

## **Product shortages and adjusted price setting**

### **Background**

Until 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 shortage 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 Scottish Government (SG) has also introduced an adjusted price system to deal with sudden price rises in high volume lines.

CPS liaises with SG based on information from contractors around lines to attempt to get shortage or adjusted price concessions. However as the supply chain is UK wide it is actually driven very much by the Department of Health and their investigations as to whether a shortage or adjusted price is granted.

- Applications are made to the Department of Health (DH) for the month in question. SG is informed of proposed changes. CPS also back up applications with information from contractors to SG.
- DH carry out their investigations and make a determination whether to grant a shortage or an adjusted price
- When DH/SG propose an adjusted price, CPS has the opportunity to challenge the price
- Unlike our counterparts south of the border the adjusted price can run longer than one month (down south it has to be granted every month)

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

The funding arrangements for community pharmacies include funding derived from retained purchase margins amounting to an agreed sum per annum. CPS and SG monitor prices to ensure that contractors achieve the agreed target in purchase margin; this is done through the quarterly margin survey of prices paid by independent pharmacies for a sample of products. Products where difficulties have been identified will be added to the sample for the spot check. The current situation has highlighted that there are a number of problems with the shortage/adjusted price process. These are:-

- The process is reliant upon market data from suppliers
- Shortage 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 shortage claims were successful (English study). The principal causes were endorsement errors and pricing errors.
- The process involves additional workload and burden on contractors
- Electronic prescriptions sent for pricing before shortage is granted cannot at present be recalled for shortage endorsement (hence advice is often to hang on to prescription for as long as is practically possible).

## **Reasons for the increase in products granted an adjusted price**

There are several reasons for the recent increases in the number of products being granted an adjusted price. 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 drug tariff in reducing drugs prices, which can result in reduced incentives for existing or new manufacturers

## **CPS's work**

We are working with SG, and partners from other home countries, 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. Information 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.