

AAPM Position Statement



Pathology Collection Centre Rental Arrangements

The Australian Association of Practice Management (AAPM) strongly opposes the proposal by the Federal Government (in agreement with Pathology Australia) to implement measures aimed at artificially controlling rental arrangements between companies which operate pathology collection centres, and the medical practices in which many collection centres are co-located.

The proposal undermines sound management and business principles. It interferes with free market negotiations and transactions which have underpinned the rental values applying to this market, and introduces an unsustainable level of regulation and red tape which runs counter to stated Government policy.

The proposal serves to benefit a few large corporations to the detriment of many privately owned and operated medical practices and their patients. It would bring windfall gains to those large corporations which dominate the pathology industry in Australia who also own significant holdings in medical practices and are aggressively looking to increase these holdings. On the other hand, it would greatly disadvantage many privately owned medical practices, by undermining one of the few commercial income streams available to practices, and consequently it would impact on patients.

An artificial cap on pathology collection rentals may force affected practices to shift away from bulk billing and increase fees for patients, creating access issues for our communities, as well as leading to increased pressure from both clinicians and consumers to lift the freeze on MBS rebates in general practice. It may also lead to many practices reconsidering their decision to allow pathology collection centres to co-locate on their premises, again to the detriment of patients.

Ultimately, it is patients who will be significantly disadvantaged if the new arrangements result in an increase in patient fees and reduced access to on-site pathology collection centres. Practices may need to reduce staff numbers and the level of service offered to compensate, which in turn will impact on patient engagement with health care.

AAPM calls upon the Federal Government to abandon this ill-conceived proposal, and instead develop a sensible and sustainable approach based on consultation with all stakeholders.

Background

Since the deregulation of pathology collection centres in 2010, there has been a significant increase in the number of these centres, and a trend to co-locate with general practice and other medical practices. Uptake of co-location has been high among a few large pathology companies which dominate the market in Australia.

The rentals paid by companies which establish pathology collection centres on medical practice premises have been negotiated as private transactions between the individual businesses concerned, and it appears these rents have increased in recent years. Some larger companies appear to have offered relatively high levels of payment to co-locate their pathology collection centres with medical practices – high relative to the rentals payable in alternative locations.

Entering into such rental agreements was a commercial decision by the companies concerned, who clearly believed that the commercial benefits of co-location would outweigh any additional rent paid. There is a clear convenience factor for patients to access a pathology collection centre co-located with their medical practice, rather than going elsewhere. Co-location can therefore help the pathology company generate significant additional business and income. Indeed, this is recognised in the legislative definition of the “fair market value” of such rentals, which provides for attribution of value to the convenience of the location with regard to patient access.

It is mainly larger pathology companies who have chosen to co-locate with medical practices, and in doing so they have sought to out-compete others in the market and increase their market share. However, these companies which have benefited from co-location are now seeking for the rules to be changed to advantage them even further, through Government intervention to control what to date has been a free rental market.

In the context of the 2016 Federal Election campaign, the Government announced a deal with Pathology Australia to impose tighter rules on collection centre rental arrangements in exchange for the pathology sector dropping its high profile campaign against the Government’s Medicare bulk billing policies. The proposal appears to involve a blunt cap on the rentals paid for pathology collection centre space in general practice and other private medical practice suites. The announcement runs counter to previous announcements and consultation with the broader medical sector. Stocks in the largest pathology companies surged immediately following the Government announcement, evidence of the windfall gain the proposed measures offer for Big Pathology.

Key issues

The savings to pathology companies from the proposed rental cap are mooted to be in the order of \$150 million. Any such savings can only come from the bottom line of medical practices, mainly general practice, at the expense of practice sustainability which has been built on sound business principles. Medical practices that have attracted pathology collection centre rental income have made a range of business decisions based on this income stream, including making capital investments and expanding their practices. If this income stream is reduced, increased income will need to come from other sources such as the MBS and/or patient co-payments, if practices are to operate sustainably. This will be disadvantageous to patients, and will increase pressure on the Federal Government to end the freeze on MBS rebates.

There is also a very real possibility that in a controlled rental market, many medical practices which have hosted pathology collection centres will seek to terminate these arrangements and free up the space for other purposes. This will be to the detriment of patients, removing the convenient access to pathology services; and it will actually be to the detriment of those pathology companies which are forced to move on from co-located collection centres.

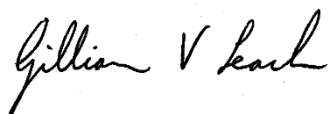
It is not the Federal Government's role to regulate pathology collection centre rental rates as proposed. Commercial rental rates should be dictated by market forces and competition, not by legislation and regulation. A regulated rental market for co-located pathology collection centres would be difficult and expensive for Government to administer, and lead to increased red tape and compliance costs for both medical practices and pathology. This runs absolutely counter to the Government's stated interest in deregulation and in reducing red tape for small business.

The definition of fair market value relates to the price a willing buyer or lessee would offer, and a willing seller or lessor would accept. This is how the free market operates, and free market principles should apply to this sector as they do to other private sector transactions.

Those who support a regulated rental market for co-located pathology collection centres argue that high rents may act as an inducement for medical practitioners to increase pathology referrals. AAPM is not aware of any evidence that this is occurring, but acknowledges genuine concerns about this as a potential issue. To address any potential for inappropriate arrangements, the Government should hold balanced stakeholder consultations to develop effective strategies to improve transparency and strengthen compliance and enforcement under the existing regulatory framework.

About AAPM

The Australian Association of Practice Management (AAPM) is the professional association for business managers of all healthcare practices including general practice, specialists, dentists and allied health as well as multi-disciplinary clinics. AAPM provides education, support, advice and advocacy for healthcare practice managers. Our aim is to ensure that they are able to effectively manage healthcare practices, that they are able to have the infrastructure and systems in place to provide a high quality health services to the Australian community, and that they are up to date with changes in the health sector. Consequently, AAPM is ideally placed to assist in implementing the government's primary healthcare reforms.



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