

NORTH YORKSHIRE COUNTY COUNCIL

CHILDREN & YOUNG PEOPLE'S OVERVIEW & SCRUTINY COMMITTEE

21 JULY 2006

SCHOOL MEAL PRICES – SEPTEMBER 2006

1.0 PURPOSE OF THE REPORT

1.1 To consider the decision by the Corporate Director (Children & Young People's Service) in consultation with the Executive Members for the Service to recommend an increase in the school meal price from £1.54 to £1.62 from September 2006.

2.0 BACKGROUND

2.1 The report submitted to Executive Members is enclosed together with the key decision record.

2.2 There were two decisions made in consultation with the Executive Members:

- To increase the school meal price charged to parents by 8p (5%). (Option 2 in the report as set out in paragraph 6.1.)
- To increase the amount paid to North Yorkshire County Caterers (the "in house" Catering Service) by 5p per meal, from £1.64 to £1.69. This is based upon the application of the 'contractual provisions' for the service as set out in paragraph 3.3 of the report rather than a suggested alternative increase of 8p (paragraph 5.4 of the report).

2.3 This change will add to the financial challenges for North Yorkshire County Caterers with a loss of income of £60K (on a turnover of £5.9M). It does however enable a reduction in existing subsidy of 10p (6p provided to schools in their budgets and 4p met from LMS contingencies – see para 3.6). The increase in the price charged to pupils of 8p as compared with the smaller increase in the price charged to schools of 5p enables the subsidy to reduce from 10p to 7p.

2.4 A continuation of this policy could enable the subsidy to be eliminated by 2008/09. The projections depend upon price changes during the period and crucially an increase in take up.

2.5 An increase in take up is required to cover any above inflation cost increases such as might arise from job evaluation, and to compensate for the loss of School Meals Grant in 2008/09 which, in 2006/07, currently funds 8p per meal (£220K) towards food costs of the order of 53p per meal.

2.6 The extra cost of food arises from further improvements, in September 2006, which will enable the full implementation of new nutritional standards from September 2006.

G C Bateman
Assistant Director – Finance & Management Support

SCHOOL MEAL PRICES

	2004/05	2005/06	2006/07	2007/08	2008/09
Purchase Cost	1.56	1.64	1.69	1.74	1.79
Increase %			3%	3%	3%
Subsidy	0.14	0.10	0.07	0.04	0.00
Charge to Parents	1.42	1.54	1.62	1.70	1.79
Increase p			8	8	9
%			5	5	5

Notes

- Existing 'subsidy' is cleared over 2 years.
- Position in 2008/09 will however be 'complicated' by the loss of School Meals Grant contributions circa 8p per meal to the income of County Caterers. The 'DfES thinking' and the basis of our local policy is that increased take-up will provide the funds to 'cover' the loss of grant.
- Costs, even with the Grant, for County Caterers are likely to rise at above inflation. This, especially with a falling pupil roll, can also be covered only by an increase in take up.

NORTH YORKSHIRE COUNTY COUNCIL
CHILDREN & YOUNG PEOPLE'S SERVICE
CORPORATE DIRECTOR'S MEETING WITH EXECUTIVE MEMBERS

7 July 2006

SCHOOL MEAL PRICES - SEPTEMBER 2006

1.0 PURPOSE OF THE REPORT

1.1 To endorse proposed increases in school meal charges from September 2006.

2.0 BACKGROUND

2.1 School meals form part of a delegated responsibility for schools but the Local Authority continues to have responsibilities to, at a minimum, fix a "guide price" for school meals. Furthermore it is a condition of participating in the contract, arranged by the County Council, for participating primary schools to adopt the North Yorkshire guide price. In practice all primary schools use this tariff including those who have chosen to self operate.

2.2 Secondary school meals are provided on a cash cafeteria system and guide prices are provided for individual menu items. However there is greater scope for an acceptance of local variations to these prices. This report deals exclusively with the proposed increase from September 2006 in the guide price for primary school meals.

2.3 The price currently charged is £1.54 per meal. This is lower than the average charged by other Local Authorities. In September 2005 the charge was increased by 8% from £1.42 to £1.54. At the time there was recognition that the price charged did not cover costs fully nor did it cover all the cost increases which had arisen in the previous academic year. These increases in costs related to both rising labour costs and additional food costs. Primary school menus were changed substantially in September 2004 and again in September 2005 to provide healthier meals.

2.4 At the time there were some underlying assumptions that above inflation increases would be necessary not only in September 2005 but also in September 2006. This will be necessary to enable prices charged to pupils to reflect the current meal costs.

2.5 This strategy has now, however, to be considered in the context of significant further national and local developments.

3.0 FINANCIAL ARRANGEMENTS - PRIMARY SCHOOL MEALS

3.1 A five year contract has been awarded to the "in-house" catering organisation - North Yorkshire County Caterers. This is overseen by the Catering Board which consists of Members, Governors, Headteachers and staff representatives.

3.2 The "contract" with North Yorkshire County Caterers fixed a price per meal for the academic year 2004/05 of £1.56 per meal. In 2005/06 price was increased to £1.64.

3.3 The contract provides that the amount paid to the contractor is increased each year by an index which reflects employment costs and food costs. The application of this index will involve an increase in 2006 of the order of 4.5p (2.7%) – rounded to 5p (3%).

- 3.4 The cost of primary school meals is charged against individual school budgets. The annual funding given to schools does, however, incorporate resources to cover the actual costs of free meals. Schools retain the income from "paid" meals which is currently £1.54 per meal.
- 3.5 One underlying cause of the rise in costs of primary school meals in recent years has been the requirement to operate secondary school meals without the previous "cross subsidy" to primary schools. Previously the benefit of the economies of scale of larger secondary schools was shared between all schools. However it is now essential that secondary schools are able to retain any operational surplus. This is an incentive to contract with North Yorkshire County Caterers. In any event a significant number of secondary schools have decided to operate their own catering or award a contract to a private sector contractor.
- 3.6 It was agreed in 2003/04 to withdraw funding from secondary schools for catering equipment and use the saving to increase primary school funding by 6p per meal. This covers part of a difference between the charge to pupils (currently £1.54) and the cost recharged by the contractor (£1.64). In order to avoid giving an individual school a perverse incentive, the remaining difference of 4p, (£115K per annum) is met from LMS contingencies. However LMS contingencies are funded from the same source as school funding – DSG. This avoids a school benefiting financially if it decreases school meal take up - we seek for a reverse to be the case. This "funding gap" was reduced from 8p to the existing 4p by the above inflation increase in school meal prices in 2005. This was seen as part of the two year strategy to remove this "funding gap" over a two year period.
- 3.7 As set out below recent developments have added significantly to the financial challenges set out above.

4.0 **RECENT DEVELOPMENTS IN SCHOOL CATERING**

- 4.1 The Catering Board first adopted a healthy eating strategy and incorporated the consequential expectations in the specification of the service when it was fixed in September 2004. Inevitably this involves extra costs not only on food but perhaps also on labour and equipment. One example of this requirement is that with the reduced use of processed and frozen food it inevitably involves more food preparation. The Catering Board also recognised that a significant increase in take-up was needed in order to contribute to the Healthy Eating/Healthy Schools' agenda and to improve the financial position. Put another way extra investments in healthy eating products and support would be funded, at least in the medium term, from the sale of additional meals.
- 4.2 These initiatives were in the process of implementation before the recent national publicity, led by Jamie Oliver, on improving school meals. North Yorkshire's approach was in line with (and ahead of) the national initiative.
- 4.3 Despite the ongoing marketing of the new menus, the impact of the Jamie Oliver programmes has been, in North Yorkshire and in other authorities, a reduction in take-up. The impact locally has been to reverse the modest increase in take-up in Autumn 2004 with a reduction since February 2005. The impact of this has been that average take-up reduced from 43.4% for the period March to May 2004 to 40.1% for the same period in 2005. This represents the loss of income of the order of 7.5% and clearly had to be reversed. If not reversed there is the danger that the school meals service would be subject to a cycle of above inflation price increases and associated customer resistance which in turn would require further price increases. In the last year this vicious cycle has been prevented despite the 8.5% increase in meal prices in September 2005. Currently meal take-up is slightly below equivalent 2005

levels. Currently there are around 2.9M paid meals which attract, at current levels, income of around £4.5M.

5.0 **PRICE OF MEALS PURCHASED FROM NORTH YORKSHIRE COUNTY CATERERS - SEPTEMBER 2006**

5.1 Under the terms of the “contract” with North Yorkshire County Caterers, the amount paid per meal should (as detailed in paragraph 3.3) increase to cover inflation by 5p from £1.64 to £1.69 per meal in September 2006.

5.2 However, bearing in mind that North Yorkshire County Caterers is now an integral part of the Children & Young People’s Service, it is possible for the Authority and the Catering Board to adopt a more flexible approach in fixing the contractual price for school meals. However, in so doing it would not be the wish of the Catering Board or schools to remove from North Yorkshire County Caterers the commercial incentives to manage its budget within available resources and the terms of the contract. Nevertheless there are matters which need to be taken into account in considering whether the amount paid to the contractor should be increased beyond £1.69 in September 2006.

- Fall in pupil rolls; primary pupil rolls anticipated to fall by a further 1% in September 2006. If this is directly reflected in meal take-up this would represent a potential loss of 30,000 meals per annum. For planning purposes the budget has been based upon the retention of the existing meal levels despite the reduction in pupil numbers. This target is not currently being achieved.
- Improvements in food content. The food budget has been fixed at 53p per meal. This is lower than the estimate made by many authorities and national organisations as the amounts judged to be required meet the new nutritional standards.
- Availability of Targeted School Meals Grant to support the extra costs of food (7p per meal provided in 2005/06 with the proposal to increase to 8p in 2006/07). This will apply around £250K of the £435K available in 2006/07.
- Development of Marketing, Training and Healthy Meals Strategy; these initiatives, including responding to the independent Consultant’s report, will require investment especially in management capacity. It is proposed that to use the balance of the Targeted School Meals Grant for this purpose (£185K) with the extra management capacity created by the proposed amalgamation of the Client and DSO functions. A further element of the proposal will involve additional investment. This is the need to find alternative methods of providing relief Cooks where currently Area Managers often take on this role.
- Job Evaluation. The outcome is not yet known but based on experience elsewhere could involve significant and unavoidable increases in labour costs.

5.3 A budget based upon the above assumptions has been prepared and a charge per meal of the order of £1.72 – an increase of 5% (8p) would achieve break-even over the forthcoming academic year.

5.4 If the above proposals for 8p (5%) increase in the payment for primary school meals are endorsed, the additional costs involved have to be considered in the context of school budgets and especially the charge for pupils.

6.0 **SCHOOL MEAL PRICE INCREASE - SEPTEMBER 2006**

6.1 Options for the increase in school meal prices from September 2006 are set out below for consideration.

(1) **Inflation Only Increase**

An increase of 4p (2.6%) from £1.54 to £1.58 (£7.90 per week)

The increase would be unlikely to involve any significant customer resistance.

It would, however, involve a net cost of 4p (£120k per annum) for paid meals as compared with the proposed increase, set out in the previous section of the report, in the cost of meals purchased from North Yorkshire County Caterers. This shortfall would have to be met either by individual schools' budgets or the overall school's budget through the LMS contingency. This, in turn, will reduce the funds available to distribute to schools

(2) **Increase to Cover Proposed Increase in Meal Costs**

An increase of 8p (5.2%) from £1.54 to £1.62 (£8.10 per week).

The increase may involve some customer resistance and associated marketing of "health meals initiatives" is required including promotion of a continued "value for money" of North Yorkshire school meals.

The increase would retain the status quo for school budgets with a continuation of a shortfall (also 4p per meal) being met from the retained part of the school's budget - LMS contingencies (£120k per annum). This is in effect a central "primary school meals subsidy".

(3) **Increase to Cover Proposed Increase in Meal Costs and to Eliminate Existing Subsidy Over Two Years**

An increase of 12p (7.8%) from £1.54 to £1.66 (£8.30 per week)

The increase would cover extra costs and remove the remaining 4p (£120k) of the shortfall centrally from LMS contingencies.

This increase would continue the strategy implemented for 2005 where the price was also increased by 12p. The significant improvements in school meals cannot be achieved in the short term, or sustained in the medium term, without 'above inflation' increases. The resistance to the price increase, and indeed some anticipated resistance to the new 'healthy' menus which comply with new government standards, will have to be kept to a minimum by concerted and ongoing marketing promotion and education.

7.0 **RECOMMENDATIONS**

7.1 Consideration to be given to proposed increases in school meal charges from September 2006 with regard to:

- contractual charge made by North Yorkshire County Caterers for meals supplied to primary schools (as outlined in paragraph 5.0 above)
- charges for primary school meals from September 2006 (paragraph 6.0)

Cynthia Welbourn
Corporate Director

Report prepared by George Bateman, Assistant Director – Finance & Management Support

GCB/DAW
14 June 2006

ConsultedExecutive Member

Date: 7 July 2006

ConsultedExecutive Member

Date: 7 July 2006

Action Agreed
as aboveCorporate Director

Date: 7 July 2006

Primary School Meal Prices – September 2006

	Current £p	Proposed £p	Increase £p	%
<u>Purchase Cost of Meals</u>	1.64	1.72	8p	5
<u>Option 1</u>				
Price Charged by LEA to School	1.60	1.64	4p	
Price Charged to Parents	1.54 (7.70)	1.58 (7.90)	4p	2.6
<u>Option 2</u>				
Price Charged by LEA to School	1.60	1.68	8p	
Price Charged to Parents	1.54	1.62 (8.10)	8p	5
<u>Option 3</u>				
Price Charged by LEA to School	1.60	1.72	12p	
Price Charged to Parents	1.54	1.66 (8.30)	12p	8

Notes

- Schools receive funding to cover 6p funding between price paid to LEA for meals and charge to parents.
- Any difference (currently 4p) between the amount charged by the contractor and the price paid to the LEA for meals is met from LMS Contingencies.

NORTH YORKSHIRE COUNTY COUNCIL

DECISION RECORD

Re: School Meal Prices – September 2006

This record is produced in accordance with the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000.

This form should be used to record:

- EXECUTIVE decisions (key or otherwise) taken by an individual Executive MEMBER; and
- KEY decisions taken by an OFFICER (either alone or in consultation with an Executive Member)

(One form per decision)

The following executive decision has been taken: -

1. The price of primary school meals be increased, to cover the proposed increase in meals costs from September 2006, by 8p (5.2%) from £1.54 to £1.62 (£8.10 per week).
2. The contractual charge made by North Yorkshire County Caterers for meals supplied to primary schools be increased from September 2006 by the agreed inflation increase by 5p to £1.69.

By whom: Cynthia Welbourn in consultation with County Councillors John Watson OBE and Caroline Patmore

On: Friday 7 July 2006

Reasons for decision: -

School meals form part of a delegated responsibility for schools but the Local Authority continues to have responsibilities to, at a minimum, fix a “guide price” for school meals. Furthermore, it is a condition of participating in the contract, arranged by the County Council, for participating primary schools to adopt the North Yorkshire guide price. In practice, all primary schools use this tariff including those who have chosen to self operate.

The price currently charged is £1.54 per meal. This is lower than the average charged by other Local Authorities. In September 2005 the charge was increased by 8% from £1.42 to £1.54. At the time there was recognition that the price charged did not cover costs fully and further “above inflation” increases would be necessary. These decisions reduce to difference between the charge to parents and the price paid by schools for meals to 7p. This matches the support currently available from School Meals Grant to assist in improving the food content in school meals.

In the last year substantial further improvements in menus, including greater use of fresh meat, have been made in response to the “healthy eating” agenda. It is also necessary to meet new nutritional standards. These developments, whilst partly assisted by time limited government grants, add to the costs of provision.

Details of any alternative options considered and rejected: -

1. Inflation Only Increase

Would not cover the increase in the cost of paid meals of 5p and so increase the difference between the amount paid for meals and the charge to parents from 10p to 11p. This shortfall would have to be met either by individual school's budgets or the overall schools' budget through the LMS contingency. This, in turn, will reduce the funds available to distribute to schools.

2. Increase to cover proposed increase in meal costs and to eliminate existing subsidy over two years

An increase of 12p (7.8%) from £1.54 to £1.66 (£8.30 per week). Such an increase would cover extra costs and reduce the difference between the price paid for meals and the price charged to parents from 10p to 3p. Such an increase may, however, attract customer resistance at a time when we are seeking to improve take-up.

Conflicts of Interest

Please record below details of any conflict of interest declared by a Member or Officer regarding the decision and any dispensation granted by the Standards Committee in respect of that conflict.

Conflict	Dispensation?

Signed
County Councillor John Watson

Publication Date: 7 July 2006

Signed
County Councillor Caroline Patmore

Signed
Cynthia Welbourn, Corporate Director

Directorate: Children and Young People's
Service

Note: This decision will come into force, and may then be implemented, on the expiry of 5 clear working days after publication, unless any 6 members of the Council object to it and call it in by notice in writing (including e-mail) to the Head of Committee Services.

Contact for further information: George Bateman, telephone 01609 5332118

Contact for copy of report considered: marion.sadler@northyorks.gov.uk

To: **Margaret Gray**, Committee Services – for onward circulation to:

- all Members of the Council
- Martin Thomas – Conservative Group Research & Communications Officer
- Richard Ormerod - Lib Dem Group Research & Communications Officer
- Deborah Hugill - Labour Group Research & Communications Officer
- Stephen Knight, Head of Committee Services
- Catherine Whitehead, Monitoring Officer
- John Moore, Corporate Director - Finance and Central Services
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- Lorraine Laverton, Scrutiny and Corporate Performance
- Hugh Williamson, Head of Scrutiny and Corporate Performance