

STATES OF JERSEY



SCHOOL MILK: CONTINUED FUNDING

Lodged au Greffe on 8th May 2008
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to express their support for the continued funding of school milk, and to request the Chief Minister, after consultation with the Minister for Economic Development, to bring forward for approval by the States provision for this funding to be inscribed in the budget of the Economic Development Department in the Annual Business Plan 2009 and ring fenced for this purpose until such time as the new dairy and appropriate financial structures for the dairy industry are in place.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

School milk – the politics

Members will be aware that the provision of school milk has been under budgetary pressure for some years. It is one of the “political footballs” that nobody wants to take responsibility for and over time has been kicked from Education to Health and thence to Economic Development in 2003. Protection of this funding was extended by the Assembly to cover the years 2004 and 2005 largely to provide a measure of stability for the dairy industry as it went through major reorganisation.

This came as a result of one of 3 key recommendations in January 2003 to the Economic Development Committee of the time from Dr. McQueen as part of his strategic review of the dairy industry. Dr. McQueen predicted a certain level of recovery within the Dairy Industry over the 2 year period 2003 to 2004, though it was unlikely that this recovery would return the Dairy Industry to its previous level of profitability.

The Committee agreed to the 3 key recommendations made by Dr. McQueen, including that on the provision of school milk –

- *the guaranteed continuation of the present level of the States support for School Milk and Welfare Milk programmes, at least until the end of 2004.*

Dr. McQueen argued that such a measure would help to provide some stability in the transition period as the dairy and the industry attempted to get itself on to a better economic and financial position.

Following pressure in the States this was further extended until the end of 2005.

The Economic Development Committee next considered the ongoing funding of milk for schools into 2006, when they received an enquiry about the issue from the Managing Director of Jersey Dairy in 2005. The Managing Director of the Dairy was of the opinion that it would be advantageous for the Committee to continue to fund the provision of milk for schools into 2006. Were the Committee to decide to end funding for this service earlier than 2006, the Dairy would need to find alternative resources such as private sponsorship, and so was seeking clarification.

The Committee was fully supportive of the provision of this service, and notwithstanding that it had not been provided with a budget to continue it, the Committee decided to fund school milk into 2006, but not beyond. Subsequently, the Finance and Economics Committee agreed to leave funding for the provision of school milk in the Economic Development Committee’s budget for 2006, but to remove it from 2007 onwards. Since then, the funding for school milk has been further extended to cover 2007, but not beyond.

In the Annex to the Draft Annual Business Plan 2007 – 2011, the Minister for Economic Development’s decision is recorded thus –

“School Milk is included in the budget for a further year. The intention remains to withdraw this funding pending the successful reorganisation of the Dairy industry”.

Last year I brought a proposition to the States to further protect the funding of school milk for another 3 year period, as a result of which the Minister for Treasury and Resources agreed to extend funding for school milk for one year only, until the end of 2008.

The Minister for Economic Development currently proposes to cease the funding of school milk in his draft 2009 Business Plan and to transfer the £200,000 saved into direct marketing of the financial services sector. At the time of writing, the details of exactly what form this marketing will take is unknown, but it must be seen in the context of the £1 million States funding already allocated to promotion of the Island’s FSI through Jersey Finance.

School Milk – the economics

The important factor to remember in assessing the dairy industry is that recognised by Dr. McQueen, the Economic Development Department's own independent advisor, back in 2001, that –

“Support will be required pending the successful reorganisation of the industry”

Much progress has been made over recent years in returning the industry to viability. For example, the price paid for milk to the producer in 2002 was 27.4 pence per litre. It was forecast to rise to 30.5 pence in 2003, but only achieved 29.5, the same price as was paid in 1990. The average distribution per litre for conventional milk in the year ending March 2007 improved to 33.8 pence per litre, up from 33.0 pence per litre in the previous year.

Milk intake for the 12 month period ending March 2007 was 14.1 million litres, a very similar level to the previous year. In previous times this has led to large volumes of milk going into low-value skimmed milk production. Following the recent exit of 3 producers from the industry in Jersey, the projected intake for the next year is 11.8 million, down from 13.3 million litres in the year just ended. This projected intake is now much more closely matched to the requirements of the local market.

In addition, the past year has seen some of the most volatile times ever for dairy products. World stocks effectively ran out last summer and this led to commodity prices doubling over a 9 month period. Although world prices eased over the winter, they are still running significantly higher than at the same time last year. As a result of these factors, the dairy no longer has large excesses of milk which it has to turn into unprofitable bulk butter and skimmed milk products. The draft accounts for the year ending March 2008 suggest that the dairy has reduced its net debt by just under £400k from the figure of £2,966k shown in the 2007 accounts (see attached Appendix).

The dairy is still carrying a debt of £2.5 million, however. The industry is doing its best to turn itself around, but there is a long way to go. The final element that needs to be put in place is the move to a new dairy, which will permit a significant reduction in the board's debt. Every informed observer of the Jersey dairy industry, with the exception of those who make up the EDD, is of the opinion that the continued funding of school milk is essential. The words of the Economic Development Department's advisor, Dr. McQueen, in his conclusions to Chapter 3 of his report, remain as valid today as they did in 2003:

“School milk and Welfare milk account for 11% of all liquid milk sales and although this share has been falling it is sufficiently big to make these sales of real significance to the industry. Care should be taken to ensure the schemes are maintained at least until dairy farming is on a sounder financial footing.”

Scrutiny Report

The most recent review of the dairy industry, the Economic Affairs Scrutiny Report S.R.4/2007, conducted in conjunction with the Chief Minister's Department, contains the following sections on the topics of school and welfare milk:

School and welfare milk

Milk has traditionally been provided free or at discount rates to sections of the population that are deemed to need it. This has provided Jersey Dairy with an additional source of revenue.

Welfare milk

Until 2005, residents of Jersey were entitled to subsidised milk if it was deemed to be of particular benefit to them. Subsidies were previously received by pregnant women, children under 5, and people over 70, (or 65 in some cases). This was administered by making cheaper milk available from roundsmen who delivered door to door.

Welfare milk was sold directly to the claimants by Jersey Dairy, which was reimbursed the difference by the [Social Security](#) Department. Once the milk delivery scheme was terminated, the funds were distributed to the recipients by cheque. It is intended that the welfare milk payments will be subsumed into the low income support payments once that system is in place.

Although the number of beneficiaries and the sum required to support this benefit have been reducing over time,

over 7,500 households will be affected by the withdrawal of the scheme.

	2001 £'000	2002 £'000	2003 £'000	2004 £'000	2005 £'000
Milk at Reduced Rate	467	408	380	334	361
Milk at Reduced Rate beneficiaries	9,792	8,948	8,353	7,837	7,578

As members will be aware, following the introduction of the Income Support scheme in January of this year, payments for welfare milk are now incorporated in Income Support. This has effectively removed over £300,000 from the Dairy's revenue stream over the past 2 years.

On the subject of school milk, the Scrutiny Report has the following to say:

School milk

School milk is currently available provided free of charge, with the cost of the milk paid to Jersey Dairy by the [Economic Development](#) Department. The [Economic Development](#) Minister has stated that the funding for school milk will be in place for 2007, but will not continue into the future.

The Sub-Panel has polled schools and found that the majority appreciate milk provision, that most children drink the milk, and that there is little wastage in the system. Most schools would like to see the service continue indefinitely and feel that it represents a positive use of public money.

Although the dietary benefits of additional milk for the under 10s has been challenged by a UK report, the social aspects and the increased propensity of children who receive this milk to drink it in the future are considered benefits.

The cost of the provision of school milk is around £180,000 annually.

Rural Economy Strategy

In examining the wider aspects of government support, both direct and indirect, for the dairy industry, the Scrutiny Panel had the following to say:

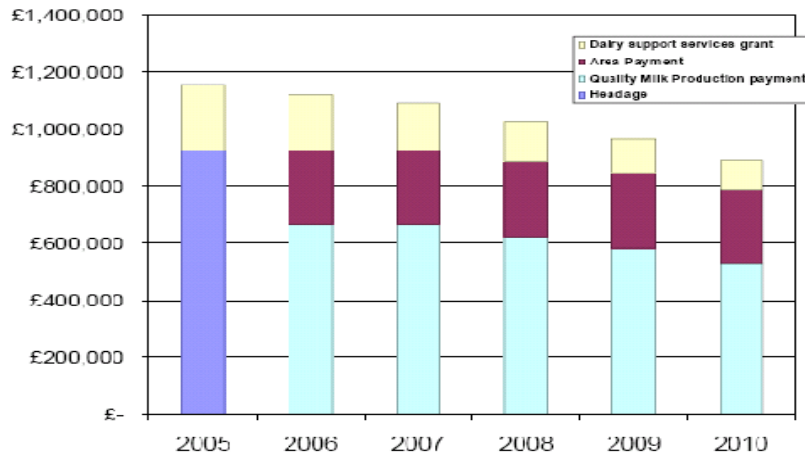
The Rural Economy Strategy is considered worthy of further detailed consideration. While it has only been operating for one year it introduces significant new concepts to the industry, as well as setting up a framework to reduce direct payment to farmers by approximately 25% between 2007 and 2010. The rationale for this reduction is that –

5.5.1 The dairy industry has identified efficiency gains that will flow from, for instance, the relocation of the dairy. It is proposed that current levels of direct aid are maintained until 2007 during this initial transition phase. Thereafter the overall level of financial aid (including support service payments) will be reduced.

The government strategy is therefore based on the relocation of the dairy, and the Sub-Panel hopes that consideration will be given to the industry if the relocation is delayed.

This is illustrated in the graph below, taken from the Rural Economy Strategy. It shows a reduction in direct support to the industry of around £200,000 over the 3 year period 2007 to 2010.

Graph showing current and proposed Dairy support funding.



According to the Rural Economy Strategy, there will be a phased reduction in support for the dairy sector amounting to around £120,000 over the years 2007 to 2010, largely through reducing the rate at which the quality milk payment is paid.

Doorstep deliveries

The decision of the dairy first to introduce charges for delivery and then to cease deliveries altogether in 2004/5, has led to the setting-up of a new enterprise by ex-roundsmen to take over this service. This company, Sunshine Deliveries, now delivers to homes and offices in many parts of the Island, and the contract to deliver school milk for the Dairy forms a significant part of the company's revenue.

This proposal deliberately covers the period until the new dairy is constructed and the financial situation of the JMMB or its successor is resolved, in line with the recommendation of the McQueen report. When this has occurred, it will be for the States to decide whether it wishes to reconsider its position with regard to the funding of school milk on grounds other than economic.

Financial and manpower statement

Continued support for school milk will cost some £190,000 annually. There will be no additional manpower demand.

JMMB Results at a glance

	12 months ended 31st March 2007 £'000	12 months ended 31st March 2006 £'000
Turnover	9,747	9,887
Surplus after interest and before distributions & exceptional items	4,662	4,563
Net loss before exceptional items	(204)	(192)
Net loss after distributions	(314)	(494)
Net debt	(2,966)	(2,607)
Milk intake in litres '000s	14,144	14,109
Number of registered producers at year end	33	33
Number of dairy employees at year end	67	75
	Pence per litre	Pence per litre
Revenue	68.9	70.1
Operating costs – as adjusted*	(34.5)	(36.3)
Surplus after interest and before distributions	32.2	30.2
Surplus after interest and before distributions & exceptional items	33.0	32.3
Distribution – for conventional milk	(33.8)	(33.0)

Note: Pence per litre figures are based on total milk intake from producers

* Excludes exceptional items