

**1** Local Area Agreements (LAAs) are a contract between central and local government 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". The Department for Communities and Local Government (DCLG) and 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 a LAA and public expenditure covered by the agreements is expected to reach around £5 billion in the next three years.

**2** Government is keen for third sector organisations (TSOs) to play a greater role in public life, building 'social capital', promoting volunteering, representing the community and delivering public services. The focus of the 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. These initiatives are collectively referred to as 'the Third Sector Public Services Agenda'. The Office of the Third Sector has responsibility for implementing this 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 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 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 significantly change the role of the third sector in local services and research has focused on this effect rather than the sector's other roles. It is clear from research 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 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 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** The National Audit Office recommend that DCLG, as the government department responsible for policy on local authorities, and the Government Offices should:

- Encourage 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 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 of local authorities, which is due to replace the existing Comprehensive Performance Assessment from April 2009.

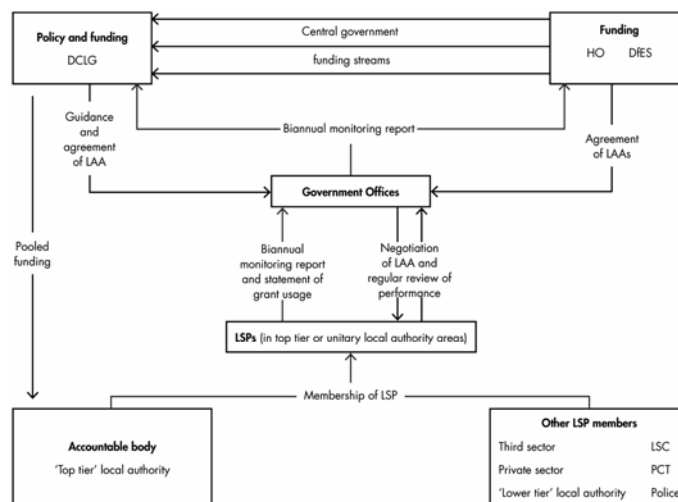
**10** The National Audit Office also recommend that the Office of the Third Sector and HM Treasury, who promote the role of the third sector in public services, should:

- promote wider awareness of toolkits and guidance on the third sector, developed by two Government Offices and by the third sector representative body Compact Voice;
- review the results of the Local Area Pathfinders project, 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, the Audit Commission and the Chartered Institute of Public Finance and Accountancy 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, 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 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.

The full Review can be downloaded at the National Audit Office's website:  
[http://www.nao.org.uk/publications/nao\\_reports/06-07/NAO\\_Local\\_Area\\_Agreements.pdf](http://www.nao.org.uk/publications/nao_reports/06-07/NAO_Local_Area_Agreements.pdf)

**Fig 1: LAAs – main players and relationships**



**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; coordinating 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.

**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