

## Local Area Agreements - Reward Grant

### 1. Summary

The paper provides information requested by Board members at the September meeting, about Reward Grant paid in relation to the earlier Local Public Service Agreements (LPSAs) and Local Area Agreements (LAAs).

The paper also discusses the Reward Grant for Local Area Agreements (LAAs) for 2008-11. After successful negotiation by the LGA, Communities and Local Government (CLG) is recommending to Ministers an amended proposal for the calculation of Reward Grant. Final guidance on this should be published by CLG by the end of November 2008.

### 2. Recommendations

That the board note the successful negotiation by the LGA and the amended CLG proposals for calculation of the Reward Grant.

### 3. Action

For noting only.

## Local Area Agreements - Reward Grant

### Background

1. This report covers two issues related to Reward Grant. First, at its 9 September meeting, the Improvement Board asked for more information on how reward grant has been allocated to date. Second, LGA has been involved in successful negotiation on arrangements for Reward Grant for 2008-11.

#### Evolution to date of reward schemes

2. Local Public Service Agreements (LPSAs) were introduced in 2001, and involved Performance Reward Grant (PRG) and Pump Priming Grant (PPG). LPSAs involved 12 targets, negotiated by government departments directly with county and unitary authorities. A fixed amount of PRG was paid for the achievement of 'stretch' targets, that is, performance with significant improvement outcomes beyond the normal expectations. The LPSA reward system attached very substantial sums to single targets, and there has been concern that this could encourage 'gaming' behaviour in the selection of 'soft' targets for inclusion in the LPSA set locally. The maximum potential PRG for any area was calculated at 2.5% of the upper tier authority's net budget requirement. Where District Councils participated, 2.5% of their net budget requirement was included in the calculation.

3. A second generation of LPSAs began in 2004. This was similar to the first scheme, but with more emphasis on outcome measures and on priorities for improvement identified locally.

A first pilot round of 20 Local Area Agreements was developed for March 2005, followed by a second and third round. From 2006 onwards LAAs have included a 'reward element' which has replaced the original LPSA arrangements. Earlier LPSA commitments, and levels of PRG agreed, have been honoured during this transition process.

#### Success rates on reward grant

4. The CLG national evaluation report shows that on average local authorities claimed 60% of the potential reward grant, an average of £4.71 million per authority. The achievement of reward varied widely between authorities, from 27% to 92%. Some LPSAs run beyond March 2008. These figures reflect payments to date, and not the full and final picture. Figures on individual authorities can be made available to Board members on request.

5. Variation in success rates is to be expected, given that some authorities and LSPs made conscious decisions to choose LPSA targets known to be tough and challenging, but considered a high priority locally (e.g. worklessness, child poverty).

#### **Reward Grant for LAAs 2008-11**

6. For 2008, all county and unitary authorities have negotiated a new LAA which includes up to 35 targets based on the new National Indicator Set. A new reward model will operate in relation to these targets. The total allocation involved is £340 million over the three year period, plus £50 million for Working Neighbourhood Fund. The much reduced allocation of £340 million represents a maximum possible claim of £2.2 million for each area, as compared with an average payout of £4.71 million achieved under the LPSA regime.

7. The Improvement Board has responded to CLG consultation on the proposed new model, and discussions on the detail of this continue. The LGA response, and others, presented modelling of the likely impact of the proposal, and criticised the formula proposed by CLG as likely to lead to very low payments of reward. This is of particular concern given the challenging nature of those targets affected by the economic situation, for example on housing supply, worklessness and other economic indicators. The most recent proposal from CLG has been amended in response, and will pay out more of the allocated funds.

8. Under the reward scheme for LPSA1, with reward calculated separately for each of twelve targets, just over half of councils claimed 60% or more of the maximum amount achievable; this is based on published figures for 144 councils, of which 78 claimed reward of 60% or above, and 66 claimed less.

9. For LAAs for 2008-11, the CLG now proposes that **an average performance will be calculated across the designated targets in the LAA (the up to 35 targets agreed with government). Payment of 60% of reward will start at an average of 60% of performance in achieving the target after three years, and then increase in proportion with performance achieved; 70% reward for 70% performance average, and so on. For areas with performance averaging below 60%, there will be no reward payment. Reward will be calculated and paid at the end of three years, after April 2011. Guidance on the final proposals will be published by CLG by the end of November.**

#### **The longer-term future of reward schemes**

10. As part of CSR07, the continuation of Performance Reward Grant and Pump-Priming Grant was subject to a detailed Value for Money Review by the Treasury and CLG. The LGA and member councils provided evidence as to how PRG had been used, and its impact in encouraging collaborative and innovative work by partners around the LSP table.

11. As part of the next CSR, the LGA is likely to wish to open up discussions more broadly on the value and effectiveness of reward schemes and other forms of 'local incentive'. The Board may wish to give views on this.

#### **Financial Implications**

12. The report has no financial implications for the LGA.

## **Implications for Wales**

**13. LAAs are not being implemented in Wales, and so the report has no implications.**

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