



Consultation on the future of the
Local Area Agreement reward scheme
July 2008



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Purpose of this document

This consultation document sets out the Government's proposals for a new method of calculating Performance Reward Grant entitlement, payable on the basis of performance against designated targets in new Local Area Agreements (LAAs) starting in 2008.

Responding to consultation on this document

The consultation period will run from **18 July** to **26 September 2008**; a period of 10 weeks. If you wish to respond to this consultation, please use the word document accessible on the consultation website.

The Cabinet Office and Better Regulation Executive Code of Practice on Consultation requires departments to normally allow 12 weeks for written consultation. However, the Central Local Partnership memorandum of understanding between central and local government permits a shorter period in some circumstances. The Local Government Association have agreed to this slightly shorter consultation period so as not to delay the issue of final guidance on the new reward model in the autumn of 2008.

The Government will analyse and consider all responses submitted on the standard pro-forma received up to the close of **26 September 2008**.

The **preferred method of response is via word document** e-mailed to: LAArewardconsultation@communities.gsi.gov.uk

If you do not have access to the internet, please send your response to:

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This consultation is being conducted in accordance with *the Government's Code of Practice on Written Consultation*. The criteria are reproduced in annex 4. Any procedural observations or complaints about the consultation exercise should be sent to:

Albert Joyce
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Eland House
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Publishing consultation results

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).

If you want the information you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply. This deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

Executive Summary

This document sets out consultation proposals for the new model to be used for calculating Performance Reward Grant (PRG).

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. 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.

Several broad principles of the new reward model have already been announced and this document makes proposals and seeks views on the detailed design. Final details of the new model, taking account of the responses to this consultation, will be published by Communities and Local Government as part of the LAA review and refresh guidance in the autumn.

The consultation covers four broad questions central to designing the new reward model:

- 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?
- How should entitlement to the Working Neighbourhoods Fund reward be calculated for eligible areas?

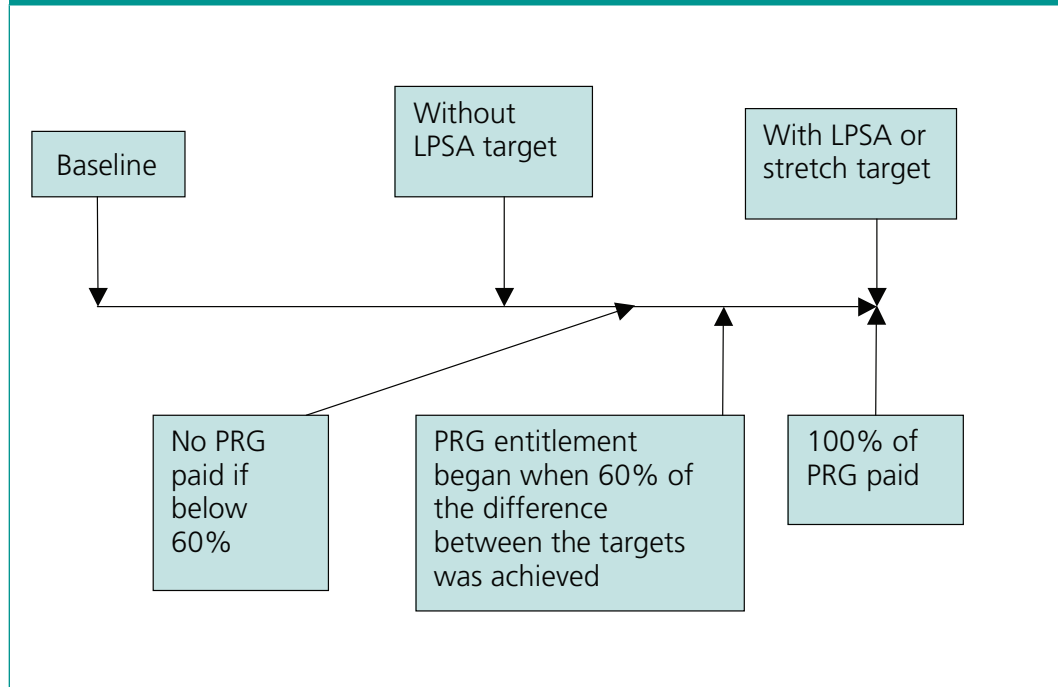
Section 1: Introduction

The context – Local Public Service Agreements

1. Local Public Service Agreements (LPSA) were introduced in 2001. The majority of LPSAs will have ended by March 2008. They sought to find a new way of linking delivery of national targets to local needs and circumstances. The scheme encouraged the negotiation of, “.....a dozen or so specific targets that will require performance beyond what could have been expected in the absence of the local PSA.”¹
2. LPSAs were negotiated by Government Departments directly with upper tier and unitary local authorities. A central team at the Office of the Deputy Prime Minister coordinated activity and provided advice to both areas and departments. Negotiations proceeded in a rolling programme of around 20 authorities at a time.
3. The 12 targets were agreed based upon local priorities though five targets were chosen from nationally designated policy areas. A ‘without LPSA’ target was agreed to reflect the performance expected in the normal course of events. Another ‘with LPSA’ target was negotiated reflecting a significant improvement in outcomes. Performance against target was sometimes measured by several sub-indicators, each allocated a specific amount of Performance Reward Grant (PRG).
4. A fixed amount of PRG was agreed for achievement in full of the ‘with LPSA’ targets. If, for any target, the area achieved 60 per cent of the difference between the ‘with’ and ‘without LPSA’ target level, 60 per cent of this PRG became payable. Thereafter PRG rose in proportion to the level of performance achieved. This is illustrated at figure 1 below.

1 Local Public Service Agreements – New Challenges July 2001 DTLR

Figure 1



5. In addition a Pump Priming Grant (PPG) was payable to the local authority once the agreement had been concluded. PPG recognised that to achieve the stretch targets areas would need to go beyond the performance expected of them ordinarily. Areas also contributed additional resources to delivering these enhanced outcomes.
6. Negotiation of second generation of LPSAs began in 2004². In many respects these were very similar to the first scheme but with a greater focus upon the beneficial outcomes that local people would expect their service providers to deliver. The indicators used to measure targets had to be, as far as possible, expressed in terms of outcomes (rather than outputs, inputs or processes). There was also an exclusive focus upon the priorities for improvement locally, rather than on national targets.
7. In this round, the involvement of partners in selecting and delivering targets was emphasised, reflecting the development of Local Strategic Partnerships since the beginning of the scheme. A staged negotiation process was encouraged, with initial agreement on priorities based upon the local Community Strategy leading to detailed negotiations on indicators and targets.

Introduction of Local Area Agreements

8. Since 2005, local areas have developed Local Area Agreements (LAAs). A first pilot round of 20 LAAs were agreed in March 2005, followed by another 66 areas in 2006, and the final round in March 2007. These

agreements built upon the experience of LPSAs with an emphasis on improving central/local relations, strengthening partnership working and service delivery and enabling the local authority to provide stronger local leadership.

9. LAAs included a greater number of targets and breadth of coverage than LPSAs and allowed simplification of the funding streams flowing from central government to areas. They also began the process of reducing the burden of performance reporting.
10. Initially LPSAs were concluded alongside LAAs. From 2006, LAAs have incorporated a 'reward element', with negotiations carried out by the Government Offices as part of the wider LAA process, rather than directly with Government Departments. Other than this organisational change 'reward elements' operated on the same basis as LPSAs.

New Local Area Agreements

11. In 2006, the Government published *Strong and Prosperous Communities*³. This white paper proposed a new, integrated local performance framework covering all outcomes delivered by local government alone or in partnership. At the heart of this framework was a new generation of Local Area Agreements – which would become the sole⁴ source of target setting and agreement between central and local government (and their partners).
12. In 2008 all upper tier and unitary local authorities and their partners in England have negotiated an LAA which includes up to 35 ambitious but realistic targets based upon the new National Indicator Set (NIS) announced by Government as part of the Comprehensive Spending Review in October 2007.
13. This consultation seeks views on the design of the reward model to operate in relation to these new agreements. Government will honour all commitments arising from reward targets agreed prior to 2008. Entitlement to PRG for these earlier targets will be judged using the target descriptions and upon the basis of the guidance applicable at the time these targets were agreed.

Effectiveness of the past reward schemes

14. The Office of Public Management, the University of the West of England and Cardiff University have undertaken an independent

³ 'Strong and Prosperous Communities' – Communities and Local Government, 2006

⁴ Although the DCSF statutory education and early years targets are not agreed through the LAA process, they are an integral part of the new Local Performance Framework. They appear alongside LAA targets in LAA documentation to present a single suite of targets for each area.

evaluation⁵ of the earlier LPSA schemes. Their full report is published alongside this consultation. The key points are:

- Overall, LPSA targets brought about significant and sustained increases in performance beyond those that would have occurred in the absence of the initiative. While significant resources were devoted to preparing and negotiating LPSAs the scheme had been effective and good value for money for the tax payer and local citizens.
- LPSAs were not as powerful a driver of large scale organisational change as more systemic initiatives such as the Comprehensive Performance Assessment. The researchers suggested that incentive schemes should only ever form a small proportion of the funding going to areas as they risked inequity – giving more resources to authorities that performed well so residents in poorly performing areas were doubly disadvantaged.
- Negotiation of a dozen or so targets, covering around ten government departments and 150 local authorities was hugely ambitious. While not all negotiations proceeded smoothly, the overwhelming majority of those consulted by the researchers considered the resulting service improvements and wider benefits from the scheme had made this worthwhile and both local and central government were often surprised at how frequently their priorities coincided
- Some targets were seen to have been set at overly challenging levels and were insufficiently inclusive of partners, but the process of negotiation encouraged areas to be more ambitious and helped develop a better understanding of local priorities and what was achievable.
- LPSAs contributed to more productive local partnerships in relation to service delivery and wider strategic collaboration. Reward targets encouraged a more holistic approach, breaking down professional barriers, a commitment to evidence-based practice and a greater focus upon the end user. They also helped foster improvements in corporate performance management within local authorities.
- Across the agreements studied 73 per cent of targets attracted some reward by achieving at least 60 per cent of the negotiated stretch in performance. On average local authorities claimed 60 per cent of their potential reward grant, an average of £4.71m per authority. The claim rate varied widely between authorities, from 27 per cent to 92 per cent. More targets were exceeded (54 per cent) than were missed (46 per cent) and in the context of stretch targets the researchers considered this a reasonable balance.

⁵ National Evaluation of Local Public Service Agreements – Final Report available at <http://www.communities.gov.uk/localgovernment/localregional/servicedelivery/localpublicservice/>

- Fixed three year targets helped many public agencies devote sustained resources and attention to a particular local priority. The researchers did note, however, that LPSAs had the potential to distort corporate priorities where targets were felt to be focused upon the wrong things or did not represent the highest corporate priorities for local authorities.

The new LAA reward model

15. It is within this context that the Government has been developing thinking on a new model for incentivising local performance.
16. In February 2008 the Government announced £340m payable in 2011-12 and 2012-13 to fund a new LAA reward scheme. This is further supplemented by £50m in 2010-11 directed at rewarding performance in those areas eligible for the Working Neighbourhoods Fund.
17. The level of funding provided is less than the total amount of funding available for earlier reward schemes, but £340m is a significant incentive for partnerships equivalent to an average of £2.2m for each area. It will also be paid as 72 per cent revenue and 28 per cent capital providing greater flexibility; past schemes paid 50 per cent as capital.
18. This level of funding reflects the changed environment in which a new system will be operating. In particular:
 - Local partnerships are stronger than before as a result of previous rounds of investment.
 - There are now wider incentives to improve local partnerships (including the new statutory duties on named partners to encourage greater co-operation in the delivery of challenging targets in LAAs).
 - There is greater freedom to focus mainstream resources on what matters most to local people. £5.6bn has been moved out of ring fenced grants during the CSR07 period.
 - There is now a single Local Performance Framework, with a radical streamlining of the number of national priorities (including a reduction from up to 1200 national indicators to only 198; and with a maximum of 35 targets in LAAs, plus the 16 statutory DCSF education and early years targets, compared to an average of over 100 previously).
19. The new reward grant will retain a strong financial incentive, alongside the new statutory levers, aimed at encouraging local innovation and ambition while providing appropriate recognition for successful delivery.

Section 2: Background to the proposed new LAA reward scheme

20. The Government has already set out the key principles of the new reward scheme, as part of the suite of operating guidance aimed at helping partnerships negotiate new LAAs. These seek to draw on the successful evolution of the scheme since its inception in 2001, and respond to some of the key findings of the LPSA evaluation.
21. The key design principles behind a new reward scheme are that it should be:
 - simple to operate;
 - integral to the main LAA negotiations – not requiring additional work to agree, calculate or monitor separate reward targets;
 - capable of incentivising systems wide change – rather than simply incentivising interventions in relation to particular indicators;
 - capable of incentivising a similar level of ambition and stretch in relation to targets as the previous scheme.
22. This leads to the following parameters within which the new scheme is being developed:
 - Reward will be calculated based upon average performance across the up to 35 designated LAA improvement targets agreed with Government⁶. There will be a minimum average score which all partnerships will need to reach before any reward is payable.
 - Using data from the LAA on baseline, target and final performance a 'common currency' for each target will be calculated allowing average performance to be determined.
 - All of the reward on offer will be payable if all targets have been achieved.

⁶ These will not include the 16 targets based upon indicators in the National Indicators Set but agreed by virtue of s102, Education Act 2005 and s1, Childcare Act 2006.

- For the initial year of the LAA there needs to be a degree of flexibility around target levels, given the newness and limited data available to set targets in relation to some of the indicators. The target levels which will attract reward grant will be confirmed at the first annual review of the LAA in 2009.

The new model will also mean a simpler final claim process for the grant, based upon a spreadsheet to be issued by Communities and Local Government.⁷ Areas will input data on baselines, targets and final performance and the spreadsheet will calculate PRG entitlement.

23. This consultation focuses, therefore, on the detailed propositions for the operation of the new reward model. It makes proposals within four broad areas:
- How should the average performance across improvement priorities agreed with Government in each LAA be calculated (section 3)?
 - At what level should Government set the lower average performance threshold (section 4)?
 - What baseline and target data are most appropriate to reference in determining reward entitlement (section 5)?
 - How should entitlement to the Working Neighbourhoods Fund reward be calculated for eligible areas (section 6)?
24. The specific questions posed within the body of this document are summarised at annex 3. We would particularly welcome responses on these, but we are happy to receive views and comments on all aspects of the proposed model.
25. The outcome of this consultation will be used to design the final guidance on the reward model. This will be incorporated in guidance to help partnerships during the first annual review and refresh of the LAA in late 2008 and early 2009.

⁷ A draft working version of this spreadsheet has been published alongside this consultation.

Section 3: Calculating average performance across the LAA

Background

- 26. Each area will be allocated a fixed amount of Performance Reward Grant as the maximum payable if all targets are achieved (the allocation method is similar to that adopted in previous reward schemes and is set out at annex 2).
- 27. In order to calculate how much of the maximum PRG entitlement an area has earned a reward calculator in the form of a spreadsheet will be completed by areas. A working version of this spreadsheet has been made available on the Communities and Local Government website, alongside this document. This will perform a number of calculations leading to an average performance score across the LAA and the consequent amount of PRG payable. The paragraphs below explain how this spreadsheet will operate in more detail.

Calculating a 'common currency' for each target

- 28. Each LAA contains data on baseline and target levels for the three years of the LAA. This information will be finalised as part of the first annual review and refresh of the LAA in 2009.
- 29. In 2011 the data relevant to reward will be recorded on the spreadsheet by local authorities, along with data on final performance. This will calculate a performance score for each target using the formula:

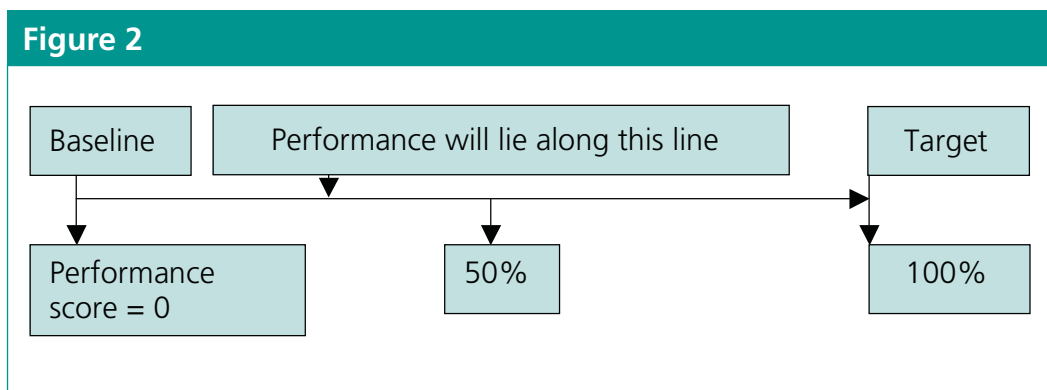
$$\text{Performance Score} = \frac{\text{Performance} - \text{Baseline}}{\text{Target} - \text{Baseline}} \times 100$$

- 30. *Baseline* in this context is defined as the most recent performance data available at the time the target was agreed. This information is crucial in guiding the setting of ambitious but realistic targets and discussed more fully at section 5 below.
- 31. *Target* refers to the final performance level which has been agreed in relation to an indicator, and is discussed more fully at section 5. Data on baseline and target must be gathered using the same methodology.
- 32. *Performance* relates to the final, audited measurement of achievement in relation to the agreed target.

33. The performance score on individual targets effectively shows the proportion of the distance travelled between baseline and target:

- a score of 100 per cent means the target has been achieved or exceeded;
- a score of 0 means no improvement upon baseline has taken place;
- between these extremes the score will reflect performance – a score of 50 per cent for example means the performance achieved is half way between baseline and target.

The diagram at figure 2 illustrates the operation of the model.



The table below demonstrates the results of the formula applied to four targets.

Figure 3⁸

| Target | Baseline | Target | Final performance achieved | Calculation | Calculated score | Actual score used |
|-------------------------------------|----------|--------|----------------------------|--|------------------|-------------------|
| A | 3000 | 2800 | 2700 | $\frac{2700-3000}{2800-3000} = 1.5 \times 100 =$ | 150% | 100 |
| B | 62% | 69% | 67% | $\frac{67-62}{69-62} = 0.714 \times 100 =$ | 71% | 71 |
| C | 40 | 38 | 38.1 | $\frac{38.1-40}{38-40} = 0.95 \times 100 =$ | 95% | 95 |
| D | 100 | 125 | 98 | $\frac{98-100}{125-100} = -0.08 \times 100 =$ | - 8% | 0 |
| Therefore the average score will be | | | | | | 66 |

NB in practice the model will calculate to four decimal places.

⁸ In this example good performance is indicated by the direction of travel from baseline to target. If the baseline is higher than the target, the model generally assumes good performance must be less than baseline and visa versa – very occasionally this is not the case e.g. the target may show an increase (on baseline) but good performance is downward. How the proposed model handles these targets is explained in annex 1 and in the user guide to accompany the spreadsheet.

Calculating average performance across the LAA

34. Performance scores are aggregated to calculate an average score across the LAA. This average will determine the proportion of the available PRG an area has earned. Where the average score across the LAA is 100 per cent all the reward will be payable.
35. If the score is less than 100 per cent but above a lower threshold, reward will be determined against a scale, starting at the lower threshold and rising to 100 per cent. The proportion of the maximum PRG payable will be determined according to this scale (see the proposals in section 4 below).

Handling performance above target and below baseline when calculating average performance

36. **Background** – While the model successfully ties PRG entitlement to average performance across the LAA, performance above target or below baseline on some targets can unduly influence the overall average. The proposal below addresses this issue by limiting the calculation to performance scores between 0 and 100 per cent.

Proposal 1

37. **Performance below baseline will not have a negative impact upon the average.** We would expect this to be a very rare occurrence but where it does happen average performance will be calculated as if there had simply been no improvement upon baseline. For example on a target where performance has got worse relative to the baseline the score applied would be 0.
 38. Likewise, where **performance exceeds the agreed target only performance up to 100 per cent of the target will contribute to the calculation of reward entitlement.** For instance, if the performance achieved is 140 per cent, this will be reset to 100 per cent for the purpose of calculating reward.
39. In the example in figure 3 above, this would mean that in calculating the average indicator A is treated as being 100 per cent and indicator D as 0.
 40. **Reasons for this proposal** – Some limit or cap needs to apply otherwise targets achieving above target, or below baseline, have the potential to significantly skew the overall average calculation. For example, if 17 targets of 35 in an LAA achieved 200 per cent the remainder could score 0 (i.e. no improvement from the baseline) and the full reward would be payable. This would not provide an effective incentive for performance across the LAA.

41. We consider the setting of a minimum and maximum cap on performance described above to be a balanced approach which greatly simplifies understanding of the reward model and keeps it tightly focussed upon target achievement across the LAA. It also helps to ensure there is no disproportionate impact on the overall reward from either very low or very high performance against a single indicator.

Question 1

42. ***Do you agree that performance below baseline and above target should be disregarded when calculating the average level of performance across the LAA?***

Section 4: Setting the lower performance threshold at which reward entitlement should begin

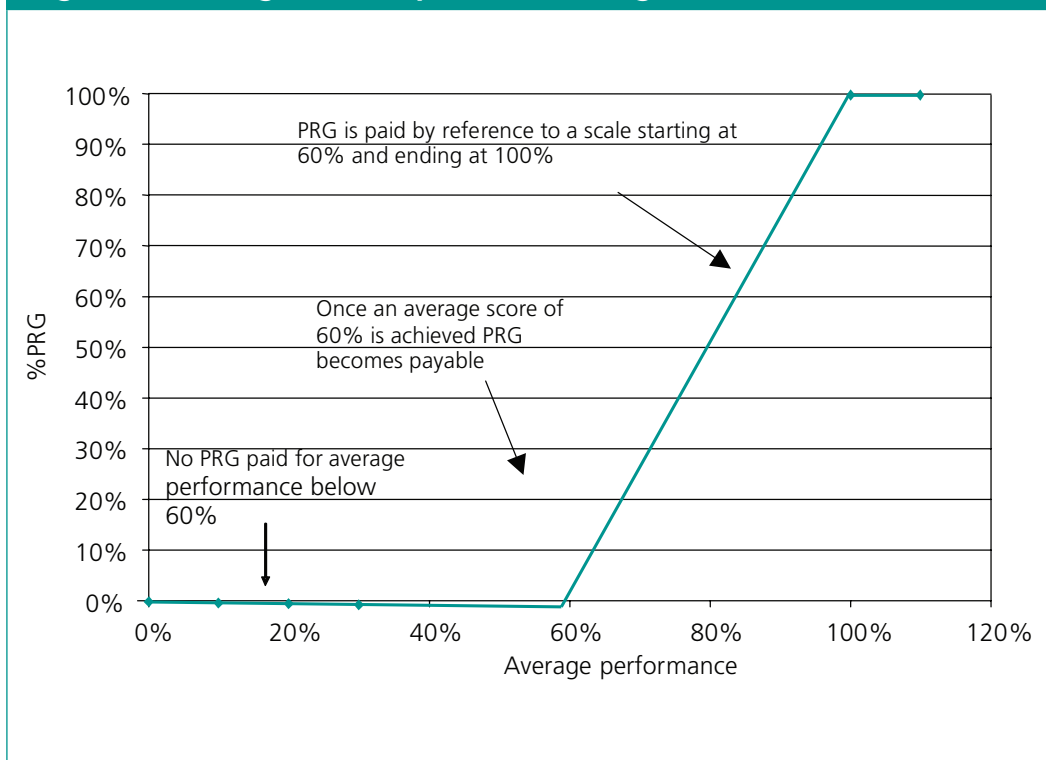
43. **Background** – LAA negotiations have recently concluded. These reflect robust and rigorous discussions between Government and local areas on ambitious but realistic target levels, taking into account that, for this new round of LAAs, attention and resource will be focused on up to 35 priority targets, rather than, as in previous years, spread across a much higher number of targets in and outside LAAs.
44. Both local areas and Government will want to see reward grant maximising the incentive to deliver improved outcomes. In line with previous rounds of reward, a key part of this will be the need to agree the right minimum threshold to be achieved before any reward is earned. This should be set at a level which rewards stretch, rather than performance that would be achieved anyway; but that is not set at a level that is too high to influence activity, and which disincentivises partnerships to continue to work towards difficult targets, because the scale of ambition required to earn additional money quickly appears out of reach.
45. In addition to determining the point below which no PRG is payable, this threshold also has the effect of calibrating the reward model. It does this by determining the lower end of a scale against which PRG entitlement will be judged. Above the threshold, the higher average performance the greater the reward.
46. Key factors to consider in setting this parameter are:
 - A lower threshold means eligibility to PRG starts at poorer average performance, but the gradient at which increased performance earns more reward is less steep (the incentive is therefore less sharp for each percentage point rise in performance).
 - A higher threshold requires areas to perform to a higher minimum level to get any PRG, but the amount payable would rise to 100 per cent more quickly thereafter, ie more reward is payable for each one per cent improvement in performance than with a lower threshold. It therefore provides a sharper incentive for delivery once above the minimum level.

Proposal 2

47. **On balance we suggest that a minimum threshold of 60 per cent is likely to provide the most effective incentive.** This is in line with the minimum threshold for individual targets used in previous reward rounds.

48. The impact of this scale is illustrated by figure 6 below for any given level of performance. In practice there will be a very wide variety of performance scores across each LAA which combine to determine the overall average.

Figure 6: Average overall performance against PRG



49. **By way of illustration** the examples below show what *might* happen in practice for an area to cross the lower threshold and to earn half of the PRG on offer:

- PRG entitlement could start when average performance across the LAA was above 60 per cent, this might mean, for example, that 21 targets of 35 had been achieved *in full* (with the remaining 14 at or below baseline).
- Or half of the PRG available to an area would be payable when:
 - on average, performance reaches 80 per cent of the way between baseline and target; or

- 28 targets are achieved in full (with the remaining 7 below baseline); or
- 21 of 35 targets are achieved in full as long as a minimum 50 per cent average performance was maintained across the rest of the targets.

50. **Reasons for this proposal** – The lower threshold is the key determinant of the nature of the incentive presented by the new reward scheme. There are a number of factors which we have sought to balance in making this proposal. These are:

- The level of difficulty in each target, compared to those set in previous reward negotiations. This is difficult to assess precisely, as recent LAA negotiations have not required an additional stretch target and value for money calculation. But initial feedback from negotiations suggests that targets are significantly more challenging than the old 'without reward' targets, but, in some cases, slightly less stretching than the 'with reward' targets.
- Overall, areas will be able to focus resources on fewer overall priorities. The average number of targets agreed in new LAAs is 31, as opposed to over 100 in previous rounds of LAAs. This should allow the concentration of effort to meet priorities.
- The new statutory framework, including the duty to co-operate, is designed to help align the resources and interventions of a wider set of partners behind targets. Partnerships are also stronger, and can build on the experience of previous LPSAs and LAAs.
- The overall level of money payable to each area is lower than in previous rounds.
- The minimum level is now set for overall average performance, rather than for performance on individual targets. No PRG will be payable if the average level is below 60 per cent. Previously some PRG might be payable where performance on average was below the 60 per cent level because reward was calculated only in relation to individual targets.

- The actual level of performance achieved by partnerships in the past. In general, previous reward schemes consistently paid out an average of 55-60 per cent of the total PRG budget. To achieve around 60 per cent of the PRG on the new scheme using a 60 per cent lower threshold would require an average performance of 84 per cent⁹, based upon the graph in figure 6. This level of threshold therefore appears to provide a reasonable level of challenge compared to past schemes, with a realistic possibility of areas earning all the reward on offer.

51. On balance the Government therefore considers that a minimum threshold of 60 per cent will provide an effective and value for money incentive, largely judged against performance on the more ambitious aspects of a target, but with some scope for reward to begin to be earned even where performance across some targets remains relatively weak.

Question 2

52. ***Do you agree that starting reward entitlement at 60 per cent provides the best balance in terms of incentivising ambitious and consistent performance while providing a realistic level of challenge?***

The case for an additional target achievement threshold

53. **Background** – In preparatory consultations on the reward model some stakeholders suggested that an initial threshold might be added requiring, for example 30 per cent of the up to 35 targets to be achieved *in full* before any reward became payable. Once past this additional threshold reward would be scaled to performance as described above at paragraph 47. This would guarantee that a minimum number of targets had been achieved before any PRG was paid. To ensure that the overall level of stretch remained broadly in line with previous reward schemes, this threshold would potentially be combined with a lower starting point to the threshold and scale described in the preceding paragraphs.

Proposal 3

54. **We propose not requiring a proportion of targets to be achieved in full before any reward can become payable.**

⁹ This compares with an average score of 72% (calculated using the new model) achieved by 37 authorities who provided a full set of data in claiming PRG against their early (2001-2005) targets, although direct comparisons using old data in the new model are difficult.

55. **Reasons for the proposal** – the Government considers that the system will be simpler and clearer if reward entitlement is calculated only by reference to average performance across the LAA.
56. The inclusion of an additional threshold may create a situation where full achievement of a proportion of the targets came to be seen as disproportionately important. This could risk creating a perverse incentive for partnerships to focus on achieving, in full, what they perceived to be the least challenging targets, rather than giving attention to the package of targets across the LAA.
57. Including this type of threshold also opens the theoretical possibility of an area achieving very good, consistent performance (for example) achieving 90 per cent of targets across the LAA but not qualifying for any reward because no target had been achieved in full.

Question 3

58. ***Do you agree it is not necessary (given the lower threshold of 60 per cent described at paragraph 47) to require areas to achieve a proportion of targets in full before they are able to earn any reward?***

Section 5: What data from the LAA should be used to determine reward entitlement?

59. **Background** – We believe it would be complicated and cumbersome for areas to incorporate all the data available on performance against LAA improvement priorities when calculating reward entitlement. We therefore propose that two agreed sets of data, usually covering one year each, will be used to judge performance for reward purposes. One set (for baseline) will relate to performance prior to final agreement of the targets and another during 2010-11, usually the final milestone target agreed. The methodology and period of time to which the baseline relates should correspond to that used for the target against which PRG entitlement will be judged. This was the arrangement adopted by most areas in agreeing previous reward targets.

What baseline data should be used to calculate reward?

Proposal 4

60. **The latest available audited data before targets are finalised should be used as the baseline when agreeing targets.** This data will be agreed as part of the review and refresh of the LAA in late 2008 and early 2009. In addition, **if the Government and area agree, as part of the negotiations for the refreshed LAA, that a target cannot be finalised until the last year of the LAA (i.e. 2010-11) then this target will not be included when calculating reward entitlement, though it will still be important in terms of wider performance improvement. This is likely to be the case for very few, if any targets. This also means that where targets need to be changed by agreement between Government and the area at the 2010 review and refresh they will be excluded from the reward calculation.** Operating the reward model in this way provides the flexibility areas need to respond to changed priorities without raising issues of consistency or value for money in relation to the reward scheme.

61. This will usually mean **2007-08 baseline data** will provide the most appropriate starting point. Where the LAA target is based upon a *well established indicator* with solid baseline data, the LAA concluded in 2008 will already include targets upon which the Government Office and area agree – although, as part of refresh negotiations, it will usually be necessary to update the baseline data, if the original negotiation (in 2008) was based upon 2006-07 data. In some cases, the area and GO may have agreed in exceptional cases to review target levels at the refresh – particularly if more up to date data or other information is available in exceptional cases which may affect the trajectory to 2010-11 (either because it may have been overly or insufficiently ambitious).
62. Conversely, for some indicators, it is possible that partial data for 2008-09 may also be available by the time of the refresh. This may influence the setting of performance trajectories but the full 2007-08 baseline data will need to be used in calculating reward, to ensure that the incentive applies across the LAA delivery period.
63. There may be targets where baseline data is not available by the time the LAA is refreshed at the end of March 2009. Where this happens areas should try and agree a firm target at the 2009 refresh. This will have to be based upon a specified ambitious but realistic percentage improvement in performance beyond the baseline (once this is finally determined).
64. In practice, the precise data used to form the baseline will need to be agreed for each target. This has to reflect the method used to gather data to support the indicator. In a few cases, this may not necessarily cover a financial year. Figure 7 below provides some examples. As far as practicable we wish to ensure that baseline data is gathered before the target is finalised to ensure performance during the baseline period is unbiased. We would be interested to hear of indicators where partners consider that this general principle should not apply.

Figure 7

| Indicator | Data gathered | Suggested baseline for reward calculation | Reward entitlement to be determined by reference to a target for: |
|---|---|---|---|
| Indicators where data is reported in financial years. | Data reported in financial years based upon quarterly or other reports. | Year ending 31 March 2008 | Year ending 31 March 2011 |
| Indicators using the Places Survey to gather data | Two surveys one in autumn 2008 and another in 2010 | 2008 survey data | 2010 survey data (available in 2011) |
| NI 47 Road casualties | Data reported for each calendar year | Three year rolling average ending 31 Dec 2007 | Three year rolling average ending 31 Dec 2010 |
| NI 75 GCSE achievement | Data reported for each academic year based on summer exams | Summer 2007 | Summer 2010 |
| NI 112 under 18 conceptions | Data reported for each calendar year (but subject to 14 month delay) | Year ending 31 Dec 2007 | Year ending 31 Dec 2010 |
| NI 117 NEET | Data collected monthly but data for Nov to Jan used to monitor targets | Three months starting Nov 2007 | Three months starting Nov 2010 |
| NI 151-153 | Data reported quarterly – the use of data to May is recommended by DWP | Data to May 2008 | Data to May 2011 |

65. **Reasons for this proposal** – to work correctly the reward model requires a clear and unambiguous baseline determining the starting point for improvement to be rewarded over the course of the LAA. The baseline and target must use data gathered in the same way over the same length of time. The reward grant is designed to incentivise performance across the three years of the LAA, to March 2011. So the baseline chosen should be the most recent data before targets are concluded.

Question 4

66. ***Do you agree with the proposal above for determining the baseline to be used for calculating entitlement to PRG?***

What data should be used in agreeing the targets to be used to calculate reward?

Proposal 5

67. **The final set of performance data gathered prior to the end of the LAA agreement in March 2011 (even though this may be reported later) will be used for the purpose of calculating reward.**
68. **Reason for this proposal** – As explained above, data to measure performance is gathered and reported across the National Indicator Set in a variety of ways. It is therefore essential to agree the exact data set to be used to judge final performance when calculating entitlement to PRG. This will happen when LAA improvement targets are finalised at the first annual review and refresh in early 2009. This data will usually be the same as the final year milestone target in the LAA and will correspond as exactly as possible to the data used for the baseline.
69. The reward grant is designed to incentivise performance improvement over the three years of the LAA. Data to the end of the third year of the LAA will demonstrate the distance travelled from the baseline year, capturing the improvements made over three years. Using this data avoids the complications sometimes encountered in aggregating data or devising three year cumulative targets and baselines.

Question 5

70. ***Do you agree that for the purposes of determining reward entitlement the latest available performance data in the final year of the LAA should generally be used?***

Proposal 6

71. **Where publication of performance data is not available in time for the initial PRG claim to be made in 2011-12, we propose that this payment is made on the basis of average performance excluding the delayed data, with an appropriate adjustment made in the second and final claim in 2012-13.**

72. **Reasons for this proposal** – As in the past PRG will be claimed in two instalments, in 2011-12 and 2012-13. Across the NIS data reporting timetables will generally allow for an accurate initial claim for PRG to be submitted in the winter of 2011-12, but there may be a couple of instances where this is not the case. If this happens and in line with previous practice, the fairest solution appears to be to pay the initial claim based on overall average performance excluding the delayed data. The second claim for PRG in 2012-13 will be based upon a complete set of data for all improvement targets. The amount of PRG paid as a first instalment will be deducted from the total PRG payable and the remainder paid as a second instalment.
73. This adjustment appears necessary only on two indicators (NI112 – teenage conceptions and NI186 – CO₂ emissions), but we would welcome comments if there are any other indicators affected by such reporting delays.

Question 6

74. ***Do you agree that the second instalment of PRG should be adjusted if a complete set of performance data is not available when claiming the first instalment during 2010-11?***

Section 6: Determining entitlement to Working Neighbourhoods Fund reward

75. **Background** – In *The Working Neighbourhoods Fund*¹⁰ the Government announced that in addition to the up-front WNF element of the new Area Based Grant, Communities and Local Government allocated £50m to deprived areas that have agreed relevant LAA targets. This WNF reward will provide an additional incentive, paid during the lifetime of the LAA, for areas to take action to help tackle worklessness and its drivers in some of the most deprived parts of the country.
76. The Government has previously announced that reward will be based on performance in the first two years of the LAA (thus payment will be based on progress towards the 2009-10 milestone targets). Payments of WNF reward will take account of performance across all of the up to 35 LAA targets – but greater weight will be attached to those identified as being relevant to worklessness.
77. In each of the areas eligible for additional reward, the GO and local partnership will have agreed through the LAA negotiations which of the indicators and targets contained in the LAA are most relevant to worklessness and its main causal drivers of in the locality.
78. Half of the additional reward available to the local area will be dependent upon performance against the targets which the Government Office and local partnership agree are relevant to worklessness; the other half will be dependent upon performance across the remaining LAA targets.
79. In each area this basket of indicators includes at least one of the three direct measures of worklessness. The three direct measures of worklessness are NI153 (Working age people claiming out of work benefits in the worst performing neighbourhoods); NI 151 (Overall employment rate) and NI 152 (Working age people on out of work benefits).
80. The GO and the local partnership may also include other indicators which address the main causal drivers of worklessness in the particular locality, including:
 - NI163 Working age population qualified to at least Level 2 or higher.

- NI117 16-18 year olds who are not in education, employment or training (NEET).
- NI118 Take up of formal childcare by low-income working families.
- NI173 People falling out of work and on to Incapacity Benefit.

Proposal 7

81. **In determining entitlement to WNF reward we propose using the same model and thresholds as the main reward scheme,** except for the weighting towards a basket of agreed indicators.

82. Figure 8 provides an example of how this would work in practice for a typical area eligible for £800,000 in WNF reward. Entitlement to half the WNF reward will be determined by reference to average performance on the identified worklessness indicators; half in relation to the remaining indicators.

83. Our expectation is that the WNF reward will be claimed and paid toward the end of the 2010-11 financial year. Given this, we propose that the same principles for determining the dataset to be used to measure performance will apply as set out in section 5 above, but applied a year earlier. This means that if data for 2009-10 on an indicator is not available before the payment of the WNF reward element, this data would be excluded from the calculation of reward.

| Figure 8 | | |
|---------------------------------|--|---|
| | Average performance against 2009-10 targets calculated using the reward spreadsheet – for example | Consequent amount of WNF reward payable with threshold set at 60% across the relevant indicators |
| Worklessness indicators | 87% | <i>Would earn 68% of £400,000 = £272,000</i> |
| Remaining indicators | 94% | <i>Would earn 85% of £400,000 = £340,000</i> |
| Total WNF reward payable | | <i>£612,000</i> |

The proportion of PRG, earned in the third column is determined by the scale at figure 6.

84. **Reasons for this proposal** – We favour the simplicity inherent in an approach which essentially uses the same system for calculating reward across both LAA based reward schemes, except for the 50 per cent

weighting toward a small basket of indicators to do with tackling the causal drivers of worklessness. The reasons for setting the parameters for determining entitlement under the main LAA reward scheme apply equally to the WNF scheme.

85. This proposal risks some areas receiving WNF reward even though progress toward achieving targets on individual direct measures of worklessness (NI 151, 152 and 153) is less than the 60 per cent threshold. But this would imply strong performance on the other targets included in the basket (such as NI 163 on skills or NI117 on NEET) which could well signify good progress towards developing a coherent and well evidenced local strategy for tackling worklessness to the end of the second year of the LAA.
86. Our goals in designing the new reward model (paragraph 21) mean we are reluctant to impose additional thresholds – such as requiring a minimum level of performance on the targets directly related to worklessness to trigger the reward. We believe that this would add to the complexity of the system and, if the criteria were seen as too restrictive, could potentially be a disincentive.

Question 7

87. **Do you agree that the standard model for calculating LAA reward should also be applied to the WNF reward and that this will provide the right balance between incentivising the actual reduction of worklessness in the most deprived communities and developing a coherent local strategy to achieve this goal?**

Section 7: Final points

Local authorities and their partners will have a wide range of views on the specific proposals outlined above but we also want to provide an opportunity to gather any other views on the proposed reward model. Reward Grant will be paid to local authorities as the accountable body within an area as an unringfenced grant. We know that this grant is very often put to use fostering further improvements in local performance. We would therefore welcome views on how areas have used this money in order to inform good practice and future development.

Question 8

Are there any other views you would like us to take account of in finalising the reward model?

Annex 1: Example of how PRG entitlement would be calculated

The table below provides an illustration of how the PRG calculation would work in practice, across a limited set of indicators *used purely for illustrative purposes*.

| Indicator | Baseline | Target | Outturn performance | Performance score | Actual score used in calculation |
|---|----------|--------|---------------------|-------------------|----------------------------------|
| NI 23 – perceptions that people in an area treat one another with respect and consideration | 62% | 69% | 68% | 86% | 86% |
| NI 112 – Under 18 conception rate – percentage reduction since 1998 | 15% | 55% | 52.7% | 94% | 94% |
| NI 47 People killed and seriously injured on the roads | 143 | 104 | 99 | 112% | 100% ¹¹ |
| NI 117 – 16-18 year olds not in education, training or apprenticeship | 9.4% | 8.5% | 8.7% | 78% | 78% |
| NI 123 16+ smoking prevalence | 1650 | 3820 | 3420 | 82% | 82% |
| NI 134 Emergency bed days | 67039 | 68034 | 67421 | - | 100% ¹² |
| NI195 | 19% | 16% | 20% | -33.3% | 0 ¹³ |
| Overall average performance score | | | | | 77% |

¹¹ Where performance is better than the target, the score is reset to 100% for the reasons explained above in section 3.

¹² Good performance on this indicator is a reduction in the number but the target recognised that the absolute number was likely to increase. Unadjusted the formula at paragraph 29 above would result in the performance score being incorrectly calculated. This target has been achieved in full (i.e. performance is better than the target set) so the score calculated is reset to 100%.

¹³ Where performance is below baseline the score can be reset to 0 for the reasons explained above in section 3.

If entitlement to reward were based upon a lower threshold of 60 per cent and a scale therefore running from 60 per cent to 100 per cent an average score of 77 per cent would result in a payment of 43 per cent of the maximum PRG allocated to the area. For an area entitled to the average maximum PRG payment of £2.2m this would amount to £946,000.

N.B in practice the model calculates to four decimal places.

Annex 2: How an area's maximum amount of Performance Reward Grant will be determined

The Government will use a similar method for calculating the overall maximum PRG payable to each area as in previous reward schemes. Essentially the distribution of the £340m follows the distribution of local authority funding.

Across England the total amount of money available to each area during 2006-07 is calculated by the following sum:

- local authority Net Budget Requirement (NBR) in 2006-07 (including district budgets) plus
- the total Dedicated Schools Grant less
- any parish precepts

The total of this sum is referred to as the NBR below for the sake of brevity.

The £340m reward pot is then calculated as a percentage of the national NBR. In fact the available reward funding (£340m) is equivalent to approximately 0.54 per cent¹⁴ of the 2006-07 NBR.

Each area's maximum entitlement to PRG is then calculated as approximately 0.54 per cent of each area's NBR. In practice this data will be provided to Government Offices in the autumn of 2008 in the form of a spreadsheet. GOs will confirm with each area the total amount of PRG payable if all LAA targets are achieved.

Once the maximum amount of PRG on offer to each area is agreed the reward model will be used to determine how much is actually payable based upon average performance.

Claims for PRG will be paid in two halves during 2011-12 and 2012-13, 28 per cent capital and 72 per cent revenue.

¹⁴ Due to local government reorganisation in practice some additional work is necessary before each area's PRG entitlement can be determined.

WNF reward

As previously announced the additional £50m will be distributed between areas that are in receipt of WNF, on the basis of the authority's share of the working age population living in the most deprived Lower Layer Super Output Areas.

Annex 3: summary of questions posed in the body of the consultation document

1. *Do you agree that performance below baseline and above target should be disregarded when calculating the average level of performance across the LAA?*
2. *Do you agree that starting reward entitlement at 60% provides the best balance in terms of incentivising ambitious and consistent performance while providing a realistic level of challenge?*
3. *Do you agree it is not necessary (given the lower threshold of 60 per cent described at paragraph 47) to require areas to achieve a proportion of targets in full before they are able to earn any reward?*
4. *Do you agree with the proposal determining the baseline to be used for calculating entitlement to PRG?*
5. *Do you agree that for the purposes of determining reward entitlement the latest available performance data in the final year of the LAA should generally be used?*
6. *Do you agree that the second instalment of PRG should be adjusted if a complete set of performance data is not available when claiming the first instalment during 2010-11?*
7. *Do you agree that the standard model for calculating LAA reward should also be applied to the WNF reward and that this will provide the right balance between incentivising the actual reduction of worklessness in the most deprived communities and developing a coherent local strategy to achieve this goal?*
8. *Are there any other views you would like us to take account of in finalising the reward model?*

Annex 4: The Consultation Criteria

The Government has adopted a code of practice on consultations. The criteria below apply to all UK national public consultations on the basis of a document in electronic or printed form. They will often be relevant to other sorts of consultation.

Though they have no legal force, and cannot prevail over statutory or other mandatory external requirements (e.g. under European Community Law), they should otherwise generally be regarded as binding on UK departments and their agencies, unless Ministers conclude that exceptional circumstances require a departure.

- a. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
- b. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
- c. Ensure that your consultation is clear, concise and widely accessible.
- d. Give feedback regarding the responses received and how the consultation process influenced the policy.
- e. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
- f. Ensure your consultation follows better regulation best practice, including carrying out a Regulatory Impact Assessment if appropriate.

The full consultation code may be viewed at www.bre.berr.gov.uk/regulation/consultation/code/index.asp

Are you satisfied that this consultation has followed these criteria? If not, or you have any other observations about ways of improving the consultation process please contact

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