



2014 Pharmaceutical Price Regulation Scheme: revised forecasts and profile of payment percentages

Table

1. The table below sets out for each year of the scheme the revised forecasts and profile of payment percentages following the first adjustment to the profile of payments calculated in November 2014. It sets out:

- Revised forecast Growth Rate of Measured Spend (F%);
- Allowed Growth Rate of Measured Spend (AGR);
- Revised forecast of New Products Share of Measured Spend (NP%);
- Annual payment percentage for companies in the scheme in 2014 and 2015 (P₁%, P₂%);
- Estimated future annual payment percentages (FP₃₋₅).

	2014	2015	2016	2017	2018
Revised forecast Growth Rate of Measured Spend (F%)	5.93%	4.55%	4.89%	3.17%	4.12%
Allowed Growth Rate of Measured Spend (AGR)	0%	0%	1.8%	1.8%	1.9%
Revised forecast of New Products Share of Measured Spend (NP%)	0.57%	1.95%	3.47%	5.23%	7.11%
Annual payment percentage (P ₁ and P ₂ %)	3.74%	10.36%			
Estimated future annual payment percentages (2016-2018) (FP ₃ %, FP ₄ %, FP ₅ %)			15.00%	15.00%	15.00%

Methodology

2. A summary of the methodology for setting the PPRS payments is set out at Annex A to this document. Annex 5 of the PPRS¹ sets out the methodology in more detail and the calculation formulae which are used:

New numbers

3. An explanation of the revisions to the table above as compared to the table set out in Annex 4 of the PPRS follows.
 - The forecast Growth Rate of Measured Spend figures (F%) and the forecast of New products Share of Measured Spend figures (NP%) have been revised automatically according to the methodology set out in Annex 5 of the PPRS (and summarised at Annex A) using outturn data in Qs 1-3 2014 as compared to Qs 1-3 2013.
 - The first annual payment percentage (P_1) was 3.74% of Sales Covered by the PPRS Payment in 2014. This was based on the initial agreed forecast Growth Rate of Measured Spend for 2014 in order to deliver a 0% growth rate for 2014 for those sales.
 - Following the first adjustment to the Growth Rate of Measured Spend and New products Share figures, the annual payment for 2015 (P_2) has now been set at 10.36% to deliver a 0% Growth Rate of Measured Spend for 2015 and to correct for the difference between the forecast and outturn of medicine spending in 2014.
 - The estimated future annual payment percentages (FP_{3-5}) have been re-profiled according to the PPRS methodology. All the other payment percentages (P_3 , P_4 and P_5) depend on how the forecast growth rate compares to outturn for the remaining years of the scheme, and will be adjusted on an annual basis, as explained in Annex 5 of the PPRS.
 - There is a smoothed payment percentage for the last three years of the scheme, and that is why the last three payment percentages (FP_3 , FP_4 and FP_5) are expressed as a constant percentage of 15.00% for 2016, 2017 and 2018.

Apportionment to the Devolved Administrations

4. The Government recognises that the PPRS payments that companies make under the 2014 Scheme in respect of the UK need to be allocated to each of the devolved administrations in a fair way. It is a matter for the devolved health administrations to decide how to use the apportioned payments they receive from the PPRS.

¹ <https://www.gov.uk/government/publications/pharmaceutical-price-regulation-scheme-2014>

5. The method for apportioning 2014-15 payments will be based on primary care data for spend on licensed branded medicines, as the most consistent data set available across the UK. Income will be apportioned using prescribing data for the same period as the income relates. The Health Departments explored with industry whether an accurate four country split of PPRS sales data could be obtained to inform the apportionment however not all companies are able to provide this data.

Payment estimates

6. In the interests of transparency we are publishing our estimates of PPRS UK payments in 2014-15 and 2015-16 plus the original and estimated amounts taken into account in setting the allocations for NHS England. However it must be noted that these are still only estimates as the outturn depends on the actual sales during the relevant periods, the final PPRS payment percentage for 2016, and the apportionment method agreed with the Devolved Administrations for 2015-16. The Department is committed to publishing outturn quarterly aggregated sales and payments data for the PPRS on an ongoing basis.
7. The PPRS payment estimate for the UK in 2014-15 is £454m and in 2015-16 is £995m.
8. In England, PPRS payments are taken into account in the allocations to NHS England through the Mandate. PPRS payments will all go back into spending on improving patients' health and care. Following normal Government accounting rules, and in line with the agreed PPRS, there is no separately identified or ring-fenced funding stream associated with the PPRS payment.
9. The anticipated payments in 2014-15 have been taken into account in the allocations to NHS England through the Mandate and as such were included within commissioner allocations.
10. NHS England has an indicative budget for 2015-16, set in 2013-14 as part of the Mandate for 2014-15. That indicative budget was set, amongst other things, on the basis of the PPRS payment forecast at the time. The Mandate for 2015-16 has set a firm NHS England budget for 2015-16, taking into account a number of things, including the fact that the PPRS payment in 2015-16 is now forecast to be higher than originally expected.
11. The original estimate for 2014-15 taken into account in setting the allocations for NHS England was £375m and the revised estimate is £363m. The Department will cover the cost of any outturn shortfall from within its central budgets. The original estimate taken into account in setting the allocations for NHS England for 2015-16 was £640m and the revised estimate is £796m.

Annex A: Summary of PPRS payments methodology

1. There are pre-agreed levels of allowed growth rate for each year of the scheme. Companies make payments in order to keep the growth in medicine expenditure at the agreed rate.
2. The Measured Spend, Growth Rate of Measured Spend and Allowed Growth Rate of Measured Spend are defined at paragraphs 6.6, 6.8 and 6.9 of Chapter 6 of the PPRS. The Allowed Growth Rate of Measured Spend percentage figures (AGR) remain fixed for the whole period of the scheme and will not be revised.
3. The payment is a percentage of a company's health service sales, subject to agreed exclusions, net of discounts, and paid quarterly in arrears. This is defined as the Sales Covered by the PPRS Payment, set out at paragraph 6.7 of Chapter 6.
4. As new products are exempt from the PPRS Payments, but are included in the Measured Spend, the payment percentage is proportionately increased to take account of the percentage of new products and the resulting payment shortfall. The New Products Share of Measured Spend is defined in paragraph 6.10 of Chapter 6.
5. The initial profile of percentage payments was based on an agreed joint DH/ABPI forecast of growth rates. The payment percentage for 2014 was fixed at 3.74%. The payment percentage in the remaining four years is adjusted in advance of each year if the net spend grows faster or slower than the initial forecast, based on actual outturn, and smoothed in the last three years.
6. In order to set the payment percentage in advance of the year it applies to, the actual growth rate in the current year is measured on the basis of outturn to end September. There is an automatic process for correcting this using full calendar year outturn figures and audited data once these become available.
7. The payment percentage is adjusted according to a defined process if the net spend on health service branded medicines grows faster or slower than the initial forecast. There are two parts to this adjustment:
 - Future payments are adjusted to correct for in-year under- or over-delivery (pro-rated over the remaining period);
 - Future payments are also adjusted to take account of the accelerating or slowing trend in growth.