



National Audit Office

# LOCAL AREA AGREEMENTS AND THE THIRD SECTOR: PUBLIC SERVICE DELIVERY

A REVIEW BY THE NATIONAL AUDIT OFFICE

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# SUMMARY

**1** Local Area Agreements (LAAs), a new form of contract between central and local government, are designed to devolve greater power over public services to local communities. LAAs aim to "...deliver the priorities of local people...through strong local leadership and effective support from Whitehall"<sup>1</sup>. They predate the Local Government White Paper published in October 2006 but are informed by the same basic principles. The Department for Communities and Local Government (DCLG) and the nine Government Offices for the Regions (GOs) have worked over the past three years to introduce LAAs in stages. By April 2007 every local authority in England had an LAA, and the amount of public expenditure covered by the agreements is expected to reach around £5 billion in the next three years.

**2** Meanwhile, government is also keen for third sector organisations (TSOs) – including charities, voluntary and community organisations and social enterprises<sup>2</sup> – to play a greater role in public life, building 'social capital', promoting volunteering, representing the community and delivering public services. The focus of this report is on the impact which LAAs have had in increasing the role of TSOs in the delivery of public services. Government has put in place a range of initiatives to support TSOs and to encourage public bodies to work with them, particularly focusing on changes to public procurement and grant funding which will put TSOs on an equal footing with other suppliers. We refer to these initiatives collectively as 'the third sector public services agenda' in this review. The Office of the Third Sector (in the Cabinet Office) has responsibility for implementing the third sector public services agenda across government and is supported by the Treasury in its work with other government departments.

**3** Although LAAs were not primarily intended to affect the role of the third sector, they nevertheless do so, in several ways. TSOs have been closely involved in the development of most LAAs, as representatives of the community and of the interests of particular groups. They sit on the committees and working groups which have drawn up the LAAs and which monitor their implementation. Perhaps most importantly, LAAs offer the potential to change local public spending patterns. Under LAAs, government funding streams which were previously 'ring-fenced' for specific national policy objectives become available to be spent on local priorities. These changes in public spending patterns could result in

opportunities for the delivery of public services in new ways including the use of new suppliers, whether private or third sector.

**4** LAAs can, therefore, significantly change the role of the third sector in local services and our research has focused on this effect rather than the sector's other roles in community representation and engagement. It is clear from our research, however, that LAAs and the third sector public services agenda have been developed essentially in parallel, by different parts of central government, with few, weak links between the two. Guidance issued by DCLG and the GOs clearly emphasises the role of the third sector in representing and engaging with local communities in LAAs, and supporting their work in the community, but places very little emphasis on the third sector's potential to deliver public services. Almost no mention is made of the third sector-specific funding practices which government has adopted elsewhere, to remove barriers to TSOs' participation in public services.

**5** The result of this disconnect is that LAA texts include only limited references to the third sector and there are as yet no visible changes in local patterns of service provision or in local public bodies' funding practices towards the third sector. Where changes have occurred, they are due to other initiatives rather than to LAAs.

**6** TSOs suffer a variety of well-rehearsed difficulties in dealing with public bodies, from gathering information about funding opportunities to poor payment practices. Although LAAs were not intended to affect the role of TSOs in public services, their introduction provided opportunities to address some of these barriers, helping to place TSOs on a 'level playing-field' with other potential suppliers.

**7** To date, these opportunities have mostly been missed. It is still relatively early days for LAAs, however and much practical work remains to be done to translate their principles into practice. Meanwhile, policy in this area is developing fast; the Local Government White Paper, published in October 2006, proposes changes to the structure of LAAs which are likely to lead to even more local decision-making. These changes are expected to mean that from April 2008 LAAs will drive the pattern of all local public spending, with targets which are chosen to reflect local priorities for outcomes (the 'what' that is to be achieved rather than the 'how' to achieve them) and LAAs

being the vehicle for commissioning services from a range of public, private and third sector providers. The White Paper's emphasis on local flexibility means that it is not appropriate for central government to impose additional requirements for third sector public service delivery on local bodies. The White Paper does include, however, a commitment to three-year timescales for local authorities' grant funding of third sector bodies.

**8** LAAs are not the only means by which central government influences the third sector public service agenda at local level. Central government has a role in encouraging good commissioning practice by local public bodies, however, and in ensuring that a 'level playing-field' exists for all potential suppliers of public services, including third sector organisations. Changes to LAAs are to be accompanied by moves to encourage local authorities to move away from a 'traditional service perspective' towards a commissioning role. This indicates a strengthened relationship between the delivery of LAAs and changes in commissioning and procurement practices.

**9** We therefore recommend that DCLG, as the government department responsible for policy on local authorities, and the Government Offices should:

- Encourage, in 'place-shaping' guidance which is due to be produced in draft in 2007, Local Strategic Partnerships to consider third sector organisations as potential partners in the delivery of public services, alongside other private and public partners and in addition to the third sector's role in community engagement and representation.
- Further develop existing programmes to improve commissioning by local government. Such programmes may be able to draw upon the national training programme being launched by the Office of the Third Sector (see below) and should include an emphasis on the need to tailor the length of funding relationships – contracts as well as grants – to the desired outcome. The National Improvement Strategy, proposed in the Local Government White Paper and currently being developed by central and local government, is likely to be a major opportunity to improve commissioning.

- Work to emphasise commissioning capability in the Comprehensive Area Assessment (CAA) of local authorities, which is due to replace the existing Comprehensive Performance Assessment (CPA) from April 2009.

**10** We also recommend that the Office of the Third Sector and HM Treasury, who promote the role of the third sector in public services, should:

- promote wider awareness of the toolkits and guidance on the third sector which have been developed by two Government Offices and by the third sector representative body Compact Voice;
- review the results of the Local Area Pathfinders project, which they carried out in 2006 to develop partnerships between third sector organisations and five local authorities. A review should identify ways of spreading the good practices developed by the pathfinders more widely at a regional level and of connecting them to the work being led by DCLG, the Local Government Association (LGA), the Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA) to improve funding practices between local government and the third sector; and
- ensure that the planned national training programme for public commissioners and procurement officers, announced in the 2006 cross-government action plan on public services and the third sector<sup>3</sup>, includes strong representation from local authorities.

**11** DCLG, OTS and HM Treasury should also jointly consider how best to improve the data on local funding of TSOs – current data are very weak. Mandatory requirements on all local authorities to gather such data would go against the spirit of the Local Government White Paper, but there may be alternative approaches, through sampling, or data-gathering from TSOs, which would address the current lack of good local data without imposing administrative burdens. The Regional Centres of Excellence,<sup>4</sup> funded by DCLG, already have a programme of intelligence-gathering on local authorities' procurement expenditure patterns which could be a valuable basis or starting point for this.

## INTRODUCTION

**1** This report examines whether Local Area Agreements (LAAs), a new form of contract between central and local government, are helping to promote better value for money in the way government works with the third sector to deliver public services. The third sector is the term used to describe the range of organisations which are neither state nor in the private sector (see box).

### The Third Sector

Third Sector organisations (TSOs) include small local community organisations and large, established, national and international voluntary or charitable organisations. Some rely solely on the efforts of volunteers; others employ paid professional staff and have management structures and processes similar to those of businesses, large or small; many are registered charities while others operate as co-operatives, 'social enterprises' or companies limited by guarantee.

**2** LAA have been described by the Department for Communities and Local Government (DCLG)<sup>5</sup> as "...the most significant change in local public service funding since World War II". They are three year contracts between central government and the top tier of local government specifying agreed outcomes, supporting indicators and the funding streams which will be used to achieve them (see box).

**3** By allowing funding streams which were previously ring-fenced for specific purposes to be 'pooled', LAAs put greater power over spending priorities into the hands of local authorities. This devolution of control has the potential to improve value for money, by allowing local authorities the freedom to allocate resources to suit local circumstances, to meet LAA outcomes. Under LAAs, authorities are committed to various targets for public service outcomes – the 'what' that they must achieve – but they have greater flexibility to make their own decisions on 'how' services are delivered.

**4** The amount of funding 'pooled' within LAAs at the moment is relatively small compared to local authorities' total budgets; in 2006-07 some 30 funding streams totalling around £0.5 billion were pooled. These funding streams originated from three government departments: the Home Office (HO), the Department for Education and Skills (DfES) and DCLG. The scope of pooling is expanding; for 2007-08, the total pooled budget exceeds £1 billion. Other funding, which can be 'aligned' with

### Local Area Agreements

LAAs are negotiated between the Government Offices for the regions (GOs) and 'top tier' local authorities (unitary authorities and County Councils) acting on behalf of their Local Strategic Partnerships (LSPs).<sup>6</sup> They allow funding streams provided by central government departments to local authorities, which were previously ring-fenced for specific purposes, to be 'pooled': local authorities, in partnership with the LSP, can decide how the money is spent, so long as they meet the outcome targets which are specified in their LAAs and spend the funds in accordance with parliamentary intention. **Figure 1** shows the main players involved in the development of LAAs.

Under LAAs, the terms and conditions previously attached to funding streams which have been pooled are replaced, for most funding streams, by an overall financial and performance report every six months, made by the local authorities to the GO for their region. The reports detail the level of overall spending and the level of achievement against the agreed indicators. Areas which have included two children's services programmes, Children's Fund and General Sure Start Grant, must continue to report in defined ways for these areas. Other funding streams can be 'aligned', whereby funding contributes to the agreed outcome targets of the LAA but retains its original terms, conditions and reporting requirements.

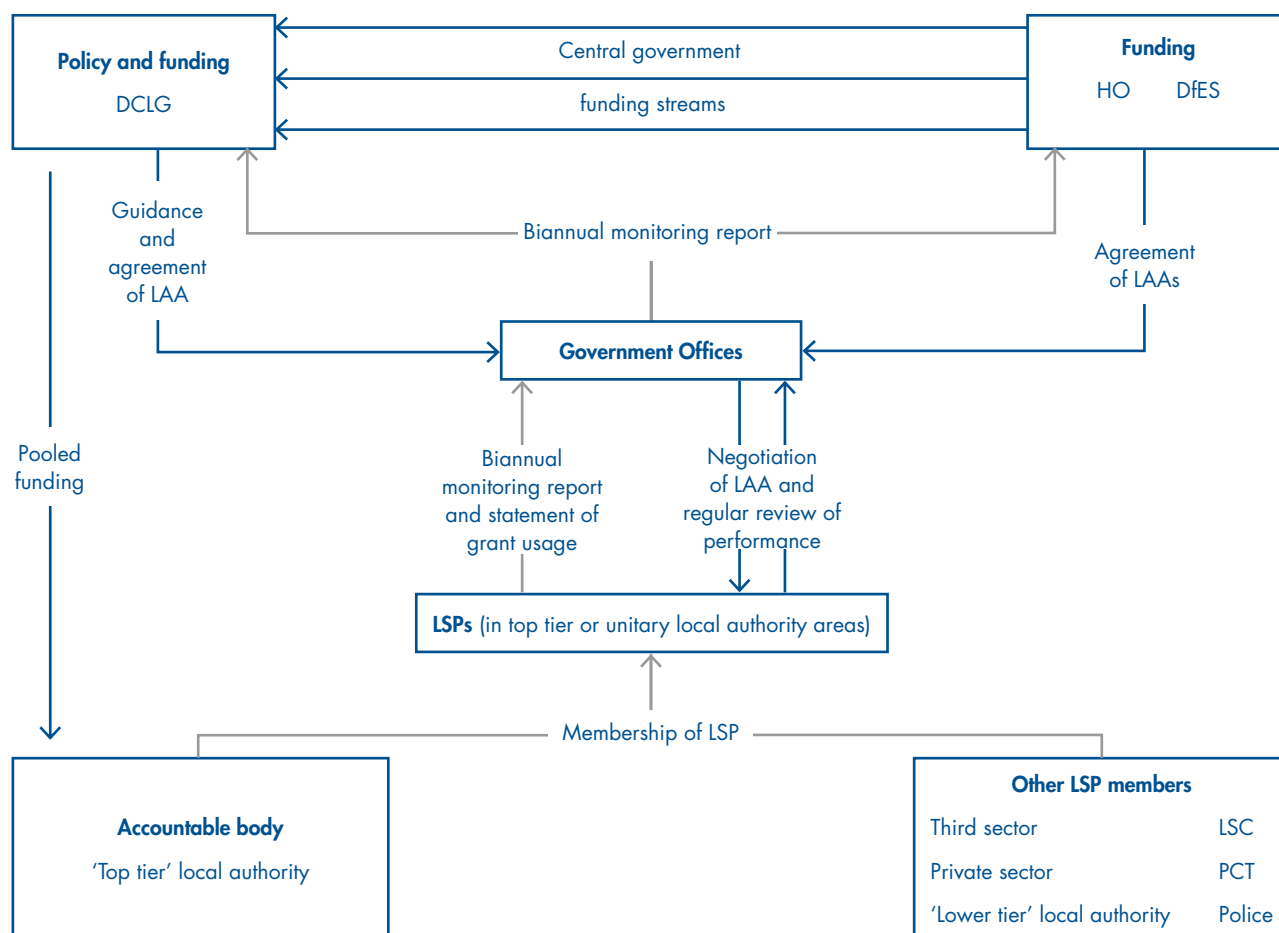
Programmes 'pooled' under LAAs were previously aimed at a range of specific objectives including reducing anti-social behaviour, increasing road safety and reducing drug use. From the financial year 2007-08, the Neighbourhood Renewal Fund, which provides £525 million in funding for deprived areas over 2006-07 and 2007-08, will be included in the pool. A list of funding streams included in LAAs is given in Appendix 3.

The pooled funding can take the form either of a 'single pot', or be made up of blocks associated with broad objectives. In the first round of pilot LAAs there were three blocks: children and young people; health care and old people, and safer and stronger communities. In the second round, covering 2006-07, a fourth block for economic development and enterprise has been introduced.

LAAs and will be pooled in future years, continues for the present to be disbursed direct to local bodies. In January 2007 the local government minister, Phil Woolas, predicted that the total pooled budget would rise to £5 billion over the next government spending period, the three financial years 2008-09, 2009-10 and 2010-11. Government hopes to increase this in future, although LAA-governed expenditures will never be a significant proportion of the total spending (£85 billion in 2005-06) by local authorities each year. Most of this expenditure is funded through the Revenue Support Grant, business rates and council tax.



## 1 LAAs – main players and relationships



Source: National Audit Office

### NOTES

- 1 DfES – Department for Education and Skills, HO – Home Office LSP – Local Strategic Partnership; LSC – Learning and Skills Council; PCT – primary care trust.
- 2 'Top tier' and 'lower tier' local authorities exist where the structure of local government has two 'tiers' with differing responsibilities – often county councils (upper tier) and district or borough councils (lower tier). 'Unitary' authorities, by contrast, have only one tier.
- 3 The Office of the Third Sector (OTS, in the Cabinet Office) has a strong policy interest in the development of LAAs but does not provide any funding through them. OTS works in three ways: directly delivering programmes to support the sector; co-ordinating activity across government, including work to reduce the barriers to the delivery of public service by the third sector and promoting the importance of the Compact as a means to effective partnership working; and providing a centre of expertise for third sector policy.

**5** LAAs do not change the current responsibilities local bodies hold for commissioning services. Local authorities and other bodies such as primary care trusts and police authorities will still commission services in their own areas of responsibility. The local authority, as the accountable body for the LAA, is responsible, in partnership with the LSP, for "...driving the LAA, ensuring

delivery of outcomes and establishing (in negotiation with GOs and other partners) a comprehensive performance management framework," according to DCLG guidance.

**6** The role of the Government Office is to negotiate an LAA with the local strategic partnership. To do this there is a team made up of a lead negotiator from a locality team, and specialists on each block of the LAA – for children

and young people, safer and stronger communities, health and older people, and economic development.<sup>7</sup> The government offices made use of guidance from ODPM (the former Office of the Deputy Prime Minister, now DCLG) to lay out what is required from the LAA. Some of the government offices that we spoke to had developed processes which supplemented the guidance from ODPM. For instance, the Government Office for London has developed a quality assurance process which is a checklist of what must happen, and a series of questions for people from their locality team to ask.

**7** Once the LAA is in place, the government offices have a continuing role in the six-monthly review process and the 'refresh' process which occurs annually. The government offices are responsible both for performance management of the LAAs – reviewing whether targets have been met and whether government funds have been used for the purposes intended by Parliament – and for assisting the development of the LAA through work on issues such as leadership, resource management and performance management.

## There is widespread recognition that the third sector agenda faces most difficulties at a local level

**8** The third sector has been rising up the public policy agenda in recent years. Both main political parties have highlighted the third sector's important role in building civil society, but even greater attention has been paid to the third sector's role in the delivery of public services, and how this might be expanded. The third sector is seen as a potential alternative to state or private provision, and a key player in 'contestability', under which public services are opened up to new suppliers drawn from all three sectors (public, private and third). The sector's current involvement in public services is small as a percentage of public expenditure – it receives less than one per cent of public expenditure according to the best available estimates – but has been growing and is expected to rise further. The areas of biggest (and growing) third sector involvement include health, social services, welfare, criminal justice, regeneration and community.

**9** Government has devoted much energy and resource to developing schemes designed to encourage TSOs to deliver public services, and to revising public bodies' commissioning and procurement practices to allow the third sector to compete for contracts. The most important of these initiatives are:

- The Compact, agreed in 1998, lays out principles for the relationship between the public and third sectors, including service delivery and the third sector's other roles in community representation and engagement. It is accompanied by a series of Codes, including a Compact Code on Funding and Procurement.
- A series of cross-cutting reviews by HM Treasury of the role of the third sector, in 2002, 2004 and 2006-07, have encouraged central government departments and other public bodies to work with the third sector and have provided detailed guidance on how best to do so. The 2002 review committed government to good funding practices towards third sector organisations, including advance payment where appropriate, longer-term funding relationships and full cost recovery.<sup>8</sup>
- 'Capacity-building' schemes to help TSOs improve their systems and management processes, enabling them to bid for public contracts. Futurebuilders, a £125 million investment fund set up in 2004 and ChangeUp, a £150 million initiative also established in 2004 to improve support and infrastructure for the third sector, are the two most important capacity-building programmes.
- In December 2006 the Office for the Third Sector published a cross-government action plan laying out a series of commitments to improve government commissioning from the third sector.

**10** All these government initiatives have included local authorities in their scope, recognising that local authorities are responsible for a large proportion of public funding to the third sector. The Home Office<sup>9</sup> estimated that in 2001-02, local authorities provided £1.87 billion to the third sector, some 37 per cent of total government funding and almost as much as central government (£2.03 billion or 40 per cent). Most local authorities in England now have Local Compacts (local versions of the national Compact) or are in the process of finalising one. Local authorities take part in the local consortia set up under the ChangeUp scheme, and IDeA, the improvement and development agency for local government, has been closely involved with the development of third sector policy. Most recently in 2006, HM Treasury has worked with a small number of 'pathfinder' local authorities to improve their understanding of the local third sector and to identify opportunities for closer working.



**11** However, despite these efforts, we have learned from our research for this and other reports that relationships between local authorities and TSOs are still often problematic. TSOs complain that they are excluded from contract opportunities, forced to accept below-cost pricing and that their work is subjected to excessive monitoring. Local authorities operate in departmental ‘silos’, TSOs claim, with little communication between different functions. Local authorities, on the other hand, frequently feel that the local third sector is fragmented and that they lack information about local TSOs which could provide services. Even where such TSOs exist, they often do not have the capacity to deliver large public service contracts and have shown little inclination to join together in consortia, local authorities claim. Where examples of successful public service delivery by TSOs exist, they are generally those of services provided by the local or regional branches of large, well-known charities.

**12** If these difficulties are to be addressed, commissioning processes will need to encourage greater collaboration between local and national TSOs, where appropriate. Such arrangements might see large national organisations awarded contracts on condition that they work with small local organisations that can supply local knowledge, relationships or specialist skills.

## LAAs have the potential to improve the third sector role and funding at a local level

**13** LAAs were not set up primarily to address the relationship between the third sector and local authorities, but rather to devolve greater responsibility for local public services, to local bodies (primarily local authorities). A local authority can work with whichever partners it chooses, from the public, private or third sectors, to deliver the targets laid down in its LAA. However, as part of this wider objective, LAAs have the potential to strengthen the third sector’s role in public services<sup>10</sup> in several key ways, by involving the third sector in identifying and shaping what services are to be delivered, by building the capacity (a general term encompassing, for example, staff time, knowledge and relationships) of the sector to deliver services, and by involving the third sector as delivery partners either as individual organisations or as consortia.

**14** According to the 2004 Treasury Review<sup>11</sup>, LAAs would “...provide the basis for strengthened partnership working and greater co-ordination between central government, local authorities and their partners...this should help simplify funding streams from central government going into an area, helping to join-up public services and allowing local authorities and their partners greater flexibility for local solutions for local circumstances”. DCLG (ODPM), and local government representative organisations echoed these aspirations for LAAs. DCLG guidance on LAA development advises that “...successful LAAs will ensure the involvement of...the VCS [voluntary and community sector, also known as the third sector] and local people themselves in helping to identify, shape and deliver local services.” The guidance points to local Compacts, which contain guidance on funding issues, as “...providing the framework for partnership working between local public sector bodies... and local voluntary and community sector organisations,” but does not itself give recommendations on funding approaches.

## The third sector has had a voice in LAA development and operation

**15** The government, particularly the Office of the Third Sector, and third sector representative organisations have been keen to monitor the effects of LAAs on the third sector since their launch. To date, research has concentrated on the involvement of local TSOs in the development of LAAs via consultation and membership of LSPs, rather than on changes in funding patterns. This approach was in line with the ODPM requirement for LAAs to include a statement of the involvement of the third sector and local people in its design and delivery, and the policy intention that LAAs be used to promote the third sector’s community empowerment role. This research has found a variable picture:

- evaluations<sup>12</sup> for ODPM of the first round LAAs and the Round 2 negotiations found that TSOs had been consulted about LAAs to varying degrees and many were confused about them. In some areas the local third sector lacked the capacity to engage with the LAA process. Many areas were “still struggling to see how best to involve the VCS at the strategic level”;

- the National Association for Voluntary and Community Action (NAVCA) surveyed its members who were involved in the first two rounds of LAAs and also found variations in the level and methods of engagement; and
- the London Voluntary Service Council (LVSC) commissioned a report<sup>13</sup> which found that third sector infrastructure needed strengthening if the third sector was to contribute fully to the development and implementation of LAAs. The report also suggested that LAAs were likely to favour larger charities who had greater capacity to engage with the process.

**16** Our own research also found a variable level of third sector participation in the development of LAAs. Some 60 per cent (46 of 76) of respondents to our survey of the Local Infrastructure Organisations (LIOs)<sup>14</sup> that make up NAVCA's membership said they had been actively involved in the development of their local LAA, but almost 20 per cent (15 of 76) had not.<sup>15</sup> The NAVCA members who had taken part had usually been members of the Local Strategic Partnership board, taken part in consultation activities, helped to agree targets and outcomes included in the LAA and had sat on steering groups for one or more of the four LAA blocks.

## ODPM guidance on the content of LAAs made little reference to the third sector public services agenda

**17** As shown in Figure 1 above, each Local Strategic Partnership drafted the text of its Local Area Agreement in consultation with the relevant Government Office. The GO staff were following ODPM guidance on the content of LAAs, set out in three advice notes and one prospectus relating to the 21 Round 1 agreements, and in a single guidance note for the 66 Round 2 agreements. These guidance documents were one of the most important determinants of the content of the LAAs, and of the role and importance of the third sector within them.

**18** However, both sets of guidance refer to the role of the third sector only in terms of representation and community engagement, and say very little about the role of the third sector as a potential partner in delivering public services, or about the need to promote better funding practices. The Round 2 guidance makes a passing reference, in its advice on payment systems, to the need

not to disadvantage the third sector by making payments in arrears,<sup>16</sup> but this is the only reference to better funding practices that is to be found anywhere in the guidance.

**19** Guidance for the Round 3 LAAs<sup>17</sup> does, however, make specific reference to government principles of better funding towards the third sector. The guidance refers to the 2006 advice from HM Treasury<sup>18</sup> and points out that public bodies funding TSOs should consider their need for:

- stability in the funding relationship: moving from one year funding to longer-term arrangements where appropriate;
- timing of payments and the balance of risk, recognising that payment in arrears often results in the third sector bearing the upfront costs of borrowing;
- full cost recovery (i.e. that TSOs should be able to recover the appropriate level of overhead costs from funding bodies, as well as the direct costs of service provision); and
- reduced bureaucracy in the form of streamlined access and performance management requirements for multiple funding streams.

**20** In October 2003 ODPM had published a national procurement strategy for local government, which stresses the importance of the voluntary sector as a potential partner in service delivery. However, the LAA guidance documents do not refer to this pre-existing strategy.

**21** The key points at which the guidance stresses the sector's representational role are:

- The 'statement of the involvement of the VCS and local people in the design and delivery of the agreement' which the guidance requires to be included in the main text of each LAA. The guidance also says that LAAs should state "how partners have considered the capacity of the voluntary sector to contribute effectively and how they can best facilitate the involvement of local people". Areas should build on the national ChangeUp and Firm Foundations schemes, the guidance recommends.
- A mandatory target for 'community empowerment' which must be included in one of the four LAA blocks, safer and stronger communities<sup>19</sup>, which reflected the nature of the objectives for that block and the nature of the pooled funding.

**22** The guidance also mentions local bodies which include the third sector, such as Community Empowerment Networks, and existing mechanisms for closer working, such as Local Compacts.

**23** The Round 2 guidance goes further than the Round 1 guidance in emphasising the role of the third sector, stating that the involvement of the sector and local people in the LAA should cut across all four blocks. It also suggests an optional indicator on 'voluntary and community engagement' in the Children and Young People block, which LSPs may choose to include in their LAA.

**24** Government Offices have scope to produce their own guidance to supplement that issued by DCLG, and we found that two of the nine GOs had produced guidance emphasising third sector service delivery as part of the LAA process. The Government Office for the South East developed a toolkit on DVD to provide a greater level of guidance about good practice in LAA development. The toolkit advises LSPs on how to reflect the third sector's role in service delivery, and the part it can play in LAA governance and in developing social capital, in all four blocks of the LAA and in the statement of community engagement. The Government Office for the East Midlands, meanwhile, produced an advice note for its staff on public service delivery by the third sector, which encourages them to "...challenge and support local partners to increase their third sector supplier base, particularly through the Local Area Agreement process".

**25** Some further guidance has been issued since the Round 1 and Round 2 LAAs were negotiated. In 2006 DCLG published a toolkit<sup>20</sup> emphasising the third sector's role in community engagement in LAAs and in service delivery, which draws on the experience of the Round 1 and Round 2 LAAs.

**26** Independently of government, the third sector representative body Compact Voice has produced a scorecard for assessing Local Compact use and voluntary and community sector involvement in LAAs. The Cabinet Office has circulated this to Government Offices and it has already been taken up by some LSPs. It was published in December 2006 and so was not available during the Round 1 and Round 2 negotiations. The scorecard<sup>21</sup> is designed for use in 'refresh' of existing LAAs but can be used at any time. Compact Voice has found from a membership survey that around half of LAAs do not mention their Local Compact.

## The texts of early LAAs make varying reference to the third sector role

**27** Given the relative absence of references to the third sector's role in service delivery and better funding practices in the guidance documentation, it is unsurprising that the LAA texts include little content in these areas. Some LAAs, however, have included targets and indicators relating to the role of the third sector. These are expressed in varying terms; some are quantifiable measurements with targets to aim for, while others are expressed in vague terms and seek only to measure the third sector's activity without aiming to increase it. An example of the quantified type of target is included in the Nottingham City Council LAA, a Round 2 agreement, which includes a target for service delivery by the third sector in its economic development and enterprise block. This aims to add one voluntary and community sector supplier per year to the council's existing 40 VCS suppliers who deliver contracts worth more than £100,000 per year.

**28** The majority of LAAs have, however, fulfilled ODPM's requirements, expressed in the guidance documentation, to recognise the third sector's community engagement and representational roles. All the 21 Round 1 LAAs and nearly all (64 of 66<sup>22</sup>) Round 2 LAAs contain a statement of the involvement of the third sector in the design and delivery of the agreement, as required by ODPM. Statements varied in length and detail, ranging from a single short statement such as that in the Hampshire LAA "Specific support has been provided to the voluntary and community sector to provide capacity to participate in the development of the LAA", to statements running to five or six pages.

**29** More than half (12 of 21) of the Round 1 LAAs (57 per cent) had included a statement describing how they built on the infrastructure or capacity building services being developed through ChangeUp and Firm Foundations. In the Round 2, 49 of the 66 (74 per cent) LAAs had done so.

**30** The mandatory target for community empowerment, in the safer and stronger communities block, specifies that the LAA must "...empower local people to have a greater voice and influence over local decision making and the delivery of services". Suggested ways of measuring this include the number of "neighbourhood bodies" in an area, or the number of adults who volunteer.

## There is little or no evidence yet that LAAs have had a direct impact on the third sector role or amount of funding

**31** Even in the absence of clear guidance from ODPM, via the government offices, on the third sector's potential role in local public services, it is reasonable to expect the LAA process to have identified new opportunities for TSOs as well as other suppliers. 'Partnership' and 'community engagement' discussions could have been used as an opportunity to revise local service provision and to bring in new suppliers, whether from the third or private sectors, if appropriate.

**32** To date, however, there is no evidence that LAAs have increased public service delivery by the third sector, or that they will do so in the future. Figures are elusive because there is no requirement on local authorities or LSPs to monitor the amount of public funding flowing to TSOs, either in general or in relation to the LAA, and because different local authorities do not record third sector funding in ways which allow direct comparison and summary. It is also relatively early days for the introduction of LAAs to have had a demonstrable impact

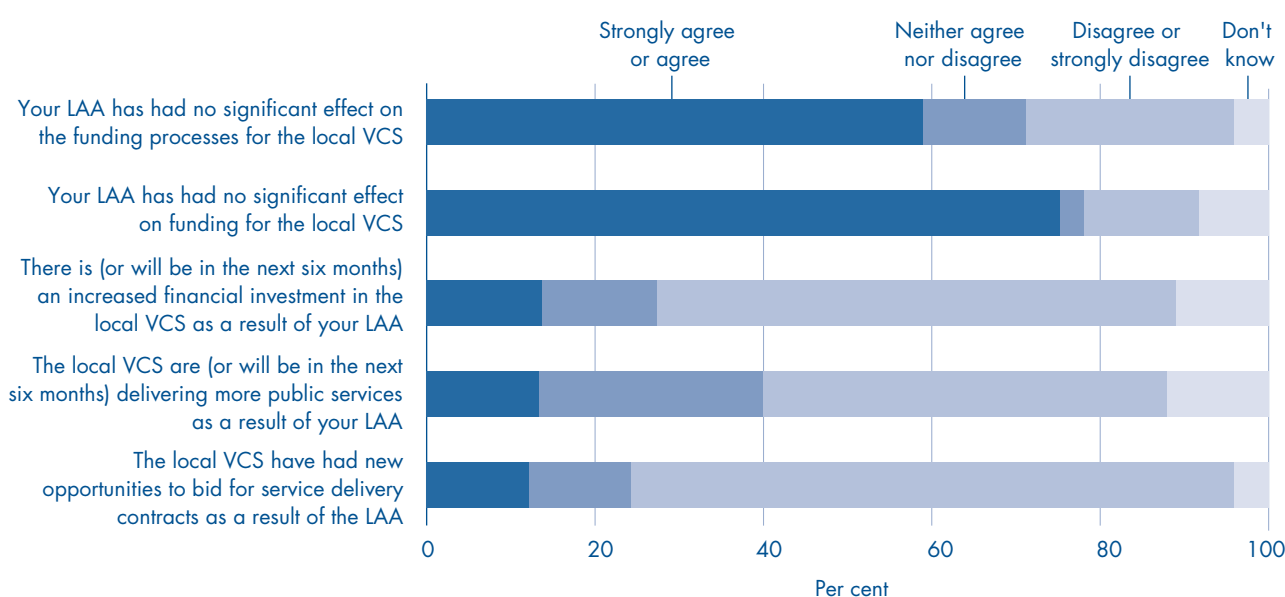
on local service provision (see para 34 below). However, there is a clear consensus of opinion among local third sector representatives (see Figure 2), that as yet LAAs have neither been associated with any noticeable change in the amount or type of public money going to the third sector, nor with new opportunities to deliver services<sup>23</sup>. Government offices and the local authority representatives we consulted agree with this view.

**33** Similarly, there is a general consensus among those involved in the LAA roll-out that it has not produced changes in public bodies' funding practices towards the third sector. Where changes, such as a move to advance payment or to longer-term contracts, have occurred, participants attribute them to other initiatives on the third sector such as Local Compacts and ChangeUp rather than to the LAA process.

## There are some barriers to progress

**34** Several main reasons were suggested to us for the lack of any clear link between the LAA process and changes in third sector funding.

### 2 Local third sector representatives' views of LAA funding effects



Source: National Audit Office survey of NAVCA members (73–75 respondents per question)

#### NOTE

VCS – Voluntary and community sector, also known as the third sector.

The agreement of an LAA will not by itself lead to an increased role for the sector

**35** LAAs have several key characteristics which tend to prevent them being a real lever for change in the role of the third sector, our interviewees felt:

- **They are statements of principle, which need to be followed up by changes in commissioning and procurement practice.** Several government offices described them as ‘a partnership agreement’, a ‘way of working’ or a ‘performance management tool’ which was just one piece of a developing system for increasing local control and management of services. The importance of the LAA to the third sector was often in the LAA development process, which encouraged discussion between public bodies and the third sector, rather than in direct changes to service delivery, they felt. Authorities which had an established tradition of partnership working with the local third sector, for example through Community Empowerment Networks or via a strong local representative body, had a head-start here.
- **The amount of money covered by an LAA is relatively small** in comparison to local budgets for public services taken as a whole, although set to increase in the next few years. The ‘big money’ which could potentially be opened up to third sector provision is currently outside the scope of the LAA, although more might be included in future.
- **The role of the third sector was not emphasised throughout all four blocks** of the LAA. As previously noted, there is only one mandatory target related to the third sector, in the safer and stronger communities block. Many interviewees felt that the third sector should have been considered as a theme across all four blocks.

It is still early days in the implementation of LAAs

**36** Even where the relatively weak LAA principles on the role of the third sector are being put into practice, it is still too early for changes in service provision or funding practices to be noticeable. At the time of carrying out this research, the 21 Round 1 LAAs had been agreed and in place for just over a year, while the 66 Round 2 LAAs had been in place for only a few months. The Round 3 LAAs were in the process of negotiation. Interviewees pointed out that:

- **connections between public bodies and the third sector are often relatively immature.** Many of the first and second round LAAs had only so far managed to establish networks and begin partnership working with TSOs. Timescales for an increase in third sector involvement in designing, shaping and delivery of public services would range from three years to nine or more, our interviewees felt. Several pointed out that the development of strong partnership working would depend on continued funding for ‘infrastructure’ to allow the local third sector to participate, for example through financial support for TSO staff to attend meetings and events;
- **‘pooling’ of funds was not yet a reality.** Many of the funding streams included in the LAA ‘pools’ had not in practice yet been pooled, since the existing contracts for service provision had not yet come up for renewal. The Neighbourhood Renewal Fund, for example, had contracts in place until the financial year 2007-08. Local authorities also needed time to adjust their procurement systems, at a time when fundamental changes to services, separate from the LAA<sup>24</sup>, were occurring simultaneously.
- **keeping track of any changes in the third sector’s role would be difficult because of poor data.** As noted above, local authorities do not have consistent processes for identifying TSOs whom they fund. Such systems would need to be put in place and a clear baseline established if any changes in the third sector’s role were to be visible.



## Some changes might help

**37** The development of LAAs was not concerned with the role of TSOs in the delivery of local public services, but with the devolution of greater responsibility for services away from central government to local bodies. Nevertheless, it was an opportunity for local authorities to take a fresh look at their relationships with the third sector and as part of that to bring in more local and national TSOs as service delivery partners. It was also an opportunity to begin to make the commitments on better funding practices, contained in Local Compacts and in Treasury guidance, a reality at local level. Sadly, both of these opportunities have been missed, due in large part to central government choosing not to emphasise the third sector's potential to deliver public services (or indeed the potential of the private sector), and its need for better funding, as key themes of LAAs.

**38** Effective service delivery partnerships between local public bodies and third sector organisations still depend on individual funders and third sector service-providers taking the initiative to work together, without clear or consistent support for such efforts from central government. The third sector's role has been expressed in LAAs only in terms of strengthening community engagement and representation, rather than with reference to its role in delivering public services.

**39** This report has confined itself to reviewing the Round 1 and Round 2 LAAs; the Round 3 agreements took effect from April 2007. We have seen little sign, however, that the Round 3 agreements say much more about the third sector's role in the delivery of public services. However, the LAAs have encouraged better communication between local authorities and sector organisations and as previously noted, LAAs in themselves are statements of principle which will take time to turn into reality.

## DCLG is already taking action

**40** Central government policy since the launch of LAAs has further emphasised local decision-making and the responsibility of local authorities to commission services from a range of public, private and third sector providers. The Local Government White Paper, published in October 2006, proposes changes to the structure of LAAs<sup>25</sup> which are expected to mean that from April 2008 LAAs will drive the pattern of all local public spending,

with targets which are chosen to reflect local priorities for outcomes (the 'what' that is to be achieved rather than the 'how' to achieve them) and LAAs being the vehicle for commissioning.

**41** In this environment, central government's role is to encourage good commissioning practice by local public bodies and to ensure that a 'level playing-field' exists for all potential suppliers of public services, including third sector organisations. Changes to LAAs are to be accompanied by moves to encourage local authorities to move away from a 'traditional service perspective' towards a commissioning role. This indicates a strengthened relationship between LAAs and commissioning and procurement practices. The White Paper draws together a range of initiatives which will affect commissioning and procurement, including:

- A National Improvement Strategy for local government.
- Assessment of commissioning capabilities as part of the Comprehensive Area Assessment of local authorities' performance, due to replace the current Comprehensive Performance Assessment from April 2009.
- Three-year timescales for local authority grant funding of third sector bodies. DCLG has announced that the expectation of three-year grant funding will be laid down in statutory guidance to local authorities and will be supported by best practice guidance developed by the Local Government Association, the Audit Commission and the Chartered Institute of Public Finance and Accountancy.
- Regular testing by local authorities of the competitiveness of their services, with a requirement for under-performing services to be subject to competition. The aim of such competition would be to secure the best service provider from the public, private or third sector.



## METHODOLOGY

Research for this report was carried out during the summer and autumn of 2006. The research included:

- visits to all nine Government Offices for England, to discuss with staff the implementation of Local Area Agreements in their region and issues for the third sector;
- discussions with staff responsible for the roll-out of LAAs, in the Department for Communities and Local Government;
- a selection of interviews with local authorities and with local organisations representing the third sector;
- a survey of members of the National Association for Voluntary and Community Action (NAVCA), carried out on behalf of NAO by NAVCA and seeking members' views of the impact of LAAs;
- a systematic review of the texts of the Round 1 and Round 2 LAAs for content referring to the third sector;
- review of guidance and other documentation produced by the DCLG for the Government Offices;
- review of all available research on LAAs carried out by other organisations, during the design and roll-out of the LAA programme; and
- consultation, on a draft version of this report, with a panel of experts from government and the third sector.

## REFERENCES AND FURTHER READING

*The role of the voluntary and community sector in service delivery – a cross-cutting review*, HM Treasury, 2002

*The National Procurement Strategy for local government*, Office of the Deputy Prime Minister, 2003

*Voluntary and Community Sector Review 2004 - Working together, better together*, HM Treasury 2004

*Exploring the role of the third sector in public service delivery and reform – a discussion document*, HM Treasury, February 2005

*The future role of the third sector in social and economic regeneration – interim report*, HM Treasury/Cabinet Office, December 2006

*Partnership in Public Services: An action plan for third sector involvement*, Office of the Third Sector, Cabinet Office, December 2006

*Local area pathfinders – building public service partnerships*, HM Treasury/Cabinet Office, December 2006

*Local Area Agreements Advice Notes* 1 December 2004, 2 June 2005 and 3 June 2005 (for Round 1 or 'pilot' LAAs), Office of the Deputy Prime Minister

*Local Area Agreements Prospectus* (for Round 1/pilot LAAs), Office of the Deputy Prime Minister

*Local Area Agreements Guidance*, (for Round 2 LAAs), Office of the Deputy Prime Minister, June 2005

*Strong and prosperous communities: The Local Government White Paper*, Department for Communities and Local Government, October 2006

*Voluntary sector involvement in round 2 of Local Area Agreements in London: key findings and examples of good practice*, Rocket Science UK Ltd, March 2006

## FUNDING STREAMS WITHIN LAAS (2006-07)

### Pooled centrally

#### Children and Young People

- Children's Services Grant
- Kerbcraft
- Key Stage 3 – Behaviour and Attendance
- Key Stage 3 – Central Coordination
- Neighbourhood Renewal Fund
- Neighbourhood Road Safety Initiative
- Neighbourhood Support Fund
- Positive Activities for Young People
- Primary Strategy Central Coordination
- School Travel Advisers
- School Development Grant (Local Authority retained element only)

#### Healthier Communities and Older People

- Neighbourhood Renewal Fund

#### Safer and Stronger Communities

##### Safer and Stronger Communities Fund – including:

- Anti-Social Behaviour Grant
- Building Safer Communities
- Drugs Strategy Partnership Support Grant
- Tackling Violent Crime Programme
- Neighbourhood Management Pathfinder
- Neighbourhood Element
- Cleaner, safer, greener Element (liveability funding)
- ASB Action Area (an element is retained centrally)
- Aggregates Levy Sustainability Fund
- Anti-Social Behaviour Trailblazer (an element is retained centrally)
- Home Fire Risk Check Initiative
- Neighbourhood Renewal Fund
- Rural Social and Community Programme
- Waste Performance and Efficiency Grant

#### Economic Development

- Local Enterprise Growth Initiative (LEGI)
- New Growth Points Funding
- Neighbourhood Renewal Fund

Can be pooled at local request

Children and Young People	
■ Connexions	■ Children's Fund
■ Extended Schools (Standards Fund)	■ School Improvement Partners
■ Teenage Pregnancy Grant	
Healthier Communities and Older People	
■ Disabled Facilities Grant	Supporting People
Safer and Stronger Communities	
■ Rural Bus Subsidy Grant	
Economic Development	
■ Housing Market Renewal Grant	

## Can be aligned

### Examples of funding streams that can be aligned

- 14–19 funding and organisational pilots
- Arts Council England Managed Funds
- Basic Command Unit
- Big Lottery Funding
- Building Schools for the Future
- Capital allocated through the Single Capital Pot
- Carbon Trust
- ChangeUp
- Child and Adolescent Mental Health Services Funding
- Community Champions Fund
- Connectivity and Learning Systems
- Defective Housing Grant
- Direct Schools's Funding
- Drug Interventions Programme (Drug testing and workforce elements)
- DWP Benefits
- Energy Saving Trust (resources)
- English Heritage Historic Areas Grant
- Environment Agency Funding
- European Regional Development Fund
- Growth Areas Funding
- Highways maintenance and bus support (capital)
- Housing Revenue Account Subsidy
- Kickstart/bus challenge projects
- LAA Pump Priming Grant
- LAA Reward
- LEA Music Services
- Learning and Skills Council (alignment only at present)
- Local Network Fund
- Local Transport – Mainstream Support
- Millennium Volunteers
- Natural England Confederation Funding (currently English Nature, Countryside Agency, Rural Development Service)
- New Deal for Communities
- NHS Funding
- Partnerships for Older Peoples Project (POPP)
- Planning Delivery Grant
- Playing for Success
- Police Funding
- Pooled Treatment Budget
- Purposeful Activities for Asylum Seekers Fund
- RDA single pot
- Refugee Community Development Fund
- Refugee Challenge Fund
- Renaissance in the Regions (Museums Funding)
- Rural Pathfinders Funding Sources
- School Meals
- Sport England/Active England
- Targeted Capital Fund
- Thames Gateway Funding
- Transformation Fund
- Warm Front (Eaga Partnership)
- Waste Resource and Action Programme
- Young Peoples Substance Misuse Partnership Grant
- YJB Prevention Funding
- Youth Opportunity Fund

## ENDNOTES

- 1 Foreword to LAAs Round 2 guidance, by David Miliband (then Minister of Communities and Local Government) and Sandy Bruce-Lockhart, chairman of the Local Government Association.
- 2 'The third sector comprises organisations that: are non-governmental; are 'value-driven' – that is are primarily motivated by the desire to further social, environmental or cultural objectives rather than to make a profit per se; and principally reinvest surpluses to further their social, environmental or cultural objectives' (*Partnership in Public Services*, Office of the Third Sector, Cabinet Office, 2006).
- 3 '*Partnership in Public Services: An action plan for third sector involvement*', Office of the Third Sector, Cabinet Office, December 2006.
- 4 The nine Regional Centres of Excellence were established by DCLG in partnership with the Local Government Association (LGA) in 2003. They were originally set up as centres of procurement excellence but have had their remit widened to act as the lead change agents for local government efficiency.
- 5 Prior to May 2006 DCLG was known as the Office of the Deputy Prime Minister (ODPM). In this report ODPM is used where this is appropriate for the timing of the events described.
- 6 Local non-statutory, non-executive bodies bringing together public, private and third sector organisations at a local level, within the local authority boundary, with the aim of ensuring that different initiatives and services support each other and work together.
- 7 The economic development block is included in Round 2 LAAs but not in the Round 1 agreements.
- 8 Full cost recovery is the principle that funders should pay an appropriate share of the funded organisation's overhead costs, as well as the direct costs of services delivered.
- 9 Before the establishment of the Office of Third Sector within the Cabinet Office, in 2006, third sector policy was led by the Home Office.
- 10 LAAs can also strengthen the third sector's role in community engagement and representation, but this review focuses on public service delivery.
- 11 *Voluntary and Community Sector Review 2004 – Working Together, Better Together*, HM Treasury 2004.
- 12 *A process evaluation of the first round of pilot Local Area Agreements*, ODPM, June 2005 and *Local Area Agreements Research: Round 2 negotiations and early progress in Round 1*, DCLG, October 2006.
- 13 *Voluntary sector involvement in round 2 of Local Area Agreements in London: key findings and examples of good practice*, Rocket Science UK Ltd, March 2006.



- 14 LIOs, such as Councils for Voluntary Service (CVSs) work with local community groups and voluntary organisations, providing support and infrastructure services such as training, information and recruitment of volunteers.
- 15 Just over 17 per cent of our respondents (13 of 76) indicated some level of involvement in the LAA process but did not confirm that they had been 'actively' involved.
- 16 *Local Area Agreements Guidance, ODPM, June 2005*. The reference to the need for advance 'and/or sustainable' funding is continued in the guidance provided for Round 3 LAAs, which are outside the scope of this report.
- 17 At the time of writing the Round 3 agreements had not been finalised.
- 18 *Improving Financial Relationships with the Third Sector: Guidance to Funders and Purchasers, HM Treasury, March 2006*
- 19 This target was expressed in less definitive terms than the pre-LAA targets for the Safer Stronger Community Fund, which included the objectives of growing the sector and increasing key public services delivered by the sector.
- 20 <http://www.idea-knowledge.gov.uk/idk/core/page.do?pagelId=1174268>
- 21 The scorecard is available from [paul.barasi@ncvo-vol.org.uk](mailto:paul.barasi@ncvo-vol.org.uk).
- 22 The LAAs for the Borough of Poole and for Sunderland City Council did not include clear statements of third sector involvement.
- 23 *Frontline Hopscotch*, a report on children and young people's services published by NAVCA in April 2007, found that the advent of LAAs combined with the implementation of central government strategies was in some areas leading to cuts in the provision of services by third sector organisations.
- 24 For example, the formation of children's services departments bringing together parts of health, education and social services.
- 25 *Developing the future arrangements for Local Area Agreements, DCLG, February 2007*.



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