MINI BULLETIN – 02 March 2023

**Background – medicines and pricing**

The life sciences industry is one of the most important pillars of the UK economy, contributing over £94.2bn a year and 282,000 jobs across the country, of which the Biopharmaceuticals sector generated £64.2bn turnover in 2021 and employed 136,000 people.

2. When a new medicine is launched it will typically be under patent, with the suppliers of health services medicines holding these patents enjoying monopoly supply of products at high prices to the NHS. This high price enables the supplier to not only enjoy profits, but also to recoup investment in Research and Development (R&D) of the new medicine (and R&D into other products that don’t make it to launch). These medicines will be sold under a brand name.

3. When a patent expires, generic variants of medicines which are typically cheaper than their branded counterparts can be sold and supplied. Medicines can continue to be sold under a brand name when their patent expires, though typically they have to compete with generic competitors.

4. In England, the 2021/22 spend on medicines by the NHS was approximately £17.8bn of which an estimated £13.6bn was on branded medicines. Should the central rebates from arrangements the NHS have agreed with pharmaceutical companies be included, the total cost would be approximately £17.2bn.

5. Government action is required to limit spending on branded health service medicines to ensure the overall branded medicines bill to the NHS remains affordable whilst delivering value for money for the NHS. In the UK, the costs of branded health service medicines are controlled under the Voluntary and Statutory Schemes. Voluntary Scheme

6. The 2019 Voluntary Scheme for branded medicines pricing and access (VPAS) is a voluntary scheme agreed between the Department of Health and Social Care (DHSC), on behalf of the UK Government (which includes the health departments of Scotland, Wales and Northern Ireland), and the branded pharmaceutical industry, represented by the Association of the British Pharmaceutical Industry (ABPI). The VPAS expires on 31 December 2023. The VPAS introduced a limit on growth in the overall cost of branded health service medicines.

Scheme members with annual NHS sales of branded health service medicines above £5 million make payments to the Department based on the difference between allowed growth and actual outturn growth in sales of branded health service medicines. This is achieved through the calculation of a payment percentage, where companies make payments of a particular percentage of their eligible sales in order to bring actual outturn growth in line with allowed growth.

**Statutory Scheme**

7. In conjunction with the Voluntary Scheme, the Regulations ensure that there are similar limits on the cost of branded health service medicines supplied by those companies that choose not to join the VPAS. The Regulations are referred to as the “Statutory Scheme”. The terms of the current Statutory Scheme provide for the application of a 14.3% payment percentage on qualifying sales in 2022 and 24.4% in 2023.

These payment percentages aim to control the growth of NHS sales of branded health service medicines within the scheme to a nominal 1.1% per annum.