WHERE’S THE MONEY?

Neighbourhood governance and the future of local finance

November 2006

“The Young Foundation’s report is an interesting and welcome contribution to the debate about how local governance can build the engagement with local communities which is at the heart of its place-shaping role. Clearly, greater flexibility for local government will be essential if devolution beyond the town hall is to be an effective means of engaging communities and improving local services.”

Sir Michael Lyons
SUMMARY

1. In response to concerns about democratic engagement, service responsiveness, belonging and respect in the neighbourhood, the government has proposed significant community governance reforms in the local government White Paper. Local authorities will be given a reformed Best Value duty to ‘involve, consult, involve and devolve’ to ensure opportunities for citizen participation. Commissioning and performance frameworks will follow suit, being realigned to respond better to local communities.

2. Bottom-up powers will also be extended; in particular, the parish tier is starting to be transformed into more widespread and powerful community councils with greater discretion, able to contribute fully to the shaping of ultra-local place.

3. Reforms to the wider system of local government finance from 2007 should not omit the financial aspects of these fundamental shifts in local governance. This paper therefore recommends a set of measures to fill the very local aspects of the local finance reform package and to give the neighbourhood reforms a financial grounding, without which they remain incomplete.

4. Devolution from central to local government by shifting money, powers, priority-setting and freedom is both desirable in itself and a vital condition for the effective neighbourhood governance system we need. We encourage the Lyons Inquiry and the Comprehensive Spending Review toward greater boldness on that front, given that the White Paper has made progress mainly in the area of lighter-touch performance management. Strong principal councils, controlling the vast majority of local government finance, should remain responsible for holding the ring, risk management, and local redistribution.

5. The paper is informed by five principles of policymaking in this field – the rule of thumb that finance should match functions; subsidiarity in multi-level governance; financing to reflect local choice when there is variability of demand or need; the concept of equalisation; and the minimization of double funding – as well as by evidence about ‘economies of smallness’ and the character of neighbourhood common goods.

6. The benefits of local democratic choice include better efficiency, innovation, outcomes and trust. Where preferences, needs and costs vary between areas, limited resources should be spent differently. Local choice will become increasingly important as the public finances tighten. Efficiency and fairness can follow from a diversity of approaches, and do not demand uniform provision of public services.

7. The paper addresses the full range of likely situations, from empowered community councils to places where there is no neighbourhood structure at all. It proposes a mix of mutually supporting measures to make local public finance more responsive and appropriate to neighbourhood needs. The package combines a reformed precept with the drawing down of small fractions of local authority functions and budgets, to help the tiers complement each other better. We also recommend measures for raising funds and influencing the mainstream which are equally applicable in unparished areas.

8. The paper rejects the idea of central government grant for reformed parishes. Instead it makes two recommendations for their core funding:
a. Reforming the precept to enable the first tier to play a broader role and take initiative, by giving community councils a general power of well-being and replacing the arbitrary cap of £5.44 for general purposes with new checks and balances, including tests of public consent

b. Incentivising effective neighbourhood governance to complement the strategic tier by enabling community councils to draw down a ‘neighbourhood element’ of the local authority budget of £5 per head of population, on the condition that they are prepared to match this through the precept

The precept disadvantages poorer areas; this could be corrected through local formula grant or higher levels of neighbourhood element match funding for them.

9. The third key recommendation is for local authorities to take forward the new Best Value duty and commissioning framework by entering into dialogue with local communities to review its functions and establish which might be delegated, commissioned or devolved to community councils or voluntary and community sector bodies. It should then publish an offer (possibly called a “Communities in Control” offer). Building on existing practice but more objective and reciprocal in character, this measure will provide a clear framework for delegating or devolving elements of council service delivery, managing distribution of responsibilities and maximizing public value.

10. We identify two possible approaches to raising funds in unparished areas: voluntary Neighbourhood Pledges and Neighbourhood Improvement Funds (temporary precepts for specific improvements), which could be collectively decided by residents and raised by local authorities.

11. We recommend that greater scope could be given to community councils in playing a discretionary or delivery role in charging regimes, e.g., around parking, or in certain circumstances around taxes on business.

12. The new Best Value duty to ensure participation should also lead to local communities having more power to influence and scrutinize how mainstream budgets are spent in their areas, from planning to delivery. Lighter-touch national frameworks for local government performance and finance should make more bottom-up Local Area Agreements (LAAs) possible, and encourage experiments in participatory budgeting.

13. Through the 2007 Comprehensive Spending Review, central government should establish guidelines for local public services to become more locally responsive and do more to pool their efforts and resources:

   a. pressing for cross-Whitehall buy-in to LAAs and a shift toward locally decided outcomes;

   b. strengthening incentives for cross-silo innovation, so that where neighbourhood initiatives have a significant impact on other public service outcomes, this can be reflected in funding and performance assessment;

   c. considering how to invest (principally through intermediaries) in building capabilities for community councils, elected representatives, local authorities and community groups alike, so that they can make best use of the new, more flexible and powerful system of local governance.
POLICY CONTEXT

This paper presents recommendations on how the reform of local public finance in England can appropriately reflect the government’s plans for a strengthened tier of neighbourhood governance, which appeared on 26 October 2006 in *Strong and Prosperous Communities: the local government white paper*. Our contributions here have been informed by the vision articulated in *Double Devolution: the renewal of local government*, a joint publication of the Young Foundation and the Smith Institute. They are also shaped by our ‘Transforming Neighbourhoods’ programme of research, policy and local learning, supported by a consortium including DCLG, the Local Government Association, the Improvement and Development Agency, fifteen local authorities and many other institutions, agencies and organizations.1

This paper is presented to the Lyons Inquiry review of local government finance, form and function, as well as to DCLG and the Treasury. It takes as its starting point the Lyons Inquiry’s argument that “redefining the relationship between central and local government to leave more room for local choice” is a vital requirement if the coming wave of reforms are to succeed as a whole.2 We look forward to further bold proposals on the strengthening and freeing up of strategic local government.

Empowering neighbourhoods cannot come at the expense of residualising strategic local authorities. Devolving money, powers, target-setting and freedom from Whitehall to councils should give them the space to devolve further to communities. Freeing up local authorities may not be sufficient to empower neighbourhoods, but it will facilitate the reforms proposed in this paper tremendously – making a virtuous circle of collaboration and empowerment between councils and communities easier to achieve. The Local Government Association (LGA) has sent strong signals to councils about this future alliance in recent policy statements, including in the joint LGA-IDeA pamphlet *Closer to People*, which calls for “strengthening opportunities for communities, where they wish, to exercise direct power through directly elected bodies such as town and parish councils or neighbourhood committees”.3

A number of reforms to neighbourhood and community governance are expected to follow on the White Paper. These range from a stronger role for frontline councillors to greater community asset ownership. Two areas of change will have a particular bearing on local public finance reform. The first is the new Best Value duty to ensure participation – inform, consult, involve and devolve – and parallel changes to make the commissioning and performance frameworks centre more on citizens and communities. The second is the substantial reform and strengthening of the lowest tier of statutory local governance, currently “parish and town councils”, which in future are likely to be known by a different, secular umbrella name – possibly “community councils”.4

First tier councils were marginalized for much of the twentieth century. But they already hold modest tax-raising powers, and look set to be given a larger role in relation to both governance and services. Ministers have realized that first tier councils can make a distinctive contribution to place-shaping at very local level, in particular where they are presented with incentives for a constructive relationship with the strategic tier of local
government. We refer in this paper to “community councils” rather than “parishes” when talking about the future regime, as a reminder of how it should be significantly different.

The Lyons Inquiry has argued that “in a world where expectations of public services are high and growing, but where public spending is unlikely to continue to increase in the future at as high a rate as it has done in recent years, we need to ensure that we adopt the most effective means of managing public expectations and prioritizing expenditure. Greater local choice offers real advantages in this context, as it allows a more sophisticated balance to be struck between what citizens want from different public services, and what they are willing to pay for through taxation.”

This is not a beggars’ charter demanding a swathe of new initiatives from government, but a solidly grounded manifesto for the rebalancing of local and ultra-local finance under the banner of democratic local choice. The tightening fiscal environment makes it more important that local communities should have the freedom and responsibility to make hard choices, choose local priorities and focus money on achieving them. As the LGA has said, “a real conversation about money and priorities can happen at local level”. Filling the vacuum of ultra-local governance through the proposals outlined in this paper could also develop new or under-utilised tax bases with public consent, and without having a zero-sum impact on local government.
KEY PRINCIPLES

Five principles about how local public finance systems should operate inform this paper:

1. **Finance matching functions** the tier at which key decisions are taken about a function should be fairly well matched by the level at which public finance for the function is raised, to send the right signals of responsibility and democratic accountability to voters and taxpayers. So as functions are devolved, we should consider the devolution of elements of finance.

2. The principle of **subsidiarity**, which suggests that functions should generally sit at the lowest level of democratic governance compatible with their effective delivery, and which remains compatible with *complementary competences* – the fact that more than one tier may have a role in complex governance systems, say, around public health or environmental quality.

3. The principle of **local choice**: where there is most likely to be very local variability around the level and nature of public demand for a collectively-consumed function or its costs, it makes sense for key decisions about that function and its financing to be taken at the very local level in order to ensure responsiveness to diverse needs and preferences. A good example is neighbourhood policing, which was driven partly by a realisation of high geographic variation in public priorities and needs.

4. The presumption against the **double funding** of functions: as far as possible, taxpayers should not be taxed twice by different public bodies to receive the same services.

5. What is often termed the need for **equalisation** in local finance, which does not however require uniformity of provision, and to which we give more careful consideration in the next section on local choice and fairness.

Two further facts have guided the thrust of our recommendations:

- Both economic theory and evidence suggest that common goods like neighbourhood open space are more valued, and more likely to be invested in, at very local level than at county- or city-wide levels, having some of the attributes of a ‘club good’ (collective benefit which diminishes as the population grows above a certain level). Local people are more likely to agree to finance neighbourhood improvements where the connection between tax and expenditure is most transparent.

- It may well be that economies of scale exist in some capital-intensive local service functions, such as waste disposal – although recent studies have struggled to identify them with any consistency, suggesting that other factors such as quality of management and governance may be more important. But there are certainly economies of smallness, or functions where considerable value can be unlocked by working smart locally.  

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FAIRNESS AND LOCAL CHOICE

The Lyons Inquiry has already advanced an important argument about the value to be reaped from democratic local choice, ranging from better efficiency and outcomes to greater innovation and public trust. It makes three points worth recalling here:

1. “Economic theory, and indeed common sense, argues that since people’s preferences and needs, and the costs of delivering services, vary between areas, then the best way of spending limited resources will be different in different places.”

2. “It is simplistic to define ‘fairness’ in public services as meaning the existence of a uniform national set of public services and a uniform national set of priorities for the improvement of those services, whatever the opinions or priorities of local people.”

3. “Allowing variation in priorities and standards does not presume that local authorities would have to rely on locally raised revenues alone, and I do not see the argument for greater devolution as fundamentally questioning our redistributive approach to local government funding. That said, there are valid questions about efficiency, accountability and incentives… and that is an area I wish to explore further.”

Together, these points provide a compelling rebuttal of the notion that equalisation must lead to uniformity of service provision. They clarify how we can instead understand it simply as a well-founded national norm of redistributing funds from richer to poorer areas, to take account of the fact that the latter can raise less tax, that their communities’ needs are likely to be higher, or both.

After this distribution, the best way to spend the totality of public funds within an area must then be determined substantially by local considerations – including costs, needs, preferences and trade-offs. This understanding leads inevitably to the conclusion that fairness in local public services cannot be judged adequately without reference to local factors such as these – and therefore, local choice can help us to identify options for the public services which are not only more effective but fairer. Far from requiring uniformity, fairness can demand diversity. But public understanding of this will take time to grow. The national habit of postcode lottery angst will erode only gradually, as we realize the value of local choices. Democratic legitimacy is essential if those choices are indeed to be accepted by the public (as some of our recent experience with the National Health Service may suggest).

These conclusions hold in general not only for strategic local government, but also at the very local level of our neighbourhoods, market towns and villages. Concerns about equity have always been used as an argument for restricting local choice. Ironically, the arguments deployed by local government to limit neighbourhood choice precisely parallel those which national government uses to constrain local government from variations of approach. As a corollary of its own case for freedom of manoeuvre, local government should accept that local choice in neighbourhoods can deliver better value without danger to equity.
WHERE'S THE MONEY?
Sources of neighbourhood finance

This paper focuses on public finance at the very-local neighbourhood level, asking "where's the money?". There are five places from which funds can come at this level:

- from all residents through collectively-decided taxation
- from some people on a voluntary basis
- from some people through charges
- from local government and/or other local public services
- from central government.

One thing has become clear: the present neighbourhoods regime, which relies heavily on handouts from central government, is unlikely to be either sustainable or the best approach. We propose that a mix of these financial sources should be available to neighbourhoods. The right policy package will combine the raising of some funds locally through a variety of means, with the drawing down of small fractions of local authority functions and budgets (to avert double funding and recognize the complementary nature of the tiers). Redistribution from rich to poor areas should continue in parallel.

We have recommended a framework of recognition for neighbourhood partnerships or forums, with councils delegating them such powers as they see fit. Community councils (former parishes), because of their independent democratic and statutory basis, are the only neighbourhood-level structures which should on their own initiative be able to raise mandatory taxes and charges or to draw down funds raised at a higher level for duplicated functions. Because of their particular salience to local public finance, we focus on them first.
COMMUNITY COUNCILS
Precepts and a ‘neighbourhood element’

We are recommending two core pillars for first-tier council finance:

- Community councils should be given a new **power of well-being**, freeing them to **raise a precept on the council tax for any purpose** and limited mainly by local public acceptability, but with other checks and balances to prevent abuse.

- Instead of being giving central government grant, community councils should be able to **draw down a ‘neighbourhood element’ of the local authority budget of up to £5 per head of population**, with full discretion as to how it is spent and on the condition that they are prepared to match this pound-for-pound through the precept.

**Power of well-being and precept reform**

Parish council finance is hemmed in by a series of measures that might have seemed rational at one point, but which today appear anomalous and largely arbitrary. The whole system presently acts as a disincentive to the first tier making a mainstream contribution to local governance and service provision, and acquiring greater competence and credibility.

**All community councils should be given a general power of well-being** to remove these limits which circumscribe parish functions and prevent them from innovation and meeting local need. Given the list of micro-powers (allotments, cemeteries) which parishes currently hold, their low profile is not surprising. In his interim report, Lyons noted that place-shaping is the core mission of councils at all levels – right down to the first tier, and that the power of well-being is the tool by which this end can be achieved.

The White Paper has proposed giving a power of well-being only to parishes meeting a flawed Quality standard (currently 3%). We understand that this was motivated mainly by concerns about possible added pressure on the council tax, which is sorely in need of reform. But that caution is misplaced: the power would not extend their ability to raise money, the precept has a negligible impact on council tax overall, and well-being powers have more impact on attitudes than activity at first. The power of well-being should not be withheld as a spur to improvement: it would be a very weak incentive for the few, but a strong stimulus to confidence and innovation for all. Giving the power to all community councils would symbolise how neighbourhood governance should be taken more seriously from now on.

Parishes can already spend up to £5.44 per head for general purposes – but this is constraining and confusing. While we do not expect the general power of well-being to lead to higher precepts in the short term, local democratic choice should be able to decide this. So in parallel with or in the wake of the introduction of the power of well-being, this arbitrary cap should also be replaced by a **more responsive system, with local public**
consent or challenge as the main check on precept rises, possibly reserving roles for local and (exceptionally) central government.

The overall level of first tier precepts is likely to continue to rise as a result of the gradual strengthening of this form of governance, but will remain very marginal as a proportion of public and even local government finance (the current rate of growth equates only to an annual 0.06% of local authority discretionary spending). For more detail on these recommended reforms and their rationale, including a suggested system of limiting precepts principally according to local consent, see Annex A.

We should of course recognize that in a few areas town council precepts approach the level of the district precept, and that in some of these places substantial public disquiet is brewing about too many layers of taxation. The system we recommend, by making the level of the precept more subject to local public consent and open to challenge and debate, would provide a new response to such grievances: if a solid majority of local people are for a lower precept, their voice should be heard. A more extreme option might be to disestablish the town council. We have elsewhere recommended streamlining the establishment, merger and abolition of community councils in response to local demand. A third option might be to petition for a referendum on unitaring the principal authorities. The course chosen should depend on local will and the public consent local democratic bodies are able to muster. An element of healthy competition is not undesirable in some cases, provided that mechanisms for cooperation are also in place.

Finally, the parish precept could be given the more citizen-friendly name of a “Neighbourhood Fund” or “Community Fund”, and appear under that name on the council tax bill. Such a change, while superficially insignificant, might help to clarify how tax-and-spend at very-local level has characteristics of collective funding of club goods rather than state taxation, being in a sense analogous to the service charge in a block or development. If there is local public support for this kind of collective action, it might seem curious for Whitehall to obstruct it through capping.

**Drawing down a ‘neighbourhood element’ of the local authority budget**

As most areas in England are unparished, central government grants should go through principal authorities rather than first tier councils; and we should also expect the vast majority of local tax to be raised at strategic local government level for the foreseeable future. But there is a strong argument for a fraction of these funds to be available to draw down, both as an incentive to strengthen community governance, and based on principles of subsidiarity and double funding. Too many parishes today do not reach a basic level of financial viability, and this is another obstacle to the further development of the tier. Enabling community councils to draw down a ‘neighbourhood element’ of the local authority budget, based on the double funding principle, will provide an incentive for them to raise a basic precept. The national minimum level of neighbourhood element could be set at £5 per head, with councils free to exceed it.

Today, only about a third of people live in parished areas. Even if all community councils were prepared to raise precepts of £5 or more per head (and many parishes today do not), the implication of this measure could not therefore be more than £67 million – less than
0.15% of the £45.5 billion of discretionary local authority spending in 2005-2006.7 Because of resistance to raising precepts among the “long tail” of less active parishes, the impact is likely to be even lower than this. This is a tiny fraction of authorities’ spending in communities; and the best councils already have analogous grant or delegation schemes.

Even in the event that every area in England had a community council and was willing to raise the full matching precept (something which will not happen soon, if ever), local government would only be required to shift £200 million to neighbourhood level — still less than 0.45% of discretionary local authority spending. But these sums, doubled by the precept, would make a massive difference in communities.

Local authorities are likely to reduce their ultra-local services or grant schemes in the area proportionately when transferring decision-making over ‘neighbourhood element’ funds to the community council, to ensure fairness. It is important to understand that this proposal does not involve community councils ‘dipping their hands into the pocket of the commonwealth’ of the wider area, but simply taking responsibility for a small fraction of the neighbourhood funding previously stewarded for them by their principal authority. This could be subject to the same test of public consent as the precept, and after an initial period, access to neighbourhood element funds could be subject to meeting quality standards, and to a service delivery charter being agreed between the local authority and the community council. For more detail on these recommendations, see Annex B.

Countering the inequality of the precept

The current precept system disadvantages poorer neighbourhoods: its basis is the regressive council tax, and the amount raised by a Band D tax of £1 per property varies wildly. In Milton Keynes, the least deprived neighbourhood gets £1.30 per property from every £1 of Band D tax and the most deprived neighbourhood gets only 67p, because of the differential in property values and the typically higher proportion of disabled and single adult households who pay less. The effect is that published Band D tax needs to be twice as high in the deprived parish to yield an equivalent level of funding — although the need for services is arguably higher. This problem is analogous to that of national equalisation. Among councils, these effects are countered by different levels of Revenue Support Grant. But no such framework is available for today’s parishes, despite the fact that inequalities between neighbourhoods are often greater than inequalities between authorities.

A variety of redistributive strategies could be used to counter this, including orthodox regeneration programmes by the principal authority. Central government already contributes, albeit indirectly and opaquey, through council tax relief for the poorest. But in well-parished areas, local government should consider either establishing a formula grant system or providing a higher gearing of, say, up to three times more Neighbourhood Element funds available for draw-down in the most deprived areas; which would also establish a greater incentive to help overcome the barrier to this kind of collective action in deprived areas. The precise formula could be decided locally.8
Democratic legitimacy and quality standards

Community councils need a solid democratic mandate if they are to act as place-shapers and leaders of their communities, speak or make tough decisions on their behalf, achieve credibility with local authorities and other service providers, and raise or draw down significant funds. This can be tackled in large part simply by giving community councils a more serious role in local governance, and thereby raising their salience in the public eye.

But in the July 2006 Young Foundation paper *Local Democracy & Neighbourhood Governance*, we presented some specific ideas for achieving this goal. They include reforms to the Quality Parish framework; involving ward councillors, innovation around democratic mandates, clustering, and more financial support for first tier elections on the part of local and central government. The explicit mandate conferred by contested elections is of particular value, though in some very small communities the opportunity for contestation may be sufficient. We have also offered a set of lowest-common-denominator principles on the basis of which more informal bodies – neighbourhood forums or partnerships – might be recognized by local government and take on delegations, despite not having tax-raising powers. The White Paper package has taken steps toward revising the framework in some of these respects, through a new, broader power of community governance review and more scope for innovative composition.

Certain community council powers – such as the ability to raise funds above the existing £5.44 ceiling, the ability to draw down Neighbourhood Element funds after the first year, or any presumptions in favour of delegated service delivery – might only attach to those meeting democratic and administrative quality standards. However, it is important that the well-being power – as an affidavit of community councils’ place-shaping role, and a stimulus for them to innovate in often quite small-scale ways – is given to all.

LOCAL GOVERNMENT AND THE NEW BEST VALUE DUTY: Opening up functions to communities

The third main reform we are recommending aims to provide a clear common framework for how local authority service provision can be delegated and devolved to communities, so as to improve responsiveness and public value. It suggests a means by which the new Best Value duty to ensure participation - “inform, consult, involve and devolve” – and accompanying reforms to the commissioning framework might in fact be outlined in guidance and/or implemented on the ground.

- We propose that all local authorities should make a “Communities in Control” offer, based on local factors, opening up at minimum the commissioning and delegation of some local government functions and associated funds, and possibly also areas of devolved power. This should be informed by ongoing constructive dialogue with the voluntary and community sector and community councils where they exist, with national inspection as a backstop. In parallel, an offer for influencing
and tailoring can be opened up (addressed below, given their tangential relationship to the arena of local finance).

This measure has three goals:

a. to provide a more balanced, transparent and integrated framework for opening up local authority service delivery
b. to ensure that public value is maximized in this process
c. to help manage the problem of double funding of functions

It should combine and mainstream two existing practices – Parish Charters, which in some places provide a framework for transferring functions and funds to first tier councils; and the growing number of local authority voluntary and community sector commissioning strategies. These practices are however not widely carried through, and are far from fulfilling their purpose adequately everywhere. A recent evaluation found that only 5% of Quality Parishes experienced increased delegation of funding from principal authorities and only 4% additional delegated services. These structures often fail to provide a sufficiently reciprocal framework for dialogue and initiative, and tend, for understandable reasons of institutional interest, to be biased in favour of the status quo.

We propose that, to help work through some of these issues, government establishes a joint working group with the LGA and NALC to assess quality standards and barriers to greater delegation by local authorities to community councils, and to suggest how this could be achieved in future – including through service commissioning, capacity-building and Charter reforms. More delegation from councils is the only incentive likely to drive take-up of Quality status. The LGA and the National Association of Voluntary and Community Action (NAVCA) have already agreed to work together on making the White Paper a reality.

The Communities in Control dialogue should lead to an offer and a framework which are locally specific, but provide real contestability and a level playing-field. As Ruth Kelly recently said, local community bodies should have the right to express an interest in taking on parts of services by function and/or geography (for instance, street sweeping in their neighbourhood), and for their proposals to receive serious consideration. Arrangements might be put in place for non-binding mediation within these dialogues.

This may well require local authorities to reconfigure some of their service contracts over time, as Liverpool is doing with its street cleaning contract: 80% by value will deliver a strategic area-wide service, including the capital-intensive elements of collection and disposal; 20% will be opened up to local social enterprises for small works where they can deliver more economically and intelligently. A similar approach is being taken in Shropshire with the parish councils. Experience shows that while it is possible to go too far in decentralizing services, it can be done cost-effectively and to deliver better quality services.

Through the evolution of LAAs and LSP collaboration, the Communities in Control offer could also start to include aspects of other agencies’ services, for instance public health.
Where services are judged by inspection to be failing, the White Paper suggests that intervention could take place around the offer for that service – although this would involve considering what kind of opening up might help, rather than blindly imposing any particular approach, and the intervention might be not centrally imposed but take place on a peer basis.

We have elsewhere suggested a presumption that where a sufficiently effective and democratic community council exists, it should be able to take over certain ultra-local services such as small parks or street sweeping. This should however probably not be enshrined in primary legislation at this point, and can be explored through the process of making the Communities in Control dialogue and offer more balanced. Giving community bodies and partners transparent opportunities to shape the offer is one way of doing this.
OTHER ASPECTS OF NEIGHBOURHOOD FINANCE

To recap, the principal areas where reform of the national system is needed are:

1. Giving reformed community councils a power of well-being and a new regime around the level of the precept (see Annex A)
2. Giving them the ability to draw down a small ‘neighbourhood element’ of local authority finance (see Annex B)
3. Requiring local authorities to enter into dialogue with community bodies around opening up some of their service functions, and in the context of the new Best Value duty and commissioning framework, make a serious ‘Communities in Control’ offer through which appropriate funds will be transferred alongside functions

This leaves us with a number of secondary questions:

- How could funds be raised for neighbourhood improvements in unparished areas?
- What kind of role could community councils play with respect to other local charges or taxes?
- How should local communities in general be able to influence and scrutinize the spending of mainstream funding in their areas?

Each of these is briefly addressed below.

Raising funds in unparished areas

There are two main approaches which could be taken to raising funds in areas without a community council:

- **Voluntary Neighbourhood Pledges**, under which pledges would be collected from local people to contribute a fixed sum for a specified purpose provided that a critical mass of individuals also committed to do so. This tried-and-tested PledgeBank.org model could be supported and promoted by councils as a light-touch approach. It can also be used to organise co-production and voluntary action.

- **Collectively-decided Neighbourhood Improvement Funds** or “temporary precepts”, under which time-limited funds for a specified improvement could be raised by the principal council through a precept on council tax, provided that the proposal clears certain hurdles in an initiative-and-referendum process. This model has been under consideration by DCLG, although it appears slightly cumbersome and will need democratic legitimacy to be successful.

Other possibilities include raising community bonds (e.g. the CityLife bond in Sheffield). Although the raising of such bonds is more likely to work at a larger geographic scale, their application can be at neighbourhood level. Along a different track, neighbourhood and community bodies can acquire greater solidity and influence by taking on service contracts or delegated budgets and services from the local authority.
Community councils and other local charges and taxes

Parishes are already empowered to issue certain kinds of fixed penalty notice, and to provide parking spaces for vehicles and bikes. There is an argument that they should be empowered to take some responsibility for parking control and enforcement and to retain a percentage of receipts, and that this more distributed approach would lead to an effective and well-functioning system. There may be other charging regimes in which they could take a greater role, either by right or (more likely) through delegation from principal authorities.

Another possibility which may be worth exploring in the event of the relocalisation of the business rate is delegated precepting on the rates. The device of business improvement districts already provides a mutual framework for businesses to contribute in town centres, but is quite cumbersome and has only been taken up by 30-odd areas. Principal authorities could be enabled to delegate the power to precept on the business rate to certain town or city councils at first tier (parish) level. Town councils currently range from around 5000 people up to 50,000 and above, and in a large market town the business community can often support higher rates if those are channelled into services which support their interests. There is even a possibility that the next phase of unitarisation may lead to some county towns (e.g. Shrewsbury, with almost 100,000 people) becoming first tier bodies, and it would be curious if they had no link to business rates. There is a strong argument for a relationship of accountability between local business and town councils at this kind of scale. It might alternatively be worth considering an independent but tightly-capped power to precept on the business rate for town councils of say 10,000 people and up.

Influencing mainstream budgets

In both parished and unparished areas, local communities should have more ability in future to influence and scrutinize how mainstream budgets are spent in their areas, from planning through to delivery. While this is not strictly a finance issue, and we have explored it at some length elsewhere,14 greater public influence over public spending is of vital importance to the future functioning of local governance in general, and therefore worth re-emphasizing in this context. In some cases this may involve helping to shape area-wide priorities. In others it may extend to helping to tailor the profile of service delivery in a neighbourhood. Often, the first step required may be greater transparency about what is actually being spent in neighbourhoods.

We have been recommending that to help drive these changes, a duty of public involvement in decision making should be given to councils and their partners, accompanied by reforms to the statutory consultation framework. Significant resources are currently being invested in consultation processes of questionable value through the current Best Value duty compliance regime, and this often frustrates local people; those resources could be shifted into a more creative framework for public involvement and constructive influence, determined through co-governance. The new Best Value framework proposed in the White Paper will help such a future be realised.

Functions amenable to public influence could be identified at the same time as service functions are being analysed for possible opening-up or devolved delivery, with influencing
and tailoring being two other options. Such opportunities may be publicized in parallel with Communities in Control offers, as well as in the context of ordinary council business.

**Next-generation LAAs and participatory budgeting**

More strategic public participation in planning, budgeting and priority-setting should also take place through next-generation Local Area Agreements. In their present form, LAAs are also a compliance regime, focused on a conversation with Government Office over national targets and the negotiation of freedoms and flexibilities. But a lighter-touch national performance and finance framework should open up both the chance and the imperative for **more bottom-up, participatory LAAs.** This may include cascading priorities and funds up and down through smaller area and neighbourhood agreements or charters, and involving a wider range of local services in the agreements, as well as more citizen participation in the overall process through simple and accessible means. Some of the recent experience of **participatory budgeting** in places like Bradford, Harrow and Salford – as well as the Porto Alegre example – can inform the development of these processes.
CONCLUSION
From Whitehall initiatives to local legitimacy

The financial reforms outlined in this paper are based on principles of local choice, democracy, and making public services responsive to collective as well as individual choice. They are designed to help more effective and democratic community governance evolve over time. While technical in places, they are far more straightforward than the complex patchwork of initiatives which Whitehall has scattered here and there in attempts to fill the vacuum of ultra-local governance in recent decades, each with its own ream of guidance, from Estate Action and the Single Regeneration Budget to the New Deal for Communities.

In future, neighbourhood governance should grow and gain power based on local demand and needs. It should not be parachuted by central government onto local communities in ways which have sometimes damaged community cohesion or local partnerships, and have never reached most of the thousands of neighbourhoods across the country. Bypassing local democracy has turned out to be a cul-de-sac. Instead, we need to help it grow roots.

Strengthening strategic local government to hold the ring

It may be hoped that future reforms flowing from the Lyons Review and the gathering government agenda will lead to the raising of more local government finance locally and to greater autonomy for councils. These reforms are equally desirable from the perspective of effective neighbourhood governance. On some issues, the route to achieving an outcome will involve seeking to influence the decisions of the principal council, and this becomes less possible if local priorities are determined mainly by Whitehall. It is therefore important for good community governance that real power and autonomy should also exist at the level of strategic local government. Principal councils will need to hold the ring, to redistribute resources, to act as stewards for communities which have not organized themselves, and occasionally to intervene when things go wrong.

The vast majority of local finance will in future still be raised by local and central government, rather than at the ultra-local level through precepts and other measures. Under the system recommended here, principal authorities should control the vast majority of local finance. They should have substantial tax-raising powers and typically receive whatever grants come from central government. Only where there is an adequate community body in place will they be required to transfer a small fraction of this downward: through a basic amount of neighbourhood element funding to communities prepared to match it with a precept (and where functions are delegated or devolved, by transferring sufficient financing to cover the full cost of delivery).

Redistribution and equality

Councils will have to continue paying considerable attention to redistribution between rich and poor neighbourhoods, and “closing-the-gap” investment. They will, as today, be dealing with a patchwork of parished and unparished areas and many different levels of precept-funded spending, so this challenge will not be of a different order. The particular inequalities
which can result from double funding should be largely removed by clarifying the dialogue around delegated functions and provisions for a Neighbourhood Element. A new tool for redistribution could be to set differential levels of match funding under this Neighbourhood Element (e.g. up to triple match funding for the most deprived) at local level.

Given the diversity of neighbourhoods, uniformity of provision should not be the touchstone for liveability and community services. Greater responsiveness to local needs, preferences and other factors is necessary if the best outcomes are to be achieved. Fairness and diversity need not be opposed, but can reinforce each other: Even in major centralized public services such as health, education or policing, deprived areas often receive lower-quality service. In these cases, neighbourhood influence and tailoring, while often creating more variety in the nature of service provision, can assist in achieving fairer outcomes.

**Central government’s role: reforming the system, improving incentives, pump-priming local capabilities**

Regular grants made directly from central government to community councils would really only make sense if every one of these first tier bodies fulfilled a core set of functions, and if they existed for every area in England; otherwise the system would risk becoming inequitable. The permissive framework anticipated for neighbourhood governance is likely to lead to a diverse patchwork of arrangements, with many areas lacking community councils. For this and other reasons, at least for the medium term, direct grants from central government to first tier councils seem inappropriate. Instead, central government has three vital responsibilities:

1. To reform the system of democratic local governance to make it more responsive and integrated, in particular by empowering and freeing up local government and by making the parish framework fit for the twenty-first century.

2. To reform incentives through the Comprehensive Spending Review and new performance frameworks, pressing for a shift toward locally decided outcomes, and driving cross-Whitehall buy-in to LAAs that permit communities to set priorities and focus money across the local public services. Incentives for cross-silo innovation should be strengthened creatively through Invest to Save as well as the “third generation of reward grant” mooted in the White Paper, so that where local initiatives have a significant impact on other public service outcomes, this can be reflected financially.

3. To support building capabilities for local authorities, community councils, elected representatives and community groups, so that they can take full advantage of the new system of local governance. Given the system-wide need, this should be done principally through intermediaries such as associations of community councils and umbrellas like IDeA, not direct grants to local bodies.
ANNEX A
Precepts and the power of well-being

We are recommending that the main tax base for local community councils should continue to be precepting on domestic property taxation, because the link thereby created between residents and council is the most salient one with regard to the key functions gravitating toward this level. At present, parish and town councils have a lengthy but restrictive list of powers relating to specific issues such as allotments, cemeteries and village halls, and can precept or request funds from the local authority for these. They also have a power to precept for general purposes, presently capped at £5.44 per elector.

This framework is archaic and restrictive. We are recommending that it should be made clear that the principal purpose of community councils is to improve local liveability in its widest sense (community safety, environment, activities and infrastructure), and that these issues could be the focus of any delegated or drawn-down powers. But all community councils should have an independent general power of well-being to enable them to innovate, respond to unpredictable local circumstances and needs, provide a wide range of top-up services, and in general act with greater confidence. This power of well-being provides a vehicle for the place-shaping role of local democratic governance. Extending it to all first tier councils will be an important symbol of their new status.

It has been argued that the power of well-being should be confined to the top 3% of “Quality Parishes”, either because they will be better able to use it, or as an incentive for achieving Quality status. However, our consultations indicate that the power of well-being is only a weak incentive, and that it may have more value as a stimulus and remover of barriers for all. The kinds of innovation it will permit – filling the holes between statutory services – are at a premium, but will often begin as modest, small-scale interventions, not necessarily requiring the mandate of a Quality scheme which has a severe credibility problem and is in need of considerable improvement.

The power of well-being – and the level of precept raised – should not be subject to any preordained cap, instead being limited mainly by local people’s wishes and backstops of local and central oversight. These safeguards could include:

- Putting the level of precept to a public meeting\textsuperscript{15} and giving citizens the right to challenge it, for instance through community initiative processes
- Limiting the rate of precept increase to e.g. 15% per annum, except –
  - \textit{de minimis} below a level of e.g. £50,000, or
  - with the principal authority’s approval, or where a local ballot has explicitly shown majority public support for the proposed increase
- A reserve power of capping could be held by central government – although we would recommend serious consideration is given to ending the capping of local government expenditure in general, except perhaps for extreme cases

Some have expressed concern about the rapid rise in the overall level of parish precepts, which has almost doubled over nine years -- from £133m in 1996-1997 to £260m in 2005-
2006. But this only to be expected for an emergent tier of mainstream governance and service delivery, and it will remain marginal. The precept stands today at 0.57% of local authority discretionary spending. Even if it doubled again over the next decade, the annual increase in total local government spending would be just 0.06%. Even a reserve power of capping with implementation largely delegated to local authorities is unlikely to be needed.

Freeing up finance and access to delegated services will function as a better incentive for achieving quality standards than the power of well-being. The review of the Quality Parishes scheme shows that non-Quality Parishes, on average much smaller, are more likely to be pushing the £5.44 limit on general-purposes precepting, because they tend to do more innovation in between statutory services and less day-to-day service delivery. There are a number of options for incentives to improve:

- the drawdown of a Neighbourhood Element (see Annex B) could be made conditional on meeting quality standards
- the £5.44 limit could possibly be retained for non-Quality Parishes, though this could be complex and we would prefer a wholesale move to the more responsive system based on local consent
- most importantly, for bodies meeting national and local quality standards, there could be more of a presumption that they can take over certain ultra-local functions, and a transparent system for judging this.

The review by Defra of the Quality Parishes scheme needs to take full account of how this tier of governance is changing, and to work with the Local Government Association and the National Association of Local Councils on the question of better incentives through the joint review we have proposed.
ANNEX B
Drawing down a neighbourhood element

It is the view of some experts that many parishes fall below the threshold for financial and administrative viability. This is for a variety of reasons, and areas with very small populations may benefit from more clustering and shared services. But two critical factors interrelate: the lack of grant-in-aid, and reticence about raising precepts. This tight financial situation establishes a vicious circle, often constraining parishes from holding elections or engaging in the democratic processes which would give them more credibility with other agencies and the general public.

To shift these factors and begin to provide a basic level of finance for local community councils, we propose that they should **have the right to draw down from the local authority a basic neighbourhood allowance of up to £5 per head of population** – but only where they are prepared to **match that allowance pound for pound through the precept.** This could be called the “neighbourhood fiver”, or “five quid gets you ten”.

This would mean in practice that a neighbourhood council of 5000 people would be able to draw down up to £25,000 from the principal authority (split evenly in two-tier areas), but only if it were willing to raise a precept of at least £25,000. It could then have a basic budget of £50,000 - half raised directly from local people, half drawn down from the much larger amounts of mainstream tax raised centrally and locally. If it was only prepared to raise a precept of £10,000, it could only draw down £10,000.

Matching the first £5 per head of precept with a neighbourhood element would take account of the overlap in functions with the principal authority, while creating a strong incentive for local community councils to put themselves on a more solid footing, and to raise small amounts from local people to invest in the area while leveraging in equivalent sums. The neighbourhood element could be made available in the first year to help cover start-up costs. It could later be made conditional on the achievement of quality standards, and on a charter being agreed between the local authority and the community council.

The community council would be bringing its own new resources to the table through the precept, which could be an incentive for local government to fulfill its new responsibility more gladly. Although these funds would leave the direct control of local authorities, they will be spent on activities which are core to local government duties, such as strengthening community leadership and improving local liveability. The case might then be made that there is no new burden, although this should be assessed carefully.

If no new money is made available by central government in respect of this reform, we anticipate that councils might switch existing funds spent in the area, for instance by cutting discretionary spend on tree-planting or youth services, and leave to the neighbourhood council the responsibility for deciding whether to continue these activities or to do something else of greater local importance. Given that new matching funds from the precept will also be available, this should not destabilize local affairs – provided that the principal authority does not use the change as a pretext for larger disinvestment.
In areas with a patchwork of neighbourhood governance, local government might choose to separate out the “Neighbourhood Element” funds for all areas – accounting transparently for how it is spending it in areas without community councils, and requiring the same accounting from community councils. In other areas local government might encourage the spread of community councils and their taking up of the full allowance, in the knowledge that this will lever in significant precept funding.

Indeed, while a national minimum of £5 per head should be set, local authorities could decide to increase the ceiling for the neighbourhood element to £10, £20 or even £50 per head – or to offer a more favourable “gearing” for deprived areas where it is harder to raise a precept, e.g. through double or triple match funding.
ANNEX C
How neighbourhood finance could work

In a neighbourhood with a community council (reformed parish):

- Local authority budget
  - Financial redistribution
  - Delegated service budgets
  - Neighbourhood element
- Precept
- Charges etc
- Asset yield

>95%

Funded by LA taxes & charges + central grant
Funded at neighbourhood level

"Friendlyton Neighbourhood Council"

Public agencies & community service providers

Influence & tailoring

In a neighbourhood with a forum or partnership:

- Local authority budget
  - Financial redistribution
  - Neighbourhood element
  - Grants
  - Delegated service budgets
- Neighbourhood Pledges or Improvement Funds
- Asset yield

>98%

Funded by LA taxes & charges + central grant
Funded at neighbourhood level

"Homelyville Neighbourhood Partnership"

Public agencies & community service providers

Influence & tailoring

THE YOUNG FOUNDATION
The Young Foundation is a unique organisation that undertakes research to identify and understand social needs and then develops practical initiatives and institutions to address them. The Transforming Neighbourhoods programme is a research and innovation consortium on neighbourhood governance and empowerment. It brings together government departments, local authorities, community and research organisations including the Department for Communities and Local Government, the Home Office, the Local Government Association, the Improvement and Development Agency, the Joseph Rowntree Foundation, Community Alliance, the Commission on Architecture and the Built Environment, the Housing Corporation, Birmingham, Camden, Haringey, Knowsley, Lewisham, Liverpool, Newham, Sheffield, Staffordshire, Suffolk, Surrey, Tower Hamlets, Wakefield, Waltham Forest and Wiltshire.

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NOTES

1 Double Devolution: the renewal of local government, editors Geoff Mulgan & Fran Bury (Young Foundation & Smith Institute, 2006). See www.youngfoundation.org for the papers and outputs of the Transforming Neighbourhoods consortium.


3 Closer to People (Local Government Association, July 2006)

4 We understand that government intends to change the name of the underlying geographic area from “parish” to “community area”, so a change of the umbrella name to “community councils” seems the most logical course.

5 Closer to People

6 Unpublished Cabinet Office report on economies of scale

7 The £45.5 billion figure is based on 2005/2006 local authority expenditure, excluding the dedicated schools grant.

8 These ideas have been informed by communications with Cllr Kevin Wilson of Milton Keynes and Woughton Parish Council, also IDEA’s lead Labour member; and Peter Lacey of the National Association of Local Councils and the Somerset Association of Local Councils.

9 Henry Tam of the Civil Renewal Unit in DCLG should be credited for suggesting the name “Communities in Control” for the service delegation offering.

10 Evaluation of the Quality Parish scheme, University of Aberystwyth for DEFRA (unpublished, forthcoming)

11 Ruth Kelly speech to Bellingham Neighbourhood Seminar (DCLG website, July 2006)

12 See both Local Democracy & Neighbourhood Governance (Young Foundation, 2006) and The potential for neighbourhood involvement in public services (Young Foundation, 2006)

13 These examples are based on personal communications with senior figures in Liverpool and Shropshire.

14 The potential for neighbourhood involvement in public services (Young Foundation, 2006)

15 The precept is already put to public meetings in many places, for instance in Seneley Green Parish Council, chaired by Ken Cleary of the National Association of Local Councils. The Indian panchayati raj reforms have given neighbourhood-level participatory assemblies co-decision and scrutiny powers over finance.