Delivering a voluntary scheme for health and growth

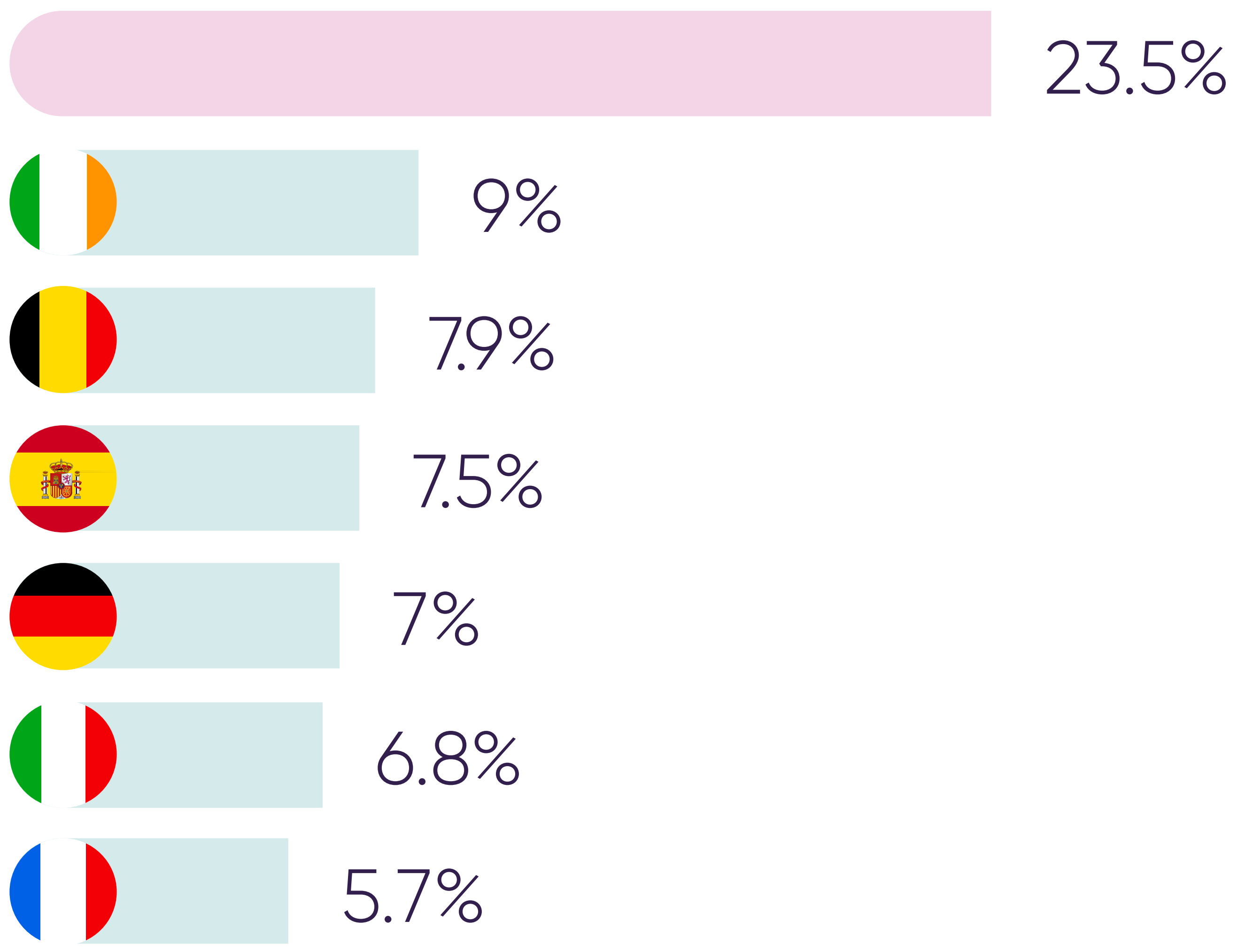
March 2025

Contents

Executive summary

- For nearly 70 years, voluntary schemes for medicines pricing have sat at the heart of a partnership-based approach between the pharmaceutical industry and government. The successive ability of all parties to sign a new agreement has sent a strong global signal about the UK's intentions for life sciences.
- Unfortunately, despite the positive intent from all sides, the current scheme, known as the Voluntary Scheme for Branded Medicines, Pricing, Access and Growth (the VPAG) is in crisis due to the extremely high payment rate it is imposing on companies. **In December 2024, government announced that the newer medicine payment rate for 2025 would increase from the predicted 15.9 per cent of revenues to 23.5 per cent (including Investment Programme funding which is 0.6 per cent in 2025)**.
- The payment rate has left the UK significantly out of line with comparable countries, with France's average at 5.7 per cent, Italy at 6.8 per cent, Germany at 7 per cent, Spain at 7.5 per cent, Belgium at 7.9 per cent, Ireland at 9 per cent.[1]
- As the government has rightly recognised, life sciences is one of the highest potential growth sectors in the UK, but payment rates at this level are holding back our ambitions and making the UK un-investable.
- If not addressed, VPAG payment rates will also have a significant impact on our industry's ability to help deliver an NHS fit for the future. Medicines and vaccines have a critical role to play in delivering improved population health, but England has slipped from being the first for availability of new medicines (compared to other countries in Europe) to ninth in less than 10 years.[21]

VPAG has put **UK medicine payment rates** out of line with comparable countries



- This has contributed to UK health outcomes lagging behind comparable countries, with the data showing treatable and avoidable mortality is the second worst in the G7 after the US, with mortality from treatable causes half again more than Japan, France and Canada.[2]
- The government has recognised that the unexpected escalation in the VPAG payment rate is a shared problem, and work is already underway between the ABPI and the Department of Health and Social Care (DHSC) to analyse the drivers of the increase and what this means for future payment rates.
- What is clear to industry, is firstly that trying to tax life sciences into growth will not work, and secondly that the spend and payment assumptions, carefully considered by both sides when the VPAG agreement was negotiated in 2023, are now very different to original predictions.

"The VPAG Progress Report highlights the significant and acute challenges faced by the life sciences sector in the UK. In December 2024, government announced that the VPAG payment rate for newer medicines would be set at 22.9 per cent for 2025, well above expectations and putting sector growth and investment at risk. Global boardrooms are closely monitoring developments, concerned that the UK is further exacerbating its position as an international outlier. It is therefore crucial that government acts decisively to partner with industry to resolve this issue.

Industry remains committed to working with government, at pace and with urgency, in the run-up to the scheme's autumn review. Together we must identify solutions that bring the scheme back on track to meet its original objectives. Without government's partnership, our shared vision of making the UK a global life sciences hub will remain unrealised: impacting industry sustainability, the delivery of NHS transformation plans, and ultimately the government's plan for economic growth."

Russell Abberley, General Manager of Amgen UK & Ireland

- In particular, during the last negotiations the overall NHS budgetary constraint was a core part of the rationale for capping growth at the agreed levels. The NHS has since received substantially more funding from the current government, which has led to increased activity and in turn driven up the use of medicines.
- With the upcoming publication of the 10 Year Plan for the NHS (10YP) and the Life Sciences Sector Plan (LSSP), there is a real opportunity to align policies across government to attract industry investment and maximise the benefits of medicines and vaccines to the NHS and population health. However, the first step of any industry partnership or industrial strategy needs to be finding an urgent solution to the challenge of UK underinvestment in medicines.
- We are calling on government for discussions to start immediately so that changes can be made to get the scheme back on track during the pre-agreed review point in the Autumn of 2025.

We propose exploring the following solutions:

1. **Ensure that medicines receive the same proportional increase in funding as the rest of the NHS already has**, to deliver improved patient outcomes and growth.
2. **Introduce risk-share mechanisms to deliver the original intention of international competitiveness** and restore growth and equal value sharing between industry and government.

"The unexpected escalation in the VPAG rate to 23.5 per cent is incompatible with the UK government's ambitions to be a global life sciences leader and accelerate innovation for UK patients. To secure investment, innovation, and improved health outcomes, we need an internationally competitive environment. We urge the government to work with industry to find a sustainable, long-term solution that supports both the NHS and the UK's future as a life sciences powerhouse."

John McGinley, Pfizer UK Country President and Managing Director

Introduction

Why have we produced this report?

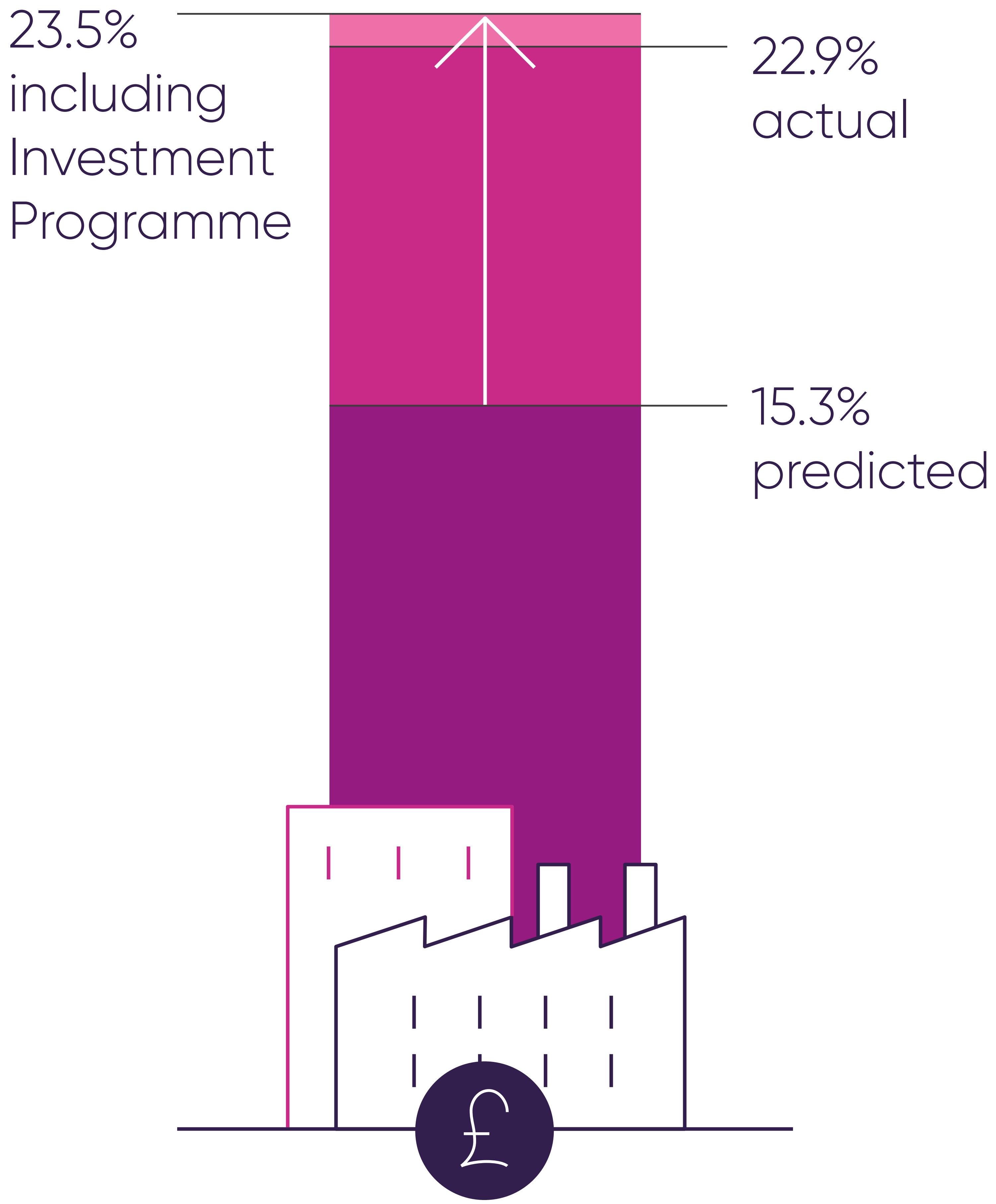
For nearly 70 years the ABPI, on behalf of the UK branded pharmaceutical industry, has worked with government to agree voluntary schemes to control the cost of branded medicines to the NHS and to create the conditions by which the industry can continue to invest in developing the medicines of the future.

The ability of both parties to repeatedly come to the table and agree a collective vision for medicines has always sent a strong global signal about the UK's intentions for life sciences. It has also helped to foster a partnership-based approach between industry and government.

Unfortunately, despite the positive intent from all sides, the current scheme is at a real crisis point due to the unexpected and dramatic increase in the level of payments it requires from the industry. In December 2024, government announced that the payment rate imposed on companies for 2025 would increase from the predicted 15.9 per cent of revenues to 23.5 per cent (including Investment Programme funding).[3] N.B. The headline payment rate was predicted to be 15.3 per cent, and actually rose to 22.9 per cent. It rises to 15.9 per cent and 23.5 per cent when accounting for the additional 0.6 per cent payment from industry to fund the Investment Programme.

This is having an immediate impact on companies' investment plans, headcounts and partnerships with the NHS. Beyond the short-term budget issues caused by an unexpected increase in payments, companies have made it clear that these rates make the UK un-investable from a global perspective and will, if unchanged, also damage new medicines launches. This will jeopardise the ambitions of the government for the forthcoming NHS 10-Year Health Plan and Life Sciences Sector Plan.

2025 VPAG newer payment **rate increases**



"The new VPAG scheme was designed to balance medicines' costs for the NHS while encouraging growth and investment in the UK pharmaceutical industry. However, with a 2025 VPAG rate of 23.5% per cent, this scheme, like its predecessor, continues to deter investment and prevent growth. The new scheme's rates remain unaffordable and will have an enormous impact on the resilience and outlook of medium-sized companies such as Merck Serono, hampering our ability to discover innovative medicines and deliver them to patients. The new government has committed to improving healthcare and driving industry growth, but to do this they must address these VPAG rates and return the pharmaceutical industry to an internationally competitive position that will unlock investment and truly improve patient outcomes."

Doina Ionescu, Merck's General Manager for Healthcare in the UK and Ireland

This report explores what has caused the current crisis with the current voluntary scheme and the impact it is having. It also sets out potential solutions ahead of the first formal review point in the autumn of this year.

As the UK struggles to overcome a working-age health crisis and a poor economic growth outlook, the partnership between our industry and government has never been more important.[4,5] It is essential that we work together urgently to restore the original intentions of the VPAG, for the benefit of patients, the NHS and the economy.

"The UK has long been a leader in health innovation, and J&J shares the government's ambition to drive growth and innovation in life sciences. However, there is a clear disconnect between this vision and the reality.

A steep rise in the VPAG rate to 22.9 per cent, coupled with an already challenging access environment, does not point towards a country that values innovation and the benefits this brings to patients and our economy. This effective tax on revenue compares starkly with that of Germany at 7 per cent and Ireland at 9 per cent.

A thriving life sciences ecosystem relies on a balanced, predictable, and sustainable commercial environment that fosters innovation. We urgently need adjustments to bring rates back into line with European comparators, supporting the UK's return to a position of international competitiveness.

As a large UK investor, J&J is committed to working alongside the government to realise the UK's full potential and ensure patients benefit from the latest advancements."

Roz Bekker, Managing Director UK & Ireland, Johnson & Johnson Innovative Medicine

Chapter 1

What has happened?

The background:
10 years of medicines disinvestment

By convention, voluntary schemes (under various names) have been agreed in the UK by the ABPI and government every five years or so, and seek to balance three objectives:

1. Promoting **better patient outcomes** and a healthier population
2. Supporting UK **economic growth**
3. Contributing to a **financially sustainable NHS**

In addition to securing core financial terms for the NHS, successive voluntary schemes have also created an opportunity for industry to work with government on system priorities and to agree commitments on issues such as access to medicines. This has allowed the government and NHS to address long-term challenges, and to streamline industry engagement on core issues.

The exact mechanism by which schemes have worked has varied over its 70-year history, but over the past decade, schemes have become progressively more divisive and uncompetitive. This has largely been driven by the decision in 2014 to introduce a new element: a limit on growth in the NHS branded medicines spend (a cap). If spending exceeds the cap, pharmaceutical companies must repay the difference to the government, calculated as a per centage of their UK sales (the payment rate).

The first growth cap was agreed in the 2014 voluntary scheme (then PPRS) as a one-off 'austerity measure' at a time of acute pressure in the wake of the global financial crisis. The cap was then repeated in the 2019 Voluntary Scheme for Branded Medicines Pricing and Access (VPAS), and again through the 2024 VPAG.

"We share the government's ambitions for the life sciences sector and its commitments to driving economic growth and delivering NHS reform. However, there continues to be a mismatch between this stated ambition and the environment for access and uptake of medicines and vaccines, which are critical to improving patient outcomes and health system efficiencies, as well as reducing burden on the NHS and driving economic growth. The VPAG and other value assessment systems such as NICE are robust in ensuring value for taxpayers and the NHS, but the commercial environment needs to improve to ensure the UK can support patients, be globally competitive and have a flourishing life sciences sector."

Neale Belson, UK General Manager, GSK

The result of limiting government expenditure on branded medicines at levels far below NHS need has led long-term disinvestment in medicines, while the costs to industry have increased exponentially. This can be shown simply in numbers:

- Over the past decade, growth in the UK branded medicine market has been capped at between 1.1 per cent (2014-2018) and 2 per cent (2019-2023) per year. After accounting for inflation, this growth has declined by over a tenth (11%).[6] In the same period, the NHS budget grew by a third in real terms (33%).[7]

11%
drop in market growth
of UK branded medicines

33%
NHS budget growth

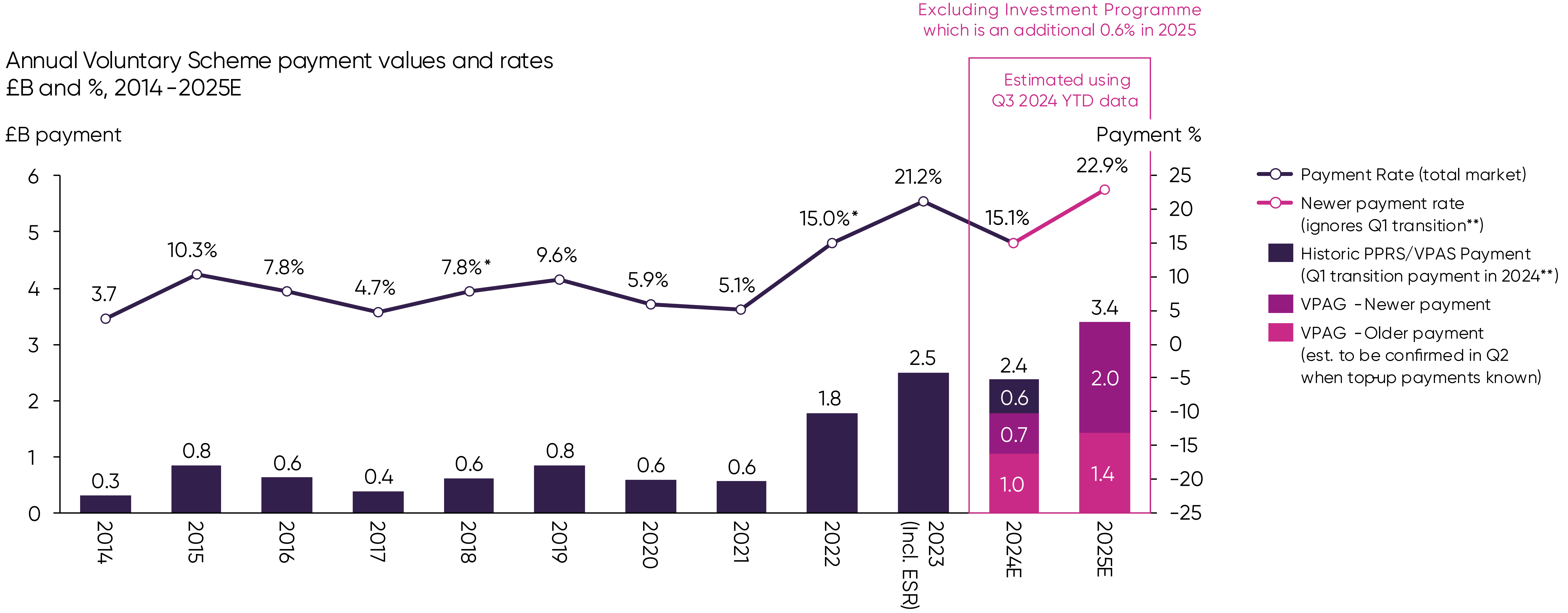
This has led to escalating contributions from branded pharmaceutical companies to the NHS:

- In the 2014 PPRS between 2014–2018, industry returned £2.8 billion in scheme payments, with average payment rates of around 7 per cent of industry revenues and £560 million per year.
- In the 2019 VPAS, between 2019–2023, industry paid £6.3 billion in revenues.
- In the past year of the previous scheme (2023), industry payments amounted to £2.5 billion, a 21.2 per cent payment on UK NHS sales, and more than four times the average between 2014 and 2018.[8]

It is important to note that while participation by companies in these schemes is voluntary, a statutory backstop (the statutory scheme) exists. If companies do not join the voluntary scheme, they are automatically covered by a statutory scheme which, while broadly commercially equivalent, typically contains marginally worse commercial terms for many companies.

> "Daiichi Sankyo is proud of our decades long commitment to the UK. It has been a privilege to collaborate with the NHS in supporting tens of thousands of patients across several disease areas. However, the stark reality is that it has been increasingly difficult for patients to get our medicines on the NHS and to conduct R&D here in recent years. Further clawbacks on medicine revenues will only impact the sector's appetite for investment further. This is neither in the interest of patients nor economic growth."
>
> **Laura McMullin, General Manager, Daiichi Sankyo UK**

2025 payments are now expected to be the highest in the history of capped Voluntary Schemes



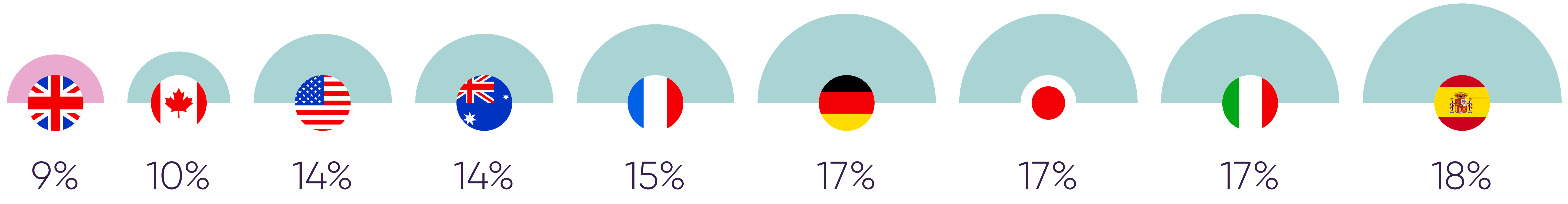
E = estimated
Sources: 1. Annual DHSC VPAS payment reports 2. DHSC VPAG payment model, Note: *ESR (end scheme reconciliation) adjustment assumes 'correct' payment rate in 2023 was 21.2% instead of the previously published 26.5%)
*2018 Payment rate set at 7.8% and 2022 payment rate set at 15% following agreement between DHSC and ABPI
**Q1 2024 payment was 19.5% for all eligible VPAG medicines (newer and older)

The impact of the cap on growth is amplified by the fact that the NHS already pays among the lowest prices in the developed world.[9] The UK is now completely out of line with comparator countries, with medicines accounting for just 9 per cent of the UK's healthcare spend compared to countries like Germany and Italy (both 17 per cent) and France (15 per cent).[10]

This underinvestment has impacted patient access to medicines, contributing to poor health outcomes. We explore these issues in greater detail in Chapter 2, with research by the King's Fund showing the UK comes 16th and 18th, respectively, for preventable and treatable causes of mortality in a basket of 19 comparable countries.[11]

> "The UK has rightly recognised the potential of life sciences as a key driver of economic growth. Making the UK a more attractive destination for life sciences requires a strong ecosystem where the value of innovation is adequately recognised. However, long-term underinvestment in medicines leading to unexpectedly high VPAG rebate rates, together with a challenging access and uptake environment, are making the UK increasingly uncompetitive in the race for global investment. The UK is lagging when compared to global competitors like the US, China, and Japan including lower investment in R&D, a smaller share of global clinical trials, and longer approval times for new medicines. Considering the value and growth stimulated by the industry and Novartis, we expect to see health and life sciences genuinely prioritised by the government. Urgent action is required to reverse this decline and provide the foundations needed for investment, growth and improved health of the UK population."
>
> **Johan Kahlström Country President and Managing Director, UK & Ireland, Novartis**

UK medicine spend as a share of total health spending compared to other countries



The current VPAG

The current voluntary scheme was agreed at the end of 2023, and for the first time explicitly referenced growth as a core objective in its title: the Voluntary Scheme for Branded Medicines Pricing, Access and Growth (VPAG).

Recognising that payments in the final year of the previous scheme had been unsustainably high, the 2024 VPAG retained the cap but allowed for higher allowed growth than its predecessor in order to stimulate investment into the UK, and growth in the pharmaceutical industry.

Initially this was set at 2 per cent allowed growth in 2024, to increase to 4 per cent by 2028. Further to the increases in allowed growth, an additional 'pro-innovation' measure was implemented to generate further support for both innovation and competition. This is a differentiated approach where, if classified as 'older', medicines are subjected to payments of between 10 and 35 per cent, depending on the level of discount offered to the NHS.

While industry saw this as an exceptionally tough deal, the agreement was made with the expectation that it would, over time, bring payment rates for newer medicines down to single digit per centage levels, comparable to those of other countries and allowing the UK to be seen as a competitive market.

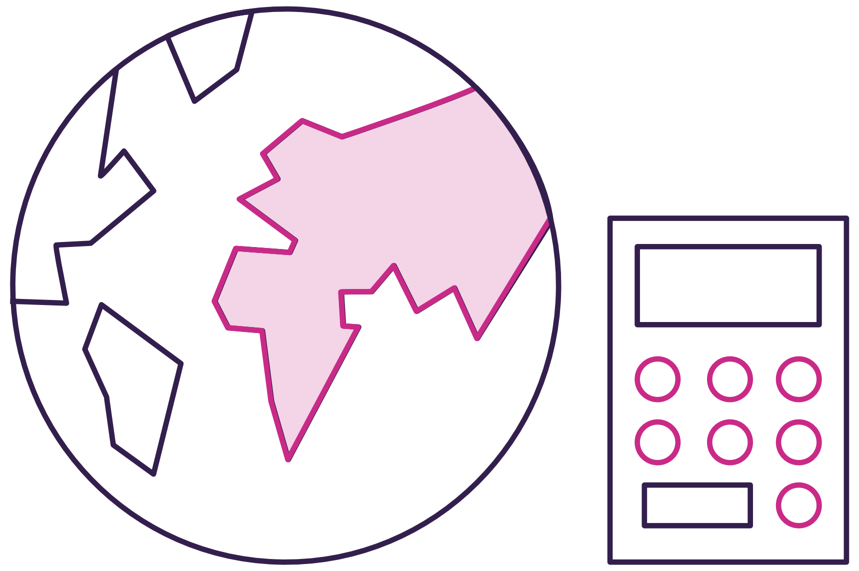
Industry was also encouraged by the inclusion in the VPAG of agreements to improve access to, and use of, innovative medicines, and was willing to contribute an additional, unprecedented £400 million investment programme to improve key aspects of the UK life sciences ecosystem – horizon scanning, medicines manufacture and building industry clinical trials capacity.

"The current VPAG rate for 2025 is leaving UK patients increasingly behind those in comparable countries. The UK life sciences industry is in decline, with fewer clinical trials, a decrease in the launch of innovative medicines, cuts to partnerships supporting the NHS, and workforce reductions across the sector. At BMS, we have had to make these difficult decisions, which contradict the government's ambition to collaborate with industry and foster growth.

The penalising and unpredictable nature of this revenue clawback makes it incredibly challenging to plan effectively and position the UK market attractively within global organisations. The UK lags far behind more dynamic markets in the competitive global race for investment. BMS is driven by our mission of bringing innovative medicines to the patients who need them, and it is deeply concerning that UK patients are missing out."

Guy Oliver, General Manager for Bristol Myers Squibb UK and Ireland

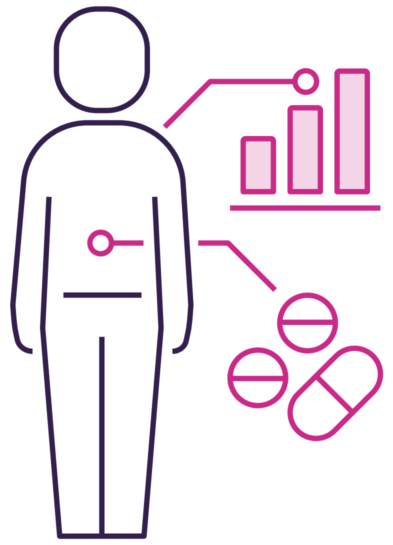
While the benefit of these additional elements is now at risk from the impact of high payment rates, it is important to acknowledge the collaborative efforts that have already been made by industry and government to implement them:



£400m
Investment Programme
(+0.6% rate) strengthens UK global competitiveness

The VPAG Investment Programme

- The VPAG introduced an unprecedented **Investment Programme** to bolster the UK's global competitiveness. Enabled by ~£400 million of additional industry funding (adding 0.6 per cent to the payment rate in 2025), the programme targets investment across the four nations on areas of joint priority.
- There has been some real progress in the delivery of the Investment Programme. An initial £100 million has now been allocated to fund 20 Clinical Research Delivery Centres across the UK, which will act as regional hubs for pioneering clinical trials, creating opportunities to test innovative new treatments with the latest equipment and technology.
- This has been followed by a further £10 million to expand clinical trial capacity in primary care, in line with aims of the 10 Year Health Plan and three 'shifts' in the NHS 10-Year Plan set out by the Secretary of State for Health and Social Care.
- There has also been significant progress in launching a series of innovation funding competitions to address major technology barriers related to the industry's transition to sustainable medicines manufacturing.



£100m
allocated to fund **20 Clinical Research Delivery Centres** across the UK

Chapter 3: Access commitments

- The VPAG also committed in Chapter 3 to **supporting access to, and use of, clinically and cost-effective medicines** through a variety of delivery mechanisms.

- In terms of process, some positive progress has been made in delivering the 'Chapter 3' commitments. One of the most important commitments for industry was the update to the NHS commercial framework for new medicines, which governs the agreements that industry can make with the NHS in England for new medicines. The first update has already taken place and includes some helpful clarifications to support companies engaging with NHSE; a dedicated section on indication-specific pricing; support for data provision for companies using the Competition and Markets Authority's prioritisation statement framework for combination therapies; and the incorporation of provisions and principles for patient access schemes.

- A second consultation is about to take place, and further work is needed to address outstanding concerns from industry, including the principle that requires value propositions to be 'at or below' the lower end of the NICE threshold range for commercial flexibility to be offered.

- The Budget Impact Test (BIT) threshold has also been raised from £20 million to £40 million, which should help speed up NICE guidance delivery and reduce NHSE's administrative burden.

- In addition, plans are in place for the delivery of the remaining commitments in Chapter 3 of the VPAG, and there is a shared focus from government, NHSE and NICE in meeting the timelines originally agreed.

Finding a solution to the VPAG payment rate must not impede government, NHSE and NICE continuing to work collaboratively with industry to progress these commitments and other necessary access policy improvements. In fact, the current situation increases the need to ensure the access environment is supporting and appropriately rewarding the introduction and use of innovative medicines to avoid further reducing access and disincentivising the launch of medicines.

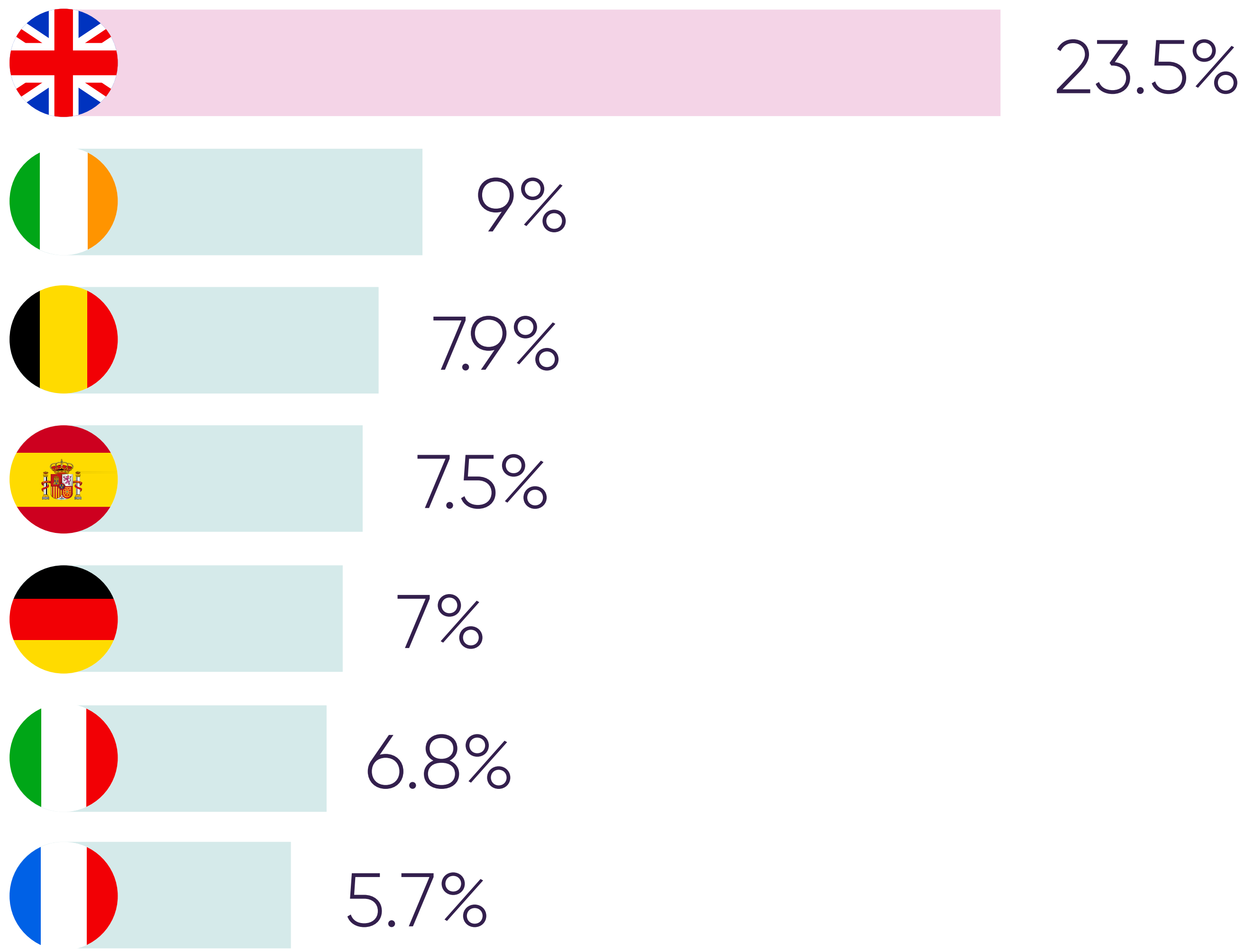
Why is the 2025 rate so much higher than expected?

Despite the intent for payment rates for newer medicines to steadily decline under the VPAG, in December 2024 the government announced an unexpected and sharp rise for 2025. The payment rate rose from a predicted 15.9 per cent of companies' revenues to 23.5 per cent. This is almost 50 per cent above both government and industry forecasts.

The VPAG has left the UK significantly out of line with comparable countries, with for example France's average payment rate at 5.7 per cent, Italy at 6.8 per cent, Germany at 7 per cent, Spain at 7.5 per cent, Belgium at 7.9 per cent, and Ireland at 9 per cent.[1]

The ABPI and government have recognised that this unexpected escalation is a shared problem, and work is already underway between the ABPI and the DHSC to analyse the drivers of the unexpected increase and what this means for future payment rates.

VPAG payment rates put the UK out of line with comparable countries



Although this analysis is ongoing, there are early indications that:

- in the hospital setting, there has been strong growth in monoclonal antibodies, particularly in oncology
- in the community, there has also been strong growth of medicines for diabetes and some respiratory conditions
- there was also little movement of medicines between 'newer' and 'older' status, meaning that more medicines remained newer in 2024, increasing growth further
- some of this was not predicted at the time of negotiations due to having imperfect data to validate growth assumptions for newer medicines specifically, which is a consequence of moving to a differentiated approach for newer and older medicines for the first time in the history of voluntary schemes

In addition, the spend and payment assumptions, carefully considered by both sides when the VPAG agreement was negotiated in 2023 are now very different to original predictions. Specifically:

1. **The NHS has received substantially more funding than planned, with increased activity targets to address waiting lists, driving up the use of medicines**. During the 2023 negotiations, overall NHS budgetary constraint was presented by the previous government as a core part of the rationale for capping medicines spend at agreed levels. Increased NHS activity has been seen to lead to increases in medicine usage, putting further pressure on industry, as it is companies that fully fund the rise in medicine use.

2. **The three transformational shifts underpinning the 10YP will, in turn, require additional front-line care and investment in medicines**. These shifts were not on the horizon when the scheme was agreed.

3. **The government's ambition for leveraging health as a driver of economic growth is significantly higher than that of its predecessor**, with the result that an agreement constraining growth in a key sector represents a perverse incentive.

Recognising this fundamental shift in context and ambition, the ABPI is calling for discussions on solutions to commence immediately. Potential options to resolve the crisis are discussed in more detail in Chapter 3.

"At present, the VPAG scheme is not working in a way that is consistent with the government's ambition to encourage growth and investment from the UK life sciences sector. We hope that the upcoming review point later this year is an opportunity to consider this, especially the impact on international competitiveness and the ambition to reduce the rate over the course of the scheme."

Karen Lightning-Jones
Pricing, Reimbursement, Policy and Communications Lead for Roche

"The size of the rebates and their unpredictability have had a major impact on our work in the UK and our investment here. We would love to celebrate the positive parts of the UK's life sciences ecosystem, but they are often over-shadowed by the fact that we are a noticeable international outlier for the wrong reasons."

Kylie Bromley, Vice President and Managing Director of Biogen UK

Chapter 2

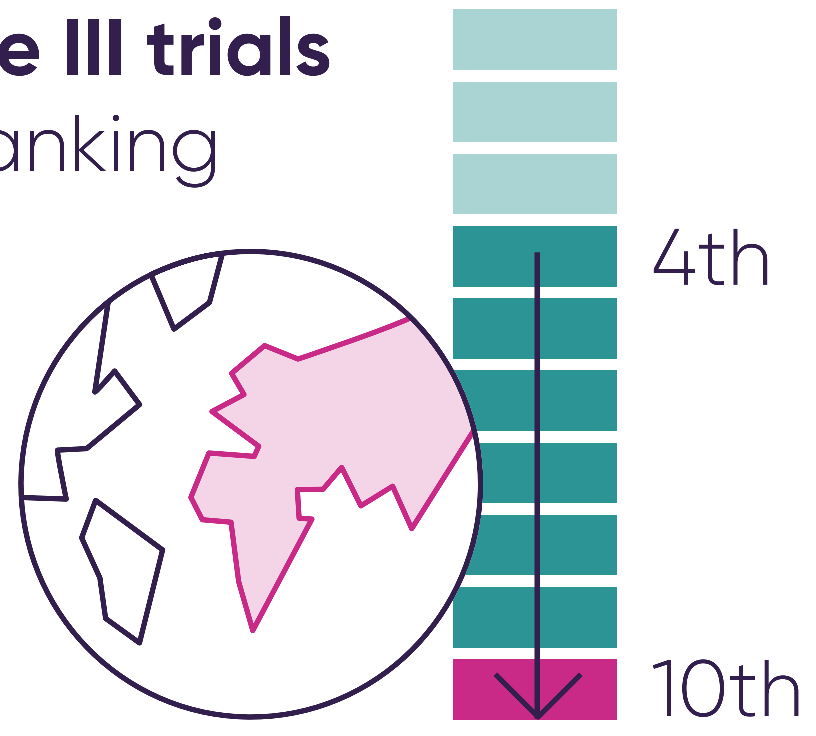
Impact of the VPAG on UK growth and health

Impact on growth

All UK governments over the past 20 years have recognised the value of the life sciences sector and set out ambitions to grow it.[12] Most recently, the current government has made economic growth its number one mission and has rightly identified life sciences as one of the UK's eight highest potential industries.

The pharmaceutical industry already contributes more than £17.6 billion in direct GVA to the UK economy with £45 billion generated through R&D spillovers.[13] However, as illustrated right, growth in the sector is still far from reaching its full potential. This is because the positive intent, and wider life sciences policies, have stood in contrast to a very challenging commercial environment for medicines and vaccines.

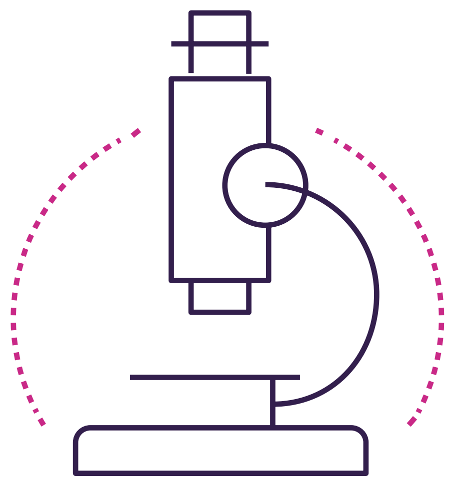
UK phase III trials
global ranking



Between 2017 and 2021, the UK fell from fourth to 10th place in the global rankings for the number of phase III trials it hosts. While the UK is now making progress in rebuilding its global position, and is climbing the rankings, for phase III trials it remains below similar European countries like Spain (3rd), Germany (6th) and Italy (7th).[14]

Increasing UK industry clinical trial activity by 40 per cent (comparable to 2017 levels) would generate £3 billion of additional GVA for the UK economy, 26,000 additional jobs and 1.1 million additional avoided sick days from improved quality of care, leading to a healthier population.[15]

While UK pharmaceutical R&D investment has remained relatively stable in volume over recent years, the UK's share of global R&D investment has fallen from 7.3 per cent to 5.7 per cent over a three-year period. This represents the fastest decline of any European G7 nation but also highlights the significant growth in global investment and the opportunity for the UK to attract internationally mobile investment.[16]



Increasing UK clinical trials to 40%
would generate

£3bn GVA

26k jobs

1.1m fewer sick days

Current VPAG rates, if unaddressed, will make this underperformance worse. As the literature shows, when there are choices for location of investment, and where supply side factors are similar, pricing policy influences investment decisions.[17] For example, companies may not locate clinical trials in countries that they perceive as unsupportive of innovation, either because they do not expect that the country will be a core market for the medicine in the future or because the prevailing standard of care is not up to date enough to serve as a robust control.[17]

The impacts of failing to act are stark. Just two months after the 2025 VPAG payment rate was announced, investments are at risk, companies are making headcount reductions and scaling back NHS partnerships, and additional pressure is being placed on new medicine launches in the UK. Further case studies and insights of the impact on companies are provided in the following section.

Over the longer term, previous analysis has found that continuing payment rates at 2023 levels (i.e. below current rates) would reduce UK growth and cost the economy £5.7 billion in reduced life sciences R&D 2024–2028, with £1.9 billion lost in 2028 alone.[18] Critically for the Exchequer, this was found to create a further hit to the economy, putting 27,000 jobs and £2.6 billion GVA at risk, ultimately reducing tax receipts for the UK economy.[18]

With the upcoming publication of the 10YP and the LSSP, there is a real opportunity to align policies across government to further attract industry investment and maximise the benefits of medicines and vaccines to the NHS and population health. The first step to any industrial strategy must be finding an urgent solution to the payment rates under the VPAG.

Continuing payment rates over 20% would risk:

£5.7bn
loss to the economy in life sciences R&D

£2.6bn
GVA at risk

27,000
jobs at risk

Impact on health

Alongside its ambitions for the life sciences sector, the government has also recognised the interdependencies between health and the economy and set out to make the NHS "*an economic growth department*".[19]

The medicines and vaccines that the pharmaceutical sector develops have a critical role to play in delivering the improved population health needed. Innovative treatments do not just treat disease, they help to prevent ill health, reduce pressures on the NHS, enhance productivity and drive economic growth.

Notably, analysis of just four key classes of innovative medicines found that increasing their use to NICE-recommended levels could:

- deliver a £17.9 billion productivity gain for the UK
- provide patients with 429,000 additional or improved-quality years living in perfect health[20]

In addition, new classes of medicines, such as in obesity and Alzheimer's, provide the opportunity to address major drivers of population ill health, reducing downstream demands on NHS frontline services.

£17.9bn
productivity gain with NICE-recommended levels

429k
additional healthy years for patients with increased NICE-recommended levels

"The UK government needs to move away from considering innovative medicines as a cost to the economy and recognise them as a critical driver of better population health and improved productivity. Aligning government priorities for improving health and growing the economy could help ensure the pharmaceutical industry continues to invest in the UK."

Vani Manja, Country Managing Director and Head of Human Pharma, Boehringer Ingelheim UK & Ireland

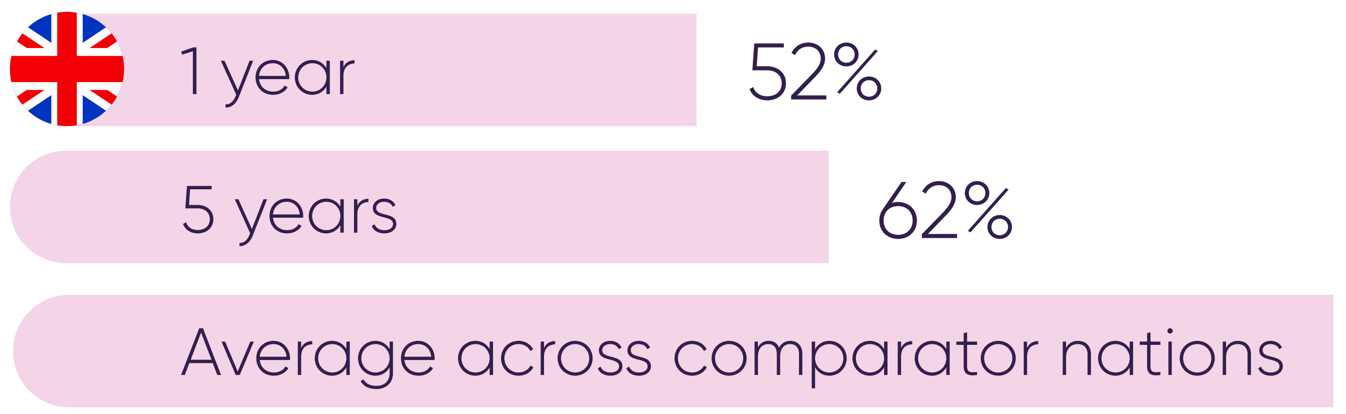
Unfortunately, the UK's decade of disinvestment in medicines and vaccines has left the NHS lagging behind international peers in terms of access to, and use of, innovative treatments. As a result:

- England has slipped from being the first for availability of new medicines (compared to other countries in Europe) to ninth in less than 10 years.[21]
- During the past five years, around a fifth of the NICE work programme has been terminated. Submissions for new medicines and licence extensions have either been withdrawn or not made at all, often because they will not be able to be considered cost-effective under NICE's methods and/or cannot meet NHSE's requirements for commercial flexibility.[22]
- One year after launch, use of medicines in England is only 52 per cent of the average of comparator nations, rising to 62 per cent five years post-launch.[23]
- The Innovation Scorecard consistently shows that variation in uptake across England persists, falling short of NICE estimates in some areas.

If improvements are not made, the UK will fall further and further behind as an early launch market, and NHS patients will continue to struggle to access innovative medicines.

This will have a knock-on effect on health outcomes, with the data showing treatable and avoidable mortality is the second worst in the G7 after the US, with mortality from treatable causes half again more than Japan, France and Canada.[2]

Medicines use in the UK after launch compared to average of peers



20%
of NICE work terminated
over 5 years

"The UK is a significant outlier when it comes to low investment in medicines innovation and this needs to change if we want UK patients to access the best treatments, to be economically active and to present less demand on the NHS. Companies also won't invest when signals are negative.

We've committed to a deal that gives the UK time to return to international competitiveness, but this year's rate is a backward step following unprecedented growth in medicines usage and against a backdrop of increased investment in the NHS that included no investment in medicines. We need to work together to get back on a path to growth."

Rippon Ubhi, Sanofi UK & Ireland Country Lead & General Manager, Specialty Care

Case studies

Companies have shared these examples with the ABPI of confirmed, immediate impacts of the 2025 VPAG rate. Regrettably, the number of these cases is set to increase if a solution is not identified soon, as several more companies are facing similar decisions in the coming months:

Company A has reported that as part of significant reductions in headcount, a dedicated NHS partnership field team was entirely disbanded, resulting in the immediate closure of 35 NHS service improvement projects worth over £1.5 million.

These projects were designed to improve patient pathways and NHS operational efficiency, and their termination represents a major loss of direct industry investment. While broader commercial pressures played a role, the VPAG's high rebate environment significantly exacerbated these challenges, leading to further disinvestment in collaborative NHS initiatives.

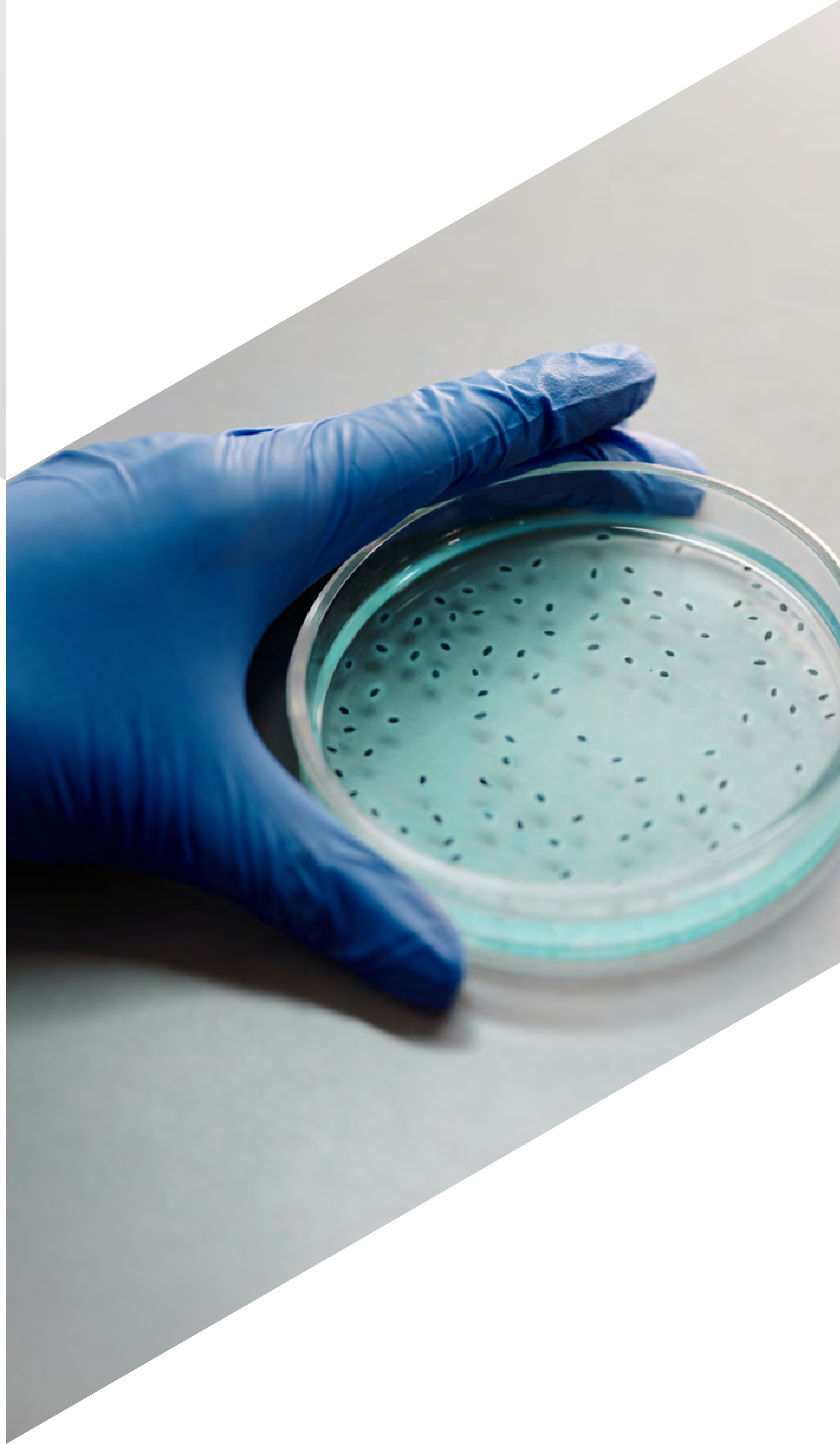
Company A has also reported that a haematology product was delayed post-licence in the UK and lost eligibility for the New Active Substance (NAS) exemption. As a result, Company A decided to launch the product only in the private market, because the crippling VPAG rebate costs made an NHS launch unviable.

Company B has reported that, as a direct result of increases in VPAG payment rates, combined with broader economic pressures such as higher employer National Insurance contributions, it has implemented a hiring freeze until at least April 2025. This has led to a significant reduction in planned student placements and apprenticeships, directly impacting career opportunities for young professionals in the life sciences sector. The case underscores how the VPAG's financial burden extends beyond the industry itself, affecting workforce development and the UK's long-term ability to train life sciences professionals.

Company B has also historically invested heavily in NHS partnerships, including data-sharing initiatives and patient pathway improvement programmes. However, funding and resources allocated to these projects are now under threat. As a result, NHS collaboration projects – previously seen as critical for improving patient outcomes and healthcare innovation – are being deprioritised or cancelled. This runs counter to the UK government's stated ambition of fostering closer NHS-industry collaboration and demonstrates how the VPAG is actively undermining long-term healthcare innovation in the UK.

Company C has two rare disease medicines with marketing authorisation in the US and Europe but has delayed or abandoned regulatory filings in the UK due to the VPAG's impact.

Company C also reports that it has undergone restructuring every year for the past four years. VPAG (and previously VPAS) is a direct contributor due to the significant impact on profitability. This repeated restructuring has led to job losses, R&D pullback, and declining investment in UK-based innovation. The case highlights the progressive erosion of the UK's pharmaceutical competitiveness, which is making the country an increasingly unattractive market for biopharma companies.



Company D has a highly innovative ATMP in oncology which cannot currently be launched in the UK due to VPAG and other commercial access barriers. This is a breakthrough treatment, which is moving towards a functional cure. The UK, which historically set out to be an early-launch country for ATMPs, will instead become one of the last major countries in Europe to benefit from this innovative treatment and UK patients will continue to miss out. This decision is a major indicator of how VPAG is shifting the UK further down the priority list for global product launches, increasing concerns about long-term access to advanced therapies for UK patients, which will have a knock-on negative impact on standards of care, putting at risk future investments in R&D.

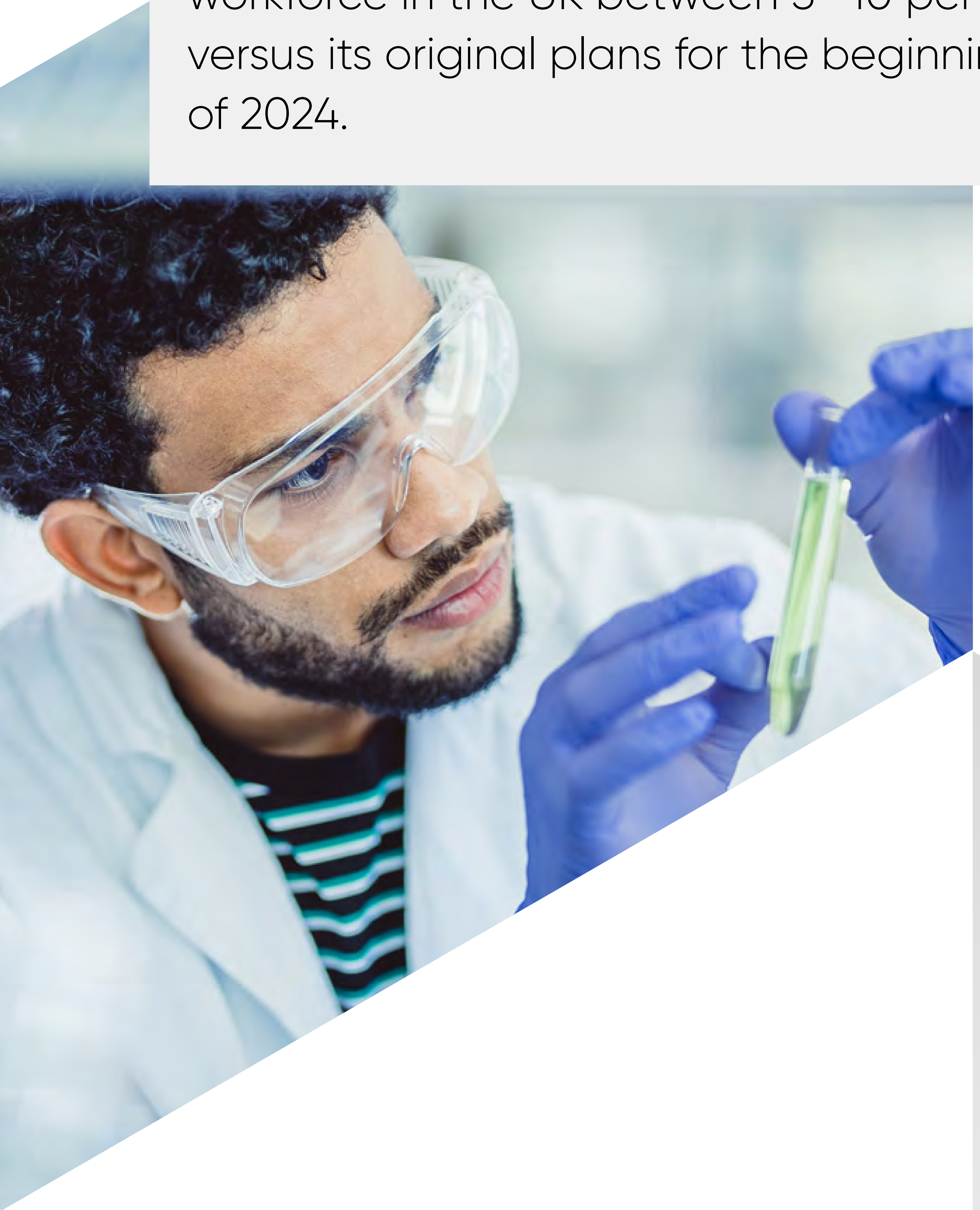
Company D also has a new and innovative oncology treatment, with a novel delivery method, which is likely to be misclassified as an older medicine, meaning it would be subjected to a 35 per cent VPAG rebate. This novel treatment has the potential to fundamentally transform clinical outcomes for patients with one of the hardest to treat cancers with significant unmet need. However, the impossibility of navigating a NICE appraisal, providing discounts for NICE cost-effectiveness hurdles, and then layering on 35 per cent VPAG rebate (not recognized by NICE) will make it unviable to launch and yet again UK patients will miss out.

Company E has made significant investments outside of the UK in recent years, including some investments that could have been placed in the UK. Major investments have been made in Canada, the US, Singapore, China and Spain across both R&D and manufacturing, while only very moderate investments have been made in the UK during this time.

Company F has been exploring significant R&D investment in the UK, including capacity expansion. However, this investment is now on hold due to the unpredictable financial environment created by VPAG.

Company G has launched an urgent portfolio review of novel pipeline assets planned to launch in the US and European Union within the timeframe of this agreement. It is anticipated the impact of VPAG alongside the challenging commercial access environment will lead to a delay or pause in resourcing UK licensing and market access. Limiting patient access to important innovations in the coming years.

Company H is reducing its commercial workforce in the UK between 5–10 per cent versus its original plans for the beginning of 2024.



Company I's treatment, recognised by the clinical community for its potential to significantly improve patient outcomes, was originally positioned for launch in multiple markets, including the UK. However, due to unfavourable UK commercial conditions under the VPAG, the medicine has now been deprioritised for launch in the UK, leading to delayed patient access.

"We are committed to working with the government to support UK science, boost investment, drive growth and deliver the productivity gains that are available through better health. However, the commercial environment needs to reflect the level of ambition the government has for the sector and we need to see a substantive and long-term commitment to improvement as a key plank of the life sciences strategy."

Tom Keith Roach
President, AstraZeneca UK

Chapter 3

Towards solutions to the VPAG crisis

The payment rate

The ABPI is pleased that government has already recognised that unsustainable VPAG payment rates are a shared problem, impacting on ambitions for health and growth. We now need detailed discussions to start urgently on how to bring rates back into line with international comparators. It is important that this process begins before the pre-agreed review point for the VPAG in autumn 2025. This is to ensure that the review concludes before the deadline for companies to decide whether to leave the scheme, currently set for 30 September.

Failure to do so could force companies to withdraw from the scheme rather than 'voluntarily' sign up for such punitive terms. The breakdown of this historic partnership would have wide ranging implications for the perception of the UK by global stakeholders and would further jeopardise investor reception of the LSSP.

"Life sciences companies are rapidly losing confidence in the UK as an attractive and predictable place to do business. A clear aim of the 2024 VPAG scheme is to drive access to medical innovation and growth of the UK life sciences sector. Yet this recent sharp and unexpected increase in the VPAG rate adds to the existing negative perception of the UK within global boardrooms and makes it harder to manage a successful UK business for many companies. The government must work with industry to address these commercial challenges as a priority, so that we can create a life sciences environment that fosters innovation and delivers better health outcomes for UK patients."

Peter Wickersham, Vice President and General Manager, Gilead Sciences UK & Ireland

To avoid this scenario, we propose that the following solutions are explored jointly and at pace:

1. **Ensure that medicines receive the same proportional increase in funding as the rest of the NHS already has, to deliver improved patient outcomes and growth**. The NHS in England has received more funding from government than was assumed to be the case in 2023 during negotiations (for example, the 3.7 per cent real-terms increase in 2024/25).[24] Higher funding has led to more NHS activity, thereby flowing through to the demand for medicines. The allowed growth agreed in the scheme should be adjusted for recent increases and linked to future adjustments each year based on latest planned NHS budget growth. We recognise the financial challenges facing the health system, therefore see this as a win-win solution, whereby spend on branded medicines only increases in line with overall NHS funding.

2. **Introduce risk-share mechanisms to deliver the original intention of international competitiveness and restore growth and equal value sharing between industry and government**. For the scheme to become sustainable, we need to move away from a hard cap where industry self-funds all growth. Fairly sharing the costs and benefits of growth in medicines spend between government and industry will help restore the scheme in the long-term and change the UK model so that it is more similar to international comparators. Such risk-share options could include equal sharing of growth increases above certain thresholds or introducing adjustments to allowed growth levels that increase as more growth is seen in the market.

Independent of any structural changes agreed, companies also require clarity on the VPAG payment rate before they decide whether to continue to volunteer for the scheme in 2026, so they can make an informed decision as to their continued participation.

The ABPI and industry welcome further discussions with government on the best way to get innovations to patients as soon as possible, and to deliver on the government's broader health and economic growth goals. However, to maximise the collective power of industry and government partnerships for patients and the UK economy, it is critical that we first get the VPAG back on track.

"The UK's clawback rate is now significantly higher than similar schemes in other countries, which sends a negative message to global boardrooms and is directly contradictory to the Government's economic growth mission. This tax is compounded by the challenging environment for business, which has made the UK an outlier for Takeda.

"If the UK is to realise the vision that will be set out in the upcoming Industrial Strategy and Life Science Sector Plan, we call on the Government to urgently collaborate with industry to bring the UK's rebate back in line with international comparators. Taking action to avoid a similar situation for industry in future years is a pivotal step to enabling the full potential of the life sciences sector as a key partner to supporting the NHS, improving patient outcomes and driving economic growth."

Şeyda Atadan Memiş, General Manager of Takeda in the UK & Ireland

Conclusion

The coming months will see the publication of two flagship government policy documents: the NHS 10-Year Health Plan, setting the long-term vision for health service reform; and the Life Sciences Sector Plan, outlining the strategy to position the UK as a global leader in life sciences innovation.

For our sector, the success of both initiatives depends on resolving the payment rates in the VPAG, which are the most significant drag on UK competitiveness and investment attraction. Without announcement of substantive action on this vital point, any wider announcements will not have the desired impact with investors and will also impede patient access to essential innovative medicines.

Instead, we must work together to create a more predictable, sustainable, and competitive environment, one that gets the UK back on track to delivering the government's ambitions for health and growth.

"The VPAG has been put in place to help advance innovation in the UK healthcare system. We look forward to achieving a system where this innovation is rewarded and stimulated, enabling patients in the UK to have access to the best treatments possible for their condition, in line with other European countries."

Nico Reynders, General Manager UCB UK & Ireland

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About the Association of the British Pharmaceutical Industry

The ABPI exists to make the UK the best place in the world to research, develop and access medicines and vaccines to improve patient care.

We represent companies of all sizes which invest in making and discovering medicines and vaccines to enhance and save the lives of millions of people around the world.

In England, Scotland, Wales and Northern Ireland, we work in partnership with governments and the NHS so that patients can get new treatments faster and the NHS can plan how much it spends on medicines. Every day, our members partner with healthcare professionals, academics and patient organisations to find new solutions to unmet health needs.

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