



Understanding the cost of universal primary free school meals

Research context

This research was carried out during the Spring and Summer of 2023. Since then, the economic context (including inflationary pressures) has changed, and the universal primary free school meals (UPFSM) rollout has been completed. Our note reflects the situation at the time of writing, in early August 2023.

Introduction

The Welsh Government is rolling out free school meals to all primary-age pupils in Wales as part of the Co-operation Agreement between Welsh Labour and Plaid Cymru (Welsh Government, 2021a). This process began in September 2022 for pupils in Reception and is intended to be completed for all primary school pupils within the lifetime of the Co-operation Agreement.

As part of the rollout, the Welsh Government agreed a unit rate of £2.90 per meal for the provision of universal primary free school meals (UPFSM). In light of rising costs, it was agreed that this rate should be subject to review. The Welsh Government asked the Wales Centre for Public Policy to look at the costs local authorities face in providing UPFSM in order to better understand where cost pressures lie in the system and to inform future discussions about the unit rate.

The research we undertook

We commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA), to work with us to explore the costs faced by local authorities in delivering school meals. A

questionnaire was sent to finance officers in all 22 local authorities in Wales asking where costs fall and how they have changed.

We collected data on the financial years 2019/20 (as a pre-pandemic baseline) and 2022/23 (to capture existing cost increases as well as the first phase of UPFSM rollout). Our questionnaire was co-designed with colleagues in the Welsh Government and tested with local authorities prior to being sent out. This phase of research lasted from March to June 2023. In addition, we undertook desk-based research on school meal funding and on the drivers of costs within the meal system.

This briefing summarises the findings from this research.

How school meals are funded and delivered

School meals are generally delivered on a local authority basis in Wales. For most local authorities, a local authority catering department delivers meals on behalf of schools. Some use alternative models, such as contracting out provision to a private company or using an arms-length local authority-owned catering company.

For primary-aged pupils, there are currently three main ways to receive school meals, each of which is associated with a different funding or revenue stream:

- Eligibility-based free school meals (eFSM), for pupils who qualify either through parents receiving certain income-linked benefits and earning

below a threshold, or are covered by transitional protection mechanisms;

- Paid-for meals covered directly by parents or guardians, revenue from which goes towards meeting the costs of the catering service; and
- UPFSM.

Paid-for meals will be supplanted by UPFSM as the rollout continues.

Currently, eFSM are funded through local authority-set budgets. This means that catering departments are allocated a sum of money which is intended to cover the cost of the statutory meal provision.

UPFSM is funded through an additional budget allocation on top of grant funding for schools, at the unit rate of £2.90 per meal.¹

In May 2023, food prices had increased by a cumulative 26% compared to pre-pandemic levels

Cost pressures: findings from desk-based research

The UK economy is currently experiencing a period of sustained and significant high inflation. Inflation as measured by the consumer price index was 7.9% in the 12 months to June 2023 (Office for National Statistics, 2023). Food and non-alcoholic beverages saw an 17.3% increase over the same time period. In May 2023, food prices had increased by a cumulative 26% compared to pre-pandemic levels (Dey-Chowdhury and Ubovic, 2023). Although it appears that inflation (both overall and specifically for food and non-alcoholic drinks) may now have peaked and is beginning to come down, inflation remains high by recent historic

standards and prices are significantly elevated compared to pre-pandemic norms.

There have been several causes proposed to account for high inflation. These include changes associated with the Covid-19 pandemic and the effects of the war in Ukraine, among others. Some inflationary pressure has come from increased demand (particularly in relation to initial movements in the energy market following Covid-19) but much of the current inflation is a result of constrained supply.



For school meal provision, some of the key factors increasing costs are:

- Rises in the cost of energy. This includes direct as well as indirect effects. Direct effects include significant price rises: non-domestic customers saw prices rise by an average of 41% for electricity and 46% for gas between the fourth quarter of 2021 and the fourth quarter of 2022, excluding the climate change levy (Department for Energy Security and Net Zero, 2023).
- Indirect effects of rising energy costs. For instance, the cost of fertiliser, which is produced using natural gas, rose significantly in 2022. For imported ammonium nitrate, prices increased by 185% year-on-year in the immediate aftermath of the invasion of Ukraine, although prices are now falling to early

¹ We did not look at whether income from meal provision was sufficient to meet costs in our research. Since the preparation of this report, the unit rate has increased to £3.20 per meal.

2022 levels (Agriculture and Horticulture Development Board, 2023).

- A tight labour market with rising wage costs. In the agricultural sector, labour shortages meant that some crops were left unharvested (Dey-Chowdhury and Ubovic, 2023). In school catering, 74% of school caterers reported a lack of applicants for vacancies (LACA, 2022). Wages in hospitality rose by 9.5% in the year to May 2023, outpacing the national average (Gosden, 2023), and a survey indicates that 78% of school caterers thought that staffing costs had some of the largest impact on prices (Hacking, 2023).
- Disruption to food supply as a result of the war in Ukraine, in particular sunflower oil and wheat (Emediegwu, 2022).
- Non-tariff barriers put in place as a result of Brexit, which may account for around 30% of food price rises between December 2019 and March 2023 (Bakker et al., 2023).
- Weather-related effects which include drought and unseasonable cold in parts of Europe and North Africa (Dey-Chowdhury and Ubovic, 2023). This led to shortages of some items as well as increased prices.

Energy costs remain elevated compared to historic levels, although they have fallen considerably from their peak. For domestic customers, recent forecasts indicate that the price cap may stabilise at around £2,000 per year for the rest of 2023 – well below winter 2022/23 rates but substantially above the winter 2021/22 level (Bolton, 2023). Furthermore, commercial suppliers may be locked into higher fixed rates agreed during the 2022 energy crisis, with 13% of small firms having fixed during the peak of the energy market (Federation of Small Businesses, 2023).

Food inflation may be beginning to slow. Although food prices rose by 17.3% in the year

to June 2023, this was down from 18.3% in May and 19.1% in March (Office for National Statistics, 2023; Dey-Chowdhury and Ubovic, 2023). Global food commodity prices are also falling: the FAO's Food Price Index averaged 122.3 points in June 2023, 23.4% lower than its all time high in March 2022 (FAO, 2023).

Falls in production price generally take time to filter through to consumer prices due to factors like fixed-term contracts, or inputs like fertiliser being purchased at an elevated price for this year's harvest (Bank of England, 2023). The Bank of England expectation is that there will not be any reduction in food prices, rather just a slowing of the price rises, a view echoed by some industry voices (Bank of England, 2023; Butler, 2023).

In terms of staffing costs, practically all (95.7%) of local authority caterers in the UK surveyed paid the Real Living Wage of £10.90 per hour rather than the (lower) National Living Wage (Hacking, 2023). As the Real Living Wage is calculated according to the cost of living, it is likely to rise further as living costs rise.

Local authorities appear to have controlled costs well to date

These desk-based findings therefore indicate that we should expect costs to have risen for school caterers, and that there is every possibility that costs will remain elevated in the near term.

Findings from the questionnaire of local authorities

We received 16 responses to our questionnaire, representing 73% of the 22 Welsh local authorities. Responses were generally representative in terms of geography, rurality and in terms of pupil numbers, with larger and smaller authorities represented. It should, however, be noted that some local authorities with larger pupil numbers and/or with higher

numbers of pupils in receipt of eFSM failed to return questionnaires.

The bulk of authorities in our survey used an in-house catering model, although two contracted out to private companies and one local authority uses an arms-length, local authority-owned catering service.

Our research took place in a volatile economic context, and the data we received is in need of further interrogation and investigation. Local authorities appear to have interpreted, recorded and reported data in different ways, meaning that variations between local authorities may be due to reporting differences as much as representing genuine differences in delivery models or place-based features.



We expect that, in addition to differences in cost recording and reporting, other factors will have affected the data we received. For instance, the ongoing rollout of UPFSM may have resulted in exact figures not being available at the time of asking (or being rolled into total free school meal figures, for example), and some local authorities may have over-staffed in the 22/23 academic year in preparation for a full UPFSM rollout in 23/24. Additionally, known issues with PLASC (school census) data for January 2023 complicate the reliability of data based on these numbers. Our findings should therefore be understood as indicative rather than definitive. It is for these reasons that we have not reported on specific costs in this paper.

Data showed significant spread of across local authorities, with overall costs ranging from 43% below to 36% above average.

The bulk of spending (64%) was on staff costs, with food provision making up 24% and other costs (a category which includes energy costs) 11%.² Anecdotal evidence suggests that food costs may be increasing as a proportion of total costs as food inflation continues to outpace inflation in the economy as a whole.

Local authorities appear to have controlled costs well to date, with the cost of delivering lunches increasing by 10% from 2019 to 2023 against a 15% rise in prices in the wider economy. It is not clear, however, that this will continue to be the case in future. This figure does mask significant variation: the worst-affected local authority saw costs increase by 31% over the time period; while one local authority managed to reduce costs by 16% as more meals were served and economies of scale reaped.

Conclusion

We have found evidence that costs to local authorities of lunch provision are increasing, and that inflationary pressures and rises in the cost of living mean that further price rises are likely in the near-term.

Given the short timescales and incomplete data we received, it has not been possible to reliably identify exact costs faced by local authorities. However, our research indicates a complicated picture across Wales in need of further investigation and clarification. In particular, there is merit in carrying out this research over a longer time period and when UPFSM has been rolled out to more year groups, to be able to more exactly understand the costs associated with the policy and agree a funding position for the future.

² These figures are calculated excluding local authorities who use private suppliers for whom the bulk of costs are contract-related.

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Find out more

Our evidence review is available at wcpp.org.uk/publication/universal-primary-free-school-meals

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