

# **STATES OF JERSEY**



## **SCHOOL MILK: CONTINUED FUNDING (P.66/2008) – COMMENTS**

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**Presented to the States on 3rd June 2008  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

The provision of free milk to primary school children has been argued as having multiple benefits:

1. Assistance to the dairy industry by –
  - (a) A direct cash subsidy;
  - (b) An exposure of potential future customers to the habit of drinking milk that may persist into adulthood.
2. Providing nutrition to children that they may not otherwise be receiving

It is important to stress that these two functions are independent from each other. It would be improper to allow the needs of school children to be confused with an economic matter such as subsidy to the dairy industry.

The Council of Ministers does not feel that there is a compelling economic case to maintain this subsidy to the industry. In terms of Jersey Dairy's operation, school milk represents 2.46% of the liquid milk business. In the 12 months to 31st March 2008 the cost to the States was 14p per 189ml. unit, totalling £164,000. The costs involved in providing school milk include milk purchase at circa 33p per litre, packaging, distribution and labour, totalling approximately £150,000, leaving a net profit to the dairy of around £14,000. Product currently sold as school milk could be sold in other forms.

Members will be aware that provision is already made within the budget of the Economic Development Department for a range of support mechanisms, including Area Payments and Quality Milk Payments. It should be noted that the industry already receives, and will continue to receive, the highest level of subsidy in the agricultural sector. Government support payments to the dairy industry between 2003 and 2008 are approximately 25% higher than historical levels prior to 2002.

The Rural Economy Strategy agreed by the States in 2005 outlines the roadmap for the recovery plan for the dairy. The Economic Development Department working with the Planning and Environment Department have, over the last 5 years, assisted the dairy industry to put themselves on a more secure footing through the implementation of the dairy recovery plan. This process has been tough but key initiatives are now underway:

- Gaining agreement to relocate a modern dairy operation at Trinity, which will increase efficiency and lower costs of production;
- The capacity to extinguish debt through the sale of the Five Oaks site;
- Penetrating the lucrative export market for added value products;
- Re-aligning milk production with market demand by retiring just over 2 million litres earlier this year;
- Taking forward the enabling development policy as set out in the Rural Economy Strategy, which will allow producers to gain value from their built assets to re-invest in their business and so increase on-farm efficiency;
- Structural shifts toward a voluntary co-operative of producers and new commercial relationships with the Dairy.

At the same time, world commodity markets for dairy products have improved significantly, leading to improved margins for bulk butter and skimmed milk powder.

The thrust of the Rural Economy Strategy approved by the States in 2005 is to reduce the level of Government intervention and to ultimately align production with market demand. In the dairy industry it has been possible to reduce the level of subsidy whilst at the same time holding down the wholesale price of milk well below the rate of inflation and this is a trend that we want to continue.

The reductions in direct aid programmed in 2009–10 are offset by increased support through enterprise schemes such as the Rural Initiative Scheme and countryside schemes such as the Countryside Renewal Scheme which is

for instance giving 66% funding for new slurry stores.

From an economic development perspective, school milk subsidy has to be scored against the many other projects that need funding and which would provide a greater economic return to the Island. The Economic Development Department (EDD) undertakes a fundamental review of its expenditure to ensure that it is delivering maximum value from its budget, in accordance with the Public Finances Law. The Department uses a “zero-based” approach that triages statutory, committed and discretionary expenditure. The 2009 budget review assessed all EDD outputs against criteria determined by the Department’s key States Strategic Plan objective of realising 2% real annual economic growth. The review concluded that funding school milk had lowest priority of **any** potential “bid” for funding within these evaluation criteria.

School milk funding from the EDD budget will not be available in 2009 and beyond. This is wholly consistent with the Public Finances Law that states that Accounting Officers officer are legally bound to deliver best value from the funding allocated to them. With regard to the Public Finances Law and above prioritisation process, the EDD cannot recommend the continuation of funding for school milk from its budget.

If there were to be in the future a genuine economic need to increase the level of financial support to the industry then the most efficient way to deliver this would be through the payment rate per cow and not through the continuation of funding for school milk. The Economic Development Department will continue to monitor the level of subsidy given to the industry in the context of achieving the most appropriate levels of support.

It is also important to note that as there is now an independent dairy producer operating on the Island, should Members decide to continue with the school milk subsidy it would be necessary to put the contract out to tender to the two potential suppliers given its value. There would be no guarantee therefore that the subsidy would benefit either the dairy or the majority of dairy producers.

In the absence of a subsidy from Government it is still possible for Jersey dairy to continue to offer to provide free school milk if it feels this is the right thing to do or as a strategy to inculcate habits in potential future customers. In this case the cost of provision would be cross-subsidised by its other customers.

Turning now to the other perceived benefit – providing nutrition to young children. There is no doubt that the innate qualities of Jersey milk make it richer in nutrients than milk from, say, Holstein Friesian Herds. The real issue is whether there is a nutritional deficiency problem that is so serious that it demands intervention by Government in the form of a blanket provision of additional sustenance for all young children.

The view of the Medical Officer of Health is that increasing levels of obesity mean that the Island could be heading for an abyss of poor health in the future, with today’s children having a shorter lifespan than their parents. To avert this crisis, Islanders need to be more physically active and to eat better, lower calorie food. It is her view that there would be much more to be gained by the provision of fruit than by the provision of milk. This would contribute to reducing obesity, improving child health, replacing sugary snacks (thus improving concentration and behaviour in school) and establishing the habit of eating fruit, which would ultimately reduce heart disease and cancer in the adult population.

The Council supports this possibility being explored alongside other initiatives to improve the health of our children as part of the ‘New Directions’ strategy which is currently being developed by the Health and Social Services Department.

***Taking into consideration both the health and the economic considerations, the Council of Ministers opposes this Proposition as it is both highly questionable on health grounds and an inefficient way of providing a subsidy.***