

Meeting: Enterprise Board

Date: 10 December 2008

Report Title: Local Area Agreement Refresh

Report of: Karen Galey (Head of Economic Regeneration)

Purpose

To inform the Enterprise Board about the process for agreeing Haringey's refreshed Local Area Agreement.

To get the Enterprise Board's approval to renegotiate the employment related targets in the Local Area Agreement.

Summary

The Local Area Agreement (LAA) refresh presents an opportunity to renegotiate existing National Indicator (NI) targets with the Government Office for London (GoL).

It is proposed that a revised target for NI 153 (Working age people claiming out of work benefits in the worst performing neighbourhoods) to limit the increase in the out of work benefits claim rate to 3.9 percentage points is submitted to GoL.

At the time of writing this report data for NI 171 (New business registration rate) remained unavailable.

It is proposed that a revised target to support 70 long-term Incapacity Benefit (IB) claimants into sustained employment is submitted to GoL.

The Learning and Skills Council (LSC) has submitted baselines and targets (up to 2009/10) for the two local skills indicators.

It is proposed that for the Better Off Calculation (BOC) local indicator, 400 BOCs will be completed for each of the three LAA years.

The final deadline for agreeing the refreshed LAA is **2 March 2009**.

Recommendations

1. That the Enterprise Board notes the timetable for completing the LAA refresh process.
2. That the Enterprise Board agrees the revised targets that will be submitted to GoL.

Financial/Legal Comments

N/A

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1. Introduction

1.1 Haringey's LAA covering the period 2008/09 to 2010/11 was formally signed off by Government in July despite it being operational from April 2008.

1.2 A number of NIs included in Haringey's LAA were deferred as data to set baselines and three year targets were unavailable; this includes NI 171. There were also a number of local indicators for which baselines and three year targets were not set; these include the two local skills indicators and the BOC indicator.

1.3 The LAA refresh process will require baselines and targets to be set for all the 35 NIs included in Haringey's LAA and the additional local indicators. These targets will be locked down for the three year LAA period and will be the basis upon which performance calculations will be made to determine LAA reward grant.

2. Revising and setting LAA baselines/targets

2.1 The LAA refresh also presents an opportunity to renegotiate existing NI targets. In terms of the NIs that the Enterprise Board are responsible for, a revised target for NI 153 will be submitted.

2.2 The current target for NI 153 is a 4.7 percentage point reduction in the out of work benefits claim rate by 2010/11. The Enterprise Board is asked to approve the submission of a revised target to limit the increase in the out of work benefits claim rate to 3.9 percentage points by 2010/11. This target is based on an assumption that the number of people who are claimant count unemployed in the United Kingdom will increase to 2m by 2010. This was one of four target options derived and a paper setting out the proposed target methodology is appended to this report.

2.3 At the time of writing this report, data for NI 171 remained unavailable although it is expected that data will be available before the end of the year to set a baseline and three year targets.

2.4 The current LAA stretch target to support long-term IB claimants into sustained employment has proved challenging. So far only 12 long-term IB claimants have been supported into sustained employment against a target of 180 to be achieved by March 2010. Remedial action has been implemented, including explicit targets around supporting IB claimants into sustained employment being inserted into the delivery contracts for Haringey Guarantee providers and the introduction of a Condition

Management Programme, delivered by the Teaching Primary Care Trust. However, despite this remedial action, achieving the target will remain a significant challenge, which will become harder considering the current economic climate. For these reasons, the Enterprise Board is asked to approve the submission of a revised target to support 70 long-term IB claimants into sustained employment by March 2010. This figure was derived principally from estimates that it costs, locally, approximately £10k to support a long-term IB claimant into sustained employment.

2.5 For the BOC local indicator the Enterprise Board is asked to approve a target to achieve 400 BOCs for each of the three LAA years.

2.6 The LSC have submitted baselines and targets up to 2009/10 for the two local skills indicators. Targets have not been set for 2010/11 as the LSC will, at this time, have been replaced by the Skills Funding Agency. The baselines and targets are set out below:

Adults achieving a Skills for Life qualification and entered employment and those gaining a qualification in the workplace

- **Baseline:** qualifications - 150; jobs - 0; qualifications in the workplace – 180.
- **2008/09 target:** qualifications – 350; jobs – 140; qualifications in the workplace – 600.
- **2009/10 target:** qualifications – 420; jobs – 140; qualifications in the workplace – 810.

Adults achieving a full level two qualification and entered employed and those gaining a qualification in the workplace

- **Baseline:** qualifications - 740; jobs - 0; qualifications in the workplace – 400.
- **2008/09 target:** qualifications – 740; jobs – TBC; qualifications in the workplace – 900.
- **2009/10 target:** qualifications – 740; jobs – TBC; qualifications in the workplace – 1,800.

3. LAA refresh timetable

3.1 An overview of the timetable in terms of getting the LAA refresh agreed is presented below:

- **19 January 2009** – 1st draft of refreshed LAA submitted to GoL.
- **16 February 2009** – Negotiations completed with GoL in order to meet report deadlines
- **2 March 2009** – Final refreshed LAA submitted to GoL.

3.2 A more detailed timetable is appended to this report.

Appendix 1: LAA refresh timetable

Work area	Timescale	Date achieved	Lead officers	Comment
Inform thematic lead support officers about the proposed LAA refresh arrangements (subject to GOL confirmation) via HSP co-ordinators groups	September 08	18/9/08	Louisa Aubeeluck	Co-ordinators to identify key areas of risk to re-open negotiations on
Draft list of all targets within current LAA that need finalising, plus identification of targets for potential renegotiation	October 08	10/10/08	Louisa Aubeeluck	Draft list forwarded to performance team for confirmation and comment
Open discussions locally about targets that may need revising, by exception only. Email targets leads and theme leads with the requirements of the refresh and their areas for action over the coming months.	October 08		Louisa Aubeeluck	
Email GOL list of targets we would like to re-open negotiations on and request approval and conformation through GOL leads for go-ahead on these	October 08		Louisa Aubeeluck	
LAA Target leads to set out proposals for 3 year targets for deferred indicators and to set out business case for revising targets to designated national indicators. Target leads to seek target sign off through their directors, appropriate cabinet members and theme board chairs	November December 08		Target leads	
Liaise with GOL on initial proposed targets to be put forward	Ongoing - Dec /Jan 09		Louisa / target leads	
Draft report and present to PMG seeking approval of refreshed LAA to be submitted	January 09		Louisa / Mary Connolly	
Submission to GOL of partnerships revised LAA; detailing any revised year 2 and 3 targets for designated indicators, by	19 th January		Louisa Aubeeluck	

exception only, and; proposed targets for year two and three for the deferred indicator set	2009			
Place survey results submitted to CLG. 2008 results to form baseline for perception indicators	30 th January 2009		Catherine / Richard	
16 attainment targets for academic year 2009 to be submitted to National Strategies	30 th January 2009		Sharon Shoesmith	
Liase with GOL and GOL Theme Leads to agree deferred targets and revision to designated non deferred targets, by exception only	20 th Jan – 28 th Feb 09		Louisa and Target Leads	
Present to PMG/HSP final refreshed LAA for sign off –also need to go through Cabinet and full council reporting structures	Feb/ Mar 09 (dates TBC)		Mary Connolly	
Final submission to GOL of refreshed LAA for sign off	2 nd March 09		Louisa	
Late March GOL submit adopted LAAs to Secretary of State for sign off	31/3/09		GOL	

Appendix 2: NI 153 revised target methodology

Introduction

Included in Haringey's Local Area Agreement (LAA) is a target to reduce the out of work benefits¹ claim rate in the worst performing neighbourhoods by 4.7 percentage points by 2010/11 (National Indicator 153 (NI 153)). The upcoming LAA refresh presents an opportunity to renegotiate this target. This opportunity is timely considering the current turbulence that is engulfing the global economy. There are increasing signs that the destruction left by the credit crunch is now impacting on the real economy with the labour market being a major victim. The figures below set out the story so far:

- For the three months to September 2008, UK ILO (International Labour Organisation)² unemployment hit 1.82 million, the highest level for 11 years and up by 182,000 over the year.
- The UK employment rate currently stands at 74.4 per cent down 0.4 percentage points from the previous quarter and down 0.2 percentage points over the year.
- The UK claimant count (seasonally adjusted) was 980,900 in October 2008, up 36,500 compared to the previous month and up 154,800 over the year. This is the highest the claimant count has been in 7 years.
- In the three months to October 2008 there were 589,000 vacancies in the UK, down by 40,000 over the previous quarter and down 83,000 over the year.
- The Chartered Institute of Personnel and Development has reported that the balance between the number of new employers expecting to increase staff in the next 3 months and those expecting to cut staff fell from +41 a year ago to +2 this autumn.
- In Haringey the claimant count (not seasonally adjusted) was 6,753 in October 2008, up 67 compared to previous month and up 33 over the year. Since May 2008, the claimant count in Haringey has risen by 7.6 per cent (or 479).

The indications are that conditions will continue to deteriorate with many economists forecasting that ILO unemployment could increase to as high as 3m and the number of people who are claimant count unemployed could rise to 2.5m by 2010.

The International Monetary Fund (IMF), European Commission (EC) and the Bank of England (BoE) are all predicting a harsher than expected recession in the UK. More specifically: the IMF estimates that the UK will be the worst hit developed country in 2009 with the economy shrinking by 1.3 per cent in 2009; the EC estimates that the UK will suffer the deepest recession of the mature European Union member states with the economy contracting by 1 per cent and growing by only 0.4 per cent in 2010; and BoE Governor, Mervyn King, recently predicted that the economy will fall back by 2 per cent in the first half of 2009 with growth returning towards the end of the year.

¹ Out of work benefits include Job Seekers Allowance, Incapacity Benefits, Income Support and Pension Credit

² The ILO definition of unemployment captures people who: have looked for work in the last 4 weeks and are available to start work in the next two weeks, and people who are waiting to start a new job after a successful application. As a consequence this a wider measure than the number of people claiming unemployment related benefits.

The recent falls in sterling against the euro (€1.1890 at Wednesday 12 November – an all time low) and dollar (below \$1.50 against recent highs of over \$2) add further credence to the view that the prospects for the UK economy look decidedly gloomy.

Local areas will not be immune from this economic deterioration and it is in light of this that a reduction in Haringey's NI 153 target of a 4.7 percentage point reduction should be sought. This is particularly important considering that Haringey, as a local area, will have little control over national and global economic forces. The sections below set out the model used to estimate a set of revised target options.

The revised target model

The baseline for NI 153 is based on a four quarter average covering the period August 2006 to May 2007, giving a rate of 28.5 per cent³. Subsequent data show that this rate fell to 26.8 per cent over the period August 2007 to May 2008.

Four scenarios have been created based on the number of people who are claimant count unemployed in the UK increasing to 1m, 1.5m, 2m or 2.5m by 2010. To work out how this could impact on Haringey's worst performing neighbourhoods an average share of the four possible national claimant count totals is calculated⁴. This is based on shares observed since May 2008 (i.e. since Haringey's claimant count numbers started to increase). The results of this exercise are set out in the table below:

Table 1: Worst performing neighbourhoods share of UK claimant count, May 2008 to October 2008

Area	Number of claimants						Share of UK claimants						Average share
	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	
NI 153 SOAs	2,212	2,219	2,259	2,273	2,317	2,365	0.002659	0.002656	0.002593	0.00246	0.002453	0.002437	0.002543
United Kingdom	831,851	835,317	871,288	923,876	944,716	970,279	100	100	100	100	100	100	N/A

The observed average share ratio of 0.002543 is applied to the scenario totals of 1m, 1.5m, 2m and 2.5m, which result in the following:

Table 2: Estimated claimant count numbers in the worst performing neighbourhoods, 2010 (unadjusted)

Number of people claimant count unemployed			
1m	1.5m	2m	2.5m
2,543	3,815	5,086	6,358

However, the claimant count data used in this exercise are based on the monthly data published by the Office for National Statistics (ONS). The data used for measuring NI 153 are based on quarterly benefits data published by the Department for Work and Pensions (DWP). The data sources produce different results mainly because the data is collected on different days in the month. The figures shown in Table 2 therefore have to be adjusted to take account of this

³ It has been announced that pending clarification of the precise methodology used to measure NI 153 data for this indicator has been withdrawn. The data available before withdrawal are being used in this model.

⁴ These figures are based on the non-seasonally adjusted national totals to allow for comparisons with smaller areas. The national figures reported for October 2008 will therefore differ from those reported earlier in this paper

difference. This is done by calculating the average difference between the data observed on an annualised basis between May 2005 and May 2008. The results of this exercise are shown in the table below:

Table 3: Average difference between ONS and DWP claimant count figures, May 2005 to May 2008

	Number of claimants				Difference (%)				Average difference
	May-05	May-06	May-07	May-08	May-05	May-06	May-07	May-08	
ONS figures (monthly)	2,838	3,040	2,583	2,212	5.501859	6.47986	8.529412	0.31746	5.2071
DWP figures (quarterly)	2,690	2,855	2,380	2,205	N/A	N/A	N/A	N/A	

The observed average difference ratio of 5.2071 is then applied to the figures in Table, which gives the following:

Table 4: Estimated claimant count numbers in the worst performing neighbourhoods, 2010 (adjusted)

Number of people claimant count unemployed			
1m	1.5m	2m	2.5m
2,411	3,616	4,821	6,027

These figures are only based on people who are claimant count unemployed and doesn't include people assigned to the other key benefit claim groups that are included in the definition of NI 153: Incapacity Benefits, lone parents (claiming Income Support) and others on income related benefits (including Income Support and Pension Credit). However, the most recent data available covering these groups is up to May 2008 (i.e. before the labour market began to contract). Therefore it is assumed that these benefit claim levels will remain stable for the remainder of the LAA period with the estimated increased claimant count numbers added on top.

It is also assumed for the purposes of this model that the working age population will remain stable over the LAA period.

The estimates derived from this model will so far only provide estimates for the period August 2009 to May 2009. To estimate figures for August 2008 to May 2010 the midpoint observations for the differences between the August 2007 to May 2008 and August 2009 to May 2010 data are used. The results of this exercise are shown in the table below:

Table 5: Estimated out of work benefit figures up to August 2009 to May 2010

	August 2007 to May 2008	1m claimants		1.5m claimants		2m claimants		2.5m claimants	
		August 2008 to May 2009	August 2009 to May 2010	August 2008 to May 2009	August 2009 to May 2010	August 2008 to May 2009	August 2009 to May 2010	August 2008 to May 2009	August 2009 to May 2010
IB, IS & PC	30,515	30,515	30,515	30,515	30,515	30,515	30,515	30,515	30,515
JSA (adjusted)	8,945	9,295	9,644	11,705	14,464	14,115	19,284	16,527	24,108
TOTAL	39,460	39,810	40,159	42,220	44,979	44,630	49,799	47,042	54,623
Population	146,980	146,980	146,980	146,980	146,980	146,980	146,980	146,980	146,980
Claim rate	26.8	27.1	27.3	28.7	30.6	30.4	33.9	32.0	37.2

The final step is to estimate benefit claim rates for August 2010 to May 2011. Two estimation methods are used: linear trend analysis and average trend analysis. To ensure that these analyses are as robust as possible historical data from the period August 2001 to May 2002 are used. The results of this exercise are presented in the tables below⁵:

Table 6: Estimates out of work benefits claim rates (linear trend)

	August 2001 to May 2002	August 2002 to May 2003	August 2003 to May 2004	August 2004 to May 2005	August 2005 to May 2006	August 2006 to May 2007	August 2007 to May 2008	August 2008 to May 2009	August 2009 to May 2010	August 2010 to May 2011
1m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	27.1	27.3	26.4
1.5m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	28.7	30.6	28.5
2m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	30.4	33.9	30.5
2.5m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	32.0	37.2	32.6

Table 7: Estimates out of work benefits claim rates (average trend)

	August 2001 to May 2002	August 2002 to May 2003	August 2003 to May 2004	August 2004 to May 2005	August 2005 to May 2006	August 2006 to May 2007	August 2007 to May 2008	August 2008 to May 2009	August 2009 to May 2010	August 2010 to May 2011
1m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	27.1	27.3	26.9
1.5m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	28.7	30.6	30.6
2m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	30.4	33.9	34.3
2.5m claimants	30.6	29.9	29.4	29.4	29.5	28.5	26.8	32.0	37.2	37.9

To finalise the four target options the averages of the trend analyses were calculated, set out in the table below:

Table 8: Target reductions scenarios

	Linear trend			Average trend			Estimated target
	Baseline	2010/11	Difference	Baseline	2010/11	Difference	
1m claimants	28.50	26.42	-2.08	28.50	26.90	-1.60	-1.8
1.5m claimants	28.50	28.47	-0.03	28.50	30.60	2.10	1.0
2m claimants	28.50	30.52	2.02	28.50	34.30	5.80	3.9
2.5m claimants	28.50	32.57	4.07	28.50	37.90	9.40	6.7

From this model the four target options are:

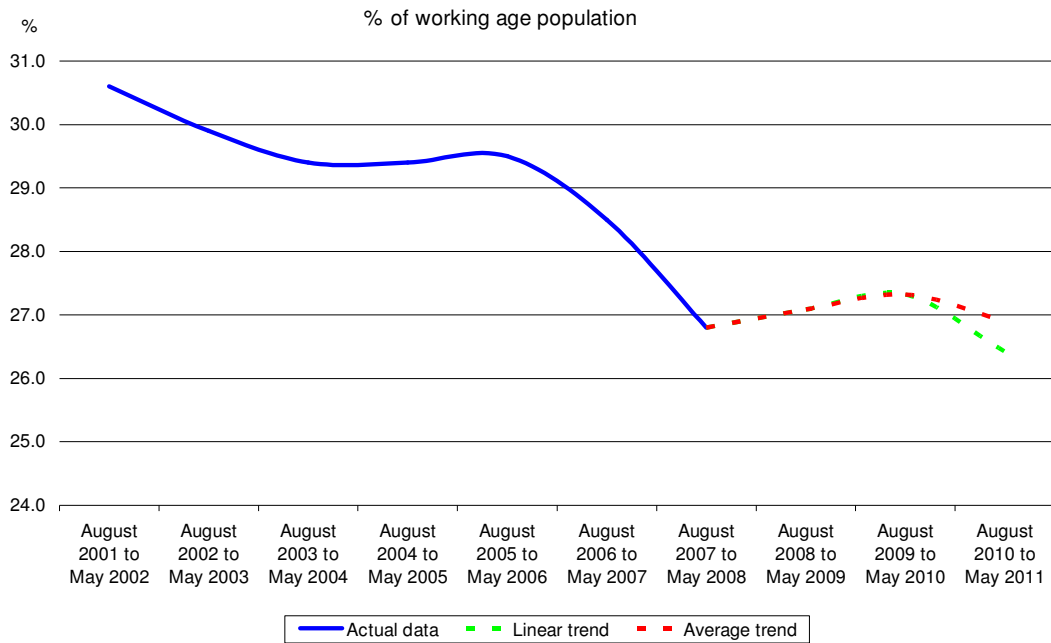
1. **Option 1 (based on 1m people being claimant count unemployed by 2010)** – reducing the out work benefits claim rate by 1.8 percentage points
2. **Option 2 (based on 1.5m people being claimant count unemployed by 2010)** – limiting the increase in the out of work benefits claim rate to no more than 1.0 percentage points.
3. **Option 3 – (based on 2m people being claimant count unemployed by 2010)** – limiting the increase in the out of work benefits claim rate to no more than 3.9 percentage points.
4. **Option 4 – (based on 2.5m people being claimant count unemployed by 2010)** – limiting the increase in the out of work benefits claim rate to 6.7 percentage points

⁵ Data up to August 2003 to May 2004 will differ from those reported on Floor Targets Interactive (FTI). This is because the data on FTI are based on unrevised experimental Super Output Area population estimates published by ONS. The data reported in this paper account for the revisions made to the population estimates.

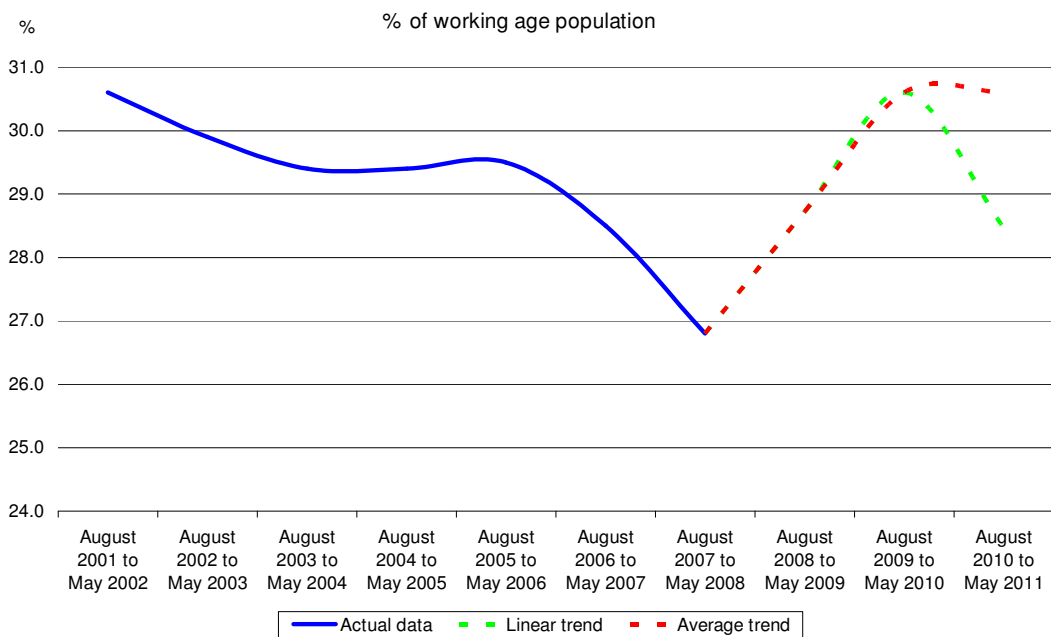
Recommendation

Based on the gloomy prospects for the UK economy, outlined earlier in this paper, it is not unrealistic to assume that claimant count unemployment will rise above 1.5m, which means that options 1 and 2 should probably be discounted. The case for a rise in claimant count unemployment to 2.5m is probably not strong enough at present to warrant recommending option 4. It is therefore recommended that option 3 is taken up and a revised target to limit the increase in the out of work benefits to 3.9 percentage points is submitted.

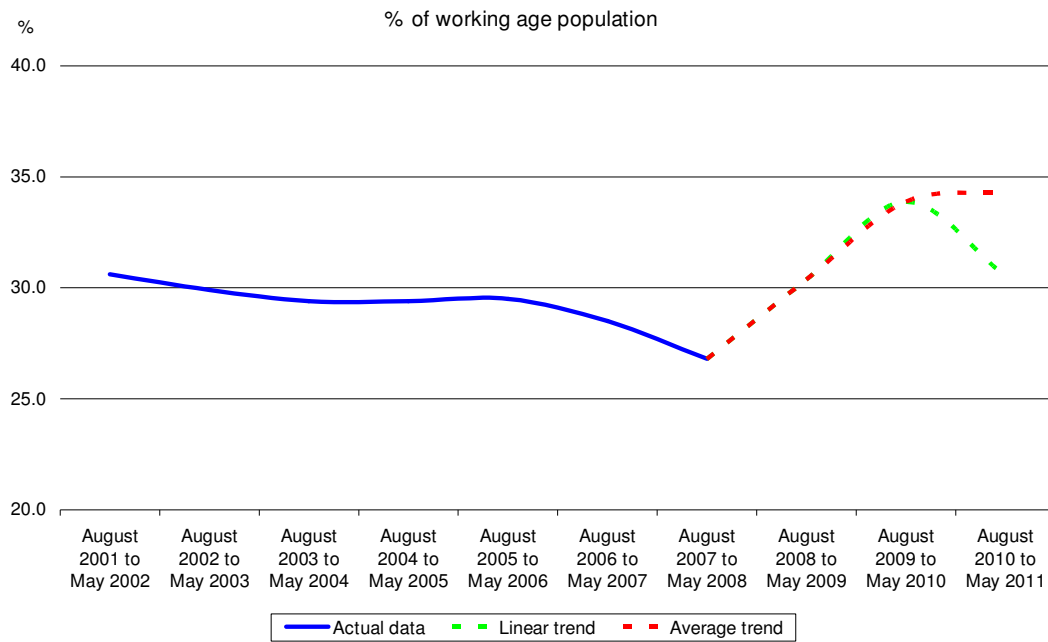
Appendix 2a: Out of work benefits claim rate based on 1m claimant count unemployment



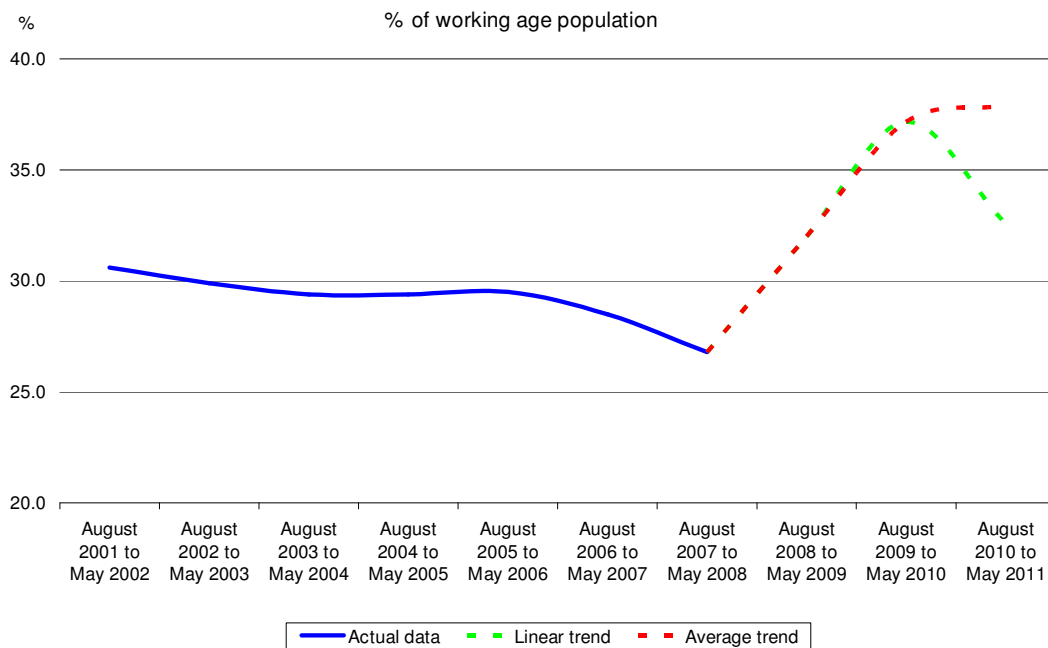
Appendix 2b: Out of work benefits claim rate based on 1.5m claimant count unemployment



Appendix 2c: Out of work benefits claim rate based on 2m claimant count unemployment

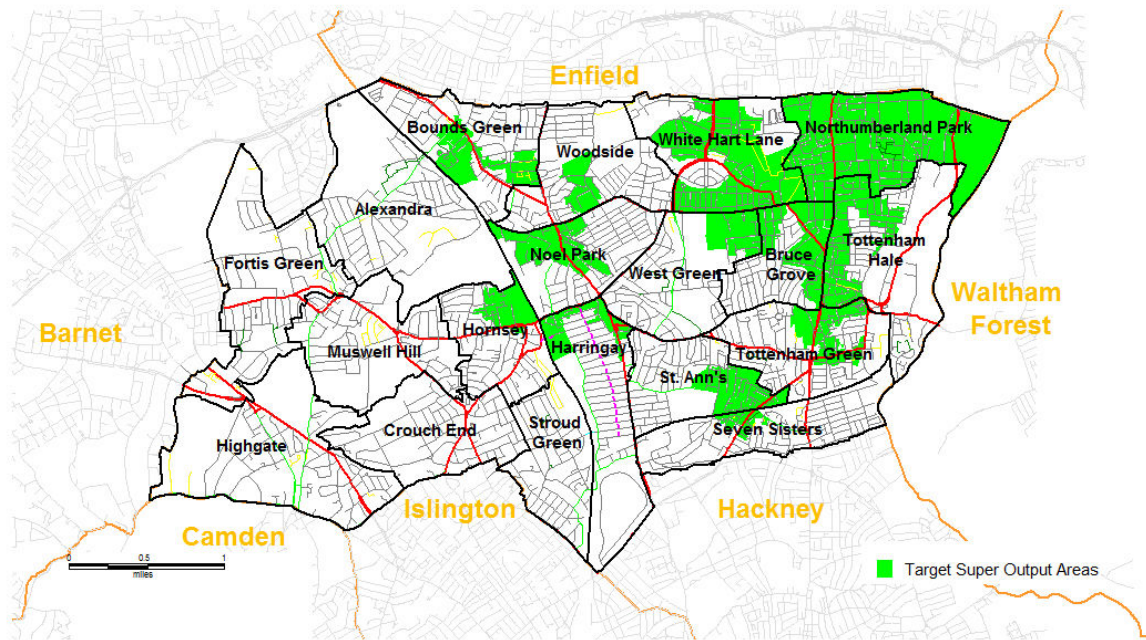


Appendix 2d: Out of work benefits claim rate based on 2.5m claimant count unemployment



Appendix 2e: Haringey's worst performing neighbourhoods

National Indicator 153 Target Super Output Areas



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