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Meeting of Executive Members and Children's  
Services Advisory Panel

19 July 2007

Report of the Director of Learning, Culture and Children's Services

## **School Meals Service - Fees And Charges**

### **Summary**

1. This report describes the financial position regarding the school meal service provided by North Yorkshire County Council (NYCC). The report seeks the views of the Executive Members regarding options to address the significant loss that is being incurred on this contract.

### **Background**

2. The current school meals contract was let in 2001. The successful contractor was NYCC. The contract was let on the basis that it would be for 9 years with one break after three years then another after 6 years, giving schools the flexibility to opt in or out without penalty. The contract is in the first year of the final 3-year period which ends on 31 March 2010.
3. Fortynine schools are currently within this contract. The remaining schools in the City either contract with Dolce (a private contractor), have separate service level agreements with North Yorkshire County Council, or employ catering staff directly. Annex 1 provides more detail.
4. The contract allows for the price per meals paid to the contractor (contract price) to be increased or decreased on an annual basis in order to reflect actual costs. The last increase was in September 2006 when meals were increased by 15p (9.4%).
5. Negotiations with NYCC regarding this year's price increase have been delayed due to uncertainty regarding the costs arising from the Job Evaluation (JE) exercise that has now been completed in NYCC. The impact of this is described below. It is clear that another significant rise in the price of school meals will be required if the Local Authority (LA) wishes to retain the services of NYCC as the provider of meals in the majority of schools in York. In order to give sufficient notice to parents, it has been assumed that any increase in price will be with effect from 29 October 2007, following the half-term break.

### **Analysis**

6. School meals have been much debated in recent years. Schools in York have attracted positive press coverage as the catering service has sought to procure more food locally and to improve the quality of ingredients used. A new and improved contract for the supply of fresh meat and poultry means that over 60% is sourced within the County and 90% from within the region. Contracts for

fresh fruit and vegetables are being re-tendered with an emphasis on local produce and a reduction in food miles. The service is meeting the full nutritional standards required by Government, although Transforming School Grant (TSG) is contributing to the cost of this in the short term.

7. The TSG has been used to support the costs of improving the quality of school meal ingredients and has, in effect, subsidised the cost of each meal by 7p in 2006/07 and 8p in 2007/08. The grant has also been used to promote healthy eating in schools through various projects and initiatives. It is not yet known whether the grant will be available in 2008/09. The figures set out in this report assume that the grant will cease at the end of 2007/08.
8. North Yorkshire County Council has reported that the contract operated at a loss of £90k in 2006/07 (more details are provided in the confidential Annex 2). These losses, borne by NYCC, are attributed to the fact that the average take-up of school meals in York remains stubbornly low.
9. Despite the efforts of the catering service and staff in many schools, the take-up rate of hot meals in primary schools in York varies from 16% to 61% with an average of around 33% in 2006/07 (see Annex 1). This compares with reported figures of around 44% in NYCC.
10. In 2007/08, the contract is facing a new and significant financial pressure caused by the implementation of Job Evaluation in NYCC. A new pay and reward scheme has been introduced in NYCC from April 2007, and this affects all kitchen staff. Key changes to terms and conditions include:
  - Increased salaries for Cooks and some Assistant Cooks
  - Increased annual leave entitlement
  - Introduction of incremental points for some staff
11. NYCC has recently confirmed that the impact of job evaluation on the York contract will be significant, adding around 20% to the total pay bill. The impact of changes to staffing terms and conditions will increase costs of the York contract by an estimated £169k per annum (before 2007/08 pay award).

### **Funding Implications**

12. The cost of school meals is met from within the Individual Schools Budget (ISB). The cost of providing free school meals (FSM) is reimbursed to schools through the local funding formula. For all pupils not entitled to FSM, the current selling price is set to meet the cost of the service.
13. Given the scale of the increase in contract costs, and the potential impact upon selling price, the Schools' Forum was asked at their meeting on 5 July 2007 to consider and comment upon four options for increasing the selling price of Primary school meals from 29 October 2007.
14. Annex 3 details the financial implications, funding streams (school meal income, Transforming School Grant, Job Evaluation contingency) and selling price, for the four options outlined below, over the period 2007/2010.

15. Secondary schools in the contract operate a cafeteria system with individual items priced separately. NYCC increased prices by 10% in April 2007 for four York secondary schools with whom they have individual Service Level Agreements (SLAs). NYCC advises that a similar increase will be needed for the five remaining secondary schools within the CYC contract. This increase in secondary prices has been assumed for each of the options below.

**Option 1 – to increase the selling price (Primary Meals) to £2.10 in October 2007**

16. In order to balance income and expenditure for the Primary School contract, the selling price of a school meal would need to increase by 35p (20%) from £1.75 to £2.10 (rounded up from £2.08). This assumes that the existing average take-up rate is maintained and that prices would then rise only by inflation in 2008/09 and 2009/10 (estimated price of £2.20 in September 2009).

**Option 2 – to increase selling price (Primary Meals) to £1.95 in October 2007**

17. This option recognises that the price increase set out in option 1 would probably meet with significant consumer resistance, reducing the take up of school meals further, thus leading to reduced income and further price increases.
18. The Forum has already agreed to set aside £250k from the Individual Schools Budget (ISB) in 2007/08 as a contingency to contribute to costs associated with the introduction of Job Evaluation in York schools. The implementation of a new pay and grading scheme for City of York staff has yet to be agreed and implemented. Some of the funding set aside for this purpose could be used to support school meal provision in 2007/08 and limit the increase in the selling price to 20p (11.4%).
19. This option assumes a further 20p increase to £2.15 in September 2008, followed by a 5p increase to £2.20 in September 2009. Increases beyond 2007 will be subject to changes in inflation rates and the demand for meals.

**Option 3 – to increase selling price to £1.90 (Primary Meals) in October 2007**

20. As for option 2, but providing more subsidy to allow for a selling price of £1.90 (8.5% increase) in 2007, rising to £2.05 in September 2008 and £2.20 in September 2009. Increases beyond 2007 will be subject to changes in inflation rates and the demand for meals.

**Option 4 – to increase selling price to £2.00 (Primary Meals) in October 2007**

21. This is a hybrid of options 1 and 2. It assumes a selling price of £2.00 (14% increase) in 2007, rising to £2.15 in September 2008 and £2.20 in September 2009. Increases beyond 2007 will be subject to changes in inflation rates and the demand for meals.

## Future of the NYCC Contract

22. The options above are intended to address the short term funding issues and to ensure that NYCC continues to provide the school meal service.
23. It is clear that NYCC is finding it increasingly difficult to balance operating costs with income. The cost of labour has increased significantly. The introduction of nutritional standards is currently supported by the Transforming School Grant and it is possible that this subsidy will be withdrawn. In NYCC, the Council has agreed to underwrite the extra cost of job evaluation for 2007/08. Options 2 and 3 above offer a similar approach for York schools.
24. North Yorkshire County Council has begun a detailed review of the school meal service and “various options for the future provision of the service”. These options could include:
  - maintain the service in its present format
  - cease the preparation of food in schools serving low numbers of meals and transporting meals in from larger schools.
  - provide a cold packed lunch service only
  - pass all responsibility for meal provision to schools
  - introduce differential pricing in schools reflecting local costs and demand
  - externalise/outsourcing the service to a private sector provider
25. All options carry differing cost benefits and risks and will need detailed investigation. It is thought unlikely that re-tendering the contract would lead to a reduction in costs in the short term given the impact of the transfer of undertakings protection of employment regulations (TUPE). NYCC has commented that *“the analysis of alternative options is at an early stage. It is against a background where the present basis of service does appear to be the best approach to meeting the healthy meals agenda. However, given the impact of job evaluation, we must examine alternatives and be in a position to discuss those alternatives in detail with our customers – the schools in York and North Yorkshire. We are more than happy to follow those initiatives jointly with your staff”*.

## Consultation

26. There have been various consultations concerning provision of school meals in York in the last two years. School meal provision was debated at the launch of Governor Viewpoint in September 2005. Some 90 governors attended and expressed the following views:
  - 92% believed that the quality of food made a significant difference to behaviour
  - 90% felt that quality should be the most important criteria in setting policy (5% opted for choice and 2% price)
  - 80% felt that schools should only provide healthy food
  - 92% considered that the contents of meals should be changed even if it led to a reduction in take-up
  - 75% were willing to support a policy of sourcing local food even if it meant an increase in cost

- 72% were not willing to provide subsidised meals at the beginning or end of the day
  - 57% were willing to see better quality meals priced at £2.00, 32% at £1.80 and 5% at more than £2.00
  - 70% thought that schools should monitor and make recommendations about pack-ups. 30% did not.
  - 68% felt that school meals should be served using the “family service” model.
  - No governors were willing to support the “grab a bag” approach.
27. In 2006, the LA published a key issue paper: Transforming School Meals – National Developments and Local Issues. Responses to the paper from schools guided the way in which the Authority used the Transforming School Meals Grant to: improve the nutritional content of meals; provide training for catering staff; and promote the take up of school meals.
28. The Schools’ Forum considered the options set out in this paper at their meeting on 5 July 2007. The views of the Schools’ Forum will be reported back to the meeting of EMAP.

### **Corporate Priorities**

29. The provision of nutritional school meals supports the corporate priority to “improve the health and lifestyles of the people who live in York, in particular among groups whose levels of health are the poorest.”

### **Implications**

#### **Human Resources (HR)**

30. There are no implications.

#### **Equalities**

31. There are no implications.

#### **Legal**

32. There are no legal implications.

#### **Crime and Disorder**

33. There are no issues relating to crime and disorder.

#### **Information Technology (IT)**

34. There are no issues relating to IT.

## **Property**

35. There are no direct issues relating to property

## **Risk Management**

36. If the contract continues to operate at a loss, the Local Authority faces the likelihood that the contractor will seek to terminate the contract. Schools would be required to make alternative arrangements. In increasing the selling price of school meals, there is likely to be a reduction in the number of children choosing school meals. Options 2 to 4 seek to mitigate this risk by phasing in price increases over time.
37. Increasing the take up rate of school meals, through various promotions and initiatives, also serves to improve the financial viability of the contract in the longer term.

## **Conclusion**

38. The cost of school meals provided through the NYCC contract has risen significantly, largely as a consequence of increased staffing costs following the implementation of job evaluation for staff employed by NYCC.
39. In the short-term, in order to maintain the service provided by NYCC, the Council will need to increase the selling price of school meals, or subsidise the provision of school meals (from DfES grant and the schools' budget) or apply a combination of these responses.
40. It would be possible to phase in the required increase in selling price over the next two years in order to minimise the risk of a significant reduction in the numbers taking school meals creating a spiral of decline. The options set out in paragraphs 17-21 and Annex 3 adopt this approach, drawing upon Transforming School Meal Grant and contingency funds set aside (from the ISB) to address the impact of job evaluation.
41. NYCC recognises the need to review the operation of the school meals service and has invited CYC to contribute to that process.

## **Recommendation**

42. Executive Members are asked to consider the options set out in the report and to determine the price for school meals.
43. NYCC has proposed a joint review of the school meals service and options for future delivery. Executive Members are asked to consider the proposal and whether or not the LA would wish to contribute to such a review.

Reason: to ensure the continuation of the school meals service provided by North Yorkshire County Council.

## Contact Details

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**Report Approved**  **Date** 2 July 2007

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### Specialist Implications Officer(s)

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**Wards Affected:** *List wards or tick box to indicate all*

All

**For further information please contact the author of the report**

### Background Papers:

LA Key issue paper: Transforming School Meals – National Developments and Local Issues, Spring 2006

Annex 1: School meals take up

Annex 2: Confidential annex: letter from North Yorkshire County Council

Annex 3: Financial implications and funding streams of proposed options