

NEWS RELEASE

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Report by the Comptroller and Auditor General

Investigation into NHS spending on generic medicines in primary care

During 2017, the prices of certain ‘generic’ medicines purchased by pharmacies for the NHS increased unexpectedly, placing what NHS England described as a “significant unbudgeted pressure” on clinical commissioning groups (CCGs).

Today’s investigation by the National Audit Office (NAO) sets out the possible causes of the price increases from 2017-18 and how the Department of Health and Social Care and NHS England responded in order to maintain the supply of generic medicines for patients and manage spending. The NAO has examined price increases that affected certain ‘generic’ medicines, as opposed to ‘branded’ medicines that are sold under the name given by the company that made them.

The NHS spent an estimated £4.3 billion on generic medicines in 2016-17, of which most was spent in primary care. In primary care, pharmacies buy medicines from wholesalers or manufacturers and are reimbursed according to prices set in the Drug Tariff. If pharmacies are unable to purchase a medicine at this set amount, the Department can set a concessionary price to allow the NHS to reimburse pharmacies at a temporarily higher price.

The prices of certain generic medicines increased significantly in 2017-18, resulting in an unprecedented rise in the number of requests from pharmacies for concessionary prices. These increased from fewer than 150 a month before May 2017 to a peak of 3,000 in November 2017.

The price increases resulted in additional unforeseen costs for CCGs. The NAO estimates the net spend by CCGs on concessionary priced medicines at £315 million in 2017-18 (i.e. over and above what would have been spent if the Drug Tariff price applied), which is seven times greater than the equivalent spend in 2016-17. In May 2018, NHS England reported an unaudited end-of-year deficit of around £250 million among CCGs, partly attributed to concessionary pricing increases.

The cost of obtaining certain medicines increased more than tenfold, including those used to treat conditions such as high blood pressure and mental health conditions. For example, at its peak, the concessionary price that the Department set for Quetiapine 100mg tablets (which is used to treat mental health conditions) was £113.10, 70 times higher than its previous set price of £1.59.

The Department identified a range of supply-related and other factors which may have driven the 2017 price increases. It also identified increases in manufacturers’ prices and unexpected growth in wholesalers’ margins in 2017, which it could not fully explain. The Department’s analysis also demonstrated that the concessionary prices it had granted were set higher than necessary above wholesalers’ selling prices. It estimated that this amounted to £86.3 million of additional costs for CCGs in 2017-18 which it expects to be recouped in subsequent years through the established reimbursement mechanisms.

The Department took a number of actions to maintain the supply of generic medicines on concessionary prices for patients in 2017-18, including liaising with manufacturers to identify whether supplies were available, permitting one manufacturer whose license was suspended to supply certain medicines considered critical and releasing supplies of one medicine from a centrally held emergency stockpile. The Department received intelligence from a variety of sources about potential impacts of the price increases. This included information about how supply issues were affecting pharmacies' ability to obtain medicines, although the Department does not know how many patients experienced problems getting their prescriptions.

The Department will have new powers – expected to come into force in July 2018 – to control the price of generic medicines and obtain sales and other information from manufacturers and wholesalers. The new legislation will also introduce mandatory information-sharing arrangements, as the Department has had to rely on voluntary arrangements which limited its ability to identify and respond to the price increases. However, its new powers are untested and will require sufficient resources.

Key facts

£3.5 billion

estimated amount the NHS spent on generic medicines in primary care in 2016-17, including a target £800 million contribution to pharmacies

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number of price concessions that the Department of Health and Social Care granted in 2017-18, up from 282 in 2016-17

£315 million

National Audit Office estimate of the net spend on concessionary priced medicines in primary care in 2017-18 (over and above the amount that would have been paid via lower Drug Tariff prices)

Seven times the increase between the net spend on price concessions for generic medicines in primary care in 2017-18, compared with 2016-17

81% proportion of spending on generic medicines that is in primary care, 2016-17

3000 number of concessionary pricing requests made by pharmacists in November 2017; before May 2017, the monthly figure was fewer than 150 requests

£800 million agreed annual margin retained by pharmacies as part of their funding to provide NHS pharmacy services. This is the difference between the price at which a pharmacy purchases a medicine and the price that the NHS reimburses the pharmacy when the medicine is dispensed.

- **ENDS** -

Notes for Editors

1. Press notices and reports are available from the date of publication on the [NAO website](#). Hard copies can be obtained by using the relevant links on our website.
2. The investigation examines price increases that affected 'generic' medicines, as opposed to 'branded' medicines. Medicines can be 'branded' or 'generic'. Branded medicines are medicines sold under the name given by the company that made them. New medicines have patents that are protected for a minimum of 20 years, and are generally marketed under their brand name. During that time, no other company can manufacture or market the medicine. At the end of this period, other companies can manufacture and market the medicine under its generic name, typically selling it at a lower price. In 2016-17, the NHS spent £4.3 billion, or 28% of total medicine expenditure, on generic medicines.
3. Drug Tariff price - Each month the Department publishes the Drug Tariff. This sets out what pharmacies in primary care will be reimbursed for the cost of each generic medicine they dispense for an NHS prescription.

4. Concessionary prices - If pharmacies in primary care cannot purchase a medicine at, or under, the Drug Tariff price, the Department can set a higher 'concessionary' reimbursement price for that month.
5. The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Sir Amyas Morse KCB, is an Officer of the House of Commons and leads the NAO, which employs some 785 people. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services. Our work led to audited savings of £734 million in 2016.

Press Notice xx/18

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