

30 April 2014

**IMPLICATIONS OF UNIVERSAL FREE INFANT MEALS - Costs of the
implementation and other cost pressures for 2014/5**

*Report of the CEO of Hertfordshire Catering Limited/Director of Education & Early
Intervention*

Author: Lin O'Brien, CEO Hertfordshire Catering Limited
Simon Newland, Education & Early Intervention

Contact: 01707 292510

1. Purpose of the Report

- 1.1 To update Forum on cost pressures on meals costs together with the revenue implications of the new duty to provide Universal Free Infant Meals and issues arising, including a proposed increase in the Primary school meal selling price from 205p to 215p and a one-off charge of 5p for each "newly eligible" infant meal, both effective from September 2014.

2. Recommendations

- 2.1 Forum is asked to note the report and support the actions proposed.

3. Background

- 3.1 Hertfordshire Catering Limited (HCL) is currently serving 43,000 meals per day in 392 Primary, Nursery and Special schools – a take-up rate of 48%.
- 3.2 From September 2014, all Reception, Year 1 and Year 2 pupils will be entitled to a free meal. Using the government's assumption that 87% of "newly eligible" pupils (i.e. those currently either taking a paid meal or not taking a meal at all) will in fact take a meal, it is thought that an additional 16,000 meals per day will be served.
- 3.3 The basis of funding provided to schools to meet the costs of this is set out in the separate Paper on the Agenda for this Forum entitled Update on Universal Free Meals (Item 2a).
- 3.4 However, this initiative will lead both to additional costs and some savings in the costs of delivering meals. There are also a number of other cost pressures affecting the delivery of the meals service by HCL.

4. Cost Pressures

Staff Costs

- 4.1 UNISON has tabled a demand for an additional £1 per hour on all grades in their negotiations with employers. If HCL were to agree to this demand, the cost would be a minimum of £1m per annum. The Roman Catholic Diocese of Westminster has agreed with UNISON to pay the living wage to its staff (including staff in schools), and to consult with contractors on how they will move towards the same goal. Were HCL to pay the “living wage”, the cost would be even greater than the £1m per annum quoted above, particularly taking into account the costs of offsetting the erosion of differentials with higher paid staff.
- 4.2 The Local Government employers have made an offer of a pay increase from April 2014 of 1% on most grades, but of 4.7% on scp 5 (the lowest), 4.2% on scp 6, 3.1% on scp 7, 2.1% on scp 8, 1.5% on scp 9 and 1.25 on scp 10. (NB An increase of 1% on scp 5 is needed just to match the minimum wage).
- 4.3 Since the bulk of HCL's staff are General Catering Assistants on scp 5 and scp 6, the employers' pay offer would result in an increase in the kitchen labour cost of 3% overall.
- 4.4 The transfer of staff to HCL has “crystallised” additional Local Government Pension Scheme costs such that the employer's contribution has increased from 20.7% to 24.6% from September 2013. Taken together with the increase in pay, labour costs will rise by the equivalent of 5p per meal.

Work Force Review

- 4.5 HCL has been carrying out an operational Work Force Review, in light of the changing needs of its business and the new expectations of its customers. The move to a limited company has had a significant impact on the way the catering service operates, particularly within the primary sector, and much of the work associated with this Review has been exploring the current expectations of Contract and Cook Managers in delivering the required changes. The last such Review was carried out six years ago and reflected the then service needs. To remain competitive, HCL needs to respond to current market trends for greater ‘scratch cooking’, for all foods freshly prepared on site on a daily basis and the new environmental health requirements.
- 4.6 A major conclusion of the Review is that the contract hours of Cook Managers should be increased from 25 to 27.5 hours per week, to reflect the demands on their time in completing the tasks that are now required of them - including delivering the new menus, increased allergy management and compliance with rigorous new food safety legislation. The assessed cost of the additional Cook Manager hours from September 2014 is

£256,000 in 2014/15 and £439,000 in a full year. This equates to 5p per meal in addition to the 3% referred to above.

- 4.7 The review continues to look at the necessary hours and pay for other kitchen staff, but has reached no conclusions as yet.

Food Costs

- 4.8 HCL is rolling out significant improvements to food quality, including the introduction of fresh meat on the menus, with no impact to date on the selling price. There has been significant food price inflation over the last few years. Our food suppliers have been increasing their prices (the main supplier by 2.7% from April 2014), and they have the ability to seek a further increase in September 2014. Overall, we are budgeting for an annual increase in food costs of 5p per meal from September 2014 as against September 2013.

Savings

- 4.9 The updated HCL Business Plan assumes 87% take-up by “newly eligible” infant pupils, and 48.5% take-up by junior pupils.
- 4.10 It also assumes £200,000 additional contribution to overheads from the additional meals in 2014/15, and £300,000 saving in the same period from economies of scale as more meals are served in each kitchen.

5. Summary

- 5.1 The impact of the 3% pay award above plus the increased employer’s LGPS contributions equates to 5p on each meal. There is a similar impact from increased food prices, and also from the increased hours for Cook Managers, making total cost pressures of 15p per meal.
- 5.2 The cumulative impact of these cost pressures, even when offset by the economies of increased meal numbers, means that an increase of 10p / 4.9% in the “selling price” of each meal from the current 205p to 215p will be necessary to ensure that the Primary service covers the cost of provision.

Proposal

- 5.3 It is therefore proposed by HCL to increase the selling price of meals to primary schools from £2.05 to £2.15, with effect from 1st September 2014.
- 5.4 Should the eventual pay settlement exceed the current employers’ offer, we would need to come back to Schools Forum. The 215p price compares reasonably with the price of meals being charged by similarly sized Counties, and is of course significantly less than the 230p Government funding figure.

- 5.5 The “subscription” will continue at the current £3,465 until March 2015, with a review in advance of financial year 2015/16.

6. Set-Up Costs/One-Off Costs Related to the Introduction of Universal Free Infant Meals

- 6.1 Identified costs are as follows:

Additional plates, cutlery etc.	£180,000
Recruitment Costs – 189 additional staff from Sept 2014	£92,000
Pay for 36 additional Assistant Cooks in Summer Term 2014	£42,000
Additional Trainer Hours etc.	£10,000
Additional temporary Contract Supervision (3 months)	£13,000
TOTAL	£337,000

- 6.2 All of the above costs have been assessed as the minimum required to put HCL in a position to deliver 16,000 additional meals per day from September. If numbers increase beyond 87% in individual schools on a sustained basis, additional hours and light equipment will be required but should be capable of being met within the basic meal cost.

- 6.3 HCL needs to recover the Set Up Costs referred to above to remain a viable organisation and to continue to provide a first rate service. An additional one-off, time limited charge of 5p for each meal funded by the Government at 230p (i.e. each newly eligible pupil meal) would allow most of the costs to be recovered over the period September 2014 to July 2015. The charge would be made within the charge for September (i.e. billed mid October and direct debited at the end of October) for the Autumn Term 2014, and within the charge for January (i.e. billed mid-February and direct debited at the end of February) for Spring Term 2015. The balance of 10p from the 230p grant would remain with the schools.

7. Capital Equipment

- 7.1 Substantial investment is taking place this year in Capital Equipment, funded partly by Government Grant and partly by using Dedicated Schools Grant (DSG) held back from school budgets with the agreement of Schools Forum. From 2015/16 onwards, any new or replacement equipment will need to be funded from individual school budgets. HCL will look to develop a specific “subscription” scheme to allow schools to cover such capital requirements in future.