

## **Annex 1 Explanatory Notes**

### **Note 1: Cash Releasing Efficiency Savings (CRES)**

Each year, every organisation in the NHS is required by the Department of Health to make cash releasing efficiency savings (CRES). This is a set percentage of total baseline budgets. In 04/05 CRES was set at 1%, in 2005/06 it was 1.7% in 2006/07 CRES is set at 2.5%. In Gloucestershire this amounts to just over £15m. If this efficiency saving is not achieved, the outstanding amount would be added to the total deficit.

### **Note 2: Stage 1 PCT Savings Plans**

Full year effect of plans put in place in 2005/06. In addition to community hospital review proposals in Cotswold and Vale PCT, the main focus of these plans is on alternatives to hospital based treatment

### **Note 3: Topslice 'Pool'**

Avon, Gloucestershire and Wiltshire (AGW) Strategic Health Authority has notified PCTs that it will be establishing a 'pool' of funds, made up of a non recurring levy from each PCT's growth allocation for 2006/07. Monies from this Pool will be allocated to the most financially challenged NHS organisations across the Strategic Health Authority Area. In Gloucestershire this means a total contribution to the Pool of £13,293m with £6,800m returning to the county to support the 'turnaround' PCT, Cotswold and Vale.

### **Note 4: Payment by Results (PbR) Gap**

The cost of paying for planned treatments and services provided by Provider Trusts under the new system of PbR has exceeded Department of Health estimates. Therefore Gloucestershire PCTs have calculated that they would need to set aside an additional £8, 297m to cover these costs next year.

### **Note 5: Recurrent deficit**

In the past, NHS organisations have managed their year-on-year budgets by using one off measures to achieve balance, carrying forward underlying deficits and 'chipping away' at reducing them over time. In Gloucestershire, the ongoing cost of services at the end of 2005/06 exceeds budgeted provision by £21,8m. This year the Department of Health has instructed NHS organisations to achieve recurring balance this year and plan for a surplus.

### **Note 6: 2005/06 deficit c/fwd**

On top of underlying deficits, 2 of the 3 PCTs will not cover their costs this year without external assistance. This adds up to £11,443m (after a premium payment for year end support). This deficit must also be cleared within the next 12 months. The county will receive funds from the 'Pool' [see Note 3] to offset some of this deficit.

### **Note 7: other 2006/07 expenditure**

Each year, NHS organisations are expected to meet new targets and respond to advances in clinical areas. The Operating Framework restricts this new spend to legal and unavoidable requirements. Local NHS managers have calculated that this amounts to £15,614 in 2006/07. This excludes "discretionary" spending including funding for new NICE approved drugs.

### **Note 8: Provider Positions**

In addition to the PCT "Purchasing Gap" of £23m, local Trusts have their own funding challenges. Each has to find CRES (see note 1) and has other underlying pressures

