

20 October 2010

*Richmond House
79 Whitehall
London
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To: NHS Chairs, Chief Executives and Directors of Finance

Gateway reference number: 14968

Copied to: Local Authority Chief Executives, Regional Directors of Public Health, Monitor and CQC

Dear colleague

The Spending Review settlement

You will have seen the Coalition Government's announcement of the Spending Review (SR) settlement for the next four years. I am writing to you with further details of what that means for the NHS and our colleagues in social care. David Behan is writing in similar terms to Directors of Adult Social Services.

It is clear that the economic context is extremely challenging and that is why the Government has taken radical action to limit public expenditure in order to tackle the national, structural deficit.

In the NHS, we have been working together for some time simultaneously to improve the quality and productivity of care we provide, based on our assessment of the savings we would need to make over the next SR period.

In that context, all of us who care deeply about the NHS and the wider health and social care system should warmly welcome the Government's commitment to maintain investment in the sector.

In summary, the key points from the Spending Review for the NHS and its relationship with social care are that:

- **Total NHS expenditure will be protected in real terms.** Within that total increase, NHS revenue will increase in real terms, year-on-year. In addition, there will be a further redistribution of £1bn by 2014/15 from capital to revenue specifically to support greater integration between health and social care (see below). PCT allocations will be announced in detail in December. The settlement will still provide sufficient capital for the major public capital schemes already approved nationally to continue and for the NHS to keep up essential NHS maintenance expenditure;
- **In common with the wider public sector, the NHS must make unprecedented productivity savings** in order to keep pace with demand. Our assessment 18 months ago of the scale of the £15-20bn quality and productivity challenge has been borne out and it is more

important than ever that we pursue those quality and productivity improvements. Every penny of those savings will be available for reinvestment in frontline healthcare; and

- **The settlement represents a fantastic opportunity to support integration between health and social care services at the local level.** As well as NHS revenue rising in real terms, NHS commissioners will be allocated additional revenue amounting to £1bn in 2014/15 specifically for measures that support social care, which also benefit health. This upstream expenditure in meeting the needs of vulnerable people will represent a better quality and more efficient service across the health and social care system, preventing the need for greater expenditure downstream in acute healthcare.

Due to the Government's continued funding commitment for the next SR period, the main elements of the NHS financial strategy, set out in last year's NHS Operating Framework, remain the same for this year. In December, we will publish the NHS Operating Framework for 2011/12, which will set out the financial parameters for the service for next year, including use of surplus and financial risk management, in order to maintain strong financial discipline whilst managing the transition to the new system envisaged in *Equity and Excellence: Liberating the NHS*.

Most importantly, this settlement is a strong commitment from the Government to the health and social care sector and it helps to give us a platform continually to improve the quality of service we provide to our patients and users.

The need for change to improve quality

However, protection for NHS expenditure is not insulation from change. The ambition of the quality and productivity challenge is not to maintain the status quo, but to continuously improve services for patients and value for money. We know from the evidence that better, safer care is also more cost effective care.

We also know that, whilst the NHS has grown rapidly in recent years, productivity has remained at best flat. Our focus now must be on increasing significantly the productivity we get out of the existing capacity to meet the underlying growth in demand.

The reforms proposed in *Equity and Excellence: Liberating the NHS*, which are due for Parliamentary consideration in the coming months, give us the tools to meet that challenge; for example, by aligning the responsibility for clinical and financial decision making at the point of GP referral. It is quite right that we await the outcome of consultation, where appropriate, and Parliamentary approval for a number of the White Paper's proposals. However, there is no reason why NHS leaders should not be engaging meaningfully now with General Practitioners and Local Authorities on how they can work together to make the quality and productivity savings, within the current structural and legal framework.

Working in partnership

As I have said many times on platforms up and down the country, the evidence tells us that quality is systemic. It is by working across teams and organisational boundaries that we will achieve the quality and productivity gains we seek for our patients and service users. It is critical that in challenging economic times we work more closely with our partners – between primary and secondary care, and between health and social care – rather than retreating within our own organisational boundaries.

The importance of partnership and the interdependence between health and social care is recognised in the recent push for the NHS to invest in re-ablement services for vulnerable people who are adjusting to living back in their own homes after an acute episode.

That is also why the Government will be allocating additional significant resources to NHS commissioners to invest in seamless provision between health and social care. Patients and users do not recognise a divide between health and social care and we should not allow organisational boundaries to get in the way of high quality care.

The importance of leadership

I recognise that these are uncertain times for many people who work in the NHS, but now more than ever we need our leaders to rise to meet the challenges and seize the opportunities ahead. It is great public service leadership, more than anything else, that will be the key to improving quality and productivity.

We should welcome the Government's support for health and social care, whilst recognising the scale of the challenge ahead. Our ambition should be to transform the quality and productivity of our services, not merely to protect the status quo. We can only succeed on behalf of our patients and service users by working in partnership, between organisations and teams within the NHS and between the NHS and local government. Finally, as leaders, we should be proud of our track record of delivering what has been asked of us, even in difficult times, and we should face the substantial challenges and opportunities ahead with confidence.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'D Nicholson', written in a cursive style.

Sir David Nicholson KCB CBE
NHS Chief Executive