

**DEPARTMENT FOR BUSINESS**  
**ENTERPRISE & REGULATORY REFORM**

**PHARMACEUTICAL PRICE  
REGULATION SCHEME (PPRS)**

Interim Government  
response to the Office of  
Fair Trading (OFT) market  
study on PPRS

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## **INTERIM GOVERNMENT RESPONSE TO OFT'S MARKET STUDY ON THE PHARMACEUTICAL PRICE REGULATION SCHEME (PPRS)**

1. The Government welcomes the Office of Fair Trading's (OFT) market study of the Pharmaceutical Price Regulation Scheme (PPRS), as a helpful contribution to an important debate. The Government also thanks the pharmaceutical and biotech industries for their response to the report.
2. How the NHS obtains value for money from its purchasing is a key issue, and as the pharmaceutical budget accounts for over £10bn per year of NHS spending it is vital that value for money in this area is achieved. At the same time, it is essential to recognise the importance of the pharmaceutical industry, both in the UK and globally, and the crucial contribution this industry provides to both improved healthcare and economic prosperity.
3. The OFT's analysis of PPRS questions whether it is achieving these objectives, and argues that a system of value-based pricing would be more beneficial. The report therefore recommends that:

*“Government should reform the PPRS, replacing current profit and price controls with a value-based approach to pricing”.*

### Government Response

4. The PPRS in various forms has been in place for fifty years and has been effective in a number of ways. It has helped to ensure a stable pricing regime and to sustain a strong pharmaceutical and bioscience industry delivering valuable new medicines that have contributed significantly to improvements in the health of the UK population. Since its inception, significant changes have occurred, both in the pharmaceutical industry and in the delivery of healthcare. Blockbuster drugs are rare, with innovation now increasingly focused on ever-smaller patient populations. This creates major challenges in ensuring affordable delivery of these benefits to patients. The Cooksey Review has set the Government's agenda for delivering a more efficient environment for medical R&D. To ensure that patients realise the full benefits of developments in this industry, we agree with the OFT that it is time to develop a pricing system which is fit for purpose for the twenty first century.
5. In recent years PPRS has been complemented by the prescribing guidance issued by the National Institute for Health and Clinical Excellence (NICE) and the relevant bodies in Scotland and Wales, and much progress has been made in encouraging high-quality, cost-effective prescribing behaviour through initiatives such as the Better Care, Better Value Indicators.
6. Substantial progress has been made in increasing levels of generic prescribing. Around 83% of prescription items are now written

generically compared to just 51% in 1994<sup>1</sup>. We have the highest generic prescribing rate in Europe and means that the NHS gets best value from reductions in generics' prices. The NHS has also begun to make progress in realising further savings through the appropriate use of low-cost generic drugs. However, we agree with OFT that encouraging cost-effective prescribing is crucial and we will continue to explore further opportunities in this area.

7. The OFT report contained a number of detailed proposals as to how a future pricing regime would work. We are undertaking a continuing programme of detailed analysis of the OFT report's proposals, and will discuss this analysis with the industry, taking into account their strong concerns about a number of the proposals. This is a highly complex area and there are a number of different models for taking work forward. At the same time, we need to ensure value for money for the NHS whilst encouraging innovation.
8. In fashioning a way forward we will take into account the following principles:
  - **Delivering value for money:** We agree with the OFT that we need better mechanisms to deliver fair prices and value to the NHS, to patients and to the taxpayer. We also need to ensure that the drugs bill is affordable for the NHS and that other cost-effective elements of patient care are not adversely affected.
  - **Encouraging and rewarding innovation:** The role of the pharmaceutical industry in the development of healthcare and medical advances is of crucial importance. It is in all of our interests that any pricing system will encourage research and reward innovation which delivers valuable new treatments.
  - **Assist the uptake of new medicines:** We are also committed to increasing the uptake of new cost-effective medicines in the NHS. Important progress has been made in this area since the creation of NICE, but we accept that there is scope for further improvement in the uptake of cost-effective new drugs.
  - **Provide stability, sustainability and predictability:** It is important that, once introduced, a future pricing scheme provides stability, sustainability and predictability for industry. OFT identified this as an important area and industry has stated on a number of occasions that the stability of the UK Market makes it an attractive place to invest. We want to ensure that the UK remains a stable market over the coming years.

## Timescales and Conclusions

9. We will take this work forward over the coming months and will discuss proposals with industry. We will then aim to make further proposals as part of the renegotiation of the PPRS.

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<sup>1</sup> Figures for England

10. We are grateful to OFT for this report and will ensure that any future pricing scheme delivers value, rewards innovation and ensures a fair deal for the NHS. This will mean that NHS patients will get the drugs they need at a fair price to the public purse and the pharmaceutical industry will continue to be encouraged to develop important new medicines.

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