

‘THE FUTURE OF THE LOCAL AREA AGREEMENT REWARD SCHEME’

BACKGROUND

1. CLG published its consultation on the detail of the proposed LAA reward scheme in July; consultation closes on 26 September.
2. The Government has operated reward schemes since 2001. These have provided local authorities and their partners with a financial incentive to achieve targets agreed in relation to key local improvement priorities. CLG-commissioned independent research has concluded that these schemes provided good value for money to the tax payer and local citizens and have been successful in improving performance and fostering more productive local partnerships. In the context of the new local performance framework Government has set aside £340m (and an additional £50m for areas eligible for the Working Neighbourhoods Fund (WNF)) to provide a continued financial incentive, but wishes to develop an improved scheme which is simpler to operate, integral to the negotiation of Local Area Agreement improvement targets and capable of incentivising performance across the LAA.
3. According to the LGA, the previous scheme set aside £500m, of which about 55-60% (£275 - £300m) was allocated to local authorities.
4. The consultation, whilst covering four broad questions central to designing the new reward model as set out below, also seeks views on all aspects of the proposed model.
5. Specific consultation questions:
 - how should average performance across the improvement priorities be calculated?
 - at what level should the minimum level of average performance be set (below this level no reward will be payable)?
 - what baseline and target data should be used to determine reward entitlement? and
 - how should entitlement to the Working Neighbourhoods Fund reward be calculated for eligible areas?
6. There has been an initial discussion about the proposals at the LAA Roundtable meeting on 18 August at which a number of concerns were raised by local authorities. Further feedback to the Association has identified that there are concerns about a number of broad principles in relation to the scheme, rather than the detail. Consequently, it is proposed that the Association should submit a

response to the consultation reflecting the proposed model as a whole rather than on the specific questions.

ISSUES FOR CONSIDERATION

Incentivisation

7. CLG notes that reward schemes have provided a financial incentive to achieve agreed targets. Research commissioned by CLG (outlined in the consultation document) found that *'the scheme had been effective and good value for the tax payer and local citizens'*. If the scheme going forward is to continue to offer good value then it is imperative that local authorities and partners continue to see the scheme as providing an incentive.
8. It is proposed that the Association should express its strong support for the notion of incentivisation continuing to be at the heart of the LAA reward scheme.

The overall reward 'fund'

9. The reduction in the overall amount available for the new reward scheme from £500m to £340m was announced by CLG in February 2008. It would be possible to argue for a reinstatement of the overall amount to its previous figure, but given the current fiscal climate, this may be an unrealistic goal. It is therefore suggested that the Association notes the new figure but argues for the full allocation of this amount to local authorities and partnerships and that none of it is retained centrally.
10. The LGA is also proposing maximum allocation of the (reduced) fund. The Regional Chief Executives Group recommends that this be supported.

Anticipated rewards under the new scheme

11. The consultation document makes it clear that under the previous scheme, *'local authorities claimed 60% of their potential reward grant, an average of £4.1m per authority'* (although this ranged from 27 to 92% nationally). The document goes on to say in paragraph 17 that the *'£340m is a significant incentive equivalent to an average of £2.2m for each area'*. This, of course, is more than a 50% reduction on average and assumes achieving 100% of all the stretch targets which is very unrealistic.
12. Under the proposals outlined in the consultation document, there are concerns that the amounts that are likely to be secured by localities through the reward scheme will be significantly reduced, assuming a similar level of achievement against targets as in the previous scheme. Estimates suggest that some councils could see a reduction in the amount they are likely to secure fall by some 90%. This would be a serious blow to the notion of the scheme being an incentive for partnerships.

Achieving challenging targets

13. The views expressed at the LAA Roundtable, and in subsequent discussions with local authority colleagues, suggest that the LAA targets are going to be very challenging; by definition, targets would not have been agreed by Government if that were not the case.

14. The consultation proposes that reward entitlement would commence at achieving 60% average performance across the LAA (except the 16 education/children's services targets) and would increase in a linear fashion to the maximum 100% of performance reward grant (PRG) being secured if all LAA targets are achieved (or exceeded) – see page 17 of the consultation document for an illustrative graph. Although the 60% threshold is the same figure as in the previous scheme, the estimations above (based on previous achievement of targets) would suggest that this approach would not deliver the required incentives. Darlington's response to the consultation is proposing a 30% average performance threshold.
15. The Regional Chief Executives Group recommends that the 30% average performance threshold be supported.
16. There are further reasons why assuming that a similar level of achievement against LAA targets might be unrealistic. These include:
 - the economic downturn will not only affect the achievement of economic development-related LAA targets. It is widely acknowledged (including within Government) that the downturn could have an adverse effect on other outcomes, notably crime. Most economic predictions currently suggest that the economy is likely to be slow at least until 2010; the new LAAs cover the period to 2011;
 - the new LAAs include targets that are, on the whole, measured against a backdrop of improved performance over recent years. Each incremental improvement in performance is likely to be harder to secure; and
 - the negotiation process for the new LAAs included a challenge that indicators and targets are chosen/agreed to make a transformational difference in service provision and improved outcomes for local people; this 'harder test' as the starting point for the reward scheme is not recognised by Government.

Allocations of potential reward per authority

17. The proposed scheme uses a similar approach to previous schemes whereby the potential reward available was calculated as 0.54% of the local authority net budget requirement (NBR) plus dedicated schools grant less parish precepts. This calculation, based on the previous £500m allocation, produced the £4.71m average per local authority but, of course, masked the differences between some of the larger Metropolitan authorities like Birmingham and Leeds and smaller unitaries like Darlington and Hartlepool for example.
18. Estimates produced for SIGOMA authorities suggest that the maximum PRG for the largest authority, Birmingham, would be £8.294m, Sunderland (ranked 17th by NBR) £2.035m, Newcastle (19th) £1.985m, Gateshead (33rd) £1.430m, N Tyneside (35th) £1.342m, Stockton (37th) £1.235m and South Tyneside (42nd) £1.150m.
19. Although the overall potential sums available for north east authorities, assuming a similar level of achievement of targets as previously, is greatly reduced on what has been secured under the existing scheme, the calculation is at least clearly understood – which is a strength. Darlington, in its response, requests that Government bases the PRG payable to the authority not on NBR but to divide the £340m equally so that each authority has the opportunity to earn £2.2m. An alternative proposal would be to argue for a calculation based on a hybrid model,

guaranteeing a minimum level for all authorities irrespective of size of NBR, topped up by a proportion of the PRG that is allocated by NBR.

20. The Regional Chief Executives Group has requested that some estimates based on a hybrid model be generated, if possible, to inform a recommendation. A verbal update will be provided at the meeting.

RECOMMENDATION

21. Members are asked to endorse the above response.

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