

Probe into medical costs welcomed

By [Tamar Kahn](#)

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The chief executive of private hospital group Life Healthcare, Michael Flemming on Tuesday (14 May) gave a cautious welcome to the Competition Commission's looming investigation into private healthcare prices, saying his company would co-operate with the authorities.



"We welcome an inquiry that is empirical, holistic, comprehensive, and not only limited to certain elements of the delivery system (but) takes into account all the factors that drive our costs such as the use of our facilities and the regulatory environment we operate in," said Flemming as he presented Life Healthcare's interim results for the six months to March.

The Competition Commission is expected to begin a market inquiry into private healthcare prices in September, following years of government concern over the affordability of private healthcare.

Its terms of reference have yet to be made public, but it is clear that private hospitals will be under the microscope as the government has consistently expressed concern over the market dominance of Life Healthcare and its two biggest rivals, Netcare and MediClinic.

Price increases

Flemming said there was no evidence that their market dominance had led to excessive price increases "Hospital pricing (increases) have been close to inflation for the past five years," he said.

"Many factors driving price in private hospitals are beyond our control," he said. "We can't employ doctors and our nursing costs are high because of the costs that have been put in place by the public sector.

"We pay more for our drugs because the government has given itself subsidised rates. So we don't think (the inquiry) will demonstrate any collusive or anti-competitive behaviour," he said.

Cachalia Capital's managing director Mashuda Cassim said the Competition Commission's investigation was likely to pose a greater threat to doctors and specialists than to the private hospitals, as they had been exposed to far less public scrutiny.

"At the end of the day everybody is trying to make an economic return. So how the government regulates the sector is important," she said.

Old Mutual Equities portfolio manager Jonathan Larcombe said the risk for companies lay in the scope of the Competition Commission's review.

"It's a complicated system and they need to make sure they look at what is an appropriate return for a hospital group and benchmark it accordingly. If they benchmark against the public sector they need to look at the advantages the public sector enjoys, such as not paying VAT," he said.

Results

Life Healthcare reported a 19.6% increase in undiluted headline earnings per share to 76.3 cents for the six months to March, up from 68.8 cents in the corresponding period last year.

Revenue rose 7% to R5.64bn compared with R5.27bn last year, while operating profit rose 12.7% to R1.36bn, compared with R1.21bn last year.

"A slower growth in paid patient days, an increase in the proportion of medical cases compared with surgical cases and a limited number of new beds had contributed to the low revenue growth," said Flemming.

he said that Life Healthcare was experiencing delays of up to six months in getting the requisite planning permission from local authorities for new facilities and this was holding back the company's plans to add more beds.

Flemming said the group had seen a "pretty pedestrian" 1.5% increase in paid patient days, as there had been more public holidays in the six months under review compared with year. Last year the group reported a 6% increase in paid patient days.

Life Healthcare added 80 new beds over the year, but hoped to open another 1,000 within the next three to four years.

Delivery on the group's 36% stake in Max Healthcare in India had been "quite disappointing", said 36One Asset Management analyst Jean-Pierre Verster. "There was large unused capacity in its hospital beds, with 564 of the 1,943 total still not being used," he said.

"I would think (Life's) management is a bit frustrated that the Max management hasn't been efficient in rolling out these facilities. We might see a change if they increase their stake and exert a bit more control on an operational level," he said.

Flemming pointed out that debt recovery from provincial health departments, including Gauteng, had improved significantly since last year.

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