



# **The Thin End of the Wedge**

How Herefordshire loses out on  
Central Government funding

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**Introduction by Jesse Norman**

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Hereford and South Herefordshire  
Conservatives



# Introduction

by Jesse Norman

Herefordshire is one of the loveliest places on Earth—never mind the UK. But in the eyes of central government, it has long been The Land That Time Forgot. It has been under-funded by central government for decades.

This simple fact explains a lot. It explains why one single winter can deal a near-mortal wound to so many roads, with all the potholes we have seen. It explains why the Council finds itself perennially short of revenue. It explains why so many parts of Hereford City have been compromised by deals over £106 million from supermarkets.

Lack of proper funding inhibits strategic thinking and reduces confidence in our public services. Worse than that: it makes change dependent on local economic initiatives, rather than encouraging long-term thinking on important new projects which could genuinely lift the economic base, such as a new University of Herefordshire.

Local people know there is a shortfall. It is, for example, widely understood throughout Herefordshire that the county is the third worst funded authority for schools in the UK. And this is unfair. Not just because the county is very far from being the third most prosperous, as that low ranking would normally imply. But because in fact household income is barely at the national average, while housing costs are sky-high.

But if people know there is a shortfall, they do not know how large that shortfall is—until now. This initial report by Fiona Galliers-Pratt changes all that. Compiled from a wide range of public information, it uncovers for the first time the true scale of underfunding in Herefordshire—a colossal £175 million over the past five years.

And more than that, the report brings out the size of the shortfall in each of the key services. So we can say, for example, that the Council is underfunded by £14 million per year at present, or the PCT by nearly £9 million per year. That's a lot of social care, or operations and medicines.

Why has this happened? One reason, paradoxically, is that the county has so far got by despite low funding—whereas central government tends to reward underperformance with more money. But a crucial reason is that Herefordshire, and in particular Hereford City, has not exercised enough political influence to make a difference.

**My job as prospective MP is to remedy that—to follow the money trail back to Westminster on our behalf, and to lead a massive local effort to raise these funding levels over the next few years.**

**National politics is one thing. But for local people here in Herefordshire, these are the stakes. Fair funding is what the next General Election is all about.**

# The Thin End of the Wedge

## How Herefordshire loses out on Central Government funding

### Summary

This report looks at central government funding of key services in Herefordshire. It is a preliminary rather than a final document, but has nonetheless been compiled from a range of public information sources. It concludes that this county is significantly underfunded across the board despite having received above average increases in recent years. **Overall, it suggests that the cumulative underfunding of core council services, education, fire, police and health over the period 2005-2010 was at least £174m – excluding government funding through Special Grants.**

In theory, central government grants are calculated on the basis of need, the relative cost of delivering a service in a particular area and the amount raised through council tax. Low-funded rural councils often argue, however, that the national indicators for poverty and deprivation are biased in favour of urban areas and that local funding formulae do not recognise the additional cost of providing services in sparsely populated rural areas. Thus the Rural Services Network, a coalition of 250 local authorities and service providers (including Herefordshire Council and other local organisations), claims that it can cost up to 90% more to deliver services in remote areas over more built-up ones.

This can lead to those in rural areas having to pay more for services whilst getting less, despite the fact that incomes in rural areas are considerably lower than in urban areas. **In 2008, for example, average annualised earnings in Herefordshire were £20,304 - 13% lower than the average for the West Midlands (£23,407) and 19% below the average for England (£25,190).**<sup>1</sup> Gross disposable household income in Herefordshire – the amount of money households had on average for spending or saving – was £14,023 in 2007, nearly 4% below the English average.<sup>2</sup>

The Rural Services Network also pointed out in its recent Rural Services Manifesto<sup>3</sup> that any decision to implement across the board budget cuts to local authorities in order to deal with the UK's financial deficits would hit underfunded rural authorities particularly hard – given that they already starting from a low base.

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<sup>1</sup> Source: The Herefordshire Partnership

<http://www.herefordshirepartnership.com/qer/D73738DC6A2144BE9B324A36BA5C64C4.aspx>

<sup>2</sup> Herefordshire Council <http://www.herefordshire.gov.uk/factsandfigures/1226.aspx>

<sup>3</sup> Rural Services Manifesto, Rural Services Network, January 2010

### **Cumulative Herefordshire Underfunding 2005-2010 (£m)**

Herefordshire Council (Formula grant - excludes Special Grants)	85
West Mercia Police	11
Hereford & Worcester Fire	4
Direct School Grant	30
Health	44
<b>Total</b>	<b>174</b>

*Source: Summary information from sources listed below*

## **Funding Background**

The majority of central government funding of local authorities (including police and fire authorities) is distributed via Formula Grant through the annual local government finance settlement. Until 2006/07, Formula Grant included funding for schools, but after 2006/07 funding for schools was provided separately via the Dedicated Schools Grant. In addition to Formula Grant, local authorities also receive Special Grants, although these are very small in comparison. These two sources of funding – Special Grants and Formula Grant – are collectively known as Aggregate External Finance. Because Formula Grant and Dedicated Schools Grant are the main sources of funding for local public services, and are recurrent, we focus on them in this paper.

## **Formula Grant: Hereford Council**

The table below sets out how much Herefordshire Council receives via the Formula Grant. **On the basis of figures from the House of Commons Library, the Council appears to be seriously underfunded in comparison with other unitary authorities – receiving around 20% pa less on average during the period.** This is reflected in Herefordshire's low ranking in terms of funding compared to other unitary authorities. In 2009/10, the Council ranked 33 out of 46 (excluding the Scilly Isles). The table below shows the best-funded unitary authorities in 2009/10.

### **Per capita Formula Grant for unitary councils in 2009/10: best funded authorities (£)**

Leicester	623
Middlesbrough	608
Nottingham	587
Kingston upon Hull	580
Blackburn with Darwen	544
Hartlepool	538
Blackpool	537
Halton	525
Stoke-on-Trent	521
Redcar and Cleveland	478
Herefordshire	306

*Source: House of Commons Library*

If the per capita funding of Herefordshire Council had been set at the average for unitary authorities, Herefordshire Council would have received around £15m pa more over each of

the last four years. In 2005/6, when schools funding was still included, Herefordshire Council would have received around £27m more. **This suggests that the cumulative underfunding of Herefordshire Council via the Formula Grant over the period in comparison with other unitary authorities was in the region of £85m.**

Formula Grant: Herefordshire Council								
		2005-06*	2006-07	2007-08	2008-09	2009-10	2010-11	2005-2010 Cumulative
Herefordshire population (derived figure)	A	176,912	179,385	180,333	180,248	181,076	181,888	
Herefordshire council total funding (£m)	B	118	47	48	53	55	58	
Herefordshire council per head (£)	C	665	259	264	296	306	317	
Shire unitaries without fire - average (£)	D	818	336	346	376	387	397	
Herefordshire underfunding (%)		-19%	-23%	-24%	-21%	-21%	-20%	
Herefordshire underfunding (£m)	E	27	14	15	15	15	15	85
* funding includes education		Underfunding calculation $E = (D-C) \times A$			Population calculation $A = B/C \times 1m$			
Source: House of Commons Library								

## Formula Grant: Police

The data from the House of Commons show that West Mercia police (which covers Herefordshire, Shropshire, Worcestershire and Telford & Wrekin), receives around 10% less per head each year than the average for other shire police authorities.

Formula Grant: West Mercia Police								
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2005-2010 Cumulative
Herefordshire population	A	176,912	179,385	180,333	180,248	181,076	181,888	
West Mercia Police (£m)	B	112	112	116	119	122	125	
West Mercia police per head (£)	C	95	94	97	99	102	104	
Shire police authorities	D	111	106	109	111	113	116	
Herefordshire underfunding (%)		-14%	-11%	-11%	-10%	-10%	-10%	
Herefordshire underfunding (£m)	E	3	2	2	2	2	2	11
Source: House of Commons Library		Underfunding calculation $E = (D-C) \times A$						

In 2009/10 West Mercia ranked 24 out of 31 in terms of funding for shire police authorities. The table below shows the best-funded shire police authorities in 2009/10.

Per capita Formula Grant for shire police authorities 2009/10: best funded forces (£)	
Cleveland Police	175
Durham Police	153
Humberside Police	139
Lancashire Police	138
Cumbria Police	134
Nottinghamshire Police	132
Leicestershire Police	122
Cheshire Police	120
Bedfordshire Police	117
Kent Police	115
West Mercia Police	102

Source: House of Commons Library

Assuming Herefordshire received the funding per head in line with the average for other shire police authorities, it would have received an estimated £2m a year more in funding. **This suggests that the cumulative underfunding of the police in Herefordshire alone was around £11m over the period.**

### Formula Grant: Fire

Over the past five years, Hereford & Worcester Fire Service received between 22% and 28% less per head in funding than the average for other combined fire services.

In 2009/10, Hereford and Worcester ranked bottom out of 24 fire authorities in terms of per capita funding. The table below shows the best-funded shire fire authorities in 2009/10.

<b>Per capita Formula Grant for shire fire authorities for 2009/10: best funded forces (£)</b>	
Cleveland Fire	40
Humbly Grove Fire	29
Durham Fire	24
Avon Fire	23
Nottinghamshire Fire	22
Lancashire Fire	22
Leicestershire Fire	19
Berkshire Fire	19
Derbyshire Fire	19
Essex Fire	19
Herefordshire & Worcester Fire	14

Source: House of Commons Library

Had Hereford & Worcester Fire Authority received per capita funding in line with the average for the shire fire authorities, it would have received just under £1m a year more over the five-year period. **This suggests that the cumulative underfunding over the period was around £4m.**

<b>Formula Grant: Hereford &amp; Worcester Fire</b>		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2005-2010 Cumulative
Herefordshire population	A	176,912	179,385	180,333	180,248	181,076	181,888	
Hereford & Worcester Fire (£m)	B	11	10	10	10	11	11	
Hereford & Worcester Fire per head (£)	C	16	14	14	14	14	14	
Combined fire authorities average	D	20	18	19	20	20	20	
Herefordshire underfunding (%)		-22%	-25%	-27%	-27%	-28%	-28%	
Herefordshire underfunding (£m)	E	1	1	1	1	1	1	4

Source: House of Commons Library

Underfunding calculation  $E = (D-C) \times A$  Population calculation  $A = B/C \times 1m$

### Dedicated Schools Grant

Since 2006/7 councils have received funding for running schools through the Dedicated Schools Grant (DSG). According to statistics from the Department for Children, Schools and Families, over the last four years the Dedicated Schools Grant per pupil for Herefordshire has been around 8% less than the average for other unitary councils that provide education.

<b>Herefordshire DSG funding</b>		<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>Cumulative 2005-2010</b>
No of pupils	A	23,705	23,430	22,917	22,006	21,841	
Herefordshire budget (£m)		78	83	84	84	87	
Herefordshire allocation per pupil (£)	B	3,297	3,523	3,687	3,830	4,002	
Unitary authority average per pupil (£)	C	3,602	3,843	4,016	4,163	4,338	
Herefordshire underfunding (%)		-8%	-8%	-8%	-8%	-8%	
<b>Herefordshire underfunding (£m)</b>	<b>D</b>	<b>7</b>	<b>8</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>30</b>

*Source: Teachernet* *Underfunding calculation D = (C-B) x A*

**According to figures from DCSF's Teachernet website, in 2009/10, Herefordshire ranked 149 out of 151 councils which provide education. The top 10 authorities (which received more £6,000 per pupil or more) were all based in London.**

Data from Herefordshire Council's website suggests that the under-funding in respect of the Dedicated Schools Grant is currently around 9% (slightly higher than our figure). The Council's figures for ranking are also slightly different, but still put Herefordshire at the very bottom of the league. This is despite the fact that the cost of providing education in a rural area is high, particularly given the low population density.

**Herefordshire Council website: Dedicated Schools Grant per head**

	<b>2007/8</b>	<b>2008/9</b>	<b>2009/10</b>
Underfunding in comparison with similar authorities	-12%	-9%	-9%
Ranking amongst similar authorities	147/149	147/149	145/151

*Source: Herefordshire Council Budget Books and Council Tax leaflets*

**Assuming that pupils in Herefordshire had received the same level of funding as pupils in other unitary authorities, Herefordshire would have received £7-8m pa more over the last four years. This suggests that the cumulative underfunding for Herefordshire with respect to the DSG was in the order of £30m over the period.**

In 2007, Herefordshire Council became a member of the f40 Campaign for Fairer Funding in Education, which represents a group of the 30 worst funded education authorities in the country.

F40 is campaigning for changes to the 2002 funding formula and is contributing to the review currently underway ahead of the 2011-14 funding round. The group believes there should be a basic entitlement per pupil (before any additional factors such as deprivation are taken into account) on the basis that the bulk of a school's costs such as salaries, energy costs, equipment and resources are similar. It also argues that funding for deprivation should be pupil-based – as opposed to being based on conditions in the overall area. The latter system has resulted in education grants being allocated to areas of deprivation in cities to the detriment of rural and coastal areas. The Government is scheduled to announce the results of its review 2010.

## Formula Grant and Dedicated Schools Grant per head

### Herefordshire Council website: Formula and Dedicated Schools Grant per head

	2007-08	2008-09	2009-10
Underfunding in comparison with unitary authorities	-20%	-19%	-17%
Ranking amongst unitary authorities	38/46	38/47	44/55

Source: Herefordshire Council Budget Books and Council Tax Leaflets

Herefordshire Council also provides information on central government funding in terms of combined Formula Grant and Dedicated Schools Grant per head. **On this basis, the Council estimates that it has been underfunded by between 17% and 20% pa over the last three years.** The Council estimate that it ranks 44 out of 55 unitary councils on this measure in 2009/10.

## Total central government funding of Herefordshire Council core services

Information given in response to a Written Parliamentary Question in Hansard gives a broader indication of how much Herefordshire Council received per head in total for the funding of its core services in 2006/7 and 2007/8.

According to this source, Hereford Council received £945 per capita in 2007-08. This figure includes Formula Grant funding for the council, education and special grants included within Aggregate External Finance. The figure excludes formula grant funding for fire and police, as these are provided by separate authorities.

### Central government grant per capita\* for core services including special grants (£)

	2006-07	2007-08
Herefordshire population mid 2006 (ONS)	177,800	
Herefordshire Council per capita funding	901	945
Average for unitaries (ex Scilly Isles)	1,079	1,105
Herefordshire underfunding compared to average	-16%	-14%
<b>Herefordshire underfunding (£m)</b>	<b>32</b>	<b>28</b>

\* Per capita figures based on ONS mid 2006 population estimates

Source: Hansard 25 Jan 2008 col 2334W

This per capita figure is a nearly a third higher than the sum of formula grant and DSG per capita for 2007/8 (£722). The fact that the Hansard data include Special Grants will account for a small proportion of the difference, but the remainder is unaccounted for.

### Herefordshire Council: Formula Grant and DSG per capita (£)

	2006-07	2007-08
Formula Grant	259	264
DSG per capita	436	457
<b>Formula Grant plus DSG per capita</b>	<b>695</b>	<b>722</b>

Source: House of Commons Library and DCSF

The Hansard data do, however, confirm that Hereford Council comes very low in the ranking of unitary authorities in terms of funding. It suggests that Herefordshire ranks 35 out of 46 unitary authorities (excluding the Scilly Isles) in terms of total funding per head. The top ten unitary authorities in funding according to Hansard are listed below.

**Unitary authorities: central government grant per capita 2006-2008 (£)**

	2006-07	2007-08
Blackburn with Darwen	1,476	1,477
Leicester City	1,420	1,459
Hartlepool	1,382	1,422
City of Nottingham	1,432	1,392
Middlesborough	1,391	1,391
Slough	1,277	1,391
Halton	1,340	1,351
Kingston upon Hull	1,299	1,330
Peterborough	1,291	1,327
Redcar & Cleveland	1,314	1,310
Herefordshire	901	945

Source: Hansard 25 Jan 2008 col 2334W

According to Hansard, Herefordshire received 16% less per capita than the average for unitary authorities in 2006-07 and 14% less in 2007-08. **This source of data suggests that had Herefordshire Council received funding in line with the average for unitary authorities, it would have received £32m more in 2006-07 and £28m more in 2007-08. This is much higher than the sum of our underfunding estimates for Formula Grant for the Council and the DSG – respectively £21m for 2006-07 and £23m for 2007-08.**

One reason for this discrepancy is that higher figure assumes that educational expenditure in Herefordshire should be calculated on a per head basis and should be in line with education per total head of population in other unitary councils. Given, however, that Herefordshire probably has fewer school age children (and a higher proportion of older people) than other councils, this distorts the underfunding figures. Combining underfunding on the basis of formula grant with underfunding on the basis of per pupil averages therefore probably provides a more accurate figure.

Interestingly, Herefordshire is underfunded despite having received above-average increases in per capita funding between 1998-99 and 2006-07. According to another answer to a Written Parliamentary Question in Hansard<sup>4</sup>, per capita funding for Herefordshire Council jumped by 76% during this period from £494 to £871 compared to an average increase for the period of 48%. This means that Herefordshire ranked 31 out of 425 authorities in terms of funding increases over this period.

## Health Funding

Allocations to Primary Care Trusts are made according to a weighting formula that adjusts the crude population figure according to the age distribution of the population and any

<sup>4</sup> Sources: Hansard, 9 Feb 2006 : Column 1424W and Hansard, 28 November 2006, col. 534W



## Sources

- Formula Grant: House of Commons Library
- Total Government Funding: Hansard – responses to Parliamentary Questions
- Dedicated Schools Grant: Department of Children, Schools and Families  
[www.teachernet.gov.uk](http://www.teachernet.gov.uk)
- Health Funding: Department of Health Exposition Books
- Please note that not all numbers may tally due to rounding.