Debates on UK Pricing Policy: Are they relevant to India?

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Recommendations of the Office of Fair Trading

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"We recommend that Government...{replace} current profit and price controls with a value based approach to pricing to ensure the price of drugs reflect their clinical and therapeutic value to patients and the broader NHS"

The Current System

- Very complicated – few people understand it.
- Profits are controlled in relation to costs
- Some freedom to set prices of new products but subject to profit controls
- But across the board price cuts agreed at renegotiation.

Problems with the Current System

- In essence a cost plus system – does not encourage efficiency or reward companies with "better" drugs
- Does not encourage *static efficiency* – same health benefits could be achieved for less money with reform
- Does not encourage *dynamic efficiency* – incentives for R&D are not aligned with health benefits.

Proposed Reforms

- Assess the effectiveness (incremental health benefits) of all drugs before marketing
- “Me-too” drugs would be priced at a small premium over generic substitute

Atorvastatin costs £18.10 for 28 pack

Simvastatin costs £1.86 for 28 pack

OFT recommends pricing atorvastatin at 50% premium on simvastatin to account for the possibility of more efficacy for certain patient groups. Savings from this alone calculated at £350 million.

Relevance to India?

Circumstances are very different but some of the principles are worth considering:

- Cost plus price controls are a very blunt instrument
- Competition policy has an important role in restraining prices
- The concept of relating prices to incremental health benefits is important in relation to *static* and *dynamic* efficiency
- Price regulation policies need to take account not only of the impact on consumers but also the signals they send to companies about investment and R&D.

National Institute for Health and Clinical Excellence (NICE)

- Issues evidence-based advice on clinical practice and the use of technologies in the NHS
- To make a decision it takes account of:
  - Clinical effectiveness
  - Cost-effectiveness: Δhealth/Δcost
  - Equity and other social values
  - Anti-discrimination and other legislation
- Core principles: independence, transparency, inclusiveness, consistency, methodological robustness, review and appeal

NICE METHODOLOGY

- Converse of OFT – with a known price do the health benefits justify the cost?
- NICE calculates the cost of generating an extra year of quality-adjusted life (known as a QALY) with a given medicine
- Rule of thumb is that an extra QALY should not cost more than £30000
- If it does, then NICE has the power to stop NHS prescribing it (i.e. it has teeth)
- This is about static efficiency and maximizing health benefits for a fixed drug budget
- If the NHS uses cost-ineffective drugs for some patients, then other patients will be deprived of more cost-effective drugs and overall health benefits for a given expenditure will be lower

Relevance to India?

- Because resources are even more limited in India than the UK, assessing the relative cost-effectiveness of interventions should be a priority
- The National Commission on Macroeconomics and Health recommended a new Institute:

  "Disease burden estimations, National Health Accounts, cost-effectiveness studies of interventions…independent evaluations of programme implementation are examples of the kind of work that needs to be undertaken. In the absence of such capacity, current policy-making is ad hoc and driven by individual perceptions."