

**22 February 2017**

**PRIMARY AND SPECIAL SCHOOL MEALS FROM APRIL 2017**

*Report of the CEO of Hertfordshire Catering Limited*

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**1. Purpose of the Report**

- To update Forum on the current financial position of the Primary and Special School Meal service in the light of financial pressures particularly on wages and food inflation.
- To advise Forum on the school meal selling price to be charged to schools from April 2017.

**2. Summary of Recommendations**

With school budgets coming under increasing pressure, HCL has been looking at initiatives to reduce costs and also reduce the administration time involved with keeping records for catering purposes.

- HCL will be introducing two Incentive Schemes (linked to meal uptake ) this year, which could result in rebates being paid to schools at the end of the year, based on achieving criteria, as detailed further within this report.
- We are working with companies providing electronic school meals menu selection software to see where some of the administrative tasks can be reduced within schools and we plan for these initiatives to be rolled out more widely in the coming year. Pilots with schools will be starting in March 2017.
- No increase in costs to schools for this coming year in respect of the Capital Equipment Replacement Scheme
- There was no increase to the standard annual subscription fee last year. We will need to apply a small increase (2.4%) this coming year which will take the annual fee to £3,625. Work is taking place to generate further efficiencies with the repair and maintenance of kitchen equipment and these savings are being passed on to schools

There are pressures/challenges for HCL in the coming year which we have identified and have covered within the body of this report. However, we also demonstrate within this report the measures we are taking to contain the impact of these pressures on our customers, through efficiencies and better procurement

With the various cost pressures (as detailed within) we will be increasing our meal price to schools to £2.30 with effect from the 1<sup>st</sup> April 2017, which will then be held for one year.

Forum is asked to note the report and the actions proposed.

### **3. Background**

HCL provides meals in 386 Primary, Nursery and Special Schools plus 45 'commercially' managed secondary and non educational contracts. We employ circa 1850 staff.

From September 2016, HCL has served on average 31,568 Infant meals (UIFSMs) and 27,944 Junior Meals per day. This makes a total of 59,596 meals per day and equates to an average meal uptake of 66.4% of the pupils on roll. Last year we served over 15 million meals (to our diverse customer base) across our business portfolio

### **4. Pressures**

#### Staff Costs

One of the biggest impacts on our staff costs was the implementation of the National Living Wage which took effect from 1<sup>st</sup> April 2016. With over half our members of staff currently on this rate, we will see a further increase of 30p per hour (equating to 4.2% increase) with effect from April 2017.

In addition to the National Living Wage, we are faced with the introduction of the Apprenticeship Levy, which is 0.5% of our payroll, as well as employer pension contributions for those in the LGPS rising by 21%.

Finally we will begin the process of auto enrolment in October 2017 potentially adding a further £0.5m to our costs.

#### Food Costs

In October 2016 HCL was awarded Silver Food for Life in recognition of our commitment to providing freshly prepared nutritious and wholesome meals, using quality ingredients including organic and local produce.

HCL continues to roll out significant improvements to food quality with rigorous and robust scrutiny of suppliers to achieve better procurement, without compromise on quality. However, we have already seen increases in the cost of food

Our suppliers are indicating that they may need to increase costs during the next 12 months in the region of 6% to 8% and will only hold prices for a quarter rather than the six monthly reviews. Given the uncertainties in projecting so far ahead, it is certain that to maintain the current food quality, food prices will rise.

## Competitive Marketplace

HCL is operating in an increasingly competitive marketplace. We currently have a universal meal price to all schools within Hertfordshire. This does mean that there is a subsidisation by the larger schools for the small and special schools in the county. With the various budget pressures schools are now under, governing bodies are looking at ways of reducing their costs and the meals service is one area.

Competitors are able to offer larger schools better meal prices that we are able to do, as they do not tender for the small schools where margins are slim, or the costs are not fully met within the meal price.

While we continually review costs in all schools to try to achieve efficiencies, without compromising the quality and quantity of the food on the plate, we are faced with different cost bases in schools.

In last year's report, we noted that a review of the meal pricing structure for both special schools and small schools would be carried out during 16/17 to address the cross subsidy issue moving forward. Below is a brief overview of the outcomes from this review.

### Special Schools

For the 17 special schools where we provide a meal service and despite introducing efficiencies where possible, the **average** cost of producing meals is significantly more than the cost price for mainstream primary schools. The £2.30 price we have set for mainstream schools from April 2017 assumes the removal of the cross subsidy to special schools. The impact will be a higher increase to special schools on their meal price. We are now in dialogue as to what this means individually or collectively to the meal price for special schools from April 2017.

### Small Schools

Over the last year, we have investigated different delivery models for the smaller schools (such as a transported service or a central production hub) as to whether they would provide the same quality of service, but at a reduced cost. Our conclusion was that the options explored could not deliver the same high quality of meal provision to our customers and would also not be an economically feasible solution. However, we have been proactive over the past months in exploring and implementing efficiencies, without compromising on the quality of the services we deliver. We plan to continue with this work of seeking to reduce costs for our small schools this coming year, with a view to moving away from any cross subsidy.

## Large Primary Schools

In order to counter the attraction of the larger schools moving to competitors, we will be introducing a volume related rebate for all schools serving on average over 250 meals per day over the whole financial year. **This would only be available to schools who sign a three year contract with us.**

One of the areas where we can work together to reduce costs is to increase the meal uptake. Therefore in addition to the above scheme, we will be introducing an incentive scheme open to all schools serving over 20,000 meals per year. This would result in rebates being paid at the end of the year based on increasing meal numbers served within that year.

The incentive schemes are as follows:

### Large school volume incentives

Schools serving	250 – 299 meals	3p per meal reduction
	300 – 399 meals	5p per meal reduction
	400 – 499 meals	8p per meal reduction
	Over 500 meals	10p per meal reduction

### Incentive scheme for all schools serving over 20,000 meals in a year

Meals per year	Rebate for 1% to 2.5% increase	Rebate for 2.5% to 5% increase	Rebate for over 5% increase
20,001-30,000	1p per meal	2p per meal	4p per meal
30,001-40,000	1.5p per meal	3p per meal	6p per meal
40,001-50,000	2p per meal	4p per meal	8p per meal
50,001-60,000	2.5p per meal	5p per meal	10p per meal
60,001-70,000	3p per meal	6p per meal	12p per meal
>70,000	3.5p per meal	7p per meal	14p per meal

For both schemes, the rebate would be paid after the end of the financial year (April to March) based on meal numbers sold during the period. The volume rebate would be calculated on average meal numbers served on trading days during the financial year

For the increased turnover incentive, the meals served in the previous financial year would be compared to the meal numbers served in the current year to see the percentage increase.

## 5. Pricing structure

With the various cost pressures we will be increasing our meal price to £2.30 with effect from 1<sup>st</sup> April 2017 which will then be held for one year. With the

£2.30 Government funding figure remaining unchanged for UIFSM we are very aware of the challenges for setting meal prices next year.

We plan to increase the standard annual subscription fee at £3,625, a 2.4% increase. Work is taking place to generate further efficiencies with the repair and maintenance of kitchen equipment and these savings are being passed onto schools.

Two years' ago we introduced the Capital Equipment Replacement Scheme which was set up so that schools could protect themselves from unexpected costs arising from kitchen equipment failure. No increase is proposed for this coming year.

<b>Charge per meal provided</b>	<b>2016/17</b>	<b>2017/18</b>
Nursery	£2.15	£2.20
Primary	£2.25	£2.30
Secondary age in Primary sector	£2.35	£2.45
Adult (excluding VAT)	£2.50	£2.65
Adult main course only (Ex VAT)	£1.75	£1.90
Annual Subscription	£3,535	£3,625

## **6. Future issues and initiatives**

With school budgets coming under increasing pressure, we have been looking at further initiatives to reduce costs and also reduce the administration time involved with keeping records for catering purposes. Firstly we would urge all schools to encourage parents to make payments electronically rather than bringing cash and cheques into the school office. This would certainly help reduce the administration time.

We have already started working with companies providing electronic school meal menu software to see where some of the administrative tasks can be reduced within schools and we hope that these initiatives can be rolled out more widely in the next year.

By looking at all these various initiatives, we hope we can add further value to our service and remain competitively priced for all the schools we work with.

## **7. Conclusions**

- The selling price of a school meal to school increases to £2.30 from April 2017.
- The Annual Subscription will increase to £3,625 in April 2017.
- The Capital Equipment Replacement Scheme charges will remain unchanged for the next year.