APPENDIX 6

MEDIUM TERM PLANNING FORECAST (MTPF) 2020/21 to 2022/23

1.0 INTRODUCTION

1.1 The MTPF updates the Council's budget strategy for the financial years 2020/21 to 2022/23. It is based on current policies and a review of the service and financial planning horizon, and the resources forecasts contained therein are illustrative external funding levels for 2020/21 to 2022/23 based on: - the 2020/21 Local Government Finance Settlement and the 2019 Spending Review; and estimates of future council tax, business rates and other income. It is the financial framework which will ensure the Council can continue operating on a sustainable and sound financial footing.

1.2 The Forecast is primarily concerned with General Fund revenue expenditure and income, but consideration is also given to the Housing Revenue Account and Capital Financing.

1.3 This report presents Members with a proposed budget statement for 2020/21 and a three-year indicative budgetary forecast (2021/22 to 2023/24). Potentially unavoidable growth items, such as levies and concessionary fares and sustainability items have been added to arrive at a forecast budget position for each year. It also addresses the potential impact of Fair Funding post 2020/21.

1.4 Proposals will need to be developed to manage an expected further reduction in resources and increases in unavoidable costs of at least £19m by 2022/23.

1.5 The financial challenge ahead is considerable, particularly given the significant uncertainty regarding future funding levels, and the budgetary and planning is one of a continual process. The report builds upon the continuation of a number of our existing policies that have driven out efficiencies alongside gains from improved income yields from council tax, business rates and commercial property. Specifically, we will continue to focus on Service Transformation, Service Reviews, workforce initiatives, further rationalisation of directorate support services, reducing back office costs, management delayering, procurement savings and spend to save initiatives.

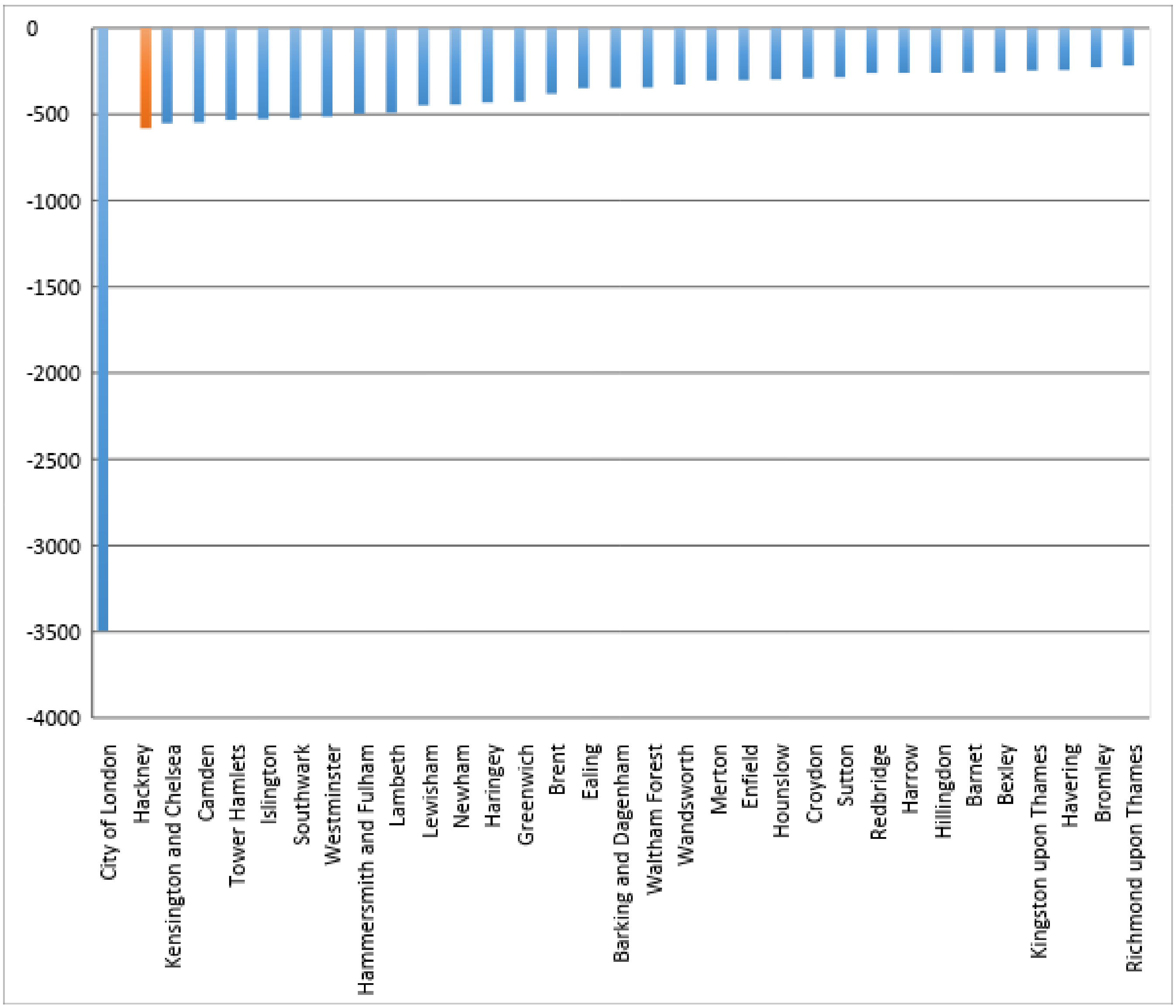
1.6 It will also be necessary to build upon the Council's proven record in relation to tight financial management and control with an increased emphasis on financial solutions that increase financial sustainability, get things right first time, drive out value from our asset base and create the conditions for and to harness economic growth, with a real focus on the customer, residents and businesses.

2.0 HACKNEY'S MEDIUM-TERM FINANCIAL FORECAST – HISTORICAL CONTEXT

2.1 Hackney's funding is derived from a number of sources including external funding, business rates, council tax income and various specific grants. In total, this has reduced by £140m over the period 2010-11 to 2019-20, largely as a result of a reduction in revenue support grant.

2.2 If though we look at core funding defined as Formula Grant in 2010-11 compared to the Settlement Funding Assessment in 2013-14 to 2019-20, then the loss is greater at £158m (54.3%) in cash terms. This equates to a per capita loss of £580 and to a per household loss of £1,860. The per capita loss is the highest in London (excluding the City) as is shown in chart 1 below.

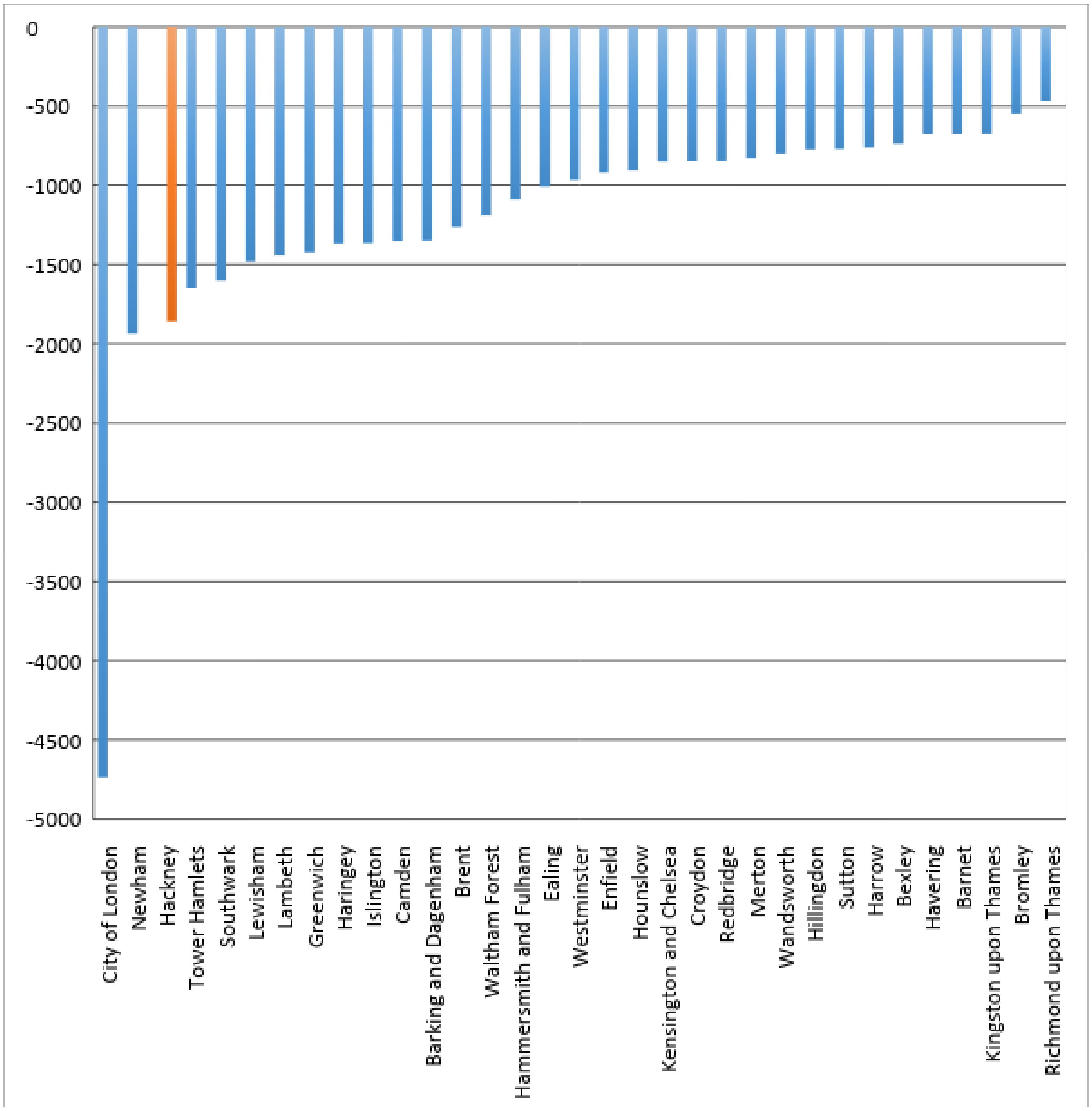
Chart 1: Per Capita Core Funding Loss 2010-11 to 2019-20: London



2.3 And the per capita loss is significantly higher than the England average loss.

2.4 Turning to per household losses, Hackney's loss is the second highest in London (excluding the City). This is shown in Chart 2 below.

Chart 2: Per Household Core Funding Loss 2010-11 to 2019-20: London



2.5 And the per household loss is significantly higher than the England average loss.

2.6 The Council has coped with these funding reductions well to date and has continued to maintain service levels at a high level. However, in addition to the savings that have been needed to meet the funding losses noted above, we need to make a further £19m of savings by 2022/23. The largest contributor to the funding loss is grant reductions followed by growth pressures. Pressures are most significant in Adult Social Care particularly in commissioning, Children's Services, Special Education Needs (SEN), Homelessness and uncontrollable costs such as levies. It is worth noting that many of these cost pressures result from changes in Government legislation which have not been accompanied by adequate funding (i.e. SEN, Homelessness and Children's Services – notably people without recourse to public funds.)

2.7 Delivering a further £19m savings will not be easy and will require difficult decisions. Our strong financial management and control and investment in early intervention and prevention in many services has put us in a good position and will give us time to identify and develop savings plans that have the lowest possible impact on front line services. The strategy we will adopt to deliver these savings is described in section 3 below.

2.8 In 2021/22 and beyond there is considerable uncertainty about our funding from the Government – this is considered in section 4 below. In light of the ongoing financial uncertainty, the development of this Forecast will be an iterative process which will be amended and refined as our future external funding position becomes clearer during 2020-21.

3.0 FINANCIAL STRATEGY UNDERLYING THE MTPF

3.1 The financial strategy provides the strategic framework and overarching corporate financial policy document within which the Council's finances are constructed and managed, ensuring sound governance and best practice.

3.2 The specific long-term drivers of the financial strategy pertinent to this MTPF are:

- to keep to a minimum any additional call on the council taxpayer through continuous driving of the efficiency agenda;
- to address the need to develop an income strategy that reduces the Council's reliance on central government grant income. These sources of funding are under threat of gradual erosion, yet Council is currently heavily reliant upon them;
- to take an evidence-based approach which refers to what has worked previously and, an emphasis on achieving the best outcomes for residents as far as we can.
- To focus on how best to achieve the outcomes set out in the Corporate Plan 2018-2022: 'Hackney, a Place for Everyone' which is developed from the Mayor and administration's manifesto.
- to preserve the Council's financial resilience through holding a minimum of £15m in general fund unallocated reserves. This is maintained at the level of previous strategies reflecting the increasing volatility and uncertainty of funding sources and spending pressures - a situation expected to continue for several years and;
- to continue to prioritise our investment in Hackney and wherever possible, strive to invest in assets to generate annual income streams;
- to continue to invest in early intervention and prevention;
- to develop delivery models that manage demand and influence behaviours.

3.3 In formulating savings proposals, we will seek to deliver value for money and efficiencies while maintaining the delivery of, or support to, high-quality services; and achieve the best possible outcomes for residents while seeking to reduce our cost base.

3.4 Throughout the period covered by this Forecast, we will continue to produce a balanced and sustainable budget where an appropriate level of financial resilience is assured. The

Council will make adequate provision to cover financial risks and ensure key assumptions are 'stress tested' (for public benefit, political acceptability and practical achievability).

4.0 PROSPECTS FOR PUBLIC EXPENDITURE AND FINANCIAL UNCERTAINTIES POST 2019-20

4.1 Autumn Budget

Because of the General Election, there was not an Autumn Budget in 2019. The provisions of the 2018 Budget affecting local government, were considered in the previous version of the Plan but the main provisions are summarized here.

Social Care

£650m for 2019/20 for Adult Social Care and an additional £55m disabled facilities grant in 2018/19, to provide home aids and adaptations for disabled children and adults on low incomes. Of the £650m, £240m is for Adult Social Care and the remaining £410m is for Adults and Children's Social Care. Our share of the total £650m for adult social care is estimated to be c. £3.8m. Councils also received £240m to help fund winter pressures in 2018/19 – our share is £1.4m.

Housing

The immediate removal of the HRA borrowing cap was confirmed (from 29 October 2018) and the government estimates an additional 10,000 homes a year will be built, costing the policy £4.6 billion over 5 years (£1.3 billion a year by 2022-23). In addition, there will be £5.5bn additional funding for the Housing Infrastructure fund to support the building of - according to the Government - of 650,000 new homes.

Education

One off £400m in-year capital payment to schools which averages £10,000 per primary school and £50,000 per secondary. The payment will be made directly to schools

Potholes

Local authorities will receive £420 million to fix potholes on roads and renew bridges and tunnels, and there will be a £150 million to improve local traffic hotspots such as roundabouts. Our allocation is £320,000.

Business Rates

Small retail businesses will see their business rates bills cut by a third for two years from April 2019, saving them £900 million according to the Government. Hackney has 9,965 such properties of which 6,871 currently have an amount to pay. The Budget Red Book has confirmed that local authorities will be fully compensated through S31 Grant.

4.2 Prospects for Local Government Funding – Autumn Budget

There has been no further update on the overall envelope for public spending to 2023-24 since the 2018 Budget. A detailed analysis of the envelope was made in the previous edition of the Plan, but the main points are summarized below.

The Table below shows the aggregate departmental resource budgets 2018-19 to 2023-24.

Source: Budget 2018 (Table 1.7) p.25

Table 1.7: Aggregate departmental resource budgets (Resource DEL excluding depreciation, in £ billion)

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Total Resource DEL excluding depreciation[1]	**313.0**	**327.0**	**338.4**	**348.7**	**359.5**	**371.6**
NHS England[3]	114.6	121.8	128.2	134.4	141.1	149.0
Departmental resource spending excluding NHS England	198.4	205.3	210.3	214.3	218.5	222.6
OBR allowance for shortfall[2]	-2.2	-1.7	-1.7	-1.7	-1.7	-1.7
OBR resource DEL excluding depreciation forecast	**310.8**	**325.4**	**336.8**	**347.0**	**357.9**	**369.9**

These estimates will be updated in the next Budget and the 2020 Spending Review will determine how the Resource DEL will be divided amongst government departments.

The 2018 Budget envelope implies day-to-day total departmental spending growing at an average of 1.2 per cent a year in real terms from 2019-20 but the bulk of this increase is allocated to the NHS. According to Treasury when changes to the NHS and Defence spending are considered there will at least be a flat line real terms increase for non-protected departments such as Local Government. Yet the OBR has pointed out that if one looks at current spending per head on departments other than health, spending is still falling over the coming years.

This is backed up by the Resolution Foundation which calculated that unprotected departments will still, on average, see cuts in every year from 2020-21 in their per capita real-terms budgets which will be 3 percent lower in 2023 than 2019. Finally, the IFS has stated that there will be a real term freeze on the spending of unprotected departments such as local government but a cut in real terms spend per head.

So, the consensus is that on the basis of the 2018 Budget, there will be a real-terms freeze on the spending of unprotected departments but it must be remembered that in previous Spending Reviews, Local Government has taken a bigger cut than the average unprotected departmental cut and so we should not be surprised if there is a cash cut in spending over the period 2019/20 to 2023/24. Moreover, it looks like more and more funding will be diverted to social care which reduces the amount left for other services. Against this background it is difficult to see how we will have a sustainable long-term financial settlement going forward covering all services especially given the current underfunding of certain services and ever-increasing cost pressures.

4.3 2019 Spending Review covering 2020/21 Only

4.3.1 The main provisions of the Spending Review

The main provisions that affect local government were as follows:

- The postponement of Fair Funding and the 75 per cent Business Rates Retention scheme until 2021/22
- The "roll forward" of the current core funding spending (including the top-up, IBCF, Winter Pressures and Social Care Support Grant) into 2020/21 (one year only).
- The decision not to roll forward the London 75 per cent Business Rates Retention Pilot into 2020-21.
- An additional £700m Special Education Needs (SEND) funding (only confirmed for one year).
- An additional £1bn social care funding (only confirmed for one year).
- A 1.8% increase in Public Health Grant (only confirmed for one year).
- An Adult Social Care Precept of 2 percent as well as main Council Tax referendum limit of 2 per cent in 2020-21 (only confirmed for one year)
- Schools spending will increase by £7.1bn over the next 3 years. Every secondary school will be allocated a minimum of £5,000 next year per pupil and every primary school will be allocated at least £3,750 per pupil, on track to reach £4,000 by 2021/22. Schools will get an extra £2.6bn next year, £4.8bn the following year and £7.1bn in 2022-23. Please note that these are cumulative figures.

4.3.2 Impact on Hackney 2020/21

In overall terms we will have more resources in 2020/21 than we have budgeted for. However, as noted in the next section below, almost all of this additional funding must be viewed as one-off, applying to 2020/21 only.

In the last forecast prior to the SR, we assumed a grant loss of £12m for the introduction of Fair Funding. However, as this is now not going to happen, potentially this could result in £12m income over and above what we have previously forecast for 2020/21. However, the decision by the Government not to roll forward the 75% London Business Rates retention pilot scheme and the reversion back to the 2017/18 scheme will reduce this gain. This is because our share of business rates will fall from 48% currently to 30% in 2020/21 and whilst we will get Revenue Support Grant (RSG) to compensate for this, it is unlikely to fully compensate. These two changes and how they impact available resources illustrate just how sensitive Hackney's budget position is to changes the Government can make, and why it remains vital that we remain prudent in this and future budgets.

The impact of the rolling forward of the 2020/21 core spending grants is as follows:

- Improved Better Care Fund (IBCF) – in the forecast, we assumed that would receive an average of the last the last three years awards, but the SR implies that we will get the 2019/20 allocation which is £1m higher.
- Winter Pressures and Social Care Support Grant – no direct impact on the budget forecast as these one-off grants are assumed to be transferred directly to the service and will be used to offset growing service pressures.
- We have received more New Homes Bonus Grant than expected but this is a one-off gain only as is discussed below.

The Council Tax income estimates included in MHCLG's revised core spending are consistent with our forecast as we have assumed a 4% rate increase and a 2% increase in the tax base. On SEND, although the funding will be paid to the Council, we await clarity on the allocation methodology and our allocation. And importantly, the increase is not confirmed beyond 2020/21.

With regards to the £1bn additional social care funding, this will have no direct impact on the budget forecast and gap as this grant is assumed one-off and will be transferred directly to the service to mitigate service pressures in 2020/21 and to reduce the need to utilise corporate resources. The treatment of this as one-off monies reflects the fact that no commitment has been given that the grant will continue beyond 2021/22

On the assumption that the allocation methodology does not change, the 1.8% increase in the Public Health Grant will reverse the cut we have assumed in 2020/21 but there is no guarantee that future years' grant allocations will be increased or even maintained at the 2020/21 level.

As for schools, all will get an increase at least in line with inflation. However, the extra funding announced will be weighted towards schools who the government say are underfunded (referred to as levelling up). Hackney is currently one of the highest per pupil funded local councils, so our schools are not expected to benefit from this part of the funding. Schools will though gain from the expected inflationary increases over the next three years.

4.3.3 <u>Impact on Hackney 2021/22 and beyond</u>

The 2019 SR will have a very limited impact on our underlying budget and budget gap in 2021/22 and beyond. The gain we have made from the delay in implementing Fair Funding is temporary as the new system will be introduced in 2021/22 so that the £12m loss we had assumed for 2020/21 will be rolled forward into 2021/22 and the £5m loss assumed for 2021/22 will be rolled forward into 2022/23. The same applies to the net loss of income arising from the failure to roll forward the London 75% BBR scheme as this will be re-introduced in 2021/22. So, the overall effect of both Fair Funding and BRR on the three-year budget gap is nil.

Turning to the additional social care grant and the winter pressures and social care support grants, there is no guarantee that they will be rolled forward into 2021/22 and it is prudent at this stage to assume that they are one-off. It is of course hoped that before long a sustainable solution to social care funding will be found and implemented. On a related matter, the ASC precept has only been confirmed for 2020/21.

With regards to Public Health Grant, the Government has only confirmed that the 1.8% increase will apply in 2020/21, and we could be back to cuts in the 3-year SR next year. This contradiction – 3 years of cuts then a one-year increase makes it difficult to predict future years but what really complicates things is that the Government was considering transferring the grant into the BRR system, whereby we would get no grant but a higher compensatory share of business rates. At this stage, it is not possible to predict the impact on our funding. In framing our estimated public health grant income, we have been very prudent and gone back to past practice and assumed that the 2019/20 grant is rolled forward into 2020/21 then reduced by £0.8m per annum in the following three years. It should be noted that there are currently concerns that this one-off funding increase could be offset, at least partly, by additional costs from new burdens being transferred to local government.

Turning to the New Homes Bonus Grant, previously Ministers and officials were adamant that the current system would be replaced by a new scheme with a greatly reduced control total and probably a different allocation method. I expect this to happen in 2021/22 as the Government will be consulting on a new system of allocation later in 2020. New Homes Bonus is not a top priority as evidenced by the fact that its total has been reduced in previous years to pay for other grants. Further, its continuation in 2020/21 broadly unchanged may be on grounds of political expediency as the grant is an important source of revenue to a number of shire districts. We have therefore retained an assumption of an annual grant of £2m in 2021/22 to 2023/24 which we don't believe is over prudent.

In summary, the funding gains from the delay in Fair Funding in 2020/21 have not been included in the calculation of the three year budget gap post 2020/21 I also believe we should stick with our assumption made about New Homes Bonus in 2021/22 and beyond (which is significantly lower than the 2020/21 provisional allocation) and be very prudent about the public health grant estimate. Effectively, I do not believe that the provisions of the 2019 SR have any significant impact on our three-year budget gap instead they push out the challenges we all are aware of. Until we have great certainty on the key variables we need to continue to plan and build upon our strong track record of sound financial management.

4.4 Provisional Local Government Finance Settlement 2020/21

4.4.1 The Provisional Local Government Finance Settlement was published on 20th December 2019. It sets out many of the funding allocations that local authorities will be awarded next year. There have been no substantive changes from the proposals set out in the 2019 Spending Review as noted above. The main headlines in a national and Hackney context are listed below.

(a) Spending Power has increased by 6.3% nationally over 2019/20 and by 6.5% in London. Hackney's increase is £15.3m or 6.0%. This is shown in the table below.

Core Spending Power Elements	2019-20 £ millions	2020-21 £ millions	Change £ millions
Settlement Funding Assessment	144.050	146.397	2.347
Compensation for under-indexing the business rates multiplier	3.560	4.450	0.890
Council Tax of which;	82.299	88.353	6.054
Council Tax Requirement excluding parish precepts (including base and levels growth)	76.107	80.135	4.027
additional revenue from referendum principle for social care	6.191	8.218	2.027
Improved Better Care Fund	14.743	16.148	1.405
New Homes Bonus	8.395	7.551	-0.844
Winter Pressures Grant (rolled into IBCF)	1.405	0.000	-1.405
Social Care Support Grant (Rolled into Social Care Grant)	2.400	0.000	-2.400
Social Care Grant	0.000	9.288	9.288
Core Spending Power	**256.85142**	**272.18629**	**15.335**

- Note: - Social Care Support Grant has been rolled into a new Social Care Grant, which has been increased by £1bn, and the Winter Pressures Grant has been rolled into the Improved Better Care Fund (iBCF). This explains the negative values of these two funding streams.

(b) The increase Spending Power relates primarily to an assumed council tax increase and to an increase in external funding which applies to 2020/21 only and is not sustainable new money. The increase in the Settlement Funding Assessment element reflects an assumed increase in business rates and a one-off increase in core funding but the forthcoming Fair Funding Review will almost certainly result in a loss of sustainable funding which is greater and possibly significantly greater than this one-off increase in funding in 2021/22 and beyond. So the analysis above paints a far rosier picture than the true underlying funding position going forward and moreover, there is no real improvement in 2020/21 over 2019/20 as much of the funding is one-off and cannot be used to fund services on an on-going basis. Of the £15m increase, £6m has been absorbed on a one-off basis by Social Care, £6m is in respect of additional Council tax income already built into the Budget and £0.75m is in respect of additional business rates income which is also built into the Budget. The remainder is one-off core funding and will be used to assist in mitigation of on-going budget pressures.

There are two components of the SFA – Business Rates Retention (assumed business rates income plus the top up grant) and Revenue Support Grant (RSG).

(c) With regards to the Business Rates Retention element, the Government has not altered the existing mechanism for determining tariff and top-up payments, meaning they will be uprated in line with the change in the small business non-domestic rating multiplier (1.63%). RSG will also be uprated in line with the change in the small business non-domestic rating multiplier, following strong support for this proposal in the technical consultation. Finally, the Government will eliminate negative RSG again in 2020-21.

(d) £6m or 40% of the increase in Spending Power relates to an assumed 4% increase in council tax.

(e) The increase in social care funding of £5.5m is not guaranteed beyond 2020/21 and in any case will be directly allocated to the service and will not count toward our budget gap.

(f) In the above analysis of the 2019 SR, we concluded that very little of the additional external funding announced is sustainable. This is confirmed by the Settlement and in particular by the Spending Power analysis.

(g) The provisional settlement confirms the intention for the main council tax referendum threshold to reduce to from 2.99% in 2019-20 to 1.99% in 2020-21, as proposed in the October technical consultation. The flexibility to raise the Social Care Precept will remain at 2% for 2020-21 for relevant authorities.

(h) As noted in the table above, the funding previously for Winter Pressures in 2019-20 has been rolled into the Improved Better Care Fund, with the quantum of funding for both remaining at the same level as 2019-20. Hackney's allocation is unchanged.

(i) The Social Care Support Grant of £410m in 2019-20, has been rolled into the new Social Care Grant, which has been renamed as the Social Care Grant. This will be increased by £1 billion in 2020-21 to £1.41bn and distributed according to Adult Social Services RNF. No account is taken of the Children's Social Services RNF in the allocation. The allocations of the grant are broadly in line with the indicative figures first published as part of the technical consultation on the Settlement. Our share is £9.3m

(j) 2020-21 New Homes Bonus payments will not attract legacy payments in following years, so they will be paid for one year. Prior year's legacy payments (2018/19 and 2019/20) will be available for distribution in 2021/22. Also, the Government has confirmed it will retain the 0.4 per cent baseline which means local authorities will need to achieve tax base growth of greater than 0.4 per cent before they receive any NHB funding. The Government doubts if the current grant methodology meets the original aims of the grant and so it will be consulting on a new housing incentive in the Spring. It is not clear whether individual authority legacy payments noted above will continue to be paid out or whether they will be summed and allocated out by the new housing incentive funding.

(k) As a result of previous decisions to cap business rates increases by past governments compensation is paid to Councils. The amount will increase nationally from

£400.0m in 2019/20 to £500.0m in 2020-21. This is a continuation of past practice and just makes up for the losses we suffer on collection

(l) The Former Independent Living Fund (ILF) recipient grant funds pre-existing ILF arrangements following the closure of the ILF in 2015. This was intended to finish in 2019-20 but the Government has now decided to continue the grant for a further year at 2019-20 levels of £160.6m.

(m) The Public Health Grant was transferred to Local Authorities in 2013 and has seen a 10% cut over the last four years. The government has announced that there would be a “real terms increase” in 2020-21 but the allocations have not yet been published. It is presumed that this increase will apply to individual grant entitlements and that there will be no change in the allocation methodology.

(n) The settlement provides no update on the progress of either the move to further business rates retention or the Review of Relative Needs and the Fair Funding Review.

(o) In October, the Government set out provisional allocations for schools and local authorities under the National Funding Formula and confirmed those allocations for local authorities, based on the latest pupil numbers, on 19 December 2019. This covers funding for schools, high needs and early years

4.4.2 The Final Settlement was published on 6th February but there were no changes to the funding allocations set out in the Provisional Settlement.

4.5 Financial Uncertainties Facing the Council

These are summarised below.

(a) <u>Spending Review</u>

There is clearly uncertainty concerning the Government’s spending plans for the period 2021/22 to 2023/24. These will be published in the 2020 Spending Review. This covers the total amount of local government spending as well as grant allocations to local government from other departments. Turning to the former, it is unlikely that there will be the same magnitude of cuts as set out in the last three Spending Reviews but there still could be some cuts, especially given the funding award to the NHS.

With regards to grants, the key ones here are: (i) the Improved Better Care Fund (IBCF) – we have assumed in the forecast that it will continue at an annual average of the total funding for IBCF that was received over the period 2017/18 to 2019/20 (£11.6m) in future years; and (ii) Public Health Grant - we have assumed that the grant will continue but with a £0.8m reduction in each year from 2020/21 onwards which is in line with the reductions prior to 2020/21

Clearly, there are risks here in terms of reduced local government funding and reduced IBCF and Public Health Grant allocations and what compounds this is that we will not know until the second half of 2020 and possibly not until the autumn what the Government’s plans are. However, the MTFF considers a risk allowance for this, but we still may have to revise this depending on what is announced in the Spending Review and the 2021/22 Settlement.

(b) Fair Funding Review

A new system of local government funding will be introduced when the Government completes its Fair Funding Review and associated transition arrangements to protect authorities that lose from the Review. The Review is planned to be completed in the Summer of 2020 and introduced in 2021/22, and it holds significant risks for the Council.

The Review involves the production of a new formula driven assessment of local authorities' needs and an assessment of resources. The same formula will apply to all authorities. A comparison will then be made between the two constructs and if an authority's needs exceeds its resources it will receive a payment equal to the difference (currently called a top-up); but if its resources exceed its needs then it will then make a payment equal to the difference into a pool (central or local) which will be re-distributed to top-up authorities (the payment is currently called the tariff). Hackney will receive a top up under the new system. For Hackney, there are 3 main factors which drive our Needs Assessment: - Deprivation, Area Costs and Population.

With regards to deprivation, most of the deprivation factors used in the current needs assessment date back to 2011 (Census) and to 2012. Since then Hackney has become less relatively deprived according to measures such as the Index of Multiple Deprivation (IMD) and Free School Meals and so it is very likely we will lose out from the review of the factors. The replacement of some of the factors will be necessary given the introduction of Universal Credit. Provisional analysis carried out by the LGA on proposals by MHCLG for the Adult Social Care relative needs assessment, which are likely to have involved changes to the current deprivation factors do result in an indicative funding loss of c. £2m to the Council.

The Area Cost (ACA) is an adjustment factor which compensates authorities that face higher salaries and wages costs and business rates costs, through increased funding. The current calculation methodology is extremely beneficial to us, but it is being reviewed by a separate technical group as part of the review and as almost every proposed change in recent years has reduced the funding Hackney gets from this factor, we are less than enthusiastic about the outcome of the group's work. We are aware that there are proposals to include travel times and a remoteness as new adjustments within the area cost adjustment (ACA) on the basis that the evidence offered which is scant to say the least. All else being equal this will reduce our ACA derived allocation and the proposed calculation of factors on an individual authority basis will definitely disadvantage us. It is worth pointing out that this proposal ignores the rather obvious fact that London boroughs operate in an employment market that extends well beyond their own borders.

Whilst we could potentially lose from any changes to the deprivation factors and the ACA, the proposed treatment of Population is one element that may benefit us as CLG are now proposing to use projections rather than a static count.

With regards to transitional arrangements, prior to 2011/12, a safety net was applied which unwound the losses from changes to the needs assessments over a long timescale. However, in 2011/12, most authorities, including Hackney's losses were unwound in just two years (the year of introduction and the following year). It follows that if it looks likely that we will lose from changes to the needs assessments, the final outcome will depend on the tightness of the safety nets employed.

In a consultation document released just before Christmas, the Government is proposing to allocate out the Environment Needs Assessment (c. 30% of the overall assessment) simply based on population and the ACA. This will disadvantage high need councils such as Hackney and other urban areas, particularly the inner-city ones, that benefit from the application of the additional cost factors. Given that the proposed per capita distribution will result in less accurate needs assessments than the current assessments, it looks likely that this proposal is politically motivated to move money away from urban areas to the shires. How can the Government legitimately propose a way of allocating funding that assumes that the need to spend on Environmental services, such as waste collection, street cleaning, homelessness, public transport and libraries for example, depends on population only and that factors such as poverty, density, housing occupancy type and deprivation play no part.

It is interesting that in its technical consultation on relative need, published in December 2017, the Government set out a proposal to include deprivation as a common cost driver within the foundation formula to reflect "the fact that deprived individuals, and particularly income deprived individuals, are more likely to access certain services than more prosperous individuals, leading to higher costs". There was broad consensus among respondents on the need to take deprivation into account (86% agreed). It is, therefore, very disappointing that the Government has chosen to disregard the overwhelming weight of opinion in favour of its inclusion in this proposal.

The Government is also proposing to inject significantly more resources into rural areas to be paid for by non-rural areas on the basis of scant empirical evidence. It is even considering introducing a measure of rurality into the ACA. Again, this looks a politically motivated move and it looks increasingly likely that the Fair Funding review, on the basis of the Christmas consultation, is becoming a vehicle for reallocating money away from the inner-city urban areas to shire area councils. This will impact negatively on our funding allocation.

There is also a consultation paper on resources and there are two issues here which are of concern. Firstly, CLG will be using NNDR 3 (2018/19) to determine our share of the resources assessment (which is taken off the needs assessment to get the top-up) which means the Principal Place Rateable value will be picked up; and secondly, the CLG are proposing to include car parking income in the calculation of the resources element which may disadvantage us further.

We have allowed a funding loss of £17m in 2020/21 and 2021/22 in respect of these uncertainties in the MTFF but if the losses are any greater, this will adversely impact on the forecast.

5.0 HACKNEY'S MEDIUM-TERM FUNDING POSITION 2019/20 to 2023/24

5.1 The Medium-Term Financial Forecast shown below must be viewed as indicative at this stage in light of the funding uncertainties also discussed above.

5.2 In framing the forecasts, the following assumptions are made: -

(a) Council Tax Increase 4% per annum

(b) Taxbase Increase is 1,350 additional band D properties each year.

(c) A £4.5m increase in business rates income in each year is assumed In 2021/22 and beyond, LBH's share is 48% in each of these years but in 2020/21, our share is 30%.

(d) Core Funding has assumed to fall by 10% or £17m over the period, primarily as a result of Fair Funding. The loss is assumed to fall in 2021/22 (£12m) and 2022/23 (£5m). If the loss is 15% rather than 10%, this would add £8.5m to the budget gap and if the loss is 20% rather than the assumed 10%, the budget gap would increase by £17m.

(e) IBCF is assumed to be equal in all years to the average grant we received over the period 2017/18 to 2019/20 - £11.6m but £1m more is assumed in 2020/21 in line with the Settlement

(f) New Homes Bonus is assumed to be equal to £2m in all years except in 2020/21 where it is assumed to be £5m in line with the SR

(g) The pay award is assumed to be 2% per annum. It should be noted that the current claim lodged nationally by unions is for 10%, although we believe that most authorities are continuing to take a budgetary forecast position of 2% per annum.

(h) Public Health Grant is assumed to fall by £0.8m in each year after 2020/21.

(i) We continue to pay NLWA and Concessionary Fares levies.

5.3 The table below presents an indicative budgetary forecast

2019/20 – 2023/24 INDICATIVE BUDGETARY FORECAST

ESTIMATED RESOURCES	2019/20	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m	£m
Core Funding					
Revenue Support Grant	0.000	35.361	0.000	0.000	0.000
Top-Up Grant	83.421	72.526	71.221	66.221	66.221
Business Rates	75.309	44.040	76.106	80.557	85.120
Total Core Funding	**158.730**	**151.927**	**147.327**	**146.778**	**151.341**
Council Tax Income	**82.299**	**87.746**	**92.923**	**98.362**	**104.089**
Public Health Grant	**32.320**	**33.240**	**32.440**	**31.640**	**30.840**
One off S31 grants	**15.087**	**8.618**	**3.874**	**3.874**	**3.874**
One-off Ctax & Collection Fund surplus (p/year)	**2.543**	**3.118**	**0.000**	**0.000**	**0.000**

New Homes Bonus	**8.395**	**7.551**	**2.000**	**2.000**	**2.000**
Better care Fund/Improved Better Care Fund	**20.453**	**20.453**	**19.300**	**19.300**	**19.300**
Other Funding	**0.225**	**0.225**	**0.225**	**0.225**	**0.225**
TOTAL RESOURCES	**320.052**	**312.878**	**298.089**	**302.179**	**311.669**
ESTIMATED SPENDING	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£m	**£m**	**£m**	**£m**	**£m**
Cash Limits after Savings & Growth	271.522	267.878	268.523	270.926	273.626
Capital Charges, Depreciation & Superann	17.608	18.108	19.608	19.608	19.608
RCCO, Levies & Pay Award	12.200	16.580	22.530	28.980	35.430
Corporate Items including one-off S31 Grant	18.722	10.312	0.571	1.371	2.171
TOTAL SPENDING	**320.052**	**312.878**	**311.232**	**320.885**	**330.835**
BUDGET GAP	**0.000**	**0.000**	**13.143**	**18.706**	**19.167**

The above analysis demonstrates that after taking account of council tax income, there is likely to be a budget gap of £19.2m over the period 2019-20 to 2022-23. However, because of the financial uncertainties, this must be viewed as indicative only although there should be more certainty by the end of 2020-21 when the 2021-22 Local Government Finance Settlement is published. Because of this considerable uncertainty about our funding from the Government, robust financial planning is extremely difficult. As we have seen, the Government was supposed to publish the 2019 Spending Review in the Autumn of 2019 later this year giving details of its spending plans for the next 3 to 5 years which has now been delayed into 2020/21. Further, the Fair Funding Review, which holds significant financial risks for the Council has also been delayed until the 2021/22 Settlement. We have allowed for an indicative funding loss of £17m in our Top-Up Grant from the Fair Funding Review though a reduced needs assessment. In addition, there are also risks to the IBCF, New Homes Bonus and Troubled Families Grants depending on the outcome of the Spending Review. It is likely that we will not get any indication of our funding position until the end of the summer in 2020, when the 2021/22 Technical Settlement Consultation is published

5.4 Included in the forecast, is an allowance of £21.5m for cost pressures over the period 2020/21 to 2022/23. £14m has been applied to cash limits in 2020/21 and 2021/22, leaving £7.5m for the remaining 3 years. These cost pressures are significant and are listed below.

a) Adult Social Care spending, arising from increased demand for complex packages of care across client groups but particularly in Learning Disabilities. There has also been an increase in people being discharged from hospital with intensive support packages. These pressures will be partially offset by the proposed 2% rise in Council Tax to directly contribute to adult social care and additional one-off funding for social care announced by the Government for

2020/21, however this additional revenue is significantly below the additional cost pressures forecast.

(b) Concessionary Fares and the NLWA levy. These are expected to continue to rise in future years and are broadly outside of the control of the Council.

(c) The Welfare Reforms which have led to an increase in homeless applicants which has increased costs and may impact on care costs and revenues.

(d) Increases in the London Living Wage which is now paid to all council staff and to all/nearly all contractors.

(e) Looked After Children where there is a continuing financial pressure in the looked after children's service resulting from increases in the number of children and young people that have come into care since 2011/12, the increase in residential placements and the shortage of in-house foster carers. Although the position has stabilised on children and young people coming into care, there are ongoing pressures in fostering and residential placements that need to be monitored and addressed. Some of the additional social care funding announced can be spent on Children's Social Care, however, this falls a long way short of meeting the cost pressure.

(f) No Recourse to Public Funds where the Council supports vulnerable families who through their immigration status have no access to the benefit system in this country, and due to restrictions on their ability to work, require financial assistance to pay for accommodation and subsistence. This is a pressure we have in common with many of our London neighbours and which is exacerbated by delays in the determinations made by the Home Office.

(g) Funding manifesto commitments. Additional resources required for delivering manifesto commitments has been modelled and built into the Council's financial planning in line with the expected delivery of individual commitments.

(h) The costs arising from the legal requirement to include an average of regular additional hours, overtime, standby and callout in employee's holiday pay.

(i) Increases cost of cleansing services which reflect the increasing number of households across the borough – there has been a 9% increase since 2013/14 and predictions are that household numbers will continue to grow by 1.7% per year.

(j) Special education needs due to the significant increase in young people with Education and Health Care Plans. A cost which is meant to be met by the High Needs Block of the Dedicated Schools Grant (DSG); a funding source which has seen minimal growth despite the increase in demand. This has led the Council to directly top up the resources available from reserves in the past, although the ability to do so in future is limited given resource constraints and recent guidance from DfE regarding the use of GF resources to finance DSG overspends.

(k) Increased costs arising from the annual pay awards.

6.0 Closing the Budget Gap

6.1 Before looking at the savings and income generation activities which have been and are being developed, we will first consider initiatives that have been taken to date.

6.2 Savings Initiatives in Prior Years

6.2.1 Over the period 2010-11 to 2019-20, Hackney lost £140m funding broadly defined as external funding, business rates, council tax income and various specific grants.

6.2.2 The Council has coped with these funding reductions well to date and has continued to maintain service at a high level. Turning to the expenditure reductions that have been achieved over the period 2010/11 to 2019/20, emphasis has been placed on initiatives that have minimized the impact on front line services and improved internal efficiency. A key feature here has been the rationalization of back office functions across all services. In addition, we have focused attention on management de-layering and service transformation and reviews which sought to improve value for money whilst maintaining or improving service levels. We also took measures to rationalise the corporate estate to increase income, to insource services to improve value for money, and to improve income collection. We have also undertaken reviews of financing items such as capital charges to reduce expenditure.

6.2.3 Many of these savings were undertaken in the earlier years of the period when the funding cuts were at their highest level (2010/11 to 2016/17). The major savings and income generation initiatives that have been undertaken are shown in the table below and include:

(a) Management de-layering throughout the organisation – Two major reviews of the management structure were undertaken in 2010/11 and 2015/16 and various service management restructures have been undertaken in addition to this over the period 2010/11 to 2018/19. Our bill has reduced from £18.4m to £9.7m as a result of these initiatives.

We also had three voluntary redundancy schemes in 2010/11 and 2015/16 and most recently in the current financial year, which applied to all staff not just management, which also generated further additional savings.

(b) Service Transformation and Review. This initiative has comprised numerous schemes which have sought to improve efficiency, costs and effectiveness in both the short and long term.

- Within Finance and Corporate Resources there has been significant service transformation and reconfiguration in both support and front-line services over the period 2010/11 to 2019/20. £9m has been saved from on-going reviews of Financial Management, Systems Teams, Audit, Directorate Finance Support Teams, Property Services and Procurement. In addition, a further £1m was saved from the insourcing of many ICT functions.

- In Revenues and Benefits, on-going reviews of council tax and housing benefit administration and improved collection has saved £6.5m, while the rationalisation of the contact centre, business support, facilities management and front of house has saved a further £2m
- Further savings in support services have been made in the Chief Executive directorate including Legal and HR of £4.5m
- There has been extensive service transformation, reconfiguration and efficiency savings in Children's Services including 1CYPS, various children's social care restructures, business administration reviews, management delayering, and HLT efficiencies, which generated £13.5m of savings
- There has also been extensive service transformation and reconfiguration in Adult Social Care, including Supporting Care Programmes, redesign of community based preventative services and day care services, supporting independence programme, integrated services and fairer charging, which have saved £14.5m. Additionally the transformation of the Helping Vulnerable People function (formerly Supporting People) has saved £7m
- Public Health has contributed to the agenda through significant programmes of re-commissioning which have sought improved value for money whilst maintaining or improving service levels. The reduction in spend is £6.2m
- In Public Realm, significant efficiency savings have been made through the increasing use of technology such as parking customer journey; service integration including integrated cleansing; service transformation including co-mingled recycling; contract re-negotiations including the Leisure Management Partnership contract; and service restructures. In total the savings delivered by Public Realm services has been £16.1m.

(c) Corporate Savings. Significant corporate savings have been made by reviews of capital charges, employer pension contributions and other financial items which has saved £15m.

(d) Renegotiation of Contracts has saved significant sums. The renegotiation of the External Audit Contract, CCG Partnership contract and Insurance contracts has saved £3.25m

(e) Increased Income. Rationalisation of the Corporate Estate has achieved reduced rental and business rates payments (such as the Keltan House purchase and subsequent lease in order to avoid ongoing costs and to raise £1m pa rental income) and increased rental income (Principal Place). There has also been a significant increase in parking income resulting from increasing technology, increased business and improved collection. It is estimated that at least £13m additional income has been raised from these two sources.

6.2.4 Because a significant amount of human and non-human resources have been removed from support and back office functions in the past, there is a very limited capacity for further savings in these areas, and it must also be recognised that support and back office functions in any case, account for a relatively small proportion of total spend. In 2019/20, for example, support services provided to the rest of the Council by F&R and Chief Executives accounted for under 10% of the total general fund net budget.

6.2.5 This is not to say that we will not continue to focus on the initiatives previously implemented. Directorates are continually reviewing management structures and looking at reconfiguring services. Ongoing efforts will be made to increase income and to renegotiate contracts to get the Council a better deal. Further, the rationalisation of the corporate estate remains a primary focus of Property Services.

6.2.6 In short, the rationale for savings initiatives remains what it has always been - to improve value for money while maintaining and improving services - but the net will have to be cast wider given limitations with savings that can be made in areas in which we have made exhaustive savings in the past. Moreover, savings from central services, and in support services in front line services can be expected to tail off to some extent, reflecting the 'one-off' nature of these savings through back office restructuring and/or improving efficiencies through re-letting of contracts. An even greater emphasis therefore, will be placed on major service re-design and approaches such as demand management, prevention and early intervention, which will result in a further shift away from traditional savings to transformational reform. We are now reaching the stage where we have to look at the services we provide and may have to take tough decisions with regards to the level of provision of some of those servicers in order to make the savings required in the future.

6.3 Savings Initiatives already undertaken to close the gap 2020/21 to 2023/24

6.3.1 At the start of this financial year, in order to meet the funding losses and to fund cost pressures noted above, we needed to make a further £30m of savings by 2021/22; which is already assuming an annual 4 per cent Council Tax increase. The largest contributor to the funding loss is grant reductions followed by the directorate cost pressures requirements, the pay award and levies. Directorate pressures are most significant in Adult Social Care particularly in commissioning, Children's Services, and Temporary Accommodation. There is also a well-documented cost pressure in Special Education Needs (SEN) was not included in the savings requirement of £30m. It is worth noting that many of these cost pressures result from changes in Government legislation which have not been accompanied by adequate funding (i.e. SEN, Homelessness and Children's Services – notably People without recourse to public funds (NRPF)).

6.3.2 We have identified £13m of savings, which can be summarised as follows:

Saving Initiative	£m
Voluntary Redundancy Scheme/Workforce Savings, including Employer pension fund contributions	6.0
Parking & Street Market savings and additional income	3.2
Improvements in Council Tax and NNDR management which increase income	1.8
Additional Income from Commercial Estate	1.4

Streetscene	0.5
Finance Teams	0.3
Substance misuse savings	0.3
Regeneration	0.2
Other	0.1
TOTAL	13.0

6.3.3 This left a gap of £17m but we have recently undertaken a detailed review of council cost pressures and as a result we have added a further £2m to the cost pressures and hence savings requirement.

6.4 Other savings initiatives to close the gap

There are five main themes which are now discussed.

Scrutiny Panels

In October 2018, Scrutiny Panel agreed to establish four Budget Task and Finish Groups (BTFG) to scrutinise and review a number of service areas which had been identified to represent significant financial challenge for the Council.

In this context, four BTFGs were established by Scrutiny Panel to scrutinise the following service areas:

- Fees & Charges;
- North London Waste Authority (NLWA);
- Integrated Commissioning;
- Early Years – Children's Centres.

An update on work to date is as follows:

Fees and Charges

- This group looked at the fees and charges of the council and the principles that guide the setting of fees and charges by officers. There was no set saving budget proposed.
- The BTFG focused on the areas that could generate income or where the pressure on the service was a high risk to the council's budget.
- It was conscious to ensure that the proposed changes to fees and charges should not create inequalities and discussed the potential of this for each proposed increase.

The BTFG agreed to incorporate the need for mitigating action to be included in the new proposed guidance and recommended a fundamental shift to encourage officers to take into consideration opportunities for income generation when setting, proposing or updating fees and charges. Whilst keeping the ethos of public sector service provision is important, the Group acknowledged the current climate means the council needs to consider the possibility of income generation.

- The Group updated the principles and recommended that the updated guidance be adopted by the Executive. This is being put forward to apply to the Council's Budget for 2021.
- The Group recommended that parking fees were increased above inflation to help maintain the Council's objectives in relation to reduced car use in the borough and environmental and sustainable objectives.
- A new income band fee structure was proposed for Children Centre fees. Following suggested amendments by the BTFG to the proposed fee structure, the Group endorsed the amended fee structure proposed by HLT for implementation. The new fees were implemented in September 2019. The BTFG asked for the proposed changes to be supported by a strong communication plan about the changes.
- The Group concluded there was more work to be done in relation to fees and charges and suggested that a Members working group was set up to continue reviewing other areas of fees and charges.
- The information discussed by the Group is not publicly available. The report was shared with the Cabinet Member, officers and BTFG Members**.**

North London Waste Authority (NLWA)

- Officers set out the scope of the review and options for savings at the outset.
- The aim was to provide the council with options to mitigate the rising costs of waste disposal. There was no set saving requirement proposed.

The Group made the following recommendations:

1. The council to commit to further infrastructure development (pending cost benefit analysis) for recycling on more estates.

2. To provide an update to the Living in Hackney (LiH) scrutiny commission on the impact of the Estate Recycling Programme against the proposed targets.

3. The LiH scrutiny commission to look at how Registered Housing Providers enable higher levels of recycling on the estates they manage

4. With regards to the proposed Hackney's Reduction Recycling Plan, the Group endorsed the move to fortnightly collection for residual waste where suitable. In addition the Group asked for updates to be provided to LiH scrutiny commission to assess the impact monitoring and measures in place.

5. The Council is urged to consider all options and costs before procuring new wheelie bins to encourage changes to residual waste.

6. A refreshed approach to be developed re the communication and education information sent to residents about recycling to tackle scepticism and misconceptions.

7. To explore culturally specific forms of communication.

8. The council to develop mitigating action in response to the restrictions on residual waste.

9. The Group supports the RRP targets for household recycling rate of 32% by 2022.

- The work from this group has fed into the LiH work programme and follow up will be carried out by the LiH Scrutiny Commission.

- While there was no specific saving amount proposed, the long-term impact of the Group's work is that it should help mitigate rising costs and delivery of a balanced budget going forward.

- The service area has progressed with the proposals endorsed and is out to consultation.

Integrated Commissioning

- The Group looked at integrated commissioning focusing on support to residents with mental health support needs. There was no set saving budget proposed.

- The discussion focused primarily on the wellbeing network. The BTFG urged the Council to look wider than the network when considering savings. The Group suggested that a more strategic analysis be carried out taking into consideration the wider service mix.

- The BTFG commented while budgets remained aligned as opposed to pooled, cost savings would be harder to achieve because of silo thinking among budget holders and so it recommended that partners look at the whole system not just the network and suggested that a transformation project was established.

- Following the Group's comments and recommendations, the contract for the service was extended for another year until further strategic analysis of adult mental health provision was carried out.

- The BTFG discussed information that was not publicly available. The report was shared with the Cabinet Member, officers and BTFG Members.

Early Years

- This group was tasked to look at the proposals by HLT for £600k savings for early years. 6 saving proposals were presented to the Group.

- The Group did not endorse any of the 6 proposals presented and wanted more information about the context of the savings in comparison to making the savings from other service areas within the budget, and wanted more detail about the medium-term financial plan and the impact of the proposals on this plan

- It also wanted to know the strategic vision for the service in line with the saving being proposed

- The BSTG asked for the above information to be provided before the proposals could be agreed or endorsed. An Early Help working group has been set up and is expected to continue looking at this area of work.

- The BSTG discussed information that was not publicly available. The report is currently with the Chair of the BSTG.

Cabinet led Working Group

One Cabinet led working group has been established. The group is focused on *Workforce* including voluntary redundancy/ use of agency staff and the development of an overarching workforce strategy. A voluntary redundancy scheme has been offered to staff this year and any redundancies will be made primarily in 2020 with some taking place in 2021. The Group will monitor the progress of the scheme and is currently developing a recruitment strategy which is focussing on attracting and retaining staff.

HMT/Cabinet Steering Groups

In parallel to the Cabinet led working groups, Steering Groups have been established to review Customer Services and Early Help. Whilst these reviews are likely to lead to savings being identified, they are not driven by the budget process and the need to deliver savings; these Steering Groups will therefore sit alongside the budget process but are not formal Cabinet budget working groups.

Customer Services

The Cabinet led Customer Services Steering Group has started to meet and is working to develop the Council’s vision and strategy for customer experience across the Council’s services, building on the progress that has already been made. Progress to date includes:

- Improved tools for Council teams which enable more joined up customer service delivery: including the ‘single view’ tool which is being developed for housing needs staff reduces the time taken to look up the information needed to provide advice by up to 25 minutes per customer.
- New services available online: including Registrar bookings and payments for fixed penalty notices.

● New ways to access Council services: including a Twitter bot for enquiries and easy to use online maps of services, such as the New Year, New You map.

A range of other projects are in progress to make it even easier for residents to access the Council's services and identify opportunities to make service delivery more efficient.

Linked to this, the Customer Services Steering Group has also commissioned 'deep dive' research into some of the most complex customer journeys. This work will explore areas where residents' needs cut across different Council services and look to identify opportunities to redesign these services to make things simpler for residents and design more joined up approaches - and will inform the refreshed vision and strategy.

The *Early Help Steering Group* is overseeing a review of the Council's Early Help provision across Children and Families and the Hackney Learning Trust (HLT). The review aims to identify ways in which the Council can better meet resident needs and deliver improved value for money. It has been a number of years since the Council has reviewed the offer as a whole and the review will take on board changes in context, such as the impact of austerity and new risks and challenges within Hackney's communities. As part of the Early Help review it will be considered whether an effective set of services can be delivered more cost efficiently, but budget pressure is not the main driver and the review will be mindful that effective investment in Early Help can prevent higher costs in other services, for example, children in care, in the future.

Co-ordinated Cross Council Approach to the deployment of Resources

Another strand of work which is also underway is a coordinated cross-Council approach to how we deploy the significant resource we will still have including the HRA, DSG including the non-school's element and NHS resources where applicable. Within this stream, we need to ensure that everyone realises that the current and ongoing financial challenges must be tackled from a holistic corporate perspective. Ultimately, even after the next round of savings Hackney will still have considerable assets and resources available and these can be best harnessed if we look beyond traditional HRA, General Fund, Schools and Health resources to see how we can best deploy these for service provision and not simply look at them as separate entities.

The following themes have been identified and are being developed:

(a) Municipal Entrepreneurialism
(b) Productivity and Efficiency
(c) Demand Management & Cost Avoidance

Directorates in conjunction with lead members will also have to focus efforts on continued internal efficiency savings, further service transformations and driving out economies throughout the organisation.

Directorate Initiatives

Various Directorate Savings Initiatives are being worked on by Directorates in conjunction with Lead Members with a view to bringing them to Cabinet early in the New Year.

All savings proposals will be classified as follows:

BAU	Business as usual
P/E	Productivity / efficiency
DM	Demand management
C	Commercialism
SR	Service Reduction

Work has been completed on an initial tranche of **Business as Usual savings**, which are listed in the table at 6.3.2 above.

A summary of other initiatives being undertaken by directorates is given below

Children's Adults and Community Health (CACH)

The starting point for savings development in CACH was a RAG-rating of services based on existing cost pressures, manifesto commitments and spend compared to other boroughs where data was available.

Adults Services developed a long list of savings opportunities and this has been prioritised with work focussed on developing proposals for 'areas of significant spending where it is felt that greater savings can be achieved' - the main areas being explored for further savings are from non-statutory services and through efficiencies by making better use of our directly provided services, such as Housing with Care. These proposals are being developed in the context of learning from demand management work and savings already delivered to ensure that by reducing provision in one area we are not creating a greater level of demand elsewhere in the system. In particular, this work is being developed in close partnership with Housing Needs colleagues and local NHS Partners. Indeed, Hackney is one of the first areas in the country where recognition of the pressures on supported and temporary accommodation has prompted local NHS partners to fund a Housing First programme in the borough. This is an indicator of our successful integrated working across health and social care in Hackney and the City, as well as our commitment to investing in services that prevention poor health and wellbeing, and reduce inequalities,

A longer-term piece of work as part of Adult Services 'Promoting Independence' transformation programme focuses on implementing a new, strengths-based model of social care practice. A strengths-based approach encourages social care professionals to work with residents and carers on their abilities, networks and community connections, delaying or avoiding formal care needs for as long as possible, and sustaining individual wellbeing and resilience. This model is key to the success of our wider work to create an integrated health and care system across Hackney and the City of London, in partnership with the local NHS. For example, social workers and occupational therapists are now using this new model as part of joint teams in neighbourhood areas across the Borough. They are already working alongside primary care staff, community nurses, other allied health professionals and the local voluntary, community and social enterprise sector to deliver better outcomes for residents. This new practice model is not designed to deliver cashable savings in the short-term as it will take time to design, deliver and embed the approach. However, it will be integral to managing demand in the medium and longer term. By pioneering a local strengths based approach, we can ensure that the social model of care and prevention are at the heart of our integrated health and care system.

Children and Families contribution to savings going forward will need to be developed in the context of the response to the recent Ofsted inspection and the increased demand in the system which is evident in terms of referrals to Children's Social Care and increases in the number of looked after children.

A Children's Leadership and Development Board has been set up, which is accountable to a Children Members Oversight Group, to ensure that all service areas within the department are delivering to a consistently high standard for all children and families and that the recommendations arising from the Ofsted inspection are addressed. A resourcing plan with the objective of responding to increased demand in the service and addressing these recommendations is currently being developed.

An assessment of the short-term resource requirement of the Children and Families service has already been undertaken following the recent Ofsted inspection and the continuing increase in demand which has led to high caseloads in some areas despite the considerable resources that have gone in to support the service since 2016 primarily for looked after children placement costs. This assessment has been completed in advance of the development of a strategic response to the Ofsted report which will address the thematic issues in the report including those around consistency and management oversight and the requirement for a Council-wide response that encompasses the impact of other service areas such as Legal, ICT and Housing. The Ofsted report noted that "most social work units have manageable caseloads" and recommendations did not specifically refer to resources but referenced a very recent increase in demand which leaders were quick to address. In summary, a one-off resource of £1.6m will be set aside to meet both the increased demand in the service for 2020/21 and to fund additional management capacity, project support and and an external challenge partner to assist in the Council's improvement programme for Children and Families' Services.

This is in addition to a proportion of the social care grant which has been earmarked to contribute to demand pressures in relation to looked after children placement costs and additional staffing already in place in response to the increased demand. Furthermore, some of the existing capacity currently provided by agency staff will be made permanent as it is clear that there is a sustained increase in demand. This will be funded by the social care grant and will be used flexibly to respond to shifting patterns of demand across the service. The application of this additional resource will be reported through the OFP.

Whilst the service has contributed to the Council's efficiency agenda, it has also continued to invest significantly in services. Adult Services have continued to invest in services that help prevent, delay and reduce the need for care and support. For example in 2018/19 we opened a new in-house state of the art day centre at Oswald Street aimed at supporting those with complex physical and mental health needs to access day opportunities. We also recognise the importance of lunch clubs as an opportunity for older people to socialise, who would otherwise be socially isolated. As such, there is continued investment in this area with a new 3-year contract being awarded for a Hackney CVS to provide and oversight to lunch clubs. We also invest in non-statutory support to help people maintain their tenancies and live independently whilst remaining connected to their communities. Children services have also implemented projects that support vulnerable children and families such as the Family Learning Intervention Programme, the Contextual Safeguarding Project, the North London Social Work Teaching Partnership.

A review of the Council's Early Help provision across Children and Families and the Hackney Learning Trust (HLT) is currently underway with a view to identifying ways in which the Council can better meet resident needs and deliver better value for money. It has been a number of years since the Council has reviewed the offer as a whole and the review aims to take on board changes in context, such as the impact of austerity and new risks and challenges within Hackney's communities. As part of the Early Help review it will be considered whether an effective set of services can be delivered more cost efficiently, but budget pressure is not the main driver and the review will be mindful that effective investment in Early Help can prevent higher costs in other services, for example, children in care, in the future.

Public Health have recently delivered a staff restructure which has assisted in the Council's response to prior year's reductions in the Public Health Grant and the team continues to work on improving value for money from existing contracts and deliver cost reductions where appropriate.

HLT are facing considerable cost pressures as a result of the well-rehearsed under funding through the Dedicated Schools Grant for children and young people with additional needs, even after taking on board additional funding announced last year. Education service savings will be utilised in part to mitigate this pressure rather than contributing to the Council-wide budget gap.

The Director of Education is currently reviewing the HLT staffing structure generally in the light of the Hackney Schools Group proposal, increasing alignment with Hackney Council and changing education priorities for our community. This will be done to fully integrate these services into the Council with a view to improving partnership working and accountability as well as ensuring efficiency and effectiveness.

Given savings achieved to date and the cost pressures which exist across the many demand-led services delivered by the Directorate, very few of the proposals are likely to be easy to take forward. Care will need to be taken to ensure that sufficient evidence is provided in support of the proposals, that a clear plan of engagement, co-production, and consultation with service users, residents and other stakeholders is in place where appropriate; and that work to manage cost pressures is not compromised.

Neighbourhoods & Housing Savings Development

Neighbourhoods & Housing (N&H) Directorate Leadership Team (DLT) has considered a number of financial planning papers throughout this year and have agreed a savings development strategy for both the General Fund services and the HRA. The directorate will continue to consider the opportunities for further integration of services to deliver efficiencies as part of this work.

N&H is planning to propose the development of a Local Authority Trading Company (LATC) to contribute to the Municipal Entrepreneurialism theme and builds upon the work already under way in developing the Council's Housing and Energy Companies. This work to establish the LATC is progressing and a report setting out the options is being prepared for consideration by Cabinet later in the year.

The Directorate will continue its themed approach to savings development, each head of service has been tasked to develop proposals within their services and once they have identified potential areas for savings DLT will review and challenge the proposals developed under each theme. This will enable Directors to challenge the proposals and also to spot opportunities for integration of services or using good/innovative ideas in other service areas. This step in the savings development programme will be scheduled in to align with the corporate financial planning timetable.

This approach identified the savings for 2020/21 and has also identified savings opportunities for future years, further work is needed to develop the ideas for future years and produce detailed proposals which will be discussed with Lead Members.

The Housing Revenue Account (HRA) Business Plan financial model requires savings in order to deliver the strategic objectives for housing services and the housing improvement plan. There is also the need to balance the competing priorities of:

a) Maintaining and improving the service we deliver to our tenants and leaseholders
b) Maintaining the investment in our housing stock
c) The delivery of our housing regeneration programmes; and
d) Ensuring that financing costs arising from the delivery of the housing capital programme are affordable within the HRA.

All savings made in the HRA are re-invested in the housing stock to deliver essential planned maintenance as well as responding to the significant financial pressures to improve resident safety after the Grenfell Tower Fire.

The savings strategy for the HRA focuses on the integration of services and the sharing of resources to deliver the savings under the headings of; stop doing something, change how we do it or start doing something.

Stop doing something is looking at the services we deliver and deciding if all the elements/functions add value and assessing if by not continuing will impact our residents and leaseholders. For example:

- Stop paying for extended boiler warranties as we repair them rather than call on the warranty.
- Reduce the use of external contractors by training internal and DLO staff to deliver currently procured services.

Change is about changing how we deliver our services in order to make savings not just continuing to do things the way they have always been done. For example, reviewing processes to ensure services are delivered more efficiently reducing dissatisfaction amongst our residents.

Start doing something is looking at things we do well and sharing expertise with other departments in order to replicate success throughout the council such as using our teams of experts to provide services rather than contracting services out.

The savings approach aims to increase the productivity and efficiency of the Housing Service, deliver the business plan requirements and enable us to continue the investment in our stock and regeneration programmes. The savings strategy to ensure a financially sustainable business plan for 2020/2021 onwards is to develop proposals from service modernisation and commercialisation. Savings will be delivered from proposals which will improve our business processes, improve outcomes and deliver value for money.

Finance and Corporate Resources

With the roll out of Universal Credit in Hackney now underway and the embedding of new and agile technologies, work is underway to see what different service configurations are suited to how the Council will provide services in 2022 and ensuring that they evolve and are responsive and efficient. For example, we have seen over 50% (c150,000) drop in footfall in the HSC and significant take up in online technologies and customer journey. Demonstrating and accounting for a return on investment in ICT solutions will be key.

In addition and linked to the need to ensure optimal service alignment around transactions from payments through to income collection to contact centres. The council tax team has undertaken various measures both IT and non-IT to improve account management and collection and as a result we expect to improve the collection rate by 0.5% in 2019/20 and by a further 0.5% in 2020/21. This will generate a saving of c. £400k in 2019/20 and a cumulative saving of £800k in 2020/21. We also expect savings from an on-going drive to identify taxpayers claiming a single person discount who should not be.

Further work to identify properties which are not paying NNDR that should be and for those on the list, whether the correct liability has been identified. It is not possible to say at this stage what the potential savings will be.

When contracts with suppliers come up for renewal, the directorate will renegotiate with the aim of reducing costs. Having agreed to opt into the national arrangements via PSAA for the appointment of external auditors, we have made a further annual saving of £52k representing 23% on the previous year. Finally, we will continue to take initiatives to maximise income from the commercial estate.

7.0 Housing Revenue Account

7.1 The 30-year HRA Business Plan was considered by Cabinet in March 2019 as part of the Housing Asset Management Strategy. As part of that report it was agreed that the Business Plan will be reviewed on an annual basis with an updated version of the financial model being produced when there are any significant changes to the assumptions or at least on a triennial basis.

7.2 The updated model includes

(a) change in the borrowing assumption to reflect the removal of the HRA debt cap, whereby the model only reflects the existing housing stock against a prudent level of borrowing, with a separate model for Regeneration where borrowing is assessed on the basis of the viability of the programmes

(b) refreshed assumptions underpinning the model, largely to reflect the last year of the 1% rent reduction then an increase to CPI+1% for 5 years

(c) updated risks and sensitivity analyses; and,

(d) Assessed progress on delivery of the savings required to deliver a sustainable HRA.

7.3 The update shows a continued requirement for savings to invest in the housing stock as identified in the Asset Management Strategy and service improvements.

7.4 The previous Business Plan included £7.5m of savings over the period 2019-21. £4m of these savings have been identified and are included in the 2019/20 budget with the remaining £3.5m to be developed over the next year. Future years savings of £1m have been assumed in the Business Plan to fund capital investment but this will be dependent on cost increases from inflation and demand and for investment into services.

7.5 By separating the business plan and viability of the Regeneration Programmes it can be shown that HRA savings are being directly invested back into the housing service and existing properties and that the Regeneration Programme is ‘self-funded’.

8.0 SCHOOL FUNDING

8.1. Following a prolonged period of national discussion regarding the implementation of a National Funding Formula (NFF) for schools, in July 2017 the Secretary of State for Education announced an update to the proposed National Funding Formula. This saw additional funding being made available for schools so that no school experienced a per pupil cash reduction in their funding allocation in 2018/19 or 2019/20. Previously

Hackney had expected significant reductions as a result of funding being levelled out – after significant opposition, the government currently proposes to 'level up'. There was no commitment in 2017 in relation to 2020-21 funding, or beyond that.

8.2. The NFF commenced on 1st April 2018 with 2018-19 and 2019-20 being labelled as 'soft years' - essentially transition years where local authorities had some continued discretion on the local formula. At that time, 2020-21 was labelled a 'hard year' where final school budgets would be set by central government using the new national formula and it could not be altered by local authorities. De-delegation was also expected to stop at the same time. However, a later announcement in 2018 confirmed that there would be an extension to the period where local authorities would continue to set the local schools' funding formula to 2020/21.

8.3 On 4th September 2019 the Chancellor made a statement in Parliament which was followed up by a written statement from the education minister on 9th September 2019 regarding school funding over the next few years. Education was the only area of the Chancellor's announcement where funding was confirmed over a three-year period as opposed to one year only. The main points of the funding announcement are summarised below:

Overall funding allocations for education were confirmed for 3 years (£7.1bn extra funding for schools in 2022-23 compared to the 19-20 base, and for 2020-21 the increase will be £2.6bn)

· All schools will get an increase at least in line with inflation

· Nationally, underfunded schools will receive the largest increases via changes in minimum funding thresholds

8.4 Other announcements concerned minimum teacher starting salaries, additional funding for increases to teachers pensions, additional funding for 16-19 education, and an increase in early year's hourly rates payments.

8.5 In terms of the impact on Hackney schools, as Hackney is amongst the highest funded (in terms of per-pupil funding) LA's in the country, Hackney schools will not benefit from the funding for underfunded schools. However, schools in Hackney will receive an inflationary increase of around 1.8% (which compares to increases of 0.5% over the last two years). However, it is worth noting that a significant part of the additional funding over the next three years is expected to be for inflationary pay increases and other additional teacher-employment costs. This is positive news in that there is some certainty that school funding per pupil in Hackney will not be reducing over the next three years, whereas this was a distinct possibility under the National Funding Formula proposals as originally put forward.

8.6. The national increase to the starting salaries for teachers to £30,000 should help alleviate school recruitment difficulties, although in Hackney the impact of this may not be as great as outside London. Overall it should attract more people to the profession and improve the recruitment prospects for schools.

8.7 The 2020-21 schools funding formula will now continue to have the same formula factors as in 2019-20, and de-delegation will now also continue for 2020-21, and possibly beyond. Growth funding for new school places will continue to reduce. Whilst this may become a risk in the future, the reduction in the need for school places in the foreseeable future means this is not currently a significant risk.

8.8 From the Council's perspective, it appears that LA's will continue to have a role in designing and implementing the local funding formula. It is unclear what this means for previously reported plans for 'hard' and 'soft' years, but it seems to suggest that the LA role in 2019-20 will continue for at least a further year, and possibly beyond that. The Minister of State for School Standards has confirmed the government's intention to move to a 'hard' NFF formula, but there is as yet no clear target date or deadline.

8.9 The Queen's speech did not make significant references to education and there is no new legislation planned. Nevertheless, given the legislation already in place, there could still be significant change to local authorities implemented through regulations. It is therefore expected that there will continue to be an emphasis on free schools, academisation and possibly the introduction of further grammar school provision.

8.10 In respect of high needs funding for provision for SEND pupils, the government is allocating £700m extra for high needs nationally in 2020-21 and Hackney will receive an additional £4.0m. Whilst this will help bridge the SEND funding gap it is only about half the sum required to meet this year's funding gap. As a result, a major issue facing the Council is the continuing escalation in unfunded SEND costs and the resulting overspend in DSG.

8.11. This ongoing pressure is as a result of the increase in the number of young people subject to Education, Health and Care plans. This is an issue that is common across other London boroughs.

Age Breakdown	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Under 5	83	76	83	95	95	121	139	71	126	137	90
05-Oct	507	514	516	535	551	570	617	611	676	706	758
Nov-15	524	564	576	582	615	617	635	667	680	677	732
16-19	70	62	61	72	88	91	138	252	251	268	292
20-25								34	42	45	54
TOTAL	**1,184**	**1,216**	**1,236**	**1,284**	**1,349**	**1,399**	**1,529**	**1,635**	**1,775**	**1,833**	**1926**
Year on year increase		**2.70%**	**1.60%**	**3.90%**	**5.10%**	**3.70%**	**9.30%**	**6.90%**	**8.60%**	**3.30%**	**5.10%**

Increase in numbers %	**2009 to 2019**	**62.7%**
Increase in numbers %	**2013 to 2019**	**42.8%**
Average Annual Increase %	**2013 to 2019**	**6.2%**

8.13 Overspends in SEND provision and transport are being offset by underspends elsewhere in Education with the balance being met from reserves. Overall, there is a recurrent cost pressure in the DSG provision and transport budget of around £8m in 2019-20 and rising. The net end of year position for Education is an overspend of £4m-5m as the SEND cost pressure is net of savings across education service areas and one-off funding arrangements like the £1m disapplication request related to the 2019-20 financial year.

8.14 Nationally and locally, the number of young people supported by an EHCP has increased dramatically since 2013-14 when the SEND reforms were introduced. Whilst some of the significance and consequences of the reforms were foreseen at the time, the actual scale of the impact was not. The most significant and long-term implications for most authorities has been the immediate pressure on local mainstream schools to meet additional needs, as well as the supply of additional specialist provision and places in-borough. The limited availability of local and/or maintained specialist provision means local authorities are increasingly reliant upon the independent sector. However, this is not sustainable in the long term and so authorities are having to plan for more local specialist provision. The Council has invested significantly in provision of special schools in recent years, having rebuilt three already and looking at further investment in the future in respect of the development of the Ickburgh site. This of course has further financial implications, not least the requirement to 'invest to save' so potentially contributing to cost pressures in this sector in the short to medium term.

9.0 PENSION FUND

9.1 In the 2015/16 Budget Report, Members were provided with updates on the impact on the Pension Fund of auto-enrolment, the new benefit structure from the LGPS 2014 Scheme and the changes coming through to the State Pension Scheme and how these might impact on Council budgets.

9.2 Since auto-enrolment was introduced, participation rates in the pension scheme amongst Hackney employees have remained high. For budget setting purposes all staff are assumed to be in the Pension Scheme. Therefore, although Scheme membership numbers affect the level of contributions to the Fund, there is no financial impact on the 2020/21 budget. The introduction of freedom and choice in pensions, which has given pension savers the opportunity to access pension benefits early and withdraw cash from pension schemes, has to date continued to have minimal impact on LGPS members, with very little interest to transfer benefits out of the secure defined benefit structure offered by the LGPS.

9.3 2016/17 saw changes to State Pensions via the introduction of flat rate state pensions from April 2016 and this resulted in changes to the contribution rebates which both employers and employees receive for national insurance where they previously operated a contracted-out scheme such as the LGPS and the Teachers' Pension Scheme. The additional cost to the Council of the reduced rebate was in the region of £2.5m. Employees also saw a reduction in the pay they take home from April 2016 as a result of increased national insurance contributions.

9.4 31st March 2019 also saw the next triennial valuation process for the Pension Fund. The Fund's actuarial advisers review the changes since the last valuation considering a wide range of factors to assess the liabilities that the Pension Fund needs to meet over the longer term and assess the assets that the Fund holds to meet these liabilities. At the previous valuation at 31 March 2016, the Fund was 77% funded i.e. it held 77p worth of assets to meet every £1 of liabilities. Over the 3-year period the assets of the Fund have increased significantly due to a mix of the contributions paid by the Council and other employers and employees, but also the investment income and capital growth in the investments held. Whilst the assets had increased to almost £1.6bn as at the end of March 2019, liabilities also showed large increases to £1.7bn. However, the overall monetary deficit reduced by £218m to £131m representing an overall funding level of 92%. Following the receipt of the valuation data, discussions took place with employers in the fund in order to determine appropriate contribution rates. Given the position of the Council as a long-term stable employer, we were able to agree a reduction in the Council's overall contribution rate of 1.5% in both 2020/21 and 2021/22 and this has been accounted for in the budget setting process. This is a result of the use of a realistic approach to funding the Council's pension scheme in recent years.

9.5 The next triennial valuation date is 31st March 2022. Throughout the period of the last valuation, the funding level for the Pension Fund has been very volatile due to market conditions, which have been adversely affected at different times by events such as Brexit referendum and ongoing uncertainties as to any deal that might have been reached, the continued policies of the USA administration which appear to lean towards further isolation from global treaties and trade agreements, etc. This has meant that whilst asset values have continued to increase in the Pension Fund, the value of liabilities has also increased and are still subject to volatility going forward. This could impact on the ability of the Fund to further reduce employer contribution rates that impact on the Council's finances.

9.6 The Pension Fund has also recognised the risks in respect of its investment in carbon related stocks and shares and set itself a target of reducing its exposure to future emissions by 50% over a six year period starting in 2016. A recent update of our progress against this target has shown that the Fund has already reduced exposure by 31% in just three years, so is on track to meet or even exceed the target set. This form of responsible investment which has been achieved by reducing our holdings in fossil fuel related companies and helps to ensure that the Fund is less exposed to companies that hold potentially stranded assets, and therefore helps to sustain the longer term financial sustainability of the Fund. In updating the investment strategy over coming months, the Fund will now look to explore positive investments in the like of renewable energy sources.

9.7 Finally, the Pension Fund has been working hard to collaborate with other LGPS funds both through national procurement frameworks and through a collective investment vehicle in London (LCIV). The government published criteria and guidance for all LGPS funds in England and Wales to pool all the investment assets into 6 pools of around £25bn a piece and asked each fund to come forward with proposals on how funds will deliver against the criteria and guidance. There are 4 criteria, namely economies of scale, governance, reduced costs and an improved capacity to invest in infrastructure. The LCIV was officially confirmed as one of the 6 pools, having already received FCA registration, established an authorised contractual scheme and already bringing assets into the sub-funds. The Council continues to work closely with colleagues in London to ensure the success of the London CIV, and has during 2018/19 and 2019/20, transferred a significant portion of the Fund's assets onto the CIV platform, through implementation of its agreed investment strategy. Undoubtedly over time such changes will deliver significant benefits in terms of cost savings and opportunities to benefit from investment opportunities. Such benefits will however take time to flow through to the Pension Fund and ultimately the Council and therefore are not able to contribute to budget savings at this time.

10.0 CAPITAL STRATEGY

10.1 The Capital Programme key priorities are to deliver significant regeneration of the Borough to meet the changing needs and demographics of the community and which in turn lead to increased expenditure on Education and Housing through repairs and maintenance of current sites and the need to build new assets to meet demand.

10.2 The Council's capital programme is very ambitious. Besides the current programme, which currently totals over £246m for 2019/20, there are further significant schemes in future years in respect of the delivery of a new leisure centre and school on the Britannia site, significant housing development and regeneration and of course ongoing maintenance programmes such as that related to the highways, corporate property, schools, etc.

10.3 Its development and delivery are not without risk. The risks are many but in the main relate to both the sheer size of the programme and capacity to deliver it and the fact that much of it will require forward funding from the Council pending capital receipts, largely from sales of housing units in mixed use schemes, later on.

10.4 A further ongoing issue is the effect of Brexit on currency exchange rates and the knock-on impact on costs of schemes, particularly where resources are sourced from overseas. The lower value of the £ against almost all currencies means that costs of these schemes are increasing and therefore the net return that was originally anticipated lower. The upside of the impact of Brexit from a financing perspective is that interest rates are likely to remain low for longer and so the Council should be able to take advantage of borrowing when required at a lower cost than it would have been previously.

10.5 For the reasons set out above a thorough review of the approved capital programme is required to ensure that schemes remain viable not just on their own but taking a much wider view of likely aggregate cash flows and treasury management issues that arise from the delivery of the programme.

10.6 Alongside this, we are currently taking stock of all known and potential capital receipts due to the Council from existing schemes and agreements in order to ensure that these are able to be applied in the most efficient manner to the financing of the capital programme and to identify resources for the newer proposals being developed as indicated above.

10.7 More detail of the capital programme and strategy can be found in the Council's 2020/21 budget report and the new Capital Strategy that forms part of that report.