

Harrow Strategic Partnership Board
7th August 2008



Proposed LAA Performance Reward Grant 2008 - 2011

Purpose of Report

The purpose of this report is to update the Board on the Government's proposed performance reward grant mechanism for the new Local Area Agreement, which is currently out for consultation.

The HSP Board is requested to:

- A. Review the proposed performance reward scheme
- B. Discuss and agree any concerns that the Board would like to be raise on the consultation document

Background

In July 2008, Government published a consultation document on the proposed reward scheme for LAA's. The consultation period will run from 18th July to 26 September 2008. The document sets out consultation proposals for the new model to be used for calculating Performance Reward Grant (PGR)

Government has set aside £340 million to provide a continued financial incentive, which is equivalent to an average of £2.2 million for each area. It will be paid as 72 per cent revenue and 28 per cent capital.

Final details of the new model, taking account of responses to the consultation, will be published by Communities and Local Government Department 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?

The following methodology has been proposed for the new scheme:

- Reward will be calculated based upon average performance across the up to 35 designated LAA improvement targets agreed with Government. 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

- 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.

Detailed Proposals

Each area will be allocated a fixed amount of Performance Reward Grant as the maximum payable if all targets are achieved.

It is proposed that each area will complete a spreadsheet which will be used to calculate how much of the maximum PRG entitlement an area can earn. The spreadsheet will perform a number of calculations leading to an average performance score across the LAA for each borough and the consequent amount of PRG payable.

Average LAA Performance Score

Each LAA contains data on baselines and target levels for the three years of the LAA. 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:

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

*Performance relates to the final, audited measurement of achievement in relation to the agreed target.

The performance score on individual targets will show the proportion of the distance travelled between baseline and target e.g. 100% means the target has been achieved or exceeded, 0 means no improvement and 50% for example will mean that the performance achieved is half way between baseline and target.

The performance scores will be 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% all the reward will be payable.

Performance above target or below baseline on some targets could influence the overall average. The document therefore proposes to limit the calculation scores between 0 and 100 per cent. Therefore if the final performance exceeded the target by 120% the actual score that will be used to calculate the average performance across the agreement will be 100%. The same applies if performance has dropped and is less than the baseline, e.g. a score of – 1.5% will revert to 0%.

The reason for this cap is that it would then be possible for 17 targets of the 35 to achieve 200 per cent and the remainder could score 0. The partnership however would still receive the full reward payable. This would significantly skew the overall average calculation and would not provide an effective incentive for performance across the LAA.

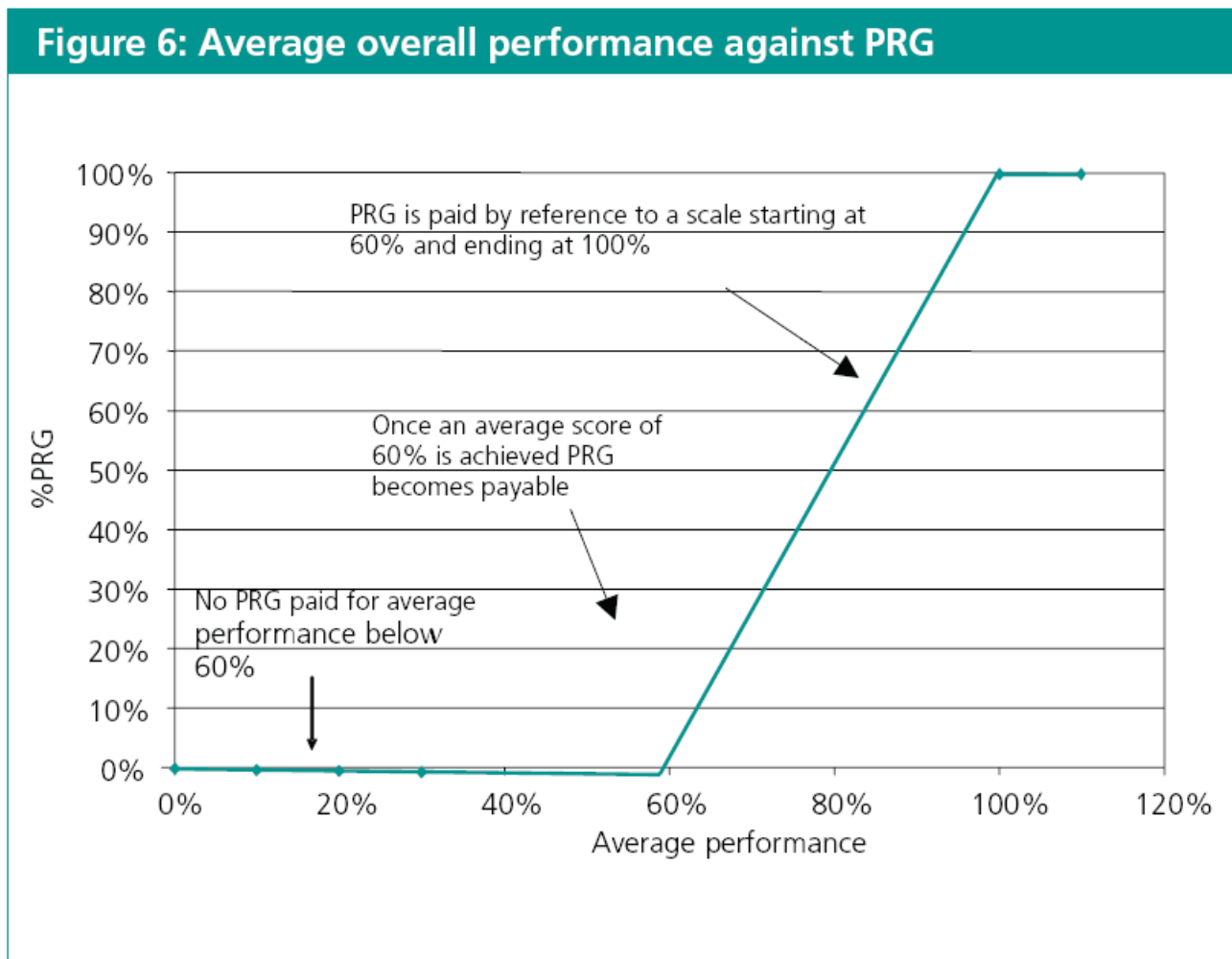
Minimum Threshold

The document proposes a minimum threshold of 60 per cent. This means that the partnership needs to achieve at least an overall performance rating of 60% before it is eligible for any performance reward grant (PRG). Under the past reward process for local area agreements, it was possible for some PRG to be payable where performance on average was below the 60

per cent level. This was because reward was calculated only in relation to individual targets and not on the overall performance of the agreement.

It is not proposed for there to be a required proportion of targets that need to be achieved in full before any reward can become payable.

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



Calculation for PRG entitlement against overall performance

To work out the proportion of PRG payable in light of the average performance the following calculation will be performed.

$$\frac{\text{Difference between LAA's average performance and the lower threshold}}{\text{Difference between lower and upper threshold}} \times 100$$

Example - 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 PGR allocated. For an area entitled to the average maximum PRG payment of £2.2m this would amount to £946,000.

$$\frac{77-60 = 17}{100-60 = 40} \quad 43\%$$

Data to be used to determine reward entitlement

Two forms of data are proposed for calculating reward entitlement. One set (for baseline) which will relate to performance prior to final agreement of the targets and another during 2010-11, usually the final milestone target agreed.

The document suggests that 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.

The consultation document suggests that it is expected that 2007-08 baseline data should be used. It states that it will be necessary to update the baseline data, if the original negotiation (2008) was based upon the 2006-07 data.

Implications of the Proposed Reward Scheme

1. It is suggested to split the PRG by 28% capital and 72% revenue. This restricts the potential use of the performance reward grant.
2. The understanding of the partnership was that the indicators, once agreed by GOL during the first negotiation, were final unless stated in the agreement i.e. deferred indicators and target setting. The consultation document however, suggests that the baseline figures will need to be revised during the first year refresh if the baselines were based on 2006/2007 data. This applies to at least 2, of our 34 indicators. It is not clear from the consultation document what implications this would have on our set targets, e.g. if our baseline increased, which would then decrease the amount of stretch achieved between our final year target and the baseline would we then be expected to revise our targets?
3. There is a concern that partnerships, which have less than 35 indicators in their agreement, have a potentially unfair advantage in securing PRG. This is due to a smaller number of indicators to focus on. The proposed PRG does not take into account this variance.

Appendix 1

A SUMMARY OF THE QUESTIONS POSED IN THE BODY OF THE CONSULTATION DOCUMENT INCLUDE:

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 ambitions 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) 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 2011-11?
7. Are there any other views you would like us to take account of in finalising the reward model?