

Leicester
City Council

WARDS AFFECTED:
Corporate issue – All wards

CABINET

4th April 2005

**SECOND GENERATION LOCAL PUBLIC SERVICE AGREEMENT:
DISTRIBUTION OF REWARD GRANT**

Report of the Corporate Director of Housing

1 Purpose of Report

- 1.1 This report seeks the agreement of Cabinet on the principle of how the performance reward grant relating to the council's second generation Local Public Service Agreement (LPSA) will be managed and distributed.
- 1.2 National experience from the first round of LPSAs has shown that it is advisable to agree the principles of how the reward grant will be distributed prior to the LPSA being signed off.

2 Summary

- 2.1 A Local Public Service Agreement is an agreement between central government and local authorities designed to drive improved performance of public services in the locality, and critically, to deliver improved outcomes for local people. To provide an incentive for improved performance, an LPSA includes the provision of a pump-priming grant and a significant reward grant (payable on successful achievement of improved outcomes). Government will also negotiate the granting of freedoms and flexibilities to support the delivery of an LPSA.
- 2.2 In March of this year Corporate Directors agreed that the Council should enter into a 2nd Generation LPSA. It was also agreed that the Council's Corporate Plan and the Community Plan should provide the focus for the identification of areas for improved performance. Following this, a call for initial proposals was made through Council departments and the Leicester Partnership. These calls led to the submission of over 60 initial proposals. These initial proposals have now been narrowed down to 12 'priorities for Improvement' that have been submitted to the Office of the Deputy Prime Minister (see Appendix One).
- 2.3 For this second generation LPSA the pump-priming grant will be approximately £1 million. The maximum reward grant, based on all targets being met, would be approximately £8.9 million.

3 Recommendations

3.1 Cabinet are asked to:

- i) Decide the detailed allocation of reward grant at the end of the agreement.
- ii) Agree that in providing information for Cabinet to make this decision the Council will work with partners in the context of Leicester Partnership and its sub-groups to identify:-
 - How to reward high performance, particularly where this may not be able to be identified until well into the process.
 - How to reimburse partners for investment (above and beyond the pump priming grant) they make in target achievement.
 - How to achieve optimum value for money for public funding.
- iii) Note that the awarding of this significant reward grant will be dependent on the extent to which targets are met. A high level of commitment, co-operation and potentially, investment above and beyond the pump-priming grant, will be required if we are to be successful in securing this grant.

4 Financial & Legal Implications

4.1 **Freedoms and Flexibilities**

As part of the LPSA the government will grant freedoms and flexibilities to enable councils to deliver targets more easily. The government will negotiate with the council on the freedoms and flexibilities and not all will necessarily be granted.

4.2 **Pump Priming Funding**

The PSA comes with approximately £1 million in pump priming funding. The allocation of this grant is subject to the outcome of the negotiation with government. The pump priming funding is designed to enable the stretch targets to be achieved more efficiently and effectively and will supplement existing resources committed to respective services.

4.3 **Performance Reward Grant**

A Performance Reward Grant of approximately £8.9 million is potentially available to the council. The reward grant will be paid in two equal installments in the financial year following that in which the end date of the Local PSA falls, and the next financial year. Half of each installment of the grant will be paid as a capital grant, and half as a revenue grant. The grant is normally divided equally between the 12 areas for service improvement. To receive the full grant the authority must achieve 100% of the improvement in performance. If it achieves less, the grant is scaled down, pro rata, but no grant is paid if the authority achieves less than 60% of the improvement in performance. The grant is payable in the two financial years following the end of the PSA period, which for the 2nd generation is likely to be between 2 ½ and 3 ½ years. (Stephen Charlesworth)

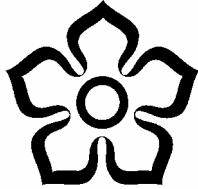
4.4 **Legal Implications**

- 4.4.1 There are no legal implications arising directly from this report. Legal Services will be consulted throughout the period of detailed negotiations leading to the signing of the LPSA. (Peter Nicholls)

5 Report Author
Adam Archer
LPSA Project Manager
Extension: 6091

DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)



Leicester
City Council

WARDS AFFECTED: Corporate issue – All wards

RESOURCES & EQUAL OPPORTUNITIES SCRUTINY
COMMITTEE
CABINET

17th March 2004
4th April 2004

**SECOND GENERATION LOCAL PUBLIC SERVICE AGREEMENT:
DISTRIBUTION OF REWARD GRANT**

Report of the Corporate Director of Housing

SUPPORTING INFORMATION

1. **BACKGROUND**

- 1.1 Government launched the first round of LPSAs in 2001 following an earlier pilot scheme, with the City Council entering into agreement with government in July 2002. This first round comes to an end in March 2005.
- 1.2 In December 2003, the government published guidance on the 2nd Generation of LPSAs. The 2nd generation is designed to build on the overall success of the first round and learn from some of the less successful aspects.
- 1.3 The main characteristics of the first round are retained for the 2nd Generation: an agreement covering (usually) 12 priorities for improved performance; a financial incentive (c. £1m) and reward for success (c. £8.9m) and; the opportunity to negotiate freedoms and flexibilities with government.
- 1.4 However for the 2nd Generation, increased emphasis has been placed on: meeting local (rather than national) priorities; a focus on 'real world' outcomes (rather than inputs, processes or outputs); partnership working (particularly through the Local Strategic Partnership); better partnering by central government and regional offices and; the opportunity to negotiate wider area and longer term agreements.
- 1.5 The pump-priming grant is paid to the Council no later than the financial year following that in which the agreement is signed (2005/6) and can be utilized over the life-time of the agreement, likely to be between 2 ½ and 3 ½ years. The reward grant will be paid in two equal installments in the financial year following that in which the end date of the Local PSA falls, and the next financial year. Half of each installment of the grant will be paid as a capital grant, and half as a revenue grant.

2. **REPORT**

- 2.1 The Council will need to specify how the pump-priming grant will be used in the LPSA. The Council will be responsible for determining how the reward grant is distributed / spent. Conditions protecting the proper use of public funds will apply.
- 2.2 For Leicester's first round LPSA, Cabinet agreed that the capital element of the performance reward grant be retained by the council, the use to be determined against "corporate" priorities as part of the capital programme process. The revenue element of the performance reward grant would be allocated directly to lead departments where the Council was solely responsible for delivering targets (where more than one department is involved then grant should be allocated based on actual performance). For the cost efficiency target the money is retained corporately and the use be determined as part of the council's corporate budget strategy (there is no cost effectiveness target in the second generation LPSA). Partners will receive a proportion of the grant where they deliver targets (in part or whole).
- 2.3 However, there are a number of options as to how the reward grant can be distributed. Indeed there were a wide variety of different methods adopted by Local Authorities in the first round of LPSAs, for example:
- West Sussex agreed with partners that any reward grant would be paid into a 'community chest'.
 - Barnsley agreed that that the reward grant would be used in support of community plan priorities. This would be determined through consultation with Local Strategic Partnership.
 - Bracknell Forest agreed that the first call on the reward grant would go to re-pay any investment made (above and beyond the pump-priming grant) in order to meet the LPSA targets.
- 2.4 The main change from the first round of LPSAs likely to impact on the distribution of reward grants is the increased emphasis on partnership working. Government will need to be convinced that our LPSA has a sufficient level of partner involvement. In most, if not all cases, partners will expect a fair share of reward grant if they are going to be involved in contributing to the delivery of targets.
- 2.5 The increased emphasis on outcomes could also present some challenges in so far as inputs from one department or agency can contribute to outcomes normally associated with another department or agency (e.g. participation in sporting / physical activities contributing to health outcomes such as reduced coronary heart disease and obesity). In such cases it is suggested that the reward grant be linked to those parties delivering the improved services / inputs.
- 2.6 The following broad options for the distribution of the reward grant for Leicester's second generation LPSA were suggested to stimulate debate:
- (i) Adopt the same approach as for the first round (i.e. retain capital element for corporate capital programme and distribute revenue element to departments and partners based on contribution towards

the meeting of targets).

- (ii) Distribute the entire reward grant (capital and revenue) to departments and partners based on contribution to performance.
- (iii) The entire reward grant is retained by the Council and used in support of corporate priorities at the time it is paid.
- (iv) The entire reward grant is ring-fenced for use in support of community plan / strategy priorities at the time. This could be agreed with Leicester Partnership and potentially paid over (at least in part) to partners.

2.7 Consultation on this issue with officers and partners responsible for developing potential targets for Leicester's 2nd Generation LPSA, senior managers of the Council and the Leicester Partnership Co-ordinating Group has been undertaken. From this exercise a number of common views have emerged, these are detailed below.

2.8 Given that central government offer a reward grant through an LPSA as a means of incentivising improved performance and outcomes, it was widely recognised that, at least in part, the reward grant should be distributed to those service areas and partners who have directly contributed to improvement. However, it was noted that not all targets will be equally demanding and this needs to be reflected in how performance is rewarded.

2.9 It is acknowledged that the amount of pump-priming grant associated with an LPSA is not sufficient on its own to meet the required level of improvement. In the light of this, it was recognised that in distributing the reward grant consideration should be given to reimbursing additional investment made by those involved in driving up performance.

2.10 The LPSA reward grant was also seen as presenting an opportunity to promote collaboration between the Council and partners around shared priorities at the time of receipt.

2.11 It was also noted that underlying any decisions on how the reward grant is distributed, there is an imperative to ensure that we achieve optimum value for money for public funding

3. CONCLUSION

3.1 The reward grant attached to the successful delivery of targets in the 2nd generation LPSA is significant.

3.2 In determining the principles for how the grant will be distributed there are a number of considerations based on our own experience in the first round and the changes introduced by government for the second generation. Key amongst these are: reflecting the contribution of partners to the delivery of targets and the wider role of the Leicester Partnership in supporting the LPSA; the case for using the reward grant to incentivise those responsible for delivering targets, reimbursing any investment above and beyond the pump priming grant and sustaining improvements; and the opportunity to use the

grant to support new or emerging shared priorities at the end of the LPSA period.

4. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

4.1 Financial Implications

4.1.1 Freedoms and Flexibilities - As part of the LPSA the government will grant freedoms and flexibilities to enable councils to deliver targets more easily. The government will negotiate with the council on the freedoms and flexibilities and not all will be successfully granted.

4.1.2 Pump Priming Funding - The PSA comes with approximately £1 million in pump priming funding. The allocation of this grant is subject to the outcome of the negotiation with government. The pump priming funding is designed to enable the stretch targets to be achieved more efficiently and effectively and will supplement existing resources committed to respective services.

4.1.3 Performance Reward Grant - A Performance Reward Grant of approximately £8.9million is available to the council. The reward grant will be paid in two equal installments in the financial year following that in which the end date of the Local PSA falls, and the next financial year. Half of each installment of the grant will be paid as a capital grant, and half as a revenue grant. The grant is normally divided equally between the 12 areas for service improvement. To receive the full grant the authority must achieve 100% of the improvement in performance. If it achieves less, the grant is scaled down, pro rata, but no grant is paid if the authority achieves less than 60% of the improvement in performance. The grant is payable in the two financial years following the end of the PSA period. (Stephen Charlesworth)

4.2 Legal Implications

4.2.1 There are no legal implications arising directly from this report. Legal Services will be consulted throughout the period of detailed negotiations leading to the signing of the LPSA. (Peter Nicholls)

4.3 Other Implications

OTHER IMPLICATIONS	YES/NO	PARAGRAPH REFERENCES WITHIN SUPPORTING PAPERS
Equal Opportunities	Yes	Appendix One (all proposals)
Policy	No	
Sustainable and Environmental	Yes	Appendix One (proposal 5).
Crime and Disorder	Yes	Appendix One (proposal 7, 8 and 9)
Human Rights Act	No	
Elderly / People on Low Income	Yes	Appendix One (Proposals 6 and 12).

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5. RISK ASSESSMENT MATRIX

Risk	Likelihood L/M/H	Severity Impact L/M/H	Control Actions (if necessary/or appropriate)
1. Government may not enter into agreement with the Council if it is felt that there is insufficient partnership involvement.	L	H	Ensure our approach to the distribution of the reward grant does not act as a disincentive to partner involvement.
2. We may fail to deliver the required performance improvements and as such miss out on all or part of the reward grant	M	H	Ensure that we negotiate challenging but achievable targets for service improvement and ensure there is adequate incentive to deliver improvements.

L - Low

M - Medium

H - High

L - Low

M - Medium

H - High

6. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

Cabinet – ‘Public Service Agreement – Payment of Performance Reward Grant’ (3.11.03)

Corporate Directors’ Board – ‘Second Generation of Local Public Service Agreements’ (24.2.04)

Cabinet – ‘Second Generation Local Public Service Agreement: Shortlist Of Proposals’ (6.9.04)

7. CONSULTATIONS

Consultee	Date Consulted
Lead officers and departmental co-ordinators	3.12.04
Financial Strategy (Steve Charlesworth)	3.12.04
Legal Services (Peter Nicholls)	3.12.04
Strategic Resources Group	18.1.05
Corporate Directors’ Board	25.1.05
Leicester Partnership Co-ordinating Group	9.2.05

8. REPORT AUTHOR

Adam Archer
LPSA Project Manager
Extension: 6091
Email: adam.archer@leicester.gov.uk