



Guidance for Local Authorities managing budget revisions

Local Compacts are often based on principles outlined in the national Compact. While the national Compact is not directly applicable to local authorities, many are Local Compact partners, using its principles to help establish and strengthen partnership working with local third sector organisations. Increased partnership working in many Local Compact areas has resulted in better outcomes, services and policies for local people and communities.

The economic climate has created challenges for local authorities. Reduced income and fees, a fall in property values, and reduced interest on cash holdings have resulted in significant budgetary pressures¹. Local authorities also face uncertainty regarding the level of future funding, through central government grant settlements.

These pressures are heightened by local people and communities continuing to demand high quality services. Research has also highlighted that local authorities have experienced increased demand in service areas where funds have not been traditionally directed². Local third sector organisations are also experiencing increased demand for services³.

Many local authorities now find themselves needing to revise their overall budget due to the loss of expected income or pressure from increased demand for services⁴. Tough decisions will be required and this will place significant pressure on working and financial relationships with organisations from both the third and private sectors.

The Commission for the Compact recognises this tension. Given this climate, the Commission believes that national principles often outlined in Local Compacts are now more important than ever; providing a framework for local authorities to meet and manage spending priority decisions where third sector organisations are involved and to ensure that the impact on service users is managed and minimised.

Recognising and applying Compact principles will help local authorities to:

- **Make robust decisions that minimise long term risk to service users**

Deciding whether to reduce or end funding is a difficult decision as there will be an impact on service users. Decisions should not be made without measured consideration. Local authorities can use Compact principles to ensure that robust decisions are made. Early engagement and creating an appropriate environment for dialogue with relevant third sector organisations that deliver services or represent service users helps inform the decision making process by assessing the likely impact, likely costs and risks involved in proposed decisions to reduce funding.

This approach will help ensure that any efficiency savings gained in the short term through funding reductions are not lost in the medium or long term by the need to increase investment or funding to meet problems where reductions were first made.

1 Audit Commission, When it comes to the crunch, August 2009

2 80 per cent of leaders noted that their authorities experienced increase in demand for debt and welfare advice services, 57 per cent have experienced increase in demand for social housing and 41 per cent have experienced increase in demand for services for the unemployed or those at risk of unemployment. Council Leader survey on the impact of the economic downturn on local authorities, March 2009

3 IDeA/LGA/SOLACE Survey of the Impact of the Economic Slowdown on Local Authorities 2008

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To help you achieve this, please refer to your Local Compact or the publications: Consultation and Policy Appraisal Code, Commissioning Guidance (pages 6-9) and the Compact and Procurement Law (page 10), all available on the Compact website www.thecompact.org.uk/publications

- **Identify new approaches to services**

Early engagement and dialogue with third sector organisations by local authorities when considering the costs associated with service delivery can also help identify innovative approaches to achieving outcomes. Adopting this approach, using Compact principles to create an appropriate environment for engagement, can not only help identify potential efficiency savings, but also provide alternative methods of delivering outcomes.

To help you achieve this, please refer to your Local Compact or the publications: Consultation and Policy Appraisal Code, Commissioning Guidance (pages 6-9) and the Compact and Procurement Law (page 10), all available on the Compact website www.thecompact.org.uk/publications

- **Minimise impact on Local Area Agreement targets**

A fall in income means fewer resources are available to maintain projects that support Local Area Agreement (LAA) targets⁵. Partnership working has always been crucial to achieving targets. However, in the current climate where financial constraints exist, increased and effective partnership working becomes critical. Local Compacts improve partnership working⁶ and provide a framework for helping ensure that local authorities work closely with third sector partners to continue to deliver LAA targets. Effective partnership can also help a local authority meet the challenges of the Comprehensive Area Assessment process.

- **Maintain partnership working with third sector organisations**

Local authorities often enjoy constructive and positive relationships with third sector organisations that are critical in helping to deliver organisational and strategic objectives. Where robust analysis involving relevant third sector organisations has indicated a reduction in service provision and funding necessary, the application of Compact principles helps ensure that working relationships and the stability of third sector organisations is not adversely affected. In particular, local authorities should give a minimum of three months' notice when ending a funding relationship. Clear and robust reasons should be provided and organisations affected given an opportunity to respond.

To help you achieve this, please refer to your Local Compact or the Funding and Procurement Code available on the Compact website www.thecompact.org.uk/publications

The Commission for the Compact is committed to promoting good practice regarding the implementation of Compact principles. We would like to hear from those local authorities and/or third sector organisations where budgetary revisions have taken place in accordance with principles outlined in the Compact. We are also happy to help local authorities implementing any of the principles outlined in this statement.

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⁵ Council Leader survey on the impact of the economic downturn on local authorities, March 2009

⁶ What makes a successful Local Compact, Commission for the Compact, September 2008

