STATES OF JERSEY

SCHOOL MILK: RESTORATION OF FUNDING (P.115/2011) – REPORT OF THE MINISTER FOR ECONOMIC DEVELOPMENT

Presented to the States on 11th July 2011
by the Minister for Economic Development

STATES GREFFE

REPORT TO THE STATES BY THE MINISTER FOR ECONOMIC DEVELOPMENT IN RESPONSE TO A PETITION PRESENTED TO THE PRESIDENT AND MEMBERS OF THE STATES OF JERSEY BY THE JERSEY DEMOCRATIC ALLIANCE

Introduction

Proposition P.115/2011 – "School Milk: restoration of funding" was lodged au Greffe on the 8th June 2011 by Deputy G.P. Southern of St. Helier.

Subsequently, a petition, containing 7,268 signatures was submitted, by the Jersey Democratic Alliance (JDA) to the President and Members of the States of Jersey on 5th July 2011.

The petition requests the restoration of the provision of free school milk in Jersey nursery and primary schools in September 2011, for the start of the school year.

It should be noted that the School Milk Scheme has historically only funded Primary School classes, including reception classes, and not private nurseries.

The reasons cited by the JDA for the petition are that when the States voted to withdraw funding for free school milk in the Business Plan 2011, they did so in the face of good evidence for the medical, dietary, educational and economic benefits of regular milk drinking for young children.

The Minister for Economic Development acknowledges receipt of the petition but opposes the proposition P.115/2011.

Comment on the petition

It is likely that most people in Jersey want to ensure that school children lead healthy lifestyles – that is a laudable aspiration – and the petition reflects this desire. However, there is no evidence at all to suggest that the loss of the School Milk Scheme (SMS) will impact negatively on children's health. In addition, there is strong evidence that the restoration of the SMS could have significant negative economic impacts for Jersey Dairy (JD), which would need to deliver the proposed SMS at a loss.

There is little doubt that milk can be an important part of a child's balanced diet, it is preferable to "fizzy" drinks and it does have nutritional value, but that in itself does not create a convincingly strong public health case for free provision in schools – indeed, this would be the worst time to reinstate such an ineffective measure, given the state of the public finances, the need to uphold Comprehensive Spending Review (CSR) decisions and the need to make rational and intelligent savings.

It should be noted that the restoration of the SMS would represent a reversal of the decision taken by the States to support the Comprehensive Spending Review savings provided by Rural Economy section of the Economic Development Department in its 2011 Business Plan and also impact heavily on CSR savings proposed for the 2012 Business Plan.

Consequently, the restoration of the SMS, in line with Proposition P.115/2011, could significantly de-rail the Rural Economy Strategy, which was approved by the States in

January 2011 and which included 35 recommendations as set out by the Rural Economy Strategy Sub-Panel's report of October 2010 (S.R.11/2010). The consequence of the States approving the restoration of the SMS would be the necessary diversion of allocated marketing and other resources in the RES, away from key rural development marketing measures such as promotion of the Jersey Royal Trademark and support for the Genuine Jersey brand.

Under P.115/2011, lodged by Deputy Southern, the States are asked to decide whether they are of opinion –

(a) to express their support for the restoration of free school milk in nursery and primary classes in Jersey schools;

(b) to request the Minister for Economic Development to reprioritise funds allocated to marketing in the 2011 Economic Development budget to provide £46,000 to fund school milk for the September 2011 term;

(c) to request that the Chief Minister, after consultation with the Minister for Economic Development, to bring forward for approval by the States provision for £138,000 to be inscribed in the budget of the Economic Development Department in the Annual Business Plan 2012 to fund free school milk for 2012; and

(d) to agree that the funding for school milk should be provided for within the total States spending limits already agreed by the States for 2013 and to request the Council of Ministers to ensure that the detailed departmental spending proposals for 2013 brought forward for approval by the States in due course contain provision for this funding.

This is a surprising proposition considering that less than 12 months ago, Deputy Southern was advocating the phased withdrawal of the SMS by the end of 2014, as per the proposed Annual Business Plan 2011 (P.99/2010): 4th amendment (P.99/2010 Amd.(4)), lodged au Greffe on 12th August 2010.

It should be reiterated that the SMS has historically only funded reception classes in Primary Schools and not private nurseries as the proposition implies.

The report accompanying the proposition suggests that the argument surrounding the provision of free school milk is based on three key themes, namely, health and diet, education and economic issues.

Health, diet and education

Free school milk was introduced specifically to prevent malnourishment during the food shortages that followed the Second World War but it is no longer required for the prevention of malnutrition or calcium deficiencies. This is evidenced as below.

On Tuesday 29th March 2011, the Minister for Health and Social Services responded to a written question from Deputy Southern, questioning the provision of evidence that there are "no health benefits" from primary school children receiving school milk.

Evidence to support the stance that the provision of school milk is not necessary on health grounds includes the 2010 UK National Diet and Nutrition Survey[1]. This survey confirms that calcium intake is above the recommended nutritional intake in the primary school age group. It also shows that calcium intake in all age groups appears higher than the previous surveys, yet milk consumption has decreased.

This suggests that children are achieving their recommended intake of calcium from sources other than milk. Given that there is no reason to suppose that local children's diets are different in any significant way, this survey shows that the rationale for providing free school milk in order to reduce the risk of calcium deficiency is redundant.

The Health Promotion Unit worked with Jersey Dairy as part of its Healthy Schools Programme to produce designs on milk cartons that promoted healthy eating messages to primary school aged children. This is entirely consistent with the views expressed in the 2011 Business Plan debate. It should be reiterated that milk can be an important part of a child's balanced diet, it is preferable to "fizzy" drinks and it does have nutritional value, but that in itself does not create a convincingly strong public health case for free provision in schools.

The proposition mentions the UK Food Standards Agency "eat-well plate" and suggests that this model recommends that milk and dairy foods should make up approximately 14% of the food we eat each day. This is somewhat misleading, as this model is more about educating people on the importance of a balanced diet, rather than absolute percentages and in fact puts much greater emphasis on the need for fruit and vegetables which the model suggests should make up 33% of diet. In addition, the "eat-well plate" does not include references to frequency of serving and 'recommended' portion size, other than for fruit, vegetables and fish – a variety of 5 a day and 2 portions per week respectively.

Given that local survey data confirms that a substantial proportion of Jersey children do not manage to eat '5-a-day' (fruit or vegetables) on a regular basis, as is also the case in the UK, and given the significant evidence of the health benefits of '5-a-day' any future public health subsidy would be better targeted at free school fruit rather than free school milk.

Economic issues

There are two key economic arguments in the proposition (a) the dairy industry is in trouble based on EBITDA figures and by implication restoration of the SMS will improve this situation and (b) that Jersey Dairy (JD) are prepared to drop their price to £138k/year, to reduce the cost to the public of providing the SMS.

On point (a) –

Differentiation is required between JD and registered producers. JD would provide the SMS, not the registered producers. EBITDA is a measure associated with individual dairy farm performance, not of JD.

[1] The National Diet and Nutrition Survey (NDNS) is carried out every 5 years with young people aged 4-18 years and is acknowledged as the most comprehensive summary of the dietary habits and nutritional status of schools children and adolescents in the UK.

The proposition cites references from the McQueen Report (2005), to show average Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA), were 6%, in 2010, compared to the target of 20%. However, the Dairy Industry Costing Scheme up until 31st March 2011, shows an average EBITDA of 7.0% (from 5.5% in 2010) and for the most efficient 50% of dairy farmers 16.8% (from 11.6% in 2010). This growth is despite the closure of the SMS in 2010.

In 2010, the estimated increased return (pence per litre of milk supplied to JD) to individual farmers as a consequence of the JD operating the SMS, was tiny @ 0.2p per litre against a return from the States of £74.07p per litre.

The dairy farm profitability is moving in the right direction, despite the loss of the SMS, through continuation of the QMP and SAP (as set out in the RES), increasing on farm efficiency, emergent beef production, sales of embryo and ova to the export markets.

On point (b) –

The provision of a SMS, based on an annual grant from the States of £138k would cost JD at least £14k per year to deliver – this is a conservative estimate based on a distribution costs remaining at 2009 levels and no unit cost for labour. (See below based on figures supplied by JD).

In the year to 31st March 2010 the volume of milk supplied to schools totalled 218k litres (1,154,225 189ml units). The charge by JD to the States was 74.07p per litre (14p per 189ml unit) totalling £162k.

Subsequent to the closure of the SMS I 2010, JD has offered to increase its share of the funding of school milk by reducing the cost to the States by 2p per unit. Therefore, based on 218k litres per year, the annual cost to the States would be £138k – a saving of approximately £24k.

Based on the price of 12p per 189ml unit, the contribution to the milk pool price from the supply of school milk would be approx 33p per litre. JD have suggested to the Economic Development Department that it should not assume that because the 33p is lower than the average price paid to producers, the supply of school milk would be at a loss, as the price paid to producers is an average of the prices achieved in the market from the different products, contributing to the pool – on average 50% of products contribute higher than the producer price and 50% contribute lower than the producer price.

JD has also argued that the distribution cost would still be £25k pa (as per 2009) and the packaging cost would be £28.30 per 1000 cartons. JD has also suggested that the labour cost is minimal as the production runs can be absorbed into the current shifts without extra cost.

JD’s argument on this is unrealistic and to a degree misleading. The implication is that the cost of the milk is 33ppl. The true cost is what they pay the producer for the milk which is 43ppl. In addition, it is unlikely that distribution costs remain as in 2009, not least because the argument for the recent retail price increase in liquid milk was based on rapidly escalating commodity and fuel prices, similarly, even if production runs can be integrated, there will clearly be a cost per unit associated with labour.

Even if a conservative estimate of costs is taken and an assumption of no labour cost and no increases in distribution costs, the following demonstrates a likely significant loss to JD if the proposition was accepted.

The income received from the School Milk Scheme by JD to the end of the milk year, 31st March 2010 was £161,320 (schools requesting 218,000 litres), with the States purchasing milk at 74.07ppl from Jersey Dairy.

The costs JD are likely to incur in reinstating the provision of school milk are likely to be –

Milk purchase from farmers @ 43.4ppl	£94,612.00
Specialised Packaging*	£32,642.00
Distribution	£25,000.00
Labour & other production costs	£0
Total	**£152,254**
Deputy Southern proposition (milk purchased @ 63.49ppl by SoJ from JD)	£138,000
Loss	£14,254

*218,000L/189ml = 1,153,439 packs/1000 x £28.30 = £32,642

Considering the fact that JD have suffered a difficult trading year in 2010/11, that that inflationary costs will make 2011 an even more difficult trading year than 2010, that the predicted efficiencies and debt reduction at JD appear to be far from realised and that the success in securing value-added export markets for a range of premium Jersey dairy products has to date been limited, it would be highly irresponsible to use public funds to promote losses at JD, not least in what is a ‘crunch year’ for the business.

It should be noted that any loss incurred by the JD on a new School Milk Scheme will be potentially detrimental to future farm gate milk prices, by reducing funds within the milk pool.

JD has argued that the SMS was important from a cash-flow perspective. This may be true, but an alternative source of cash has been generated by the increase in retail milk price this year, worth £450k/year to JD.

If milk is considered as essential by parents of school children, it is economically better for JD to be selling this milk direct to consumers at full retail price and not at a loss-leading subsidised price.

Resource implications

The proposition would require reprioritisation of the Economic Development marketing budget requiring £46,000 to found in 2011 and £138,000 in the 2012 full year. In addition, administration costs will be increased to run the SMS.