

# Charging for School Meals

## To APSE school catering contacts throughout the UK

This briefing paper provides an overview of the main charging methods used for recovery of school meal costs and suggests alternative models which share risk and reward between provider and client school.

### Key issues:

- Budget pressure on both local authorities and schools means that school meals costs are coming under closer scrutiny.
- Devolved school budgets make cross subsidy of the meals service between schools problematic
- Current charging mechanisms often lack transparency and incentives to adequately challenge performance on productivity and cost.

Whilst the charging methods for school meals have remained unchanged at many authorities, schools are raising more questions about the amounts paid. In the secondary sector especially, schools are often using consultants to extract the best contracts for their school meal service requiring a more innovative approach to maintain that business.

School funding is increasingly divorced from the host local authority with funding mainly devolved to schools and a recent government push for academies and free schools with direct funding further stretching or breaking that link. The statutory responsibility for school meals lies with the governing bodies and not the Council making it increasingly unlikely that Councils will voluntarily subsidise school catering in future and service providers must therefore seek a sustainable, break-even or better, position with regard to their school clients.

The method used to charge for school meals varies widely between local authorities. This paper attempts to establish costing methods that are transparent and defensible with risk shared between client and provider.

### Costs

Several cost elements make up the cost of a school meal, but in general terms will include:

- **Fixed:** (equipment, may include transport for meal centres)

- **Food:** (usually bulk ordered and may contain volume discounts)
- **Staff:** (cooks, assistants and supervisory staff)
- **Overhead:** (management and central establishment charges)
- **Consumables:** (utilities, paper and disposable products, cleaning materials)

#### **Income:**

- School meal payments by parents
- Free school meals (devolved to schools from DfE)
- Government grant (e.g. School lunch grant, hungry for success funding)
- Council subsidy

#### **Consideration of risk**

A school meals service often includes a variety of elements which are carried out together as part of the service provision. Some carry risk, e.g. bad debt for non payment of dinner monies which is very difficult to recover by a third party provider and can easily amount to £30,000 a year for an average size school meals service.

To alleviate this risk, the following are suggested:

- Cash collection and banking by primary schools (non payment risk to the school)
- Meal choices collected by school (alleviate waste as meals pre-ordered)
- Extra activities charges separately (setting out given a value and option for school to DIY)
- Lunch grant passported to schools (risk/benefit of changes to grant funding to schools)
- Overheads and management charges explicit (No hidden charges)
- Explicit agreement on liability when school is shut for bad weather or food lost through freezer supply failure
- Agreement on exclusivity for on-site food (Other vending will reduce turnover)

Schools already get devolved budgets although under the different devolved governments, the proportion differs. The money sits with the school and they are at liberty to buy the services elsewhere.

#### **Models**

There are several models used for recovering cost, which have evolved over time and as funding and legislative changes have altered the relationship between school and local authority:

##### **Traditional**

Prior to devolved budgets, it was often the case that a meal price was set by the local authority based on cost to supply meals averaged over all the schools within the LEA. This meant that that some larger schools produced surpluses which then subsidised the losses made by smaller schools. The advent of devolved funding, especially at a secondary level, made this system increasingly unviable although elements still remain in some authorities.

##### **Cost Plus**

Under this model, typically the meal price is set centrally by the Council although individual schools have some liberty to charge an alternative amount. The service provider charges the

school for the cost of the food, staffing and direct overheads. Any central grant is retained by the Council and deducted from the bill. Although calculated at break-even, any shortfall in income due to lower meal numbers or increased costs elsewhere falls on the school. Any year end volume discounts from suppliers are either shared with schools or kept by the authority to offset other costs of service.



The system is simple to understand but there is no incentive on the provider to improve on productivity or reduce costs. If the money for free school meals is taken based on pupils eligible and not meals actually taken there is a perverse disincentive to encourage free school meal (FSM) uptake by whoever holds the FSM budget, be it provider or school.

### **Fixed Cost**

Under the fixed cost model, which is predominantly used in high schools, historical data for meal uptake is used to estimate likely turnover for the year. The school is then charged a fixed amount for delivering the service which includes a management charge, food, staff, equipment and consumables for delivering the service. The size of the fixed amount will be the result of negotiation depending on how the income is divided. Some schools will retain all income and pay the fixed cost from this, other prefer to pay a smaller fixed amount preferring to share in the 'profit' generated. In larger establishments with significant profit, the provider may agree to pay the school a fixed monthly amount. Any additional yearly surpluses generated are shared between school and provider on a pre-agreed basis e.g. 50/50 or 60/40 with the provider expected to meet agreed sales to food cost ratios.

Should the provider increase income through greater turnover better efficiencies or discounts on food volume, then surpluses are likewise shared with the school or paid to the school on a yearly basis.

The advantage is that there is an incentive on the provider to ensure costs and productivity are controlled and some authorities have taken the opportunity to install executive chefs who manage the contract and are incentivised via payment to increase turnover. The school benefits financially from increased meal numbers and therefore is more inclined to ensure that the length of meals times are preserved and pupils encouraged to remain on-site at lunch time.

### **Variable Costing**

Variable costing is a hybrid model, used predominantly in primary schools, which attempts to incentivise both provider and client school. Capital funds and free school meals budget are passed directly to schools and the school lunch grant is devolved to schools on a basis agreed via the local schools forum.

<b>Price Band</b>	<b>Meals Per Day</b>	<b>Price per Meal (pence)</b>
A	50-70	225.00
B	71-90	213.88
C	91-110	202.55
D	111 and over	194.40

The school retains all the cash collected and is then billed directly for the number of meals served including free school meals. The price charged to the school is dependent on number of meals sold in a banded system but is set to recover all costs by the provider with a small margin. Based on the live example above, meal price to the child is £1.85 and a break-even point is reached by the school around 110 meals per day (Schools use the School Lunch Grant of approximately 11 pence per meal). Above 110 meals the school makes money on each additional meal and therefore has an incentive to increase the numbers who buy a school meal. Below 110 meals per day the school has to fund any shortfall through its delegated budget. The provider is incentivised to similarly increase meal numbers but also to improve productivity.

Each month the school meals provider bills the school for the number of meals taken. Additional services including setting up and lunchtime supervision are billed separately.

### **APSE Comment**

APSE believes that a thriving local authority catering service is an increasingly essential part of a child's education. With 1 in 3 women and 1 in 4 men currently classed as obese, the future costs to the National Health Service are set to balloon. Many families (possibly the majority) have long since ceased sitting down to an evening meal around the table, preferring instead to consume a diet that is increasingly pre-packaged and processed.

School meal times are now the only time many children sit down to a nutritionally balanced and freshly cooked meal, they represent the main occasion to teach children about healthy eating and food. We already have an existing infrastructure in place with our local authority school meals service, far better at delivering a direct message than millions wasting on advertising and short lived campaigning. Many schools are already onboard, although others may need to be encouraged to regard lunchtimes as much of a learning experience as any time spent in the classroom.

That being said, the relationship between meals provider and school client is becoming more professionalised, with school business managers and cost consultancies seeking to reduce costs. Increasingly the school meals service is being asked to stand alone with limited or no subsidy from the host council. Local authority caterers will need to rise to this challenge and those in-house providers that are winning new business have been doing so

through a more innovative approach to cost and risk sharing. APSE will endeavour to ensure that this knowledge is shared to our members benefit.

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