

# PERSPECTIVES

## Testing times for the medical labs

The blood test ordered by your GP will soon be going to a new company. Health reporter Martin Johnston investigates

IF AN Australian-owned supermarket offered to cut your \$1000 monthly food bill to \$800 while providing the same choice of bread, your favourite bacon and queues no longer than now, you'd line up fast. Right?

You might be curious about how they could do it so much cheaper than the existing Australian-owned supermarket, but you wouldn't let that stop you from planning how to spend the \$200 saving.

That is what is happening in the market for non-hospital medical laboratory tests in the Auckland region, except that the new laboratory does not yet exist.

The buyers — the Auckland, Waitemata and Counties Manukau district health boards — have of course probed more deeply than the average supermarket shopper, but seem unable or at least unwilling to explain why the sellers, two parent companies listed on the Australian Stock Exchange, offered such apparently different prices.

Medical laboratories test for all kinds of human illnesses, from diabetes to cervical cancer.

Diagnostic Medlab and its predecessors have provided pathology services in Auckland for more than 70 years. It has a large laboratory in Ellerslie crammed with equipment to test samples of human flesh and blood, and a network of around 85 collection centres where specimens are taken from patients.

But despite its existing facilities, knowledge of its market and good reputation, Diagnostic lost its bid to stay on.

Newcomer Labtests Auckland streaked in to win the contract, valued at more than \$560 million over eight years. It takes over next July.

The health boards say the new arrangement will save them more than \$15 million a year compared with their current spending and, like Labtests, want to portray the transition as business-as-usual.

Diagnostic, however, backed by the Medical Association and share market analysts, are highlighting the risks of the change.

Stockbroking firm Ord Minnett is at a loss to explain why the health boards serving nearly a third of the country's

### THE FIGURES

- Eight-year contract valued at more than \$560 million — an average of at least \$70 million a year.
- Current contract expected to cost nearly \$79 million this year.
- New contract's savings expected to exceed \$15 million a year, compared with current contract.
- Savings will be used for other health care. In theory enough to pay for 90 more hip replacements per month.



population would take the "significant risk" of switching from a trusted, established company to one that has no laboratory or other facilities.

"Any hiccup on delivering the pathology services by July 2007 start-up would seem like a potentially significant political problem," the firm says.

The Medical Association, like Diagnostic, fears instability unleashed by the changes will drive laboratory staff, particularly pathologists, overseas.

Pathologists, doctors who mainly analyse test samples, are already in short supply and many of the 37 at Diagnostic were hired from overseas. It is feared the disruption will force them back into the



**MODERN:** Diagnostic Medlab CEO Arthur Morris with state-of-the-art technology in the Ellerslie laboratory. **INSET:** A staff member arranges blood samples.

PICTURES / KENNY RODGER

international market in pursuit of greater job security and higher pay.

The battle for the contract is a tussle for dominance between two Australian corporates.

Diagnostic is owned by Sonic Healthcare, which has pathology or radiology centres in six countries, including laboratories throughout the South Island and in several parts of the North.

Labtests Auckland is 77 per cent owned by Healthscope, with minority stakes owned by pathologist Dr Tony Bierre, an elected but currently non-active member of the Auckland health board, and Lee Mathias, an owner of maternity hospital Birthcare Auckland and a former public hospital official.

Healthscope has only one other human pathology investment in New Zealand, in Northland, but its laboratories also operate in Australia and Malaysia

and it is Australia's second largest private hospital operator. It has veterinary laboratories throughout New Zealand.

Auckland health board chief executive Garry Smith says from next July the region's community laboratory service will be "very similar" to now, but there will be "opportunities to be innovative and look at different ways of doing things".

The most obvious change will be a declining number of collection centres from around 85, to 43, but both bidders had committed to this order of reduction, which Mr Smith says will bring Auckland into line with international standards and other New Zealand cities.

More blood tests are expected to be taken at GP clinics, which medical groups have said will be an extra cost for patients, but Dr Bierre disagrees, saying the clinics will be paid for the work and

training will be provided. It is hoped that taking more tests at clinics will increase the testing rate for unwell people in hard-to-reach groups, mainly those in areas of poverty and high Maori and Pacific populations.

Dr Bierre also suggested this week that money could be saved by reducing the turnaround time on some non-urgent tests, but later added that Labtests would not be pushing this.

Despite scepticism that he can create a fully-functioning lab service within 12 months, one that processes more than eight million tests a year, Dr Bierre remains confident.

He wants to use any "spare capacity" in the region's four public hospital labs — although those laboratories seemed unaware of that wish — and has been scouting for a suitable building and talking to equipment suppliers. Processing

machines would take three months from order to delivery.

Labtests expects to spend \$18 million setting up.

Dr Bierre hopes to buy Diagnostic's Ellerslie laboratory and to attract staff from among his rival's 650 fulltime equivalent employees.

But analysts think it "extremely unlikely" Diagnostic would sell.

Diagnostic's chief executive, pathologist Dr Arthur Morris, says: "If they have put a bid in on the suspicion that by buying we are going to have a firesale, then that was an extraordinarily unwise assumption to have made. It's not something we are contemplating or would look on favourably as an option."

Legal action by Sonic seems likely, but all Dr Morris will say is: "We're considering all our options. All sorts of redress is possible but we've got to explore and get advice on a number of issues."

He will be digging for signs of unfairness in the boards' contracting process, but will be hampered by the confidentiality of the Labtests contract.

"If the bid has been given on the basis of a different structure that impedes service delivery to primary health care providers, that's not comparing apples with apples," said Dr Morris.

"We would feel that that wasn't a particularly level playing field."

But Mr Smith is adamant the process was fair and will withstand challenge. Dr Bierre, a former Diagnostic pathologist who resigned in 2002 and later failed in a personal grievance claim, took the precaution of excusing himself from Auckland board affairs six months ahead of the community laboratory contracting process.

Mr Smith had the request-for-proposal process vetted before, during and after by Audit New Zealand. He says both companies were asked to bid for the same service, but were not invited to scrutinise each other's proposals.

"This is not an auction. It's about having a level playing field. Everyone has bid on the same level of information."

He says it's not for him to explain how Labtests' bid could be \$15 million a year less than the \$79 million Diagnostic expects to make in its final year. "That's the contractor's internal workings."

Health authorities have for years been trying to push down the cost of lab services and control the 5 per cent annual growth in the volume of tests, which is driven partly by an ageing population.

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Auckland Girls' Grammar School, Howe Street, Newton, Auckland

If you're considering studying at university next year, come along to an evening to gather all the information you need to make a quality decision about your university studies.

The evening will begin at 6.30pm where you can meet and talk to faculty staff. The evening is then organised into the following sessions:

**Undergraduate level (first university degree)**

- 7.00-7.40pm General information about studying at Victoria University and living in Wellington.
- 7.40-8.30pm Split into groups to hear a series of ten minute presentations on each faculty's on undergraduate degrees programmes
- 8.30-9.00pm Final opportunity to chat to faculty staff

**Postgraduate level**

- 7.00-7.45pm If you're considering completing postgraduate study in 2007, you are invited to attend a presentation on what studying at Victoria University can offer you.

**Friends of Victoria**

A reunion for Victoria alumni will be held from 5.15pm. Meet up with former Victoria students and hear a presentation by the Vice Chancellor, Professor Pat Walsh.

Call 0800 VIC UNI  
or visit [www.vuw.ac.nz/srca/events](http://www.vuw.ac.nz/srca/events)

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