2025

TRYING TO SAVE PENNIES IS COSTING TAXPAYERS POUNDS

THE FALSE ECONOMY OF SQUEEZING MEDICINES PRICES

CCA | COMPANY CHEMISTS' ASSOCIATION

EXECUTIVE SUMMARY

Ultra-low prices are causing huge spikes in costs

1. Government pricing for medicines has been squeezed so much that the **UK market is no longer attractive to many manufacturers and suppliers.**

2. This impacts the **UK economy** as well as **access to medicines.**

3. As demand outstrips supply, **prices soar** causing huge overspend to the NHS.

Medicine shortages are a growing problem

1. The number of medicines only available **above government pricing** is higher than ever before.

2. Preventable medicines shortages are causing **unnecessary stress to patients.**

3. These shortages are **increasing pressure** on primary care.

End the false economy of the government's medicine pricing policy:

1. Review the price set for medicines so the **UK can compete effectively in a global market.**

2. Support industry to **build resilience into the medicines supply chain.**

3. Ensure the correct incentives are in place to encourage cost effective procurement and continue to **save the NHS money.**

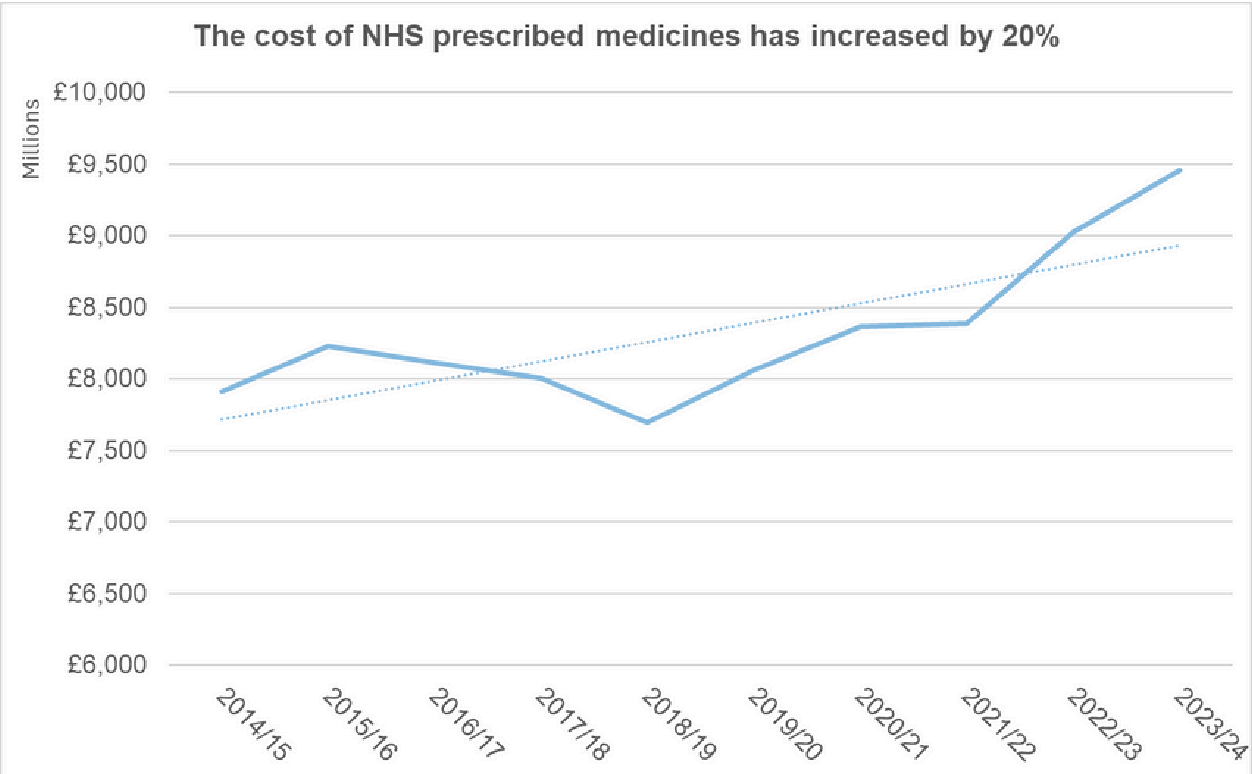
Table of Contents

CONTENTS

MEDICINES AND THE NHS

Medicines, appliances, and medical devices cost the NHS an estimated £18.5 billion in 2022/23 [1]. Medicines are the second biggest cost to the NHS [2], with **£1 in every £7 spent on medicines**.

The annual cost of medicines dispensed by community pharmacies continues to rise and in 2023/24 totalled **£9.5 billion** [3]. Advances in medicines, and a growing [4] and ageing population are some of the factors contributing to this growth.



The NHS writes prescriptions for **over 1.1 billion medicines** in primary care every year [3]. Community pharmacies purchase the medicines needed by NHS patients and, after they are dispensed to patients, pharmacies are reimbursed by the NHS. It is becoming increasingly difficult for pharmacies to source some medicines, which is causing growing concern amongst patients.

Most of the medicines used in the UK are imported from around the world, in what is a global marketplace. Some shortages are an inevitable reality of global supply chains, with natural disasters and geo-political events impacting on lines of supply.

"The NHS writes prescriptions for over 1.1 billion medicines in primary care every year."

UK government policies and decision making has led to a 'perfect storm' creating a level of shortages not seen before.

Shortages negatively impact patients who rely on medicines to keep them as healthy as possible and lead a healthy, productive life.

BUYING MEDICINES FOR THE NHS

Current NHS funding for medicines is not working

Pharmacies purchase medicines on the open market, supply them against NHS prescriptions and then are reimbursed by the NHS.

The Department of Health and Social Care (DHSC) publishes a list of what it will pay for every medicine supplied to the NHS in the 'Drug Tariff'. This list is updated every three months. To save taxpayer money, the DHSC continually reviews the market price for medicines and keeps the price they pay as low as possible.

If pharmacies can buy medicines for less than the Drug Tariff price, they retain some of this difference – the 'retained margin'. The retained margin available to pharmacies in England is closely monitored and capped at £800m each year.

The core value of retained margin has remained static for a decade. This is despite a nearly **14%** growth in the number of medicines dispensed by community pharmacies. It was last increased in 2014. **The amount of margin now available per medicine is 12% less than it was a decade ago**. This is before inflationary growth in pricing and costs are considered. **Accounting for inflation and increased volume of medicines, retained margin had a shortfall of £357m (45%) in 2023/24 alone.**

Underfunding of retained margin and low reimbursement prices are just two of the factors contributing to pharmacy closures [5]. Between March 2017 and September 2024, there was a net loss of 1,250 pharmacies.

Community pharmacy delivers value for the NHS and taxpayers

The retained margin mechanism incentivises community pharmacies to buy medicines at the lowest possible price for the NHS. The retained margin is used by pharmacies to cover the costs of sourcing the medicines. Importantly, the quality of medicines is not affected by their price, due to considerable national and global licensing and manufacturing regulations.

> *"Community pharmacies save the NHS on average over £750 million each year by procuring medicines efficiently..."*

Community pharmacies save the NHS on average over £750 million each year by procuring medicines efficiently. This is based on estimated figures in the first four years following the introduction of retained margin [6]. The model allows community pharmacy to make savings for the NHS and taxpayers year on year.

This model of procurement can only work if there is the headroom to cut prices. Manufacturers and suppliers operate globally. If a medicine's price reaches a point where bringing it to the UK market risks a financial loss, the UK risks becoming unattractive. At this point the model comes under too much pressure, and it is not possible to deliver savings to the NHS.

The drug reimbursement prices (Drug Tariff prices) are now so low that other national markets are being prioritised for supply ahead of the UK. This directly impacts the availability of medicines for the NHS, and patients' access to medicines.

Market forces mean that a shortage in the supply of a medicine, or even the expectation that a shortage may occur, leads to increases in the price. This often means that the Drug Tariff price (the price paid to pharmacy businesses for the buying of medicines) is much lower than the price set by market forces. The number of medicines being dispensed at a loss to the pharmacy has reached a point of being unsustainable.

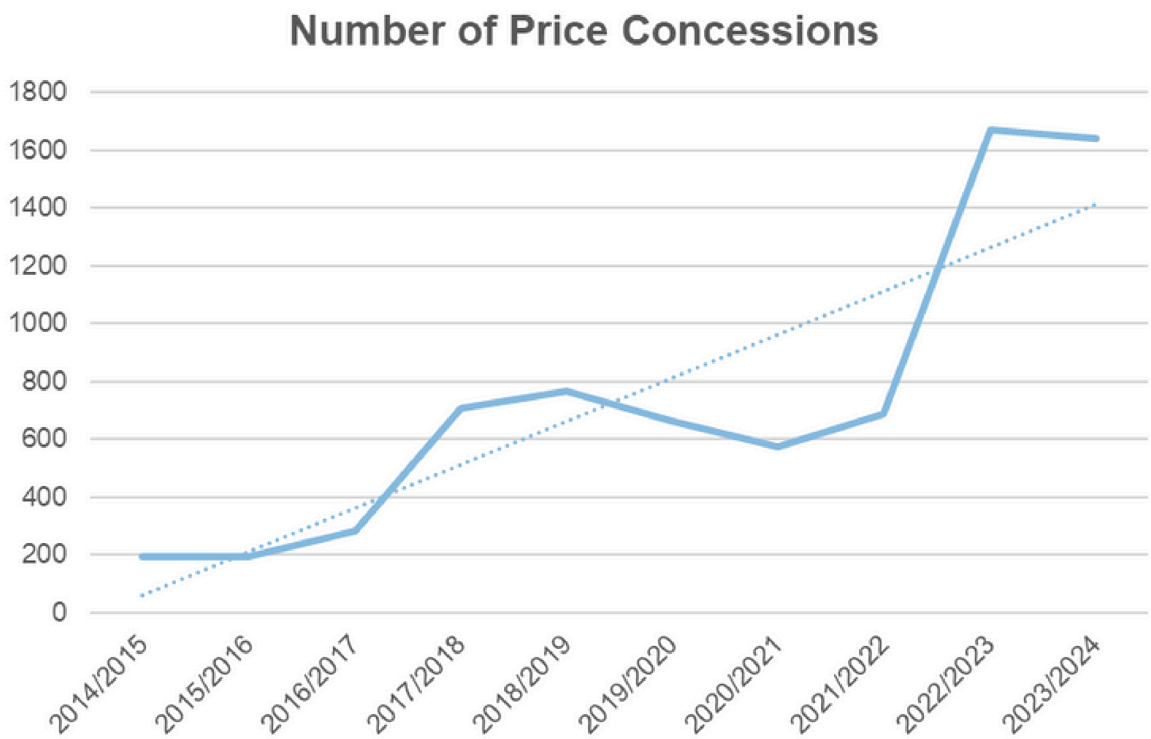
Shortages and price concessions – a growing problem

If the Drug Tariff price is found to be significantly below the market price the DHSC will occasionally introduce a temporary higher price ('price concession'), to enable procurement and protect supply.

"The number of price concessions has risen by over 740%."

The number of price concessions has grown significantly in recent years [7]. **In the last ten years, from 2014/15 to 2023/24, the number of price concessions has risen from 195 to 1,640 per year; an increase of over 740%.**

This is causing unsustainable costs to the NHS and the taxpayer.



Price concessions are intended be a temporary fix to a short-term spike in medicine prices. Concessions should allow pharmacies to procure medicines when there are unexpected disruptions to production, or supply. Concessions do not increase the capped level of retained margin that the pharmacies are allowed to keep.

This works well for limited numbers of shortages, which only last for a short amount of time. Now though, there are hundreds of medicines on price concession. These can last for months on end (see the examples of omeprazole 20mg and atorvastatin 20mg explained later).

It is becoming apparent that many shortages seen in the UK market are not caused by unforeseeable events happening elsewhere in the global supply chain. **The shortages are created by the continued squeeze on Drug Tariff prices.**

The shortages are created by the continued squeeze on the Drug Tariff prices.

Many manufacturers and suppliers can no longer produce the medicines for less than the government is willing to pay. This leads them to exit the UK market. Where there are limited numbers of companies supplying the UK, and one or two leave, the domestic market can become less competitive, often enabling prices to rise.

Operating with fewer suppliers, and therefore fewer supply routes, also means that global disruptions, such as the blockage of the Suez Canal or conflict in the Red Sea, also have a bigger impact.

The complex global medicines supply chain

Modern manufacturing techniques, economies of scale, and established global trade routes mean that all the healthcare markets are supplied by a global chain of supply. For many medicines, suppliers are reliant on a small number of sites globally to obtain ingredients. This means that not only does the supply chain often begin long before a medicine reaches a UK pharmacy but the options for obtaining key ingredients are limited.

Manufacturers and suppliers operating across the globe can prioritise which markets to sell their medicines in. These choices are commercial decisions, meaning that the Drug Tariff prices, set by the UK government, will be a key part of these decisions.

The British Generics Manufacturers Association [8] explain that "some of the world's largest generic companies do not provide their complete portfolios to the NHS". They see the UK as an "...increasingly difficult, and commercially unattractive, market to supply".

"The UK [is] increasingly difficult and commercially unattractive."

If they choose to not supply the UK, fewer medicines reach the UK and shortages can occur until the remaining suppliers can increase production and/or imports. Many medicines shortages are unexpected and unavoidable, however, **shortages driven by ultra-low Drug Tariff prices are avoidable.**

The inevitable impact on patients and beyond

Medicines impacted by shortages in recent years include life-saving insulin, children's medicines for attention deficit hyperactivity disorder (ADHD), and hormone replacement therapy (HRT) treatments. Supply issues can cause a delay in starting new treatment, or mean patients go without regular medicine. This can be stressful and potentially damaging to their health.

The interests of patients should be at the heart of all healthcare systems, yet they find themselves at the very end of a complex global supply chain.

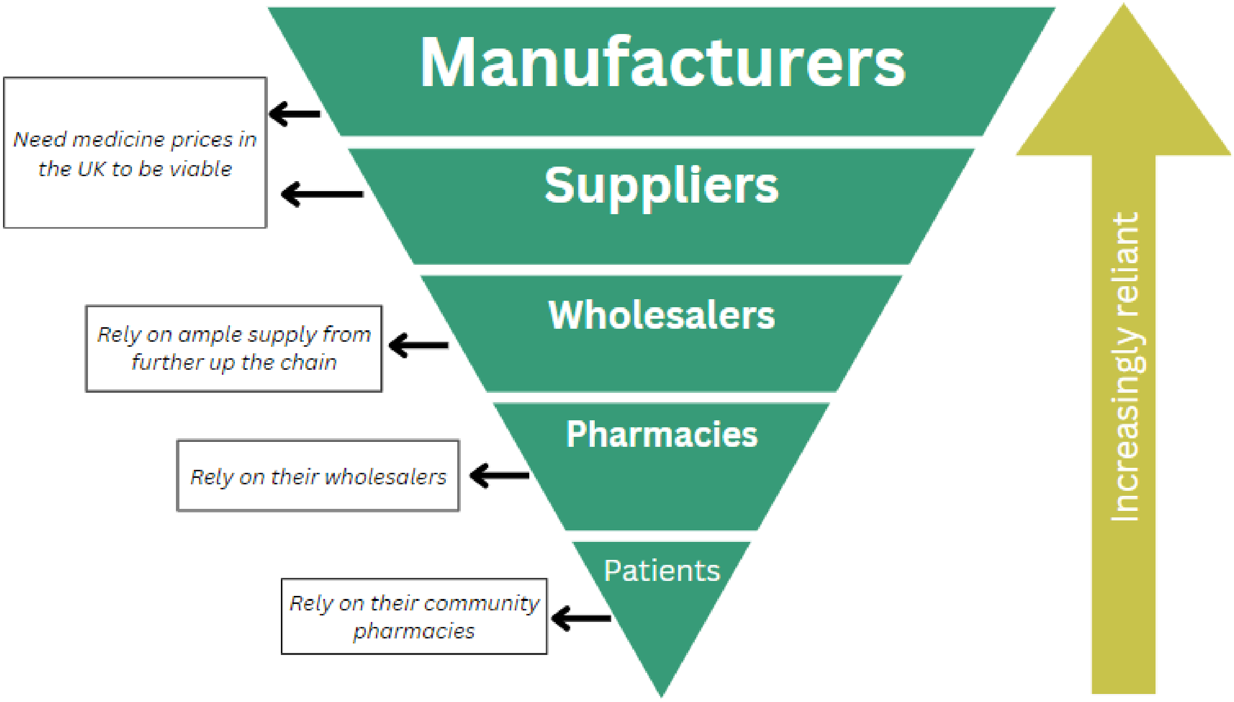


Figure 1: A simplified illustration of the medicines supply chain dependencies

When shortages happen, many pharmacies will be chasing after the same limited stock. They are spending increasing amounts of time sourcing medicines or working with prescribers to arrange alternatives for their patients.

The shortages are not only having a detrimental impact on the health of patients but on that of the healthcare professionals involved in helping them to get their medicines.

Pharmacists and their teams are struggling to cope with these understandably anxious patients.

The impact of medicine shortages on prescribers is also well documented [9].

> *"[For patients] this can be stressful and potentially damaging to their health."*

One in five people reported not being able to contact their GP practice in the recent NHS Primary Care Recovery Plan [10]. Factors such as the additional workload required to deal with medicines shortages are directly contributing to this. From receptionists and admin staff managing queries, to pharmacists and doctors identifying and sourcing alternatives, medicines shortages are all part of growing pressures on primary care.

Time spent by healthcare professionals resolving medicines shortages is time not spent on direct patient care.

THE FINANCIAL BURDEN OF PRICE CONCESSIONS

The huge increase in volumes of concessions is causing unsustainable cost increases to the NHS. The examples below illustrate this.

Ezetimibe is used to treat high cholesterol and prevent heart problems and strokes. It is prescribed for patients who can't tolerate statins (the most commonly prescribed medicine for high cholesterol) or in conjunction with statins. Over a quarter of a million patients receive a prescription for ezetimibe 10mg tablets every month [11].

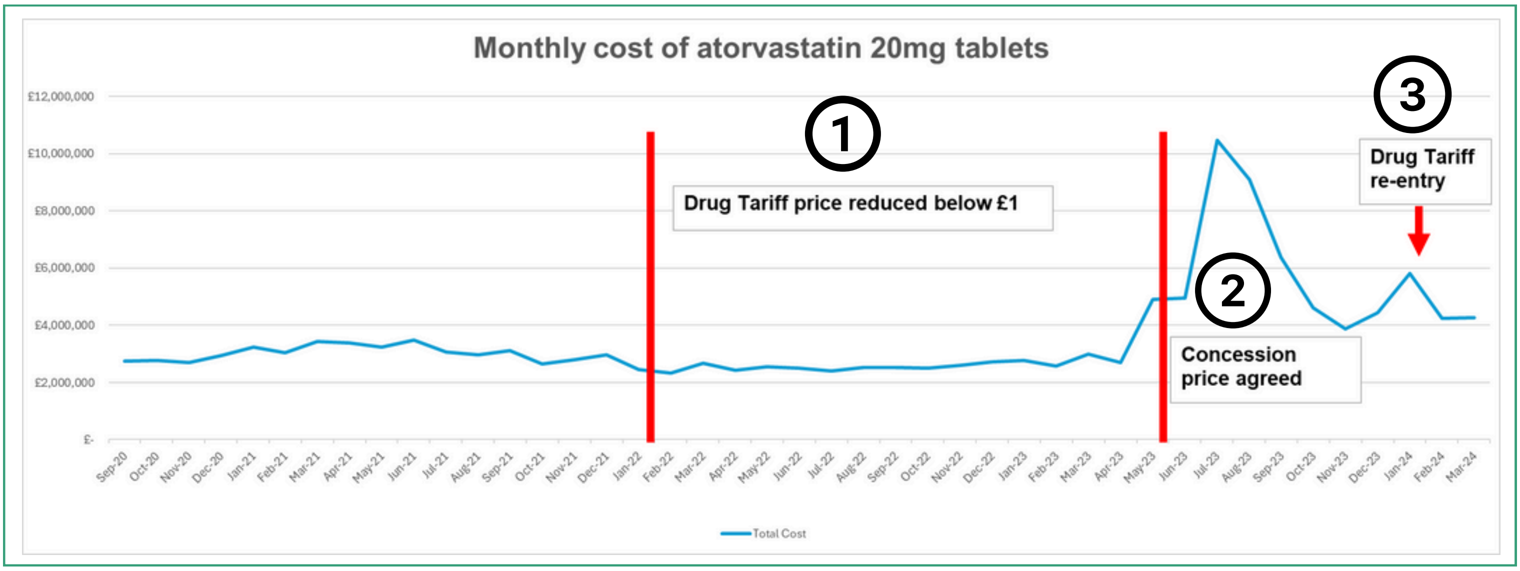
Ezetimibe 10mg tablets were listed as the medicine costing the NHS the most money in price concessions for the first four months of 2024 even though a relatively low number of patients receive prescriptions for this medicine [11]. **Open Prescribing have estimated the cost of ezetimibe 10mg tablets to the NHS during this period as over £19 million. This is eight times the normal value**, meaning price concessions for just one drug added additional costs to the NHS of almost £17 million in just four months.

These extra costs for price concessions are for the medicines alone. **Community pharmacies do not gain financially from these increases due to the annual cap on the retained margin.**

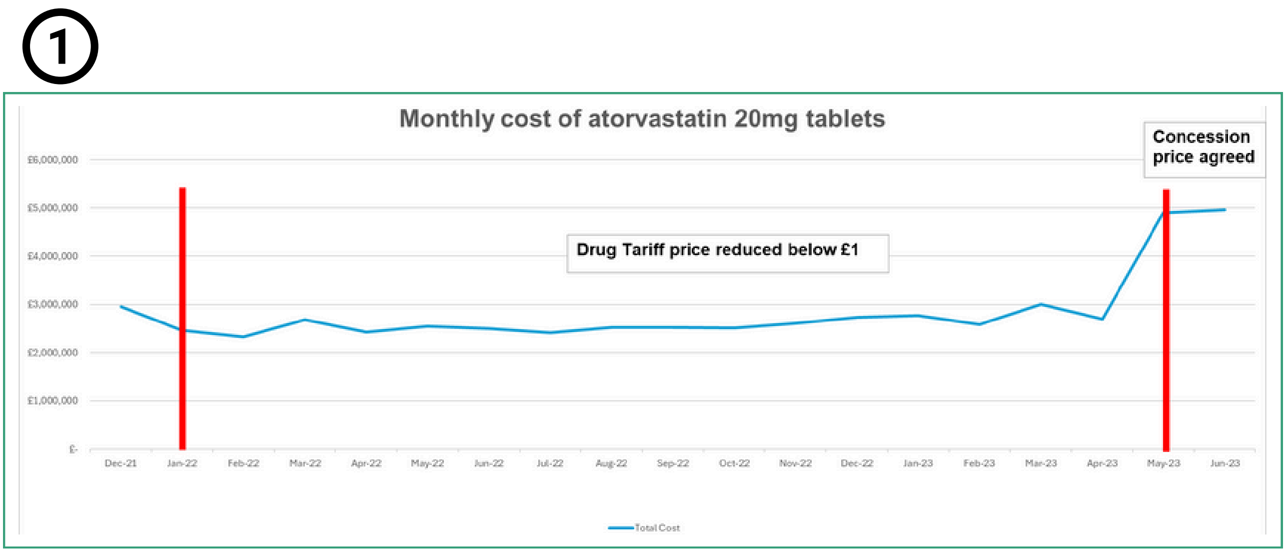
Atorvastatin 20mg tablets

Atorvastatin lowers cholesterol reducing the risk of heart attacks and strokes and is taken by millions of people in the UK. The number of prescriptions for atorvastatin (all strengths) has gradually increased in recent years. It has been the most prescribed medicine in terms of numbers of prescriptions since 2016 and reached 65 million prescriptions in 2023/24 [12].

Between September 2020 and April 2023, the amount of atorvastatin prescribed **increased by nearly a fifth (17%) yet there was a 7% *decrease* in spend** [13]. This is due to the reduction of the Drug Tariff price. On the face of it, this seems like good value for the NHS, and the taxpayer. Unfortunately, the long-term impact of the decrease shows otherwise.



Looking specifically at the 20mg strength of atorvastatin tablets, the most commonly prescribed strength [14]:



- During a 16-month period of ultra-low pricing between January 2022 and April 2023, the government reduced the rate it paid for 28 x 20mg tablets from an average of £1.27 to £0.92 [15].

- At least one major manufacturer of atorvastatin tablets stopped selling to the UK during this time. This led to an **immediate reduction in supply** and availability of atorvastatin for pharmacies. In turn this led to **patient access problems.**

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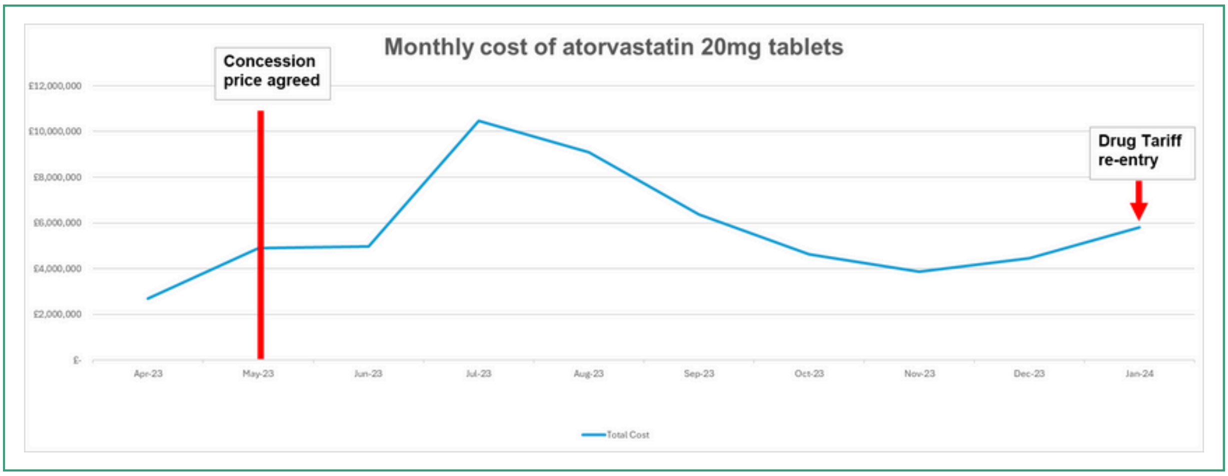

- A market shortage followed. With a common and essential medicine in short supply the price surged, and a price concession was inevitable.

Reducing the price of atorvastatin by an average of 35p per pack (just over 27%) saved the NHS £7.2m over 16 months (January 2022 to April 2023).

However, it cost an additional £24.5m during the 8-month price concession period.

Time period	Number of months	Average price	Total cost	Average cost per month
September 2020 - December 2021	16	£1.27	£48.5m	£3m
January 2022 - April 2023	16	£0.92	£41.3m (£7.2m saving over 16 months)	£2.6m
May 2023 - December 2023	8	£1.88	**£48.7m (additional £24.5m cost)**	£6.1m
January 2024 - March 2024	3	£1.37	£14.3m	£4.8m

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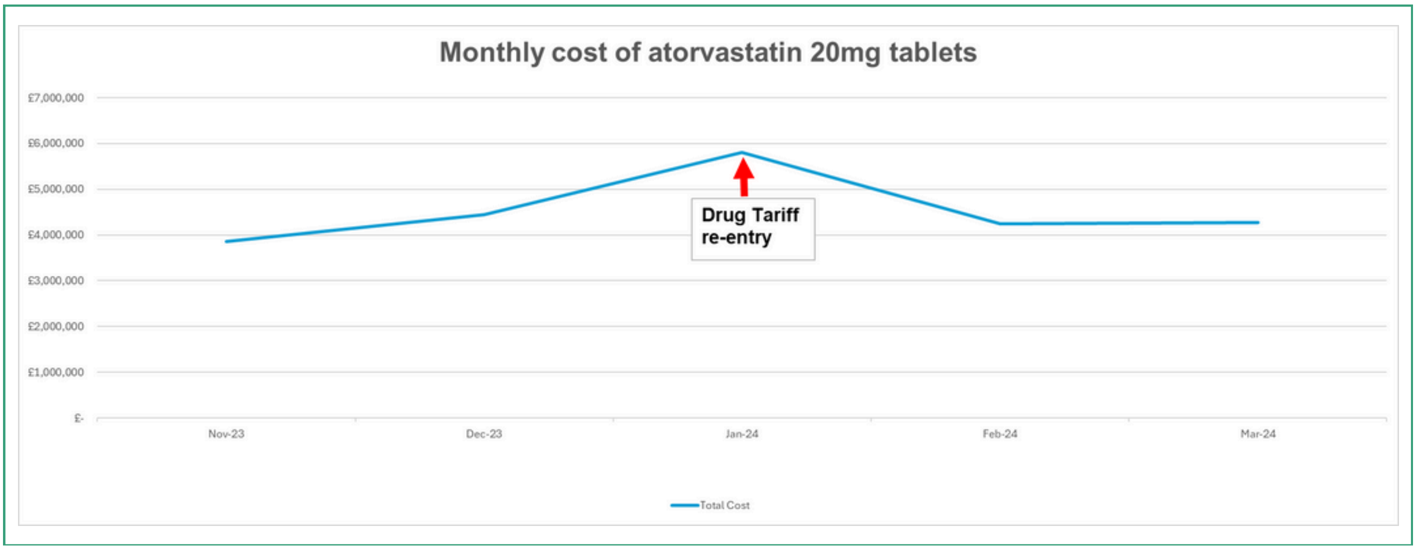
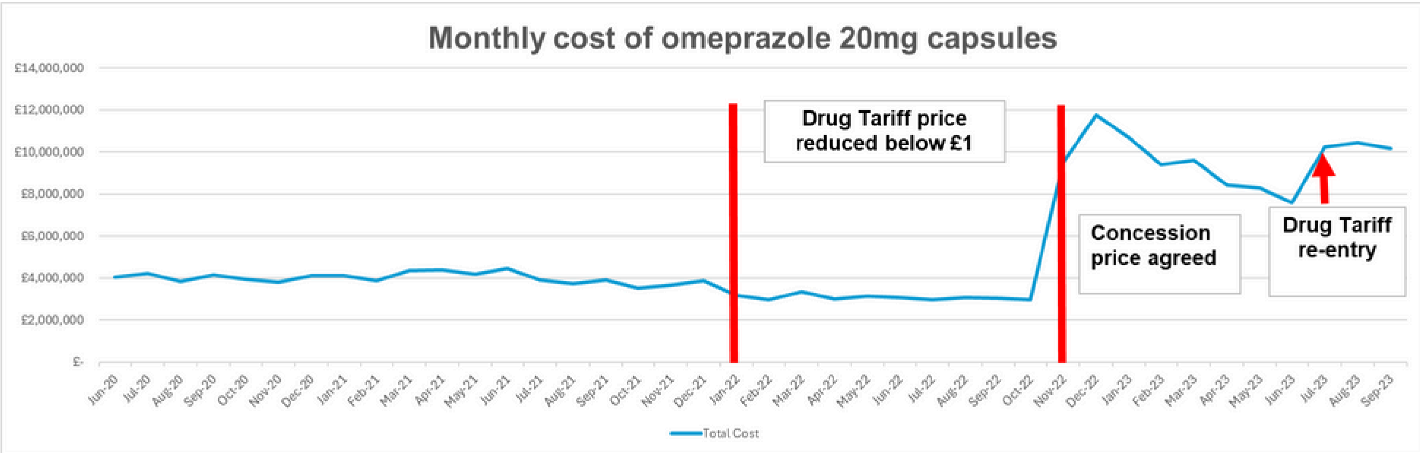


Following a period of inflated prices through government price concessions, stability in supply was resumed. The price concession ended, and atorvastatin re-entered the Drug Tariff at £1.64 in January 2024, **significantly higher than pre-concession prices**. The cost of atorvastatin to the NHS today is much closer to the average price of £1.27 seen prior to the ultra-low pricing of 2022.

Omeprazole 20mg capsules

The same pattern occurred with omeprazole, a medicine widely used to control indigestion, heartburn and acid reflux as well as treat and prevent stomach ulcers.



Across a 10-month period, the average Drug Tariff price per box of 28 capsules was reduced by 24% (27p) [15]. This reduction saved £9.3m through ultra-low Drug Tariff pricing (January 2022 to October 2022), but it **led to an extra £43.2m bill to the taxpayer during the 8-month price concession period (November 2022 to June 2023).**

For both examples, the Drug Tariff re-entry prices are significantly higher than the pre-ultra-low Drug Tariff pricing periods. This likely reflects a more accurate market price.

This reduction saved £9.3m … but it led to an extra £43.2m bill to the taxpayer

Time period	Number of months	Average price	Total cost	Average cost per month
June 2020 - December 2021	19	£1.13	£76.1m	£4m
January 2022 - October 2022	10	£0.86	£30.8m (£9.3m saving over 10 months)	£3.1m
November 2022 - June 2023	8	£2.59	**£75.3m (additional £43.2m cost)**	£9.4m
July 2023 - September 2023	3	£2.83	£5.8m	£10.3m

Other factors contributing to shortages

Other factors can influence fluctuations in availability and pricing:

- Unexpected spikes in demand, perhaps through unforeseen increased patient awareness
- Local prescribing policy changes
- Pharmacy closures causing surges in workload in individual pharmacies
- Closures of wholesaler businesses leading to reduced availability of medicines

There are many tactical solutions being considered to alleviate the pressures and costs of medicines shortages. These include allowing community pharmacists to provide alternative medicines to patients without prescriber input, rationing the amount supplied to each patient or communicating shortages to prescribers, so alternatives can be prescribed.

It is worth noting however that prescribing or supplying an alternative medicine can cause unexpected demand on that medicine. This can lead to another shortage and inflating the market price of the alternative as well. In the past we have seen a domino effect of shortages, such as the Strep A antibiotic shortage in winter 2022/23.

None of the solutions currently proposed address the core issue facing the UK market. In the context of procurement, medicines are a commodity, traded on a global market. If prices are unattractive in an international market, then supply is unlikely to meet demand, causing shortages and a surge in price.

LONG-TERM SOLUTIONS

Building greater resilience in the supply chain is key to stopping shortages

Price is a major contributor to the increase in medicines shortages. If the Drug Tariff price is unviable, the UK market becomes unattractive. This lowers competition, leading to a disconnect between supply and demand.

There is evidence to demonstrate that constantly reducing the tariff price of medicines has led to price concessions. Consequently, any savings made through price reductions are wiped out by the subsequent cost of shortages.

An end-to-end review of the UK supply chain is needed, to establish how resilience can be enhanced at every stage, to secure the supply of medicines for patients. This will require many organisations working together to help lift the lid on the issue, pinpoint pressure points, and identify solutions.

There is a clear relationship between ultra-low medicines prices, the real terms reduction in pharmacy reimbursement, increased volumes, and subsequent shortages. An unattractive UK medicines market contributes to patients not being able to access the medicines they need. The cost of overcoming these shortages is significant.

IMMEDIATE IMPROVEMENTS

Medicines procurement in the UK rests on two key drivers: an attractive market for international suppliers and incentives to encourage cost effective procurement. The Drug Tariff and a competitive system has been incredibly successful in providing UK taxpayers with some of the lowest medicine prices in the world. This has provided additional money for the NHS to provide care to patients.

However, the UK market is no longer attractive to international suppliers, nor is there sufficient margin available to reward effective buying.

Whilst a complete review of the supply chain is required, two changes can improve the situation immediately:

1

Invest in Drug Tariff pricing - avoid ultra-low pricing to make the UK market more attractive to global manufacturers and suppliers. This ensures effective competition and competitive pricing.

2

Increase the retained margin for community pharmacy - static retained margin for the last ten years is simply not viable. By increasing the retained margin, effective buying by community pharmacies would be further incentivised, giving the NHS the best value possible.

Investing, to stop preventable medicine shortages:

- **supports the UK economy**
- **secures patient access to medicines now and for the future**
- **enables healthcare professionals to focus on patient care, rather than diverting time to deal with the consequences of shortages**

These actions will allow the system, which is demonstrably not working, to work as intended. Balance between government pricing and market requirements offers long-term value for the taxpayer, efficiency for the NHS, and improved access for patients.

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WHO WE ARE

COMPANY CHEMISTS' ASSOCIATION

Established in 1898, the CCA is the trade association for large pharmacy operators in England, Scotland and Wales. The CCA membership includes ASDA, Boots, Lincolnshire Co-op, Morrisons, Pharmacy2U, Rowlands Pharmacy, Superdrug, Tesco, and Well, who between them own and operate around 4,000 pharmacies across England, Scotland and Wales. CCA members deliver a broad range of healthcare and wellbeing services, from a variety of locations and settings, as well as dispensing 400 million NHS prescription items every year. The CCA represents the interests of its members and brings together their unique skills, knowledge, and scale for the benefit of community pharmacy, the NHS, patients and the public.

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