

HERTFORDSHIRE COUNTY COUNCIL

**EDUCATION, LIBRARIES & LOCALISM CABINET PANEL
TUESDAY, 6 FEBRUARY 2018 AT 10:00AM**

**TO CONSIDER THE FUTURE OF HERTFORDSHIRE MUSIC
SERVICE**

Report of the Director of Children's Services

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Executive Member: Terry Douris, Education, Libraries and Localism

1. Purpose of the Report

- 1.1 To inform the Cabinet Panel of the position of Hertfordshire Music Service following the withdrawal of Education Services Grant (ESG) and the emerging proposals for future arrangements for the Hertfordshire Music Service.

2. Summary

- 2.1 Hertfordshire Music Service (HMS) is one of the largest and most successful music services in the Country with a national reputation for excellence and opportunity. HMS has a presence in most major Hertfordshire towns, in the form of both school based tuition and music centres. The service is highly regarded within Hertfordshire for both the quality of service and the broader set of “common good” activities that it undertakes which the wider private sector market alone does not provide.
- 2.2 The Government’s withdrawal of Education Services Grant, £2m of which currently both directly and indirectly (through corporate overheads and recharges) supports HMS’ activity annually, necessitates reduction in the level of Council support. Nationally, the transition of Music Services to zero cost to Councils has been ongoing for a number of years following a significant structural change to the funding of music education. In 2012 the Department for Education moved from funding Local Authorities directly to the creation of the Music Education Grant, managed by Arts Council England (ACE). This change, which included the implementation of a revised funding formula, coupled with wider funding pressures for Local Authorities, resulted in some music services developing governance models and legal structures designed to mitigate loss of income through new income generating opportunities. Consequently, a number of Music Services have been operating at nil cost to their Local Authority as HMS is seeking to transition to following ESG withdrawal. It is evident from these services that the greatest successes have been achieved by those which acquired charitable status and are accessing a

range of income generation opportunities; including gift aid, corporate donations and other charitable giving. Initial high level financial modelling indicates that if HMS were to access additional income through charitable giving then its reliance on Council funding could be reduced. It is likely, however, that a package of transitional support from the Council will be needed for a period in order for the organisation to operate on a long-term sustainable trajectory.

- 2.3 This report explores the lessons learned from other Music Services and concludes that, in order to meet the substantial funding gap resulting from the withdrawal of ESG without significantly reducing HMS' services, there is a business case for acquiring charitable status and operating outside the direct management of the Council. Further, that this should now be explored in detail and presented to Cabinet in 2018.

3. Recommendations

- 3.1 That Panel recommends to Cabinet that Cabinet:

- (i) confirms the Council's commitment to supporting the purpose of the Music Service – namely the opportunities it can provide to young people to learn to sing and to play instruments, develop their skills and participate in and enjoy music, and its wider contribution to the cultural and social life of the county;
- (ii) supports the principle that Hertfordshire Music Service acquires a charitable or other appropriate status to allow it to operate outside the direct control of the Council;
- (iii) requests that the Director of Children's Services produces a detailed analysis of appropriate business structures, financial plan and business case in support of (ii) together with any appropriate transition plan to be presented to Cabinet for consideration in 2018.

4. Background

- 4.1 The Council has directly managed HMS for 60 years; under its stewardship the service has grown from a rural schools music association to one of the largest and most successful Music Services in the Country with a national reputation for excellence and opportunity. HMS is held in high regard by the citizens of Hertfordshire. The work of HMS has been recognised by the National Music Council and Music Education Council on nine separate occasions, most recently in 2016. In addition to traditional tuition, orchestras, bands and ensembles (including high quality County level ensembles) it has a flourishing Rock and Family music programme. HMS has a nationally recognised Special Educational Needs and Disability (SEND) Team and a Music Therapy Team. HMS supports between 1300 to 1500 children annually from financial disadvantaged backgrounds and works with a significant number of partner organisations within Hertfordshire, regionally and nationally.

- 4.2 HMS has a presence in most major Hertfordshire towns, in the form of both school based tuition and music centres. The network of music centres is detailed in Table 1 below. Music centres are key to delivering tuition after school and at weekends as well as housing the broader musical infrastructure such as ensembles, bands and orchestras. Music centres are integral to the HMS model as they provide the pathway for gifted and talented musicians together with the infrastructure for orchestras and performances which underpins the excellent reputation of HMS among Hertfordshire citizens.

Table1: Hertfordshire Music Service Music Centres

Music Centre	Location
Baldock Music Centre	The Knights Templar School
Berkhamsted Music Centre	Greenway School and St Thomas More School
Bishop's Stortford Music Centre	Birchwood High School
The Broxbourne Music Centre	The Broxbourne School
Dacorum Music School	The Hemel Hempstead School
Hertford & Ware Music Centre	Simon Balle School and Presdales School
Mid Herts Centre for Music & Arts	Birchwood Avenue Hatfield
North Herts Music School	Hitchin Girls School
Potters Bar Music Centre	Dame Alice Owen's School
Royston Music Centre	Meridian School
St Albans Music School	Townsend C of E School
Stevenage Music Centre	The Nobel School
Watford School of Music	Watford Boys Grammar School

- 4.3 HMS employs over 520 teachers and delivers tuition to 28,000 children annually across Hertfordshire. HMS is a service that undertakes a broader set of “common good” activities with a focus on inclusion and opportunities providing pathways to excellence. The core purpose and activities of HMS are closely aligned with the Council’s corporate plan, ensuring both the opportunity to take part and to thrive. Moreover, HMS supports core educational objectives ensuring a broad and balanced curriculum, narrowing the attainment gap through the remission of fees scheme and supporting the aspiration of a good school for every child.
- 4.4 HMS is more than a traded service delivering musical tuition; it is unique given the significance of its infrastructure in enabling broader educational and cultural impact. Whilst there are other trading organisations offering musical tuition in Hertfordshire, none offer comparable pathways to

excellence for young musicians through galas, ensembles, bands and orchestras whereby musical talents can be progressed and enriching cultural experience.

- 4.5 In 2016/17 HMS had income of £9.2m which was secured through instrumental tuition fees, traded activity with schools and the ACE Music Education Grant. Direct expenditure was £10.3m with the Council providing support for the deficit (£1.1m) as well as overheads (£0.9m) of circa £2m or 20% of expenditure, which to date, has been funded in the main from ESG. The Government has withdrawn ESG from all Local Authorities with no replacement funding stream planned. It is clear that reducing HMS to nil cost to the Council over a short period of time to replace all lost grant would have an adverse impact on the service and therefore a reduced level of support has been retained in the Integrated Plan in 2018/19. HMS will however need to further scale down the level of Council support given the withdrawal of ESG.
- 4.6 To preserve the service and its valuable contribution in the medium term, a range of changes are needed to address the consequences of loss of funding. Clearly efficiency needs to be improved as far as possible, and income opportunities developed and exploited. As detailed in this report, evidence from other Local Authorities also suggests that replacing Council support with Charitable Income through a managed transition to Charitable status also enables the infrastructure and activity of services to be preserved. It is therefore proposed that a detailed financial plan and business case that supports a reduction in core funding through ESG whilst preserving as much of the current activity and infrastructure through acquiring Charitable Status to enables HMS to operate at significantly reduced cost to the Council is developed by Officers and presented with a transition plan to Cabinet in 2018. If it proves to be the case, on even more detailed examination, that charitable status may not be the best future governance arrangement, Officers will report accordingly to Cabinet. Given the high regard in which the service is held, Officers will consider how best to engage with stakeholders at the next stage.

5. Lessons Learned from other Local Authorities

- 5.1 Nationally, a number of Music Services have sought to operate at zero cost to their Councils since the establishment of Music Hubs in 2012 when funding reduced for many. A range of governance and legal structures have been established and these organisations are now sufficiently mature for lessons to be learned about their sustainability and efficiency. Officers have spent time in dialogue with a number of services to understand these lessons and the relevance to HMS' future financial gap. Some newly established organisations such have taken the form of independent charitable trusts whilst others have been absorbed into an umbrella companies within a range of traded services. Research indicates that there has been mixed success, with some services thriving whilst others have struggled. In addition to national networks where the future

organisation of music services is frequently discussed, Officers have spoken to Music Services in Birmingham, Northampton, Kent, Berkshire, Central Beds, Lancashire, Milton Keynes, Bromley, Norfolk, Suffolk, Cambridgeshire, Essex, Brighton, Portsmouth and Southend.

5.2 Whilst the lessons learned are clearly context specific, they help to frame thinking around the future legal and governance arrangements of HMS that would be needed to ensure a sustainable financial trajectory. A summary of these lessons is set out below:

- **There is a broad range in the scale of Music Services.** To generate the necessary economies of scale to sustain a breadth of musical activity and run as a stand-alone entity services appear to require a turnover of at least £5m to operate independently.
- **Without active and supportive public sector engagement, music provision available to children and young people radically declines, when expenditure is restricted to that provided by the Music Education Grant alone.** In other words, the private sector alone cannot provide the scale or nature of service in line with our policy objectives in Hertfordshire.
- **Music Education Hubs as part of a wider commercial spin out.** Music Services are niche businesses requiring specialist expertise to deliver effectively. Music services which have been externalised as part of broader commercial ventures have often struggled as there is little or no profit to be realised if they are to remain accessible, provide wider social benefit and provide pathways to excellence. It would appear that Music Services are best delivered through a not-for-profit model.
- **There is a limit to the cost of tuition.** Music lessons are inherently expensive to deliver given the specialist resource required. If prices are set at a level beyond the reach of most families, Music Services serve only affluent families. There is a balance to be struck between covering costs and ensuring services remains accessible. HMS raised prices by 8% in September 2017 to £40 per hour and are positioned at the top end of the market. This is considered to be on the edge of the balance between cost recovery and accessibility. In other Local Authorities where prices have increased significantly beyond £40 per hour, demand for lessons has collapsed and services have evolved to serving only affluent families.
- **In the main, services that have acquired charitable status are thriving.** Arguably the successful service models are those established as independent charitable trusts, supported by Council subsidy for the purposes of transition. Trusts involved have replaced their Council subsidy with charitable income such as Gift Aid and other forms of charitable donation.

- **If music services are to operate on a sustainable financial trajectory, a level of transitional support is needed on exit.**
Evidence suggests that, particularly on issues around property and pensions, support from local authorities ensures that independently operated music services are able to operate effectively whilst allowing both a level of reserves and income to grow. Other services have continued to receive indirect support from councils through the provision of support services at nil cost to the service. At this initial stage, it is assumed that a level of support may be needed from the Council if HMS is to significantly reduce its reliance on the Council in the longer-term. The nature of this support needed will be identified as part of the detailed business case.

6. Legal Considerations and Governance Arrangements

- 6.1 If HMS were to operate outside the direct control of the Council, the Council would have a strong interest in ensuring both its continued success and delivery of core objectives such as providing opportunity and accessibility for all. As part of the detailed business case to be produced and presented to Cabinet, appropriate business structures and governance arrangements for the proposed organisation will be considered. This would include consideration of appropriate strategic and policy alignment.

7. Financial Implications

- 7.1 The withdrawal of ESG funding by the Government necessitates significant cost reductions in the service, some of which can be achieved through cuts and efficiencies and some through income growth. Lessons learnt from other local authorities indicates that the potential for income growth is significantly greater were HMS to exit the Council and acquire charitable status. Charitable giving is a complex area requiring specialist financial (including tax) and legal advice which will be sought at the next stage. It is, as set out above, evident from other local authorities that a package of support to assist the transition could be needed by HMS.
- 7.2 Initial high-level modelling indicates that acquiring charitable status would enable a portion of the financial gap to be closed. However, further work including detailed scoping needs to be carried out to fully understand the financial implications relating to the emerging proposal for a future arrangement whereby HMS acquires charitable status and operates outside the direct management of the Council. As such it is proposed that a detailed financial model will be developed as part of the business case and presented back to Cabinet in 2018.
- 7.3 ACE Music Education Grant funding currently accounts for 18% of HMS' income. It is key that HMS maintain their status as Lead Partner for the Hub and secure ACE Music Education Grant Funding. The withdrawal of ESG also coincides with the next funding round for the Music Education

Grant, managed by ACE. In their application, HMS has sought a £3.2m ACE Music Education grant for the two year period from 2018/19 to 2019/20. To secure this funding ACE will seek to discuss emerging plans with HMS prior to the development of the detailed business case. ACE is seeking assurances that the Council will support HMS to develop a sustainable business case to safeguard their investment. To this end, we will work with ACE as a key stakeholder at the next stage of developing the proposal to ensure their support and understanding of emerging proposals.

8. Equalities

- 8.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered the equalities implications of the decision that they are taking.
- 8.2 Rigorous consideration will ensure proper appreciation of any potential impact of that decision on the County Council's statutory obligations under the Public Sector Equality Duty. As a minimum this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EqIA) produced by Officers.
- 8.3 The Equality Act 2010 requires the County Council, when exercising its functions, to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and other conduct prohibited under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief; sex and sexual orientation.
- 8.4 At this stage, until the detail has been worked up, it is difficult to determine what, if any, positive and/or negative equalities implications would be. As such, the EqIA (attached at Appendix A) determined that there could be potential equalities issues specific to these proposals. The EqIA therefore details an action plan including but not limited to assessing the equalities impact as part of the detailed business case, which will be presented back to Cabinet.

Background Information

Appendix A - Equalities Impact Assessment