents better value for money than public provision.



Once laboratories are in private ownership, they are exposed to future acquisition, disposal, mergers or takeovers that are outside DHBs' or government's control, although public health funding is at stake. Some of the laboratories in the Healthscope sale have previously changed ownership. For example, Southern Community Laboratories acquired 100 percent shares in Medlab South from Sonic Healthcare in 2012.

The Super Fund's ownership share of Healthscope's laboratories will bring them partially into New Zealand public ownership. However, the Super Fund and Ontario Teachers' exist to make a profit from their investments and this can be viewed as a cost to the New Zealand public.

In both public and private ownership of laboratories, financial performance will be a factor and a key part of that will be economising and reducing costs. It could be argued that there is no real difference between a private owner who is motivated to earn a greater profit by reaping more for less and a public owner who is motivated to curb expenses to stay within a budget. Both will be looking to make savings. However, where health services are publicly owned there is an ability for people to exert pressure on decision-makers to appropriately fund services to meet the need.



Appendix 1: Parties involved in the sale of Healthscope laboratories

Healthscope Group

Healthscope Group listed on the Australian Stock Exchange in 1994. It is Australia's second largest private hospitals operator. In 2010, it was acquired by The Carlyle Group (an American multinational corporate). In June 2019, it was taken over by Brookfield Asset Management, a Canadian private equity firm.

In July 2020, Brookfield sold Healthscope's New Zealand pathology business, Asia Pacific Healthcare Group (APHG), to the NZ Super Fund and Ontario Teachers' Pension Plan who will each have a 50 percent share. The sale is valued at NZD\$550 million.

Asia Pacific Healthcare Group (APHG)

APHG is New Zealand's largest human and veterinary pathology networks, operating 150 collection centres. The business is currently part of Healthscope.

NZ Super Fund

The Guardians of New Zealand Superannuation (a Crown entity) invests government contributions into a global portfolio of investments, the NZ Super Fund. The Super Fund pays for the cost of universal superannuation payments. Since inception in 2003, the Guardians has successfully invested the Government's contributions in New Zealand and overseas, returning 10.15% per annum after costs and before NZ tax. It has a long-term time horizon and invests contributions into a growth-oriented and diversified global portfolio of investments. The Super Fund has around NZ\$46 billion in assets, including more than \$6 billion invested in New Zealand, however, this value has taken a \$10 billion hit due to Covid-19. The Super Fund takes on the risk with growth assets as it believes it can ride them out and potentially benefit over the long-term.

Ontario Teachers' Pension Plan (Ontario Teachers')

Ontario Teachers' invests and administers the pensions for approximately 329,000 active and retired schoolteachers in Ontario, Canada. It is one of Canada's largest institutional investors, having reported \$207.4 billion in net assets on December 31, 2019. It has a strong track record for investment performance with an average annual return of 9.7% since inception in 1990.



Appendix 2: Ownership of private laboratory service providers in each DHB area

Location	Contracted provider	Current owner
Northland	Northland Pathology	Healthscope
Auckland	Labtests Auckland	Healthscope
Waitemata	Labtests	Healthscope
Counties Manukau	Labtests	Healthscope
Waikato	Pathlab	Pathology Associates
Bay of Plenty	Pathlab BOP	Pathology Associates
Taranaki	Taranaki Pathology Services	Healthscope
Hawkes Bay	Medlab	Sonic Healthcare
Lakes	Pathlab	Pathology Associates
Tairāwhiti	Medlab Central	Sonic Healthcare
Whanganui	Medlab Central	Sonic Healthcare
MidCentral	Medlab Central	Sonic Healthcare
Capital & Coast Hutt Valley Wairarapa	Wellington SCL	Healthscope
Nelson Marlborough	Medlab South	Healthscope
Canterbury	Canterbury SCL	Healthscope
South Canterbury	Medlab South	Healthscope
Southern	Southern Community Laboratories	Healthscope

