

<b>MEETING:</b>	<b>SCHOOLS FORUM</b>
<b>DATE:</b>	<b>2 MARCH 2011</b>
<b>TITLE OF REPORT:</b>	<b>MUSIC SERVICE FUNDING AND DEFICIT</b>
<b>REPORT BY:</b>	<b>HEAD OF HEREFORDSHIRE MUSIC SERVICE</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide.

### **Purpose**

To consider alternative options for providing Music Service provision in the authority, due to the combination of charging rates and the reduction of LA and central Government funding.

### **Recommendation(s)**

**THAT:**

- (a) Schools Forum considers meeting the costs of a one-off grant for £190,000 or part thereof to clear the accumulated budget deficit;**
- (b) And/or that Schools Forum considers making a contribution towards the deficit with an annual contribution of £25,000 to be reviewed after 5 years and;**
- (c) That Schools Forum gives an opinion to the Local Authority on the proposed recommendations for New Models of Business for the Music Service from September 2011**

### **Key Points Summary**

- Herefordshire Music Service has an accumulating deficit budget due to a number of issues including a large reduction in its funding, historical charges for lessons set below cost and difficulties with raising charges
- A range of new sustainable Business Model options is being considered and the service is currently in a 30 day consultation period. This will enable a more cost efficient service to pupils, parents and schools, whilst maintaining high quality provision
- Despite making significant savings, the deficit and financial security of Herefordshire Music Service is at a point that the viability of the service is unsustainable unless there are changes

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Further information on the subject of this report is available from  
Cliff Woollard, Head of Herefordshire Music Service on (01432) 260840

## Alternative Options

- 1 The music service in its current form of operation is financially unsustainable and cannot provide high levels of services to schools and our young people at subsidised rates. Alternative stable business models have been explored and are set out in this report. Should no option be taken forward Herefordshire Music Service will cease to operate.
- 2 Closing the Music Service would have the impact of reducing opportunities for Herefordshire's Children and Young People. It would restrict access to regional events and leave the LA and Schools in a much weaker position when bidding for the new national 'Music Hubs' grants in 2012.
- 3 There are many effects of closing Herefordshire Music Service. These include:
  - Loss of a cohesive approach to music education across the entire county
  - Loss of support training and quality assurance for peripatetic instrumental music teachers. This could result in falling standards and attainment and impact upon the opportunities for children and young people and their achievements for music GCSE. Currently 2500 pupils receive traditional instrument lessons. This would also place the responsibility for delivery and quality assurance upon schools.
  - The ceasing of current Wider Opportunities projects which offer free lessons and instruments to pupils at KS2, (800 pupils). This would also result in a loss of further Government grant funding
  - Loss of the impact that learning a musical instrument has upon raising the attainment of pupils, in addition to numerous personal, social and team-building developments
  - Loss of Co-ordination and support for primary music/singing and links with SingUp
  - Closure of Herefordshire Youth Music's youth bands, orchestra's and ensembles and its associated effect on 350 pupils, parents and the community as a whole
  - Loss of connection and development opportunities across the region and in national music events

## Reasons for Recommendations

- 4 To ensure the future financial stability of Herefordshire Music Service, in order to avoid its closure ahead of changes to national funding from 2012, and enable a cohesive approach to music education in Herefordshire.
- 5 To ensure that high quality instrumental, vocal, classroom, Wider Opportunity and other projects are provided to and accessible for all pupils in all schools across the county – regardless of background or location.
- 6 To strengthen and ensure continued support to schools, including CPD for class teachers, advisory and development support and coordinated, cost-efficient instrument hire, and the continued existence of the Herefordshire Youth Music Centre.
- 7 To ensure that the Music Service/LA can completely fulfil all the requirements of the use of the Music Standards Funds grant for the benefit of the children and young people.

## Introduction and Background

8 Herefordshire Music Service receives funding through national grants and trading with schools. See Table 1 below.

Table 1: Grant funding and traded income

National Grants		
£219,000	Main music Standards Funds Grant	Non- inflationary
£73,000	Wider Opportunities Standards Funds Grant	Non- inflationary
Trading		
£500,000	School traded income	
£30,000	Musical Instrument hire	

9 For approximately ten years, Herefordshire Music Service ran with an operating deficit due to charges not meeting costs, which was subsidised by savings in other areas of Children's Services. This was found to be unsustainable and at the end of 2008/09 a decision was taken not to continue to cover the costs of the deficit. As a result the music service recorded a deficit of £123,000. See Table 2 below:

Table 2: Funding 2002-2011

Financial Year(s)	Funding from LA	Music Standards Funds	Total Funding	Reduction in funding since 2008
2002-2008	150K (average)	219K	369K	NA
2008-2009	0	219K	219K	40%
2009-2010	0	219K	219K	40%
2010-2011	0	219K	219K	40%
2011-2012	0	197K	197K	<b>46.5%</b>
2012-2015	0	Bidding system – awaiting further details from DFE		?%

- 10 In order to address the reduction in funding, the hourly rate charged to schools was increased in the Schools SLA (May 2009) from £27 to £32 an hour. However, a member of Schools Forum raised their concerns about the large increase and it was discussed as an urgent item on the Schools Forum agenda in June 2009, whereby it was decided to challenge the price increase. Many schools indicated they would withdraw from the service should the increase go ahead. As the decision was taken not to increase charges, the demand from schools (and the provision to children and young people) remained nearly identical for the following academic year. The impact of this upon delivering 20,000 hours of provision reduced the income to the Music Service by £100,000. As a result, a proposal was made to Schools Forum in December 2009 for £100,000 (from the DSG under-spend) to help address the issue. Schools Forum declined this request.
- 11 Herefordshire Music Service has made demonstrable improvements over the past 18 months despite financial challenges. The audit of 2009 graded the service as 'unsatisfactory.' All 23 areas of concern had been addressed by the time a follow up audit in January 2011. The Peer Moderation report of 2009 noted that the Music Service was not meeting the Governments Aspirations for Music whereas the most recent moderation rated the service as satisfactory.
- 12 In order to address the financial stability of the service, The Head of Music Service has implemented the following key actions:
- A two phase restructure
  - Streamlining administrative support
  - Reducing management
- 13 This has resulted in major savings of £80,000 per annum related to management cuts and reduced expenditure, particularly in instrument purchases.
- 14 The impact of these actions has been to reduce this years overspend from £132,000 to £30,000.
- 15 To summarise overspend see Table 3 below:

Table 3: Cumulative deficit

Deficit 2008/09	£123,000
Deficit 2009/10	£37,000
Deficit 2010/11	£30,000
Total deficit March 2011	£190,000

This evidences a concerted approach to a reduction in the deficit since 2008.

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Henley Review of music education (February 2011) outlines the following:

- Commitment to funding music services for 2011/12
- 2012 introduction music hubs with LA music services as the lead role
- Commissioning model to be developed

17 Herefordshire's settlement for Music Standards Funds for 2011/12 will be reduced by up to 10%. From 2012, it is understood a new 'bidding system' will operate.

18 In the current financial climate, a service operating at a loss is not sustainable and immediate action is required to put the service on a sound financial footing.

## Key Considerations

19 Schools Forum contributes to the accrued deficit of £190,000 through a one off allocation in order to secure service delivery until the service is restructured inline with new central government policy.

20 Schools Forum funds £25,000 per year for 5 years to be reviewed in 2016.

21 Schools Forum considers a combination of the above two proposals to help meet Music Service costs; and

22 That Schools Forum gives an opinion on the proposed recommendations for New Models of Business for the Music Service from September 2011 as detailed Music Service Staff Consultation Document (Appendix 1):

- a) Significantly raising the hourly rate charge to schools e.g. £40 per hour
- b) Changing pay and conditions of peripatetic staff to the Herefordshire Council pay-scale
- c) Accredited Teacher Scheme - This could only be considered if the budget deficit had been addressed as part of Recommendation 1
- d) Non-Accredited Teacher Scheme - This could only be considered if the budget deficit had been addressed as part of Recommendation 1
- e) Externalising the Music Service

## Community Impact

23 Over 3,000 pupils access Herefordshire Music Service every week. 2500 pupils receive music instrumental tuition and approximately 500 primary pupils receive whole class Wider Opportunities music activities. The Service teaches traditional instrumental lessons to over 11% of the county's pupils, compared to a national average of 8.4%. A very high percentage of schools (94%), access the service on a regular basis. Public concerts and events (including support for charities such as the Rotary Club and Help for Heroes) are high profile and well known in the community.

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## Financial Implications

- 24 There is a requirement to address the current annual operating loss (£60,000 in 2010/11 reduced to £30,000 by the one off sale of surplus music instruments) and the cumulative deficit if schools and Schools Forum want the music service to continue. Agreement from Schools Forum for a modest regular contribution will significantly help to recover the deficit and protect the Music Service as an on-going service for schools
- 25 The accumulating deficit is predicted to be £190,000 by March 2011 and this has to be taken into account for all options. Unless revenue can be increased and/or costs decreased, the deficit would continue to grow leading to inevitable closure of the Music Service. The Council cannot operate a service with a deficit budget.
- 26 The £71,000 grant for Wider Opportunities projects is partly cross-subsidising the general instrumental lessons. Whilst there will always be overlap, this specific grant should not be used for 'topping up' the general budget.
- 27 The options as set out in the Herefordshire Music Service staff consultation paper are

1. Raising the hourly rate charge to schools

The minimum hourly charge rate to schools must be set at £40 per hour in order to cover the on-going costs of the Music Service. This may be made less onerous on schools and parents by increasing the percentage of group lessons where costs can be reduced by sharing over more pupils. If there is price resistance from schools then there will be a gradual erosion of business and corresponding reduction in music teachers which will eventually incur redundancy costs of £350k.

2. Changing the pay and conditions of peripatetic staff to Herefordshire Council pay scale

As an alternative to raising the hourly charge to schools, the pay and conditions of the music staff are reduced to meet the level of income. This would incur redundancy costs of £350k and not make any contribution to the accrued deficit of £190k.

3. Accredited teacher scheme

Financial analysis indicates that this option will make a one-off surplus in 2011/12 of £96k and an on-going annual surplus of £15k whilst incurring redundancy costs of £350k. On this basis it would take 30 years to recover the cost of the accumulated deficit and redundancy costs.

4. Non Accredited teacher Scheme

Financial analysis indicates that there would be a one-off surplus of £120k in 11/12 and an on-going annual surplus of £50k per year. On this basis it would take 9 years to recover the cost of the accumulated deficit and the redundancy cost.

5. Externalising/Contracting out the Music Service

Financial analysis indicates that there would be a one-off surplus in 2011/12 of £109k and an annual surplus of £47k per year. On this basis it would take 10 years to recover the accumulated deficit and redundancy costs. It is likely that following externalisation (if possible) that the new music service would have to increase costs on a similar basis to option 1 above in order to ensure that it covers the cost of providing the service.

Options 3, 4 and 5 all assume that the Music Service Standards Fund grant continues at a

reduced level of £242k per year from 2012/13.

#### 6. Schools Forum to contribute towards the deficit.

A modest contribution from Schools Forum of say, £25,000 per annum would over a ten year period provide a significant contribution to the School Music Service. It would reduce the payback period of options 4 and 5 to between four and five years which make both options extremely viable when compared to the alternatives.

If Schools Forum prefers option 3 then a larger contribution from both on-going revenue and a one off grant from potential underspend would be required.

A contribution of £25,000 per year is equivalent to a cost of £1.10 per pupil. If there is an underspend in Dedicated Schools Grant for 2010/11 then this could be used to perhaps reduce the £1.10 per pupil subsidy to say five years or allow the choice of option 3. Any underspend will not be known until June 2011.

#### 7. Closure of the Music Service

This is the least favourable option since the accumulated deficit of £190k will not be recovered and the redundancy costs will be higher at £400k.

Options 4 & 5 provide the only financially viable choices for the music service and a contribution from Schools Forum can help to retain the service for the benefit of future pupils. If option 3 is preferred then a greater contribution from Schools Forum e.g. £190k will be required.

Under options 3 & 4 there would be cost savings to schools by the reduction or removal of time spent on invoicing parents. This would save a lot of office/bursar time. In addition schools would no longer bear the financial risk associated with ordering instrumental lessons, as there is often a gap between what is charged and what is actually collected in.

## **Legal Implications**

- 28 Legal advice has been sought with regards to the contracts for staff under the Accredited Teacher Scheme and also in relation to staff contracts for Music Centre and Wider Opportunities work. Teachers would need to be employed to carry out Wider Opportunities and class teaching as well as Music Centre. The duties of an 'Accredited Teacher' would be acceptable as self-employed from a legal perspective.

## **Risk Management**

- 29 The financial risk of the service remaining the same, is significant for the Directorate (in excess of £60,000 deficit each year), adding to the accumulated deficit.
- 30 The risk of increasing the lesson costs significantly will inevitably lead to a high drop out rate from schools buying in the service, leaving the service with gradual staffing reductions, which could be difficult to manage and also cause further financial instability. In addition it then threatens the provision to other schools because the service becomes less viable – threatening provision to even more pupils.
- 31 There is a risk to the LA that the Music Service Standards Funds Grant and the Wider Opportunities Grant could in the future be used in ways other than supporting a central County music service. For example, previously Wider Opportunities funds were delegated directly to schools and there was no central support and coordination for what has now

become a successful primary programme which has given many children in Herefordshire access to specialist music teaching and activities..

- 32 Music Standards Funds (including the Wider Opportunities grant) are secure for 2011/12. However, there is further risk as it is still unclear from 2012 onwards (awaiting Government decisions).
- 33 Note also the risks associated with the Music Service closing, as listed under 'Alternative Options.'

## **Consultees**

- 34 The Music Service through meetings and informal conversations with stakeholders takes views from schools, parents and pupils. It is acutely aware of the impacts to the service, schools and pupils if the hourly charge rate for instrumental teaching becomes too high. Various meetings have also taken place with Senior LA Officers (including the former Interim Director of CYPD). Music Service Senior Managers and Office Team have also contributed to some of the proposals. The views and decisions of past Schools Forum meetings have also been taken into account.
- 35 As the Music Service is currently under consultation with all staff, staff and unions have until 3 March to contribute their viewpoint.
- 36 External research, meetings and advisory support from: Ernst & Young Music Services report (unpublished), Federation of Music Services, 8 Heads of Music Services (including Derbyshire and Somerset in an advisory capacity), and the National Music Participation Director (DFE).

## **Appendices**

Appendix 1: Music Service Staff Consultation Document

## **Background Papers**

Henley Music Education Review

<http://www.education.gov.uk/publications/eOrderingDownload/Music%20Education%20in%20England%20-%20A-Review.pdf>