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Product shortages, NCSO and price concessions

Background

Until very recently product shortages were rare, occurring only where there were specific problems with manufacture, such as a quality problem. In recent years they have increased as a consequence of a number of factors, including rationalisation of production sites, measures taken by manufacturers to control the market for their medicines, the growth in use of generic medicines (nationally and internationally) and price pressures.

The NCSO ('no cheaper supply obtainable') system was created to address very unusual cases where the generic could not be purchased at a price below the brand. In recent years the Department of Health (DH) has also introduced a price concession system to deal with sudden price rises in high volume lines.

PSNC applies for NCSO or a price concession based on information from contractors as follows:

- Applications are made to the Department of Health (DH) for the month in question
- DH carry out their investigations and make a determination whether to grant NCSO or a price concession
- When DH propose a price concession, PSNC has the opportunity to challenge the price
- The concession only applies to the month in which it is granted.

Pharmacies may be charged prices for products above or below the concession price.

The funding arrangements for community pharmacies include funding derived from retained purchase margins amounting to £500m per annum. PSNC and DH monitor prices to ensure that contractors achieve the agreed £500million in purchase margin; this is done through the annual margin survey of prices paid by independent pharmacies for a sample of products.

The current situation has highlighted that there are a number of problems with the NCSO/price concession process. These are:-

- The process is reliant upon market data from suppliers
- The system does not allow a concession for a product to be rolled over from one month to the next.
- NCSO claims will only be allowed if the contractor fully complies with the endorsement requirements for which are complex. A recent study showed that only 76% of all NCSO claims were successful. The principal causes were endorsement errors and pricing errors.
- The process involves additional workload and burden on contractors
- EPS prescriptions sent for pricing before NCSO is granted cannot at present be recalled for NCSO endorsement

Reasons for the increase in products granted a concession

There are several reasons for the recent increases in the number of products being granted a price concession. These are complex but include:-

- Problems with availability of the active ingredient.
- Time it takes for an MHRA license variation to take place: this causes delays in the product reaching the market.
- Consolidation of the generics market which results in less competition.
- Fewer manufacturers marketing a particular product: when that product goes into short supply the remaining manufacturers are unable to meet the demand.
- Changes to prescribing habits increasing demand for certain lines could also lead to a shortage being created.
- Excess purchasing in response to rumours of a forthcoming shortage or price rise
- Success of Category M in reducing drugs prices, which can result in reduced incentives for existing or new manufacturers

PSNC's work

We are working with DH to analyse the causes of recent shortages. It is necessary to understand the causes of the wider problems causing rises in prices to ensure that changes resolve, and do not exacerbate the problems. Invoices supplied by contractors help us, for example showing the range of prices being charged to contractors in different parts of the country.

Our aim is to ensure that we develop a system that minimises the risk that pharmacies lose money in dispensing an item, that does not reward bad behaviour or encourage price exploitation, and that reduces complex endorsement requirements.