

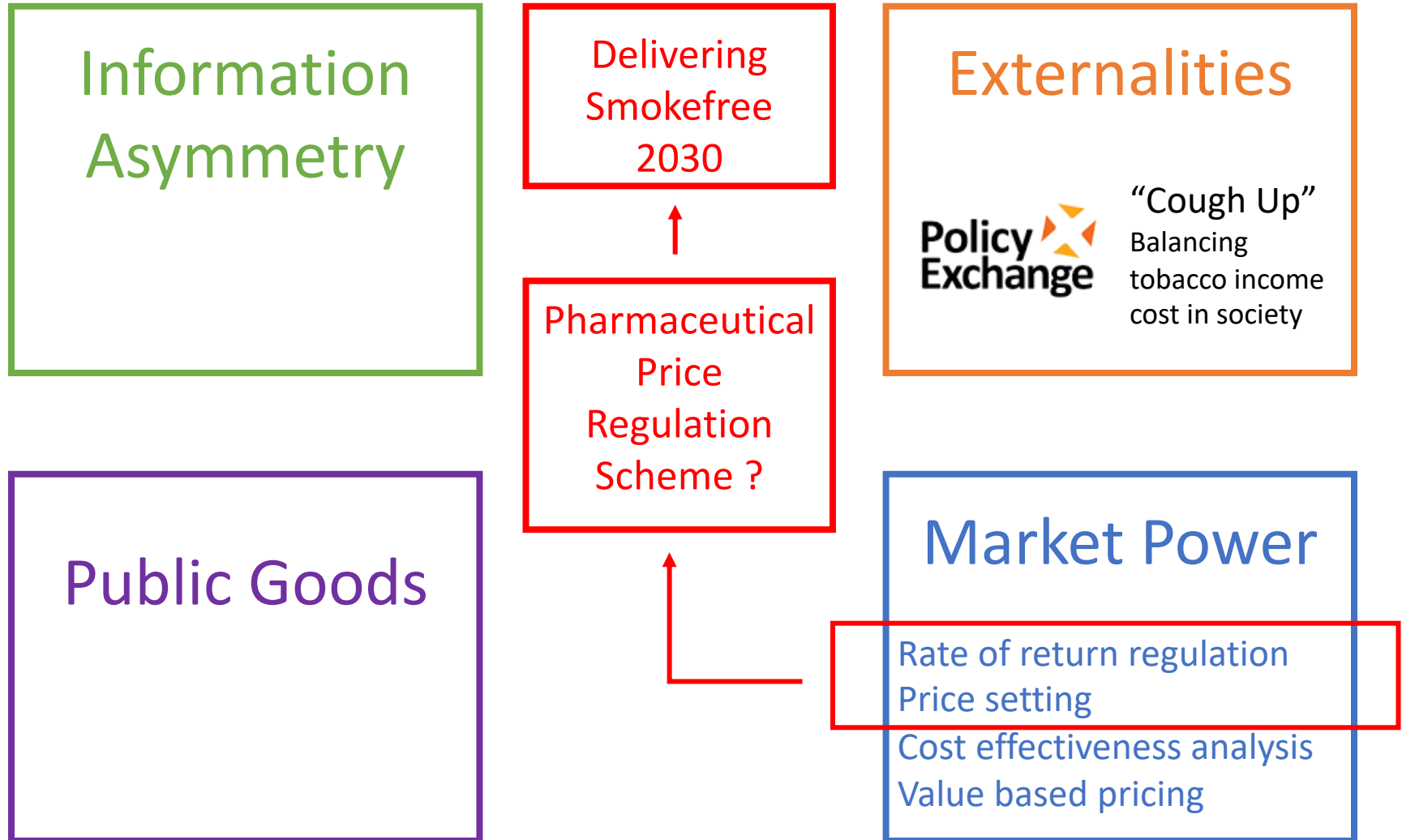
# Polluter Pays Principle

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# From market failure to funding opportunity

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# Pharmaceutical Price Regulation Scheme

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- PPRS (now called VPAS) been in operation since 1957:
  - Renegotiated every 5 years & evolved into highly sophisticated system covering potential loopholes
  - Delicate balance between controlling public expenditure and providing incentives for successful pharmaceutical industry
- Statutory authority since 2006, with companies choosing to enter:
  1. Voluntary, non-contractual scheme with 'dispute resolution'
  2. Statutory scheme with consultation not negotiation every 5 years
- PPRS/VPAS creates a single point of focus for Industry:
  - Effective suspension of lobbying activity for 'PPRS negotiation'
- Raised £3BN from 2013-2018 on sales of ~£8.5BN p.a.
  - Soft hypothecation: payments now go directly to DHSC
  - Pro-rata payments to devolved administrations e.g. New Medicines Fund

# How it works in practice for pharma

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## Company Profit Cap

- Assessed by confidential annual financial return to DHSC
  - 31 AFRs in 2011
  - Small companies exemption
- Branded medicines sales to NHS with profit cap:
  - Return on sales 6%
  - Return on capital 21%
  - Caution Averch-Johnson effect
- Allowable expenses against permitted categories:
  - Marketing
  - Information provision
  - R&D

## Product Price Control

- Freedom of list pricing:
  - Subject to DHSC agreement, or
  - NICE approval
- Cuts to list prices every 5 years:
  - 7% in 2005 PPRS
  - ~5% in 2009 PPRS
  - Gradually replaced with cash payments to DHSC/HMT
- VPAS now operates as 'cap and rebate' scheme:
  - Agreed 'allowable' growth in medicines spending
  - Rebate if total spend exceeds 'allowable' growth
  - Quarterly sales returns to DHSC

# How could it work for tobacco?

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Requires short enabling primary legislation:

- 10 paragraphs in NHS Act 2006

## Company Profit Cap

- Assessed by confidential annual financial return to DHSC:
  - Only extra 3-4 AFRs
- Direct intervention with profit cap:
  - Return on sales <6% ?
  - Return on capital <21% ?
- Monitor & publish spending in permitted categories:
  - Marketing
  - Sales

## Product Price Control

- Utility-style price controls, but:
  - DHSC as price regulator
  - Maximum & minimum

## PPRS Learnings

- Accountability & review against objectives e.g. HSC, PAC.
- Parallel imports & smuggling
- Publish data & publicise where Smokefree funding comes from.