

Aligning pharmacy margins with prices

More frequent adjustments to reimbursement prices were anticipated last month by the Pharmaceutical Services Negotiating Committee (PSNC), the body representing UK community pharmacists' interests, when it agreed a funding package with the English National Health Service (NHS England) that will increase pharmacists' dispensing margin from £500 million (US\$800 million) to £800 million annually (*Generics bulletin*, 3 October 2014, page 9).

The extra £300 million is not a straight increase, but includes about £250 million that pharmacists' were making over the agreed £500 million by maximising the margin between their purchase prices and Drug Tariff pharmacy reimbursement prices. The authorities, however, want to "account fully for all margin income and to deliver a known and set amount of funding to pharmacy", to quote the PSNC, which has committed to "future changes to the funding mechanisms that will account for all margin within the annual sum".

As well as more frequent adjustments to reimbursement prices, reforms to the current system for managing margins will include a review of price concessions. These have been growing in number recently, with the PSNC announcing up to 20 special prices over and above the equivalent Drug Tariff prices every month (see Figure 1).

"Generic supply problems" causing higher market prices – and non-existent or negative pharmacy margins – are the reason for the concessionary reimbursement prices, according to the PSNC, but Warwick Smith of the British Generic Manufacturers Association (BGMA) has consistently argued that price concessions distort the system. Higher trade prices are the result of market forces and were anticipated when category M, based on actual trade prices, was introduced into the Drug Tariff. Nevertheless, the fault lies with the Drug Tariff's responsiveness, which needs to be faster. Much of the market data is out of date by the time the quarterly Drug Tariff comes into effect, especially when trade prices are volatile and rising quickly.

The PSNC has commented that it is "impossible to measure and assure margin levels at an individual contractor level", but it is quite clear from a £250 million overspend on a budget of £500 million that it is just as difficult at national level, particularly when sales prices on which margins are based are constantly moving in a free market.

Even getting the concessionary price right for an individual product in a single month is difficult enough for the authorities. Trade prices for gabapentin 300mg in category M started rising in April 2010, but it was not until November 2010, after the price had peaked, that the price concession finally kicked in. Moreover, it outstayed its usefulness, continuing after the Drug Tariff had overtaken the product's average trade price. Last year, however, the authorities did a much better job, tracking the product's price almost exactly (see Figure 2).

Price concessions were also late in being granted for tolbutamide 500mg and were consistently inadequate. Average trade prices exceeded concessionary prices for almost the whole of the year they were in force. Over the course of the 12 months, there were four quarterly changes to the Drug Tariff, all of which were pointless (see Figure 3). However, concessionary prices for mebeverine 135mg earlier this year were almost bang on the money, as Figure 4 shows.

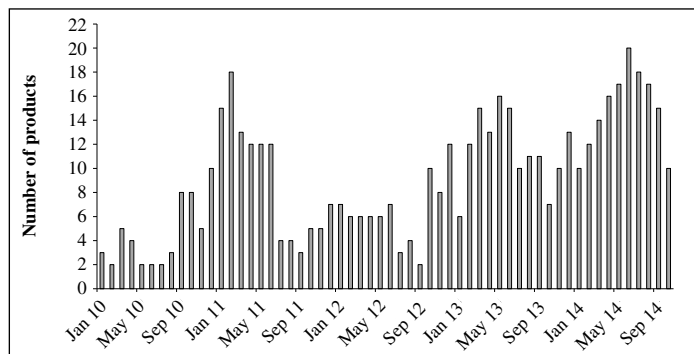


Figure 1: Number of products for which monthly concessions have been granted by the Department of Health. The total includes price as well as 'no cheaper stock obtainable' (NCSO) concessions that have not been used for the past 18 months (Source – WaveData)

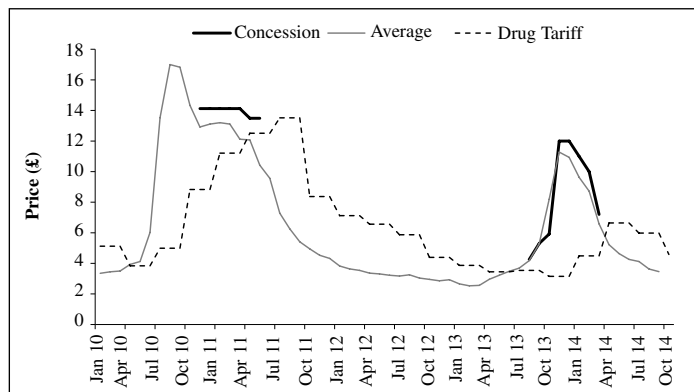


Figure 2: Average trade, Drug Tariff and Concession prices for 100-capsule packs of gabapentin 300mg (Source – WaveData)

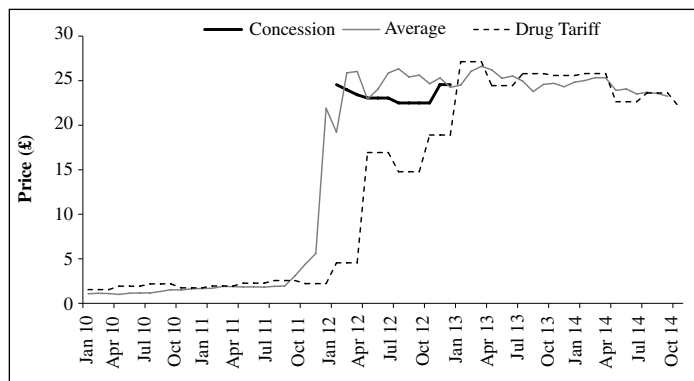


Figure 3: Average trade, Drug Tariff and Concession prices for 28-tablet packs of tolbutamide 500mg (Source – WaveData)

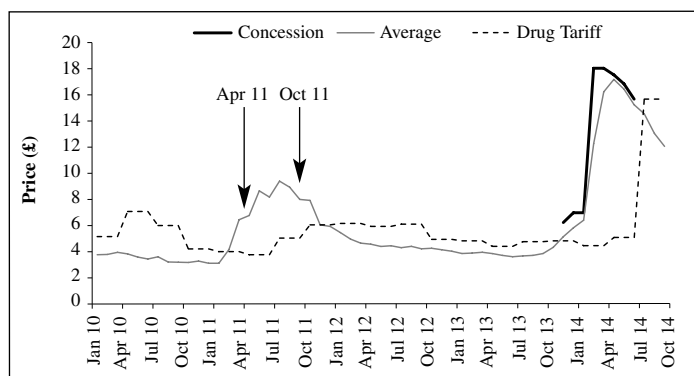


Figure 4: Average trade, Drug Tariff and Concession prices for 100-tablet packs of mebeverine 135mg, including two isolated monthly concessions in April and October 2011 (Source – WaveData)

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