# FACTSHEET

## VALUE BASED PRICING (VBP) – How the NHS will purchase drugs

The government intends to reform the way in which drugs purchased by the NHS are priced by the end of 2013. It aims to ensure that drug costs more fully reflect clinical benefit and to improve patient access to new treatments. At present the prices are determined by the Pharmaceutical Price Regulatory Scheme (PPRS). These prices are usually reviewed at 5 yearly intervals. Pharmaceutical companies are relatively free to set the price of a newly launched product (assuming it is accepted for use by NICE, the Scottich Medicines Consortium or the All Wales Medicines Strategy Group in the first instance). The PPRS then reviews these prices so that the profits that are made from the sale of drugs to the NHS are not considered to be excessive.

The Office of Fair Trading argues that drug prices should reflect their clinical benefits and current policy wastes NHS resources. The pharmaceutical industry welcomes the concept of value-based pricing, but is concerned about the impact on profits which are needed to make research viable. The Office of Fair Trading (OFT) estimates that up to 25% of world pharmaceuticals sales reference UK prices to some extent. Companies are thus particularly sensitive about any agreement that reduces the UK list price of a drug as this can have a knock-on effect on the profits made on sales elsewhere in the world.

Successive price cuts and exchange rate movements mean that UK prices are currently amongst the lowest in Europe. This has led to parallel-exporting (the opposite of the practice of parallel-importing cheaper non-English language versions of the same branded product from the EEU to the UK) of UK branded medicines to the EEU, by wholesalers, pharmacies and NHS trusts for commercial gain which has led to severe shortages of many popularly prescribed medicines in the UK.

Under the new system of value-based pricing, the Government would apply weightings to the benefits provided by new branded medicines, which would imply a range of price thresholds reflecting the maximum they are prepared to pay for medicines. These thresholds or maximum prices would be adjusted to reflect a broader range of relevant factors that are not fully taken into account by the current sytem of using Quality Adjusted Life Years (QALYs) by NICE so they could be used to calculate the full value of a new product.

The Government proposes that the price threshold structure is determined as follows:

- there would be a basic threshold, reflecting the benefits displaced elsewhere in the NHS when funds are allocated to new medicines
- there would be higher thresholds for medicines that tackle diseases where there is greater “burden of illness”: the more the medicine is focused on diseases with unmet need or which are particularly severe, the higher the threshold
- there would be higher thresholds for medicines that can demonstrate greater therapeutic innovation and improvements compared with other products
- there would be higher thresholds for medicines that can demonstrate wider societal benefits.

Designing the new system to be both stable and transparent would allow companies to predict well in advance how prospective products may fare, and to focus their research efforts on the treatments that society values most. Companies would be informed of these weightings – allowing them to orient their research and development investments appropriately. This may well draw to a close the ‘me too’ concept of launching ‘newer

versions' of drugs which treat similar conditions with little demonstrable benefit over the original.

Thus, a new product would be launched, then reviewed by the Government to access its impact on patient health and the others factors discussed above, and the price to the NHS adjusted accordingly over a period of time.

The work of NICE as a provider authoritative advice and information would continue, but the decision as to whether a new medicine will be used in clinical practice will ultimately be made by the clinicians themselves.

VBP models are already implemented in many European countries including Germany, Sweden, France, Spain and Italy.