

<b>Title:</b> Next steps for Nursery Milk <b>IA No:</b> 3053  <b>Lead department or agency:</b> Department of Health <b>Other departments or agencies:</b>	<b>Impact Assessment (IA)</b>		
	<b>Date:</b> 07/03/2014		
	<b>Stage:</b> Final		
	<b>Source of intervention:</b> Domestic		
	<b>Type of measure:</b> Secondary legislation		
<b>Contact for enquiries:</b> nurserymilk@dh.gsi.gov.uk			

**Summary: Intervention and Options** **RPC Opinion:** outside of RPC scope

Cost of Preferred (or more likely) Option: Option 4 (Direct Supply)			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
0			No

**What is the problem under consideration? Why is government intervention necessary?**  
 The Nursery Milk Scheme has been running, largely unchanged, since the 1940s. The scheme currently funds free milk for around 1.5 million children under five years old in 55,000 childcare settings throughout Great Britain. In recent years, the prices claimed for milk purchased under the scheme have risen significantly. The total cost of the scheme has also risen significantly. If nothing is done to contain costs, the total annual cost of the scheme is expected to rise to £80m by 2015/2016. Intervention is necessary to modernise the scheme, contain costs and improve value for money, while ensuring that all children under five in childcare settings for at least two hours a day continue to receive free milk.


**What are the policy objectives and the intended effects?**  
 The policy objective is to modernise and simplify the scheme to improve its value for money while ensuring that no parent, child or childcare provider is disadvantaged. This is essentially a procurement issue, and therefore outside the scope of the RPC, looking to ensure a fair price for milk. We believe that the significant buying power of purchasing around 1.75m pints of milk a week can enable us to secure greater value for money. The scheme will continue as a universal benefit and all the options explored in this impact assessment assume this.

**What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)**  
 A) Do nothing  
 B) Cap the price that can be claimed for milk  
 C) The preferred option: Contract with a company(ies) or consortium(ia), for the direct supply and delivery of milk to all childcare providers (known as Option 4). One of the options considered at consultation stage: the e-voucher scheme (known as option 3) – has been dropped because it scored poorly when judged against a number of key criteria: It was the least popular option amongst respondents to the consultation; it would be significantly more expensive to implement than the other options (and consequently has the lowest net present value); it has the highest risks of adverse outcomes, including the fraudulent use of exchequer funds.

**Will the policy be reviewed?** Yes. We would aim to review the new scheme 5 years after it is fully operational

Does implementation go beyond minimum EU requirements?			Yes		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)			<b>Traded:</b>		<b>Non-traded:</b>

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:  Date: 17<sup>th</sup> March 2014

# Summary: Analysis & Evidence

## Policy Option A (known as Option 1)

**Description:** Do nothing

### FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: 0
<b>COSTS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Cost</b> (Present Value)
Low	Optional		Optional		<b>Optional</b>
High	Optional		Optional		<b>Optional</b>
Best Estimate	0		0		<b>0</b>
<b>Description and scale of key monetised costs by 'main affected groups'</b>					
The 'do nothing' option sets the baseline for net costs and benefits. The absolute financial costs of the option are £741m over the 10-year period starting in 2013. This includes the cost of milk claimed under the scheme as well as the scheme's running costs. The cost of milk claimed is calculated assuming that the average price of a pint of milk claimed by childcare providers increases at a steady rate of 3p per year (adjusted for inflation), this is an estimated linear trend based on changes in price observed in recent years.					
<b>Other key non-monetised costs by 'main affected groups'</b>					
Administrative costs borne by childcare providers, local authorities, suppliers and agents of making claims under the scheme. These costs are not quantified as there are multiple ways to claim and in many cases, agents who deliver milk bear this cost and are reimbursed for it through higher milk prices.					
<b>BENEFITS (£m)</b>	<b>Total Transition</b> (Constant Price) Years		<b>Average Annual</b> (excl. Transition) (Constant Price)		<b>Total Benefit</b> (Present Value)
Low	Optional		Optional		<b>Optional</b>
High	Optional		Optional		<b>Optional</b>
Best Estimate	0		0		<b>0</b>
<b>Description and scale of key monetised benefits by 'main affected groups'</b>					
The 'do nothing' option presents zero net benefits. It is assumed that the scheme's coverage will stay constant, implying no net health benefits.					
<b>Other key non-monetised benefits by 'main affected groups'</b>					
<b>Key assumptions/sensitivities/risks</b>					
- The scheme's coverage remains constant as a proportion of those in childcare settings - 62%				<b>Discount rate (%)</b>	
-The average price of milk claimed increases by 3p per pint annually.				3.5	

### BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:	No	NA

# Summary: Analysis & Evidence

## Policy Option B (known as Option 2)

**Description:** Cap the price that can be claimed for milk

### FULL ECONOMIC ASSESSMENT

Price Base Year 2010	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	27	215
High	0	38	307
Best Estimate	0	27	215

#### Description and scale of key monetised costs by 'main affected groups'

The total cost figures shown comprise financial costs to suppliers of receiving a lower payment for each pint of milk as compared to their current earnings. The cap limit in the calculations is set at 50p/pint for the 'High' cost (the scenario that leads to the greatest financial loss to suppliers) of £307m and at 70p/pint for the 'Low' cost of £215m (The scenario that leads to the lowest loss to suppliers).

#### Other key non-monetised costs by 'main affected groups'

Administrative costs for DH and childcare providers are likely to be higher under this option. Claims are likely to be decentralised as agents supply less of the market, making claiming less efficient. These costs are not quantified. There are multiple ways to claim and the process is straightforward, so the additional burden is likely to be small. There will also be a small additional administration cost for DH associated with setting the cap level.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	27	215
High	0	38	307
Best Estimate	0	27	215

#### Description and scale of key monetised benefits by 'main affected groups'

The total benefit figures are composed of a financial saving of £215 ('Low') and £307m ('High') on the cost of milk (identical to figures calculated as costs to the private sector above).

#### Other key non-monetised benefits by 'main affected groups'

The Exchequer costs are expected to represent, more closely, the fair market price for milk. The cap should encourage suppliers to become more efficient, and promote a more productive use of resources in the economy as a whole. The exchequer savings are in keeping with the government's agenda to reduce net borrowing.

Key assumptions/sensitivities/risks	Discount rate (%)
- The scheme's coverage remains constant as a proportion of those in childcare settings - 62% - Milk can be obtained by almost all childcare providers and local authorities at a price per pint which falls within the cap limit.	3.5

### BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:		

# Summary: Analysis & Evidence

# Policy Option C (known as Option

4)

**Description:** Contract with a company or consortium(ia) of companies, for the direct supply of milk to all childcare providers.

## FULL ECONOMIC ASSESSMENT

Price Base Year2010	PV Base Year2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: 0

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	25	199
High	0	47	380
Best Estimate	0	36	289

### Description and scale of key monetised costs by 'main affected groups'

The total cost figure shown comprises financial costs to suppliers of receiving a lower payment for each pint of milk as compared to their current earnings. It is difficult to know what price per pint DH will be able to negotiate with the contractor/s, but as an illustration the negotiated price of milk in the calculations is set at 40p/pint for the 'High' cost ( the scenario that leads to the greatest financial loss to suppliers) , at 60p/pint for the 'Low' cost, and at 50p/pint as the best estimate.

### Other key non-monetised costs by 'main affected groups'

Possible loss in quality of supply (particularly timeliness) as centralised purchasing decisions could remove incentives for milk suppliers to be sensitive to needs of childcare providers, especially small ones in rural locations. However, through proper contract design, we believe this risk can be mitigated. Losses to agents where they are replaced in the supply chain and potentially to local suppliers if the new contractor/s sources milk from alternative companies. Costs to DH of setting up and monitoring the central contract - not

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	25	199
High	0	47	380
Best Estimate	0	36	289

### Description and scale of key monetised benefits by 'main affected groups'

The total figures are composed of a financial saving to the exchequer on the cost of milk (identical to figures calculated as 'costs' to the private sector above).

### Other key non-monetised benefits by 'main affected groups'

Reduction of administrative burden for childcare providers and local authorities who will no longer have to make claims.

The Exchequer costs are expected to represent, more closely, the fair market price for milk. The contract should encourage suppliers to become more efficient and promote a more productive use of resources in the economy as a whole. The exchequer savings are in keeping with the government's agenda to reduce net borrowing.

### Key assumptions/sensitivities/risks

Discount rate (%)

3.5

- The scheme's coverage remains constant as a proportion of those in childcare settings - 60%
- It will be possible to negotiate a contract with a company(ies) or consortium(ia) at the price per pint of milk close to the value highlighted above (i.e. 40p to 60p per pint).

## BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:	No	

# Evidence Base (for summary sheets)

## Introduction

1. The Nursery Milk Scheme has been running, largely unchanged, since the 1940s. The scheme currently funds free milk for around 1.5 million children under five years old in 55,000 childcare settings throughout Great Britain. In recent years, the prices claimed for milk purchased under the scheme have risen significantly. The total cost of the scheme has also risen significantly during the same time period.
2. If nothing is done to contain costs, the total cost of the scheme is expected to rise to £80m by 2015/16, having cost around only £40m in 2009/10. Intervention is necessary to modernise the scheme, contain costs and improve value for money, making effective and efficient use of public funds, while ensuring that all children under five in childcare settings continue to receive free milk.
3. This final stage impact assessment has been prepared following a GB-wide public consultation exercise that took place between 18<sup>th</sup> June and 23<sup>rd</sup> October 2012. It sought views on options for modernising the Nursery Milk Scheme to improve value for money while ensuring that no parent, child or childcare provider is disadvantaged.
4. During the consultation process we engaged with stakeholders, including parents, childcare providers and producers, suppliers, distributors and retailers of milk and their representative bodies, as well as healthcare organisations, to seek their views on how the scheme should be changed. We also engaged specifically with representatives of the dairy industry and local government to seek their views on how they might be affected. Their views and the evidence they have provided has been used to develop the previous impact assessment that was published alongside the consultation. In addition to being invited to respond to questions in the consultation document, childcare providers were asked to complete a survey giving details of how they used the nursery milk scheme.

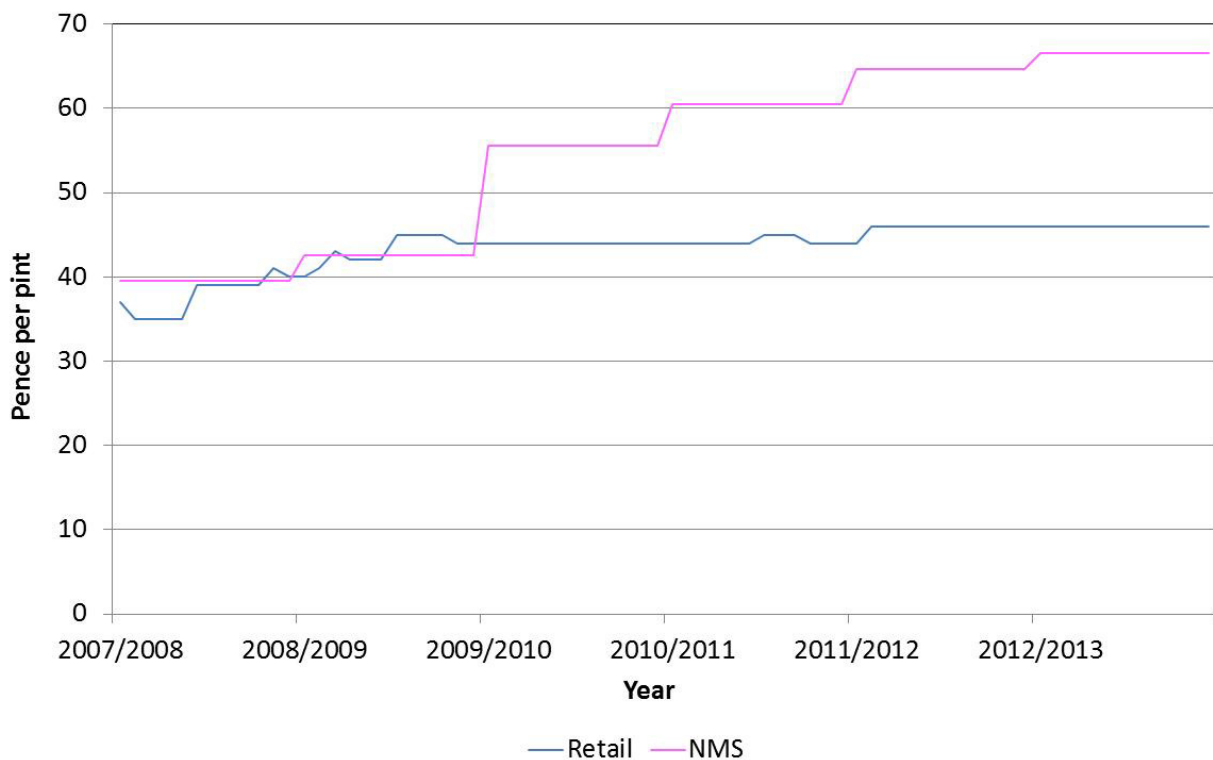
## Policy context and background

5. All children under five in a day care or early years setting for two or more hours a day are eligible to receive a daily drink of milk (1/3 pint). For children under one year old, this is given as infant formula. The Nursery Milk Scheme reimburses childcare providers for the full cost of this milk.
6. For the purpose of the scheme, childcare providers include childminders and creches, as well as private and local authority run nurseries, and primary school reception classes across Great Britain. It is the responsibility of the childcare provider to purchase milk and claim reimbursement from the Nursery Milk Reimbursement Unit.
7. Childcare providers buy the milk provided to children in their care from a range of sources including supermarkets and corner shops, milk roundsmen, wholesalers, markets and at the farm gate. There are also a number of specialist suppliers or agents, who, in addition to arranging the supply and delivery of milk, also claim reimbursement on behalf of the childcare provider, directly from the Nursery Milk Reimbursement Unit.
8. The GB Nursery Milk Scheme is not the only scheme that exists to encourage children to consume milk. An EU scheme also exists which offers a subsidy to childcare providers for the milk they supply to children in their care. However the money must be claimed by the childcare providers themselves and imposes a not inconsiderable administrative burden on them. Also there is little incentive for childcare providers to claim the EU subsidy, as if they do so this amount will be deducted from their claim to the Nursery Milk Scheme. For this reason, the government has recognised that the amount of EU subsidy likely to be claimed is relatively low, but going forward this is an area which merits revisiting to help maximise the value for money of the scheme. For the further details see Annex B below.

## Rationale for intervention

9. The operation of the scheme has not been reviewed for many years, and therefore we believe there is scope to improve its efficiency, bringing Exchequer costs more closely into line with the fair market price for milk. The range of prices claimed for milk is currently wide, with some childcare providers who responded to the survey apparently claiming less than 20p per pint for milk purchased from retail outlets, and others claiming over £1 per pint for delivered milk. Not only is this situation wasteful of government resources but it also discourages competition and the efficient use of resources in the economy. Suppliers, including agents, do not need to compete on price so there is less incentive for them to be efficient – they can make profits even if their productivity is low by simply claiming (or asking childcare providers to claim) a high milk price from the Government.
10. The cost of the scheme has risen from £27m in 2007/08 to £60.1m in 2012/13<sup>1</sup>. This trend looks likely to continue with costs potentially rising to £80m by 2015/16. The increases in price per pint are a significant factor in the overall cost increase and one over which we have no control under the existing scheme arrangements and underpinning legislation, but something over which we would have control under all the alternative options. Figure 1 below shows the average retail price of pasteurised milk (UK monthly data), as compared to the average price of milk claimed under the Nursery Milk Scheme (annual data), for the period 2007/2008 to 2012/2013. Starting at similar levels in 2007/2008 when the retail price was between 35p and 41p for milk in a pint container and the average price claimed under the Nursery Milk scheme was on average 40p per pint (any container size) prices have since diverged greatly. In 2012/13, the average retail price for milk in a pint container was 46p, whilst the average Nursery Milk Scheme cost was 67p per pint equivalent<sup>1</sup>.

**Figure 1: Average price of milk - 04/2007 - 03/2013**



Source: Retail milk figures are from ONS Consumer Price Index, Nursery Milk Scheme (NMS) milk figures are from data provided by MRM.<sup>1</sup>

11. An important factor contributing to the scheme's accelerating costs seems to be embedded in its design. No mechanism exists within the scheme that would incentivise childcare providers to economise and search for the highest attainable value for money within their local markets. There is no limit to the price at which childcare providers may purchase milk, or even a requirement for each provider to review milk expenses. Indeed, in many cases, agents supplying milk handle claims themselves, rendering childcare providers unaware of the price paid. In 2010/11, approximately 24% of milk provided under the scheme was claimed at or below 45p/pint (the upper value of the average

<sup>1</sup> Data from MRM: the company that administers the Nursery Milk Scheme on behalf of DH

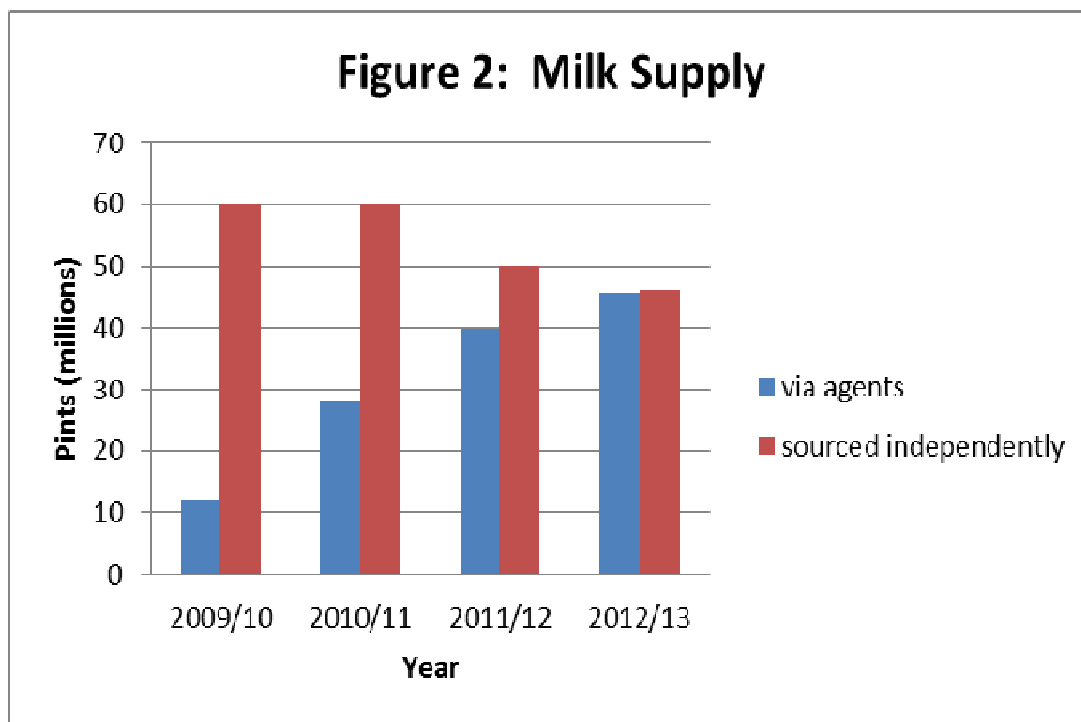
retail price for that period), whilst 45% of milk was claimed at prices higher than 60p/pint (the average for the scheme).

- For these reasons the total cost of the scheme has risen dramatically in the last few years. Although the amount of milk supplied under the scheme has risen by 26% since 2009/10, the total cost of the scheme has risen by 51%.

**Table 1**

	Changes in milk volume and cost (GB)				
	2009/10	2010/11	2011/12	2012/13	Increase
Volume (pts)	72,570,382	87,324,376	90,589,766	91,712,884	26%
Cost (£)	40,296,869	52,775,582	58,560,633	60,999,499	51%

- This disproportionate increase has occurred because the amount of milk supplied by agents, who generally claim a higher price (78p per pint on average over that last 4 years) has increased whilst the amount of milk obtained directly, generally at a lower price (51p per pint on average over the last 4 years) has decreased. As a result the cost effectiveness of the scheme has fallen. The chart below shows how the composition of milk supply has changed in recent years with agents increasing their market share.



## Policy Objective

- Nursery Milk is a universal benefit, meaning that childcare providers can claim the cost of milk provided to any child, regardless of the child's home circumstances. Our intention is to continue the scheme as a universal benefit and all of the options presented here do this.
- Our aim is to modernise the scheme to make it more efficient, thereby delivering improved value for money, while keeping administrative costs low, and ensuring that no parent, child, or childcare provider is disadvantaged and transition costs on business are minimised. All the options for change aim to minimise the administrative burden and option 4 reduces it. At the same time we are keen to ensure that the current nursery milk take up rate - estimated to be 60% of under 5s in childcare settings – is maintained, and, where possible, increased.

## Options

16. Three options are presented here, the do nothing option (Option 1), a cap on the price of milk (Option 2) and the preferred option (Option 4) which consists of the direct supply of milk to childcare providers.
17. One further option was considered during the consultation (Option 3) which consisted of issuing e-vouchers to childcare providers that could be used to purchase milk at a wide range of producers, suppliers, distributors and retailers that would accept the e-voucher card, in all parts of GB. Special arrangements were envisaged for local authorities to enable them to enter bulk contract to take advantage of economies of scale. However, due to the low level support during consultation and the fact that this option is likely to have the highest administration costs, is the most complicated and carries the highest risks of adverse outcomes, this option is not being considered at this stage. For further information on why this option was dropped, see paragraphs (57-66) below.

### Option 1 - Do nothing

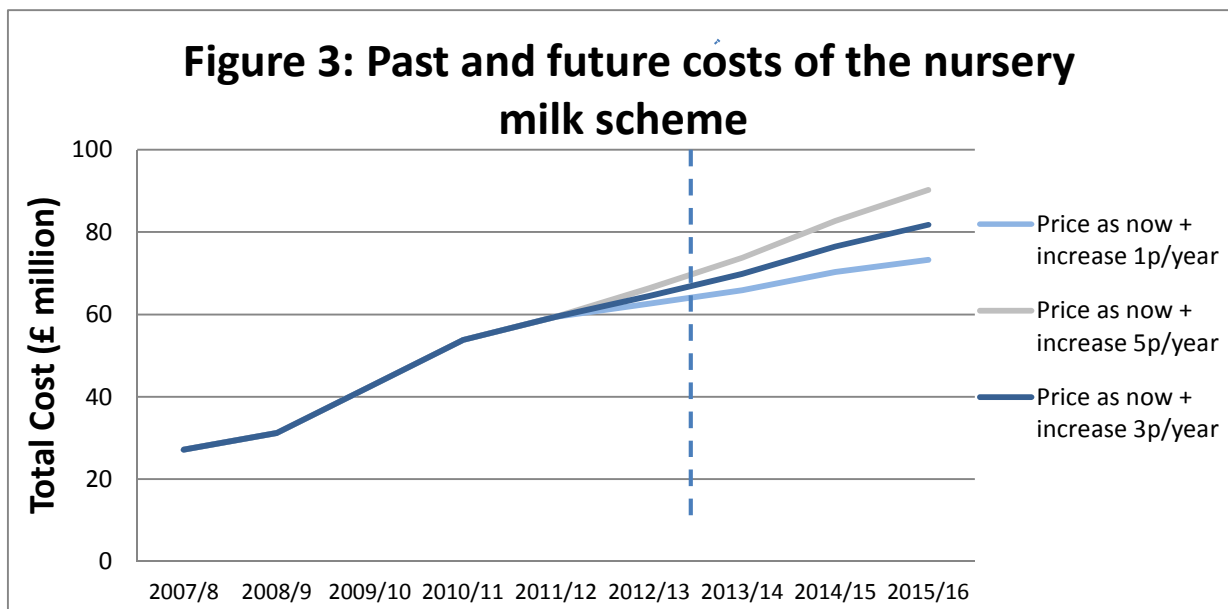
#### *Description*

18. If we do nothing, we believe that the existing trends towards higher cost suppliers of milk will continue, raising both their market share and the price per pint they charge, resulting in on-going increases in public expenditure. This reflects the underlying lack of any incentives or controls to deliver value for money in the purchase of milk leading to an increasing excess of the nursery milk price over the market price.
19. We believe that under this option, the total cost of the scheme may rise as high as £80m by 2015/16, this is a dramatic increase in costs from recent years due to an inefficient system which does not make effective use of public funds.
20. However even under this option, we feel we would need to improve our ability to plan and forecast expenditure and we would therefore seek to reduce the time limit for claiming reimbursement from two years to 6 months.

#### *Costs and benefits*

21. The cost of the scheme has risen significantly over recent years, almost doubling between 2007 and 2011. Figure 3 below shows the past and projected future costs of the Nursery Milk Scheme, assuming that agents' market share and prices charged continue to rise at a steady pace. The middle line represents the rise in the scheme's costs assuming a 3p annual increase (in real terms) in the average price of a pint of milk claimed through the scheme. This figure was used in calculating projected future costs in the summary sheets above. The top and bottom lines illustrate the range of possible outcomes under different assumptions - annual average price increases of 5p and 1p respectively.
22. The projections in figure 3 for 2012/13 and beyond are conservative estimates given recent patterns and assume only modest increases in milk provision. Increases in provision are proportional to population increases and also take account of department for education plans to increase the number of free childcare places available to 2 year olds by 128,000 by 2014/15. The cost increases are in part due to a predicted rise in the price of milk claimed under the scheme due to agents gradually capturing greater market share in line with recent trends. If total milk provision increases more than forecast, this is something we would welcome as long as we can secure value for money.





23. Reducing the time limit for claiming reimbursement from two years to 6 months may slightly increase the administrative burden on childcare providers who currently claim very infrequently. However, we believe that this would be negligible and would be off-set by prompt reimbursement. For more details on the administrative cost of this option see administrative costs section below (paragraphs 78-83).

## Option 2 – Cap the price that can be claimed for milk

### Description

24. In its current form, the legislation governing the scheme provides for full reimbursement of the cost of the milk. While childcare providers are encouraged to seek value for money, there is no set limit on the price that can be claimed, provided the claimant can produce receipts if requested.
25. Under this option, an upper limit on the price that could be claimed for milk would be introduced. Ministers could choose to increase this each year in line with inflation in the price of milk. We have assumed this scenario for the purposes of the cost benefit analysis.
26. Data from the Family Food Survey<sup>2</sup> suggests little regional variation in milk prices. The average retail price per pint equivalent of wholemilk in 2011 was 35p for England and 36p for Wales and Scotland (This is different to the price quoted above in figure 1 - the price of milk in a pint container - because milk sold in other size containers is included in the family foods survey data). In special circumstances, where significant local variations exist, arrangements would be put in place to vary the cap for childcare providers who, perhaps due to geographical isolation, do not have access to milk priced at the normal market rate. It should be noted that there has been feedback from the milk industry suggesting that there is greater variation in prices across regions than the Family Food Survey suggests.
27. As for Option 1, to improve our ability to plan and forecast expenditure, we would seek to reduce the time limit for claiming reimbursement from two years to 6 months.

### Access

28. Many respondents to the consultation, particularly those in rural areas, have indicated that low priced milk is not always available locally; as many childcare settings are not located near large supermarkets, but rely on local shops, where prices are significantly higher. They state that introducing a cap would result in them having to travel long distances to obtain milk from a cheaper supplier if prices locally are relatively high. This is an issue of particular concern for childcare providers located in Scotland and Wales, as well as certain parts of England. Although exemptions

<sup>2</sup> Available from DEFRA : <http://www.defra.gov.uk/statistics/foodfarm/food/familyfood/>

could be applied to childcare providers in this situation it is unlikely to capture all those affected. These exemptions would also add to the administrative cost of the scheme.

29. Some childcare providers, such as reception classes in primary schools (where children under 5 are eligible for Nursery Milk) may have no staff or facilities to wash drinking cups and may therefore require milk to be supplied in single-serve packaging, which tends to be more expensive - the average price paid by respondents to the survey for this type of pack was 28.8p per 1/3 pint (equivalent to 86p per pint). 29% of respondents said they served their milk in this way and although the actual proportion for the NMS user population is unknown, it is likely to be significantly higher by volume of milk consumed. It is likely, therefore, that the cap would have a detrimental impact in this regard on a significant minority of childcare providers.
30. The survey indicated that approximately 11% of childcare providers ordered specialist milks (with many settings buying more than one type), with 8% ordering organic and 2% ordering soya. Purchase of Kosher milk or other speciality milks for religious purposes was very rare. Soya and organic milks are more expensive than regular milk and may not be generally available for a price under the cap limit – particularly when delivery costs are included. Unless exemptions were made for these types of milk, childcare providers that offered it would be disadvantaged. These exemptions would, however, complicate the running of the scheme and add to the administrative cost.

### *Benefits*

31. By imposing the cap DH could hope to save between £27m and £38m per year on the total cost of milk. The calculation of savings is based on assumed cap values at 70p and 50p per pint respectively. The best estimate is based on the 70p value as this is the price that would need to be set to allow providers to continue to have milk delivered – the average price of milk provided by milk-roundsmen is currently 65p/pint<sup>3</sup>. 88% of respondents in the survey have milk delivered to them and 61% indicate that convenience is their main concern when buying or ordering milk (and supplementary comments show that ‘delivery to the setting’ and ‘less paperwork’ are the two key aspects of convenience). Therefore in order to maintain current take up levels it is likely that an arrangement that includes delivery would be essential.
32. Due to the presence of an upper price limit and a lack of explicit incentives for childcare providers to seek milk at prices lower than this limit, Option 2 may incentivise milk suppliers to compete on quality. Quality protection is therefore a further advantage of this option.

### *Costs*

33. The exchequer savings represent a loss to some existing milk suppliers in the form of a reduction in the profits they are currently gaining by taking advantage of the scheme.
34. It is likely that setting a cap would increase the total annual administrative running costs of the Nursery Milk scheme. These costs are likely to be very small compared to the value of the exchequer savings and have therefore not been quantified, but for more detail and discussion see ‘administrative costs’ section below (paragraph 78-83).
35. Childcare providers who currently use very high cost suppliers would have to seek greater value for money, either by negotiating an improved price with the current supplier or by buying milk from a more reasonably priced source.

### *Risks*

36. Some childcare providers use specialist milk suppliers, or agents, who claim reimbursement on their behalf. If the agent is unable or unwilling to supply milk at or below the capped maximum rate, this may mean that the childcare provider would need to return to purchasing milk at the market rate and claiming reimbursement directly from the Nursery Milk Reimbursement Unit. Although the administrative burden of claiming directly, particularly when using the on-line claiming facility, is small, the requirement may cause some childcare providers to leave the scheme and take up rates may fall.

---

<sup>3</sup> Source: DairyCo (<http://www.dairyco.org.uk/market-information/dairy-sales-consumption/liquid-milk-market/liquid-milk-market/>)

37. The cap level, unless set very high, may not cover the full cost of milk delivered in smaller portions such as 1/3rd pints. The cost of milk supplied in this way is high, for example the average price paid by respondents to the survey for a 1/3<sup>rd</sup> pint was 87p per pint equivalent. (This figure is based on the sub-set of data that was considered reliable – many survey responses had discrepancies in them). Although childcare settings could claim up to the cap limit and pay the difference themselves, this would financially disadvantage those providers that do not have facilities to serve milk bought in larger containers.

## **PREFERRED OPTION**

### **Option 4 – Direct supply (including delivery)**

#### ***Description***

38. Under this option, the Department of Health would contract with a company(ies), or a consortium(ia), (which could include a variety of small local suppliers) for the direct supply and delivery of milk to all childcare providers at an agreed price per pint supplied and delivered. In the case where there is more than one company involved in the supply of milk, contact will still only be with one company. Our aim would be for the best supplier to be chosen for every local area, to meet local needs under the scheme and offer value for money. Childcare providers would simply register, indicating the number of children in attendance and then receive the appropriate amount of milk delivered to the doorstep. These reforms would be phased in gradually over the course of a year or so, to minimise disruption to childcare providers.
39. It is likely to cost the contractor(s) more to deliver to childminders with only one or two children in attendance, but the cost per pint to deliver to large nurseries will be less. It may be possible, by letting a single contract for the delivery of over 1.75m pints of milk a week, to achieve both a competitive overall price and a simple effective system, with the lowest burdens on childcare settings.

#### **Access**

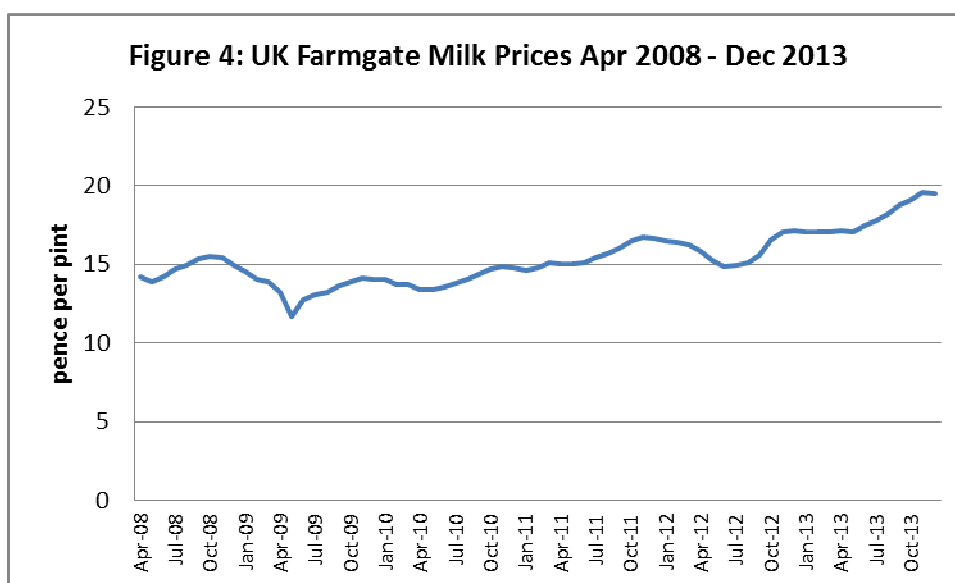
40. Milk would be supplied and delivered directly to childcare providers.
41. Some childcare providers require milk to be supplied to them in a particular size container. This may be due to storage or serving restrictions. Again, the contract would be formulated to try to ensure that childcare providers such as this had their needs met. For further information on the packaging issue see the Environmental impact section below.
42. We recognise some childcare settings felt it would be easier for them to buy their own milk locally, and they felt they would prefer to do this. However we believe that, provided the contractor supplying their milk can provide the milk at a time when it is convenient and guarantee to do so, then this is an even lower burden on such settings and has the advantage of a single delivery mechanism which is likely to offer the best value for money.

#### **Benefits**

43. The savings that the Department of Health expect to make will depend on the price that is negotiated with the contractor/s for the supply of milk. This is hard to predict; the wholesale price of milk fluctuates over time (not always upwards), and any processing and distribution costs added by the contractor(s) are likely to depend on the shape of the supply chain. As an illustration, we calculate that we could save between £25m and £47m per year on the total cost of milk (best estimate: £36m). The savings calculation is based on assumptions that we negotiate a contract with a company(ies) or consortium(ia), whereby the price paid for milk is 60p(high estimate) 40p (low estimate) and 50p (best estimate) per pint respectively.
44. Generally speaking, because the administrative costs of each option are very small compared to the likely exchequer savings from the lower cost of milk, as long as the per pint price negotiated with the contractor is lower than the current price and around 12p lower than the likely cap level, this is the most cost effective option.
45. The 12p differential takes account of that fact that under Option 2 we foresee that many childcare providers would continue to claim below the cap level, whereas under Option 4, the negotiated price per pint would be, by definition, the price paid by the government for all the milk supplied. Based on

our modelling and assuming the proportion of people claiming below the cap level stays the same, the negotiated price under the contract would need to be at least as low as 58p per pint to deliver bigger savings than a price cap of 70p. 70p is the level we feel we would need to set a cap at to allow for delivery costs. Of course, if the hypothetical cap is lower, the price differential between cap and contract needed to make Option 4 the preferred option falls. This is because the proportion of people claiming below cap level would be smaller and the cap level would be closer to the average price claimed for milk. For example if the cap were set at 50p per pint the negotiated price per pint under the contract would only need to be 3p cheaper for the latter option to deliver the bigger savings.

46. It is likely that the negotiated price would indeed be significantly lower than any reasonable price cap as the contracted company(ies) or consortium(ia) is/are expected to be able to purchase milk closer to farmgate prices, which currently stand at approximately 19p per pint (December 2013)[1]. This will continue to be the case even if the farmgate price rises with any reasonable estimate of inflation. Figure 4 below shows UK farmgate milk prices between the April 2008 and December 2013. The best estimate of savings under this option is based on the 50p value, as processing cost, delivery and packaging type (in particular 1/3 pint (or equivalent size) single serve containers) and possible rises in the price of milk over the length of the contract will also be factored in within the contract.



Source: DEFRA: Average prices are been calculated from separate monthly surveys of milk purchasers conducted in England and Wales by Defra, in Scotland by RERAD (Rural and Environment Research and Analysis Directorate) and in Northern Ireland by DARD (Department of Agriculture and Rural Development).

47. The predicted savings are based on the assumption that efficiency in supply can be attained through organising the scheme more centrally. There is good evidence to suggest that this would be the case, given the Department of Health’s positive experiences with the School Fruit and Vegetable Scheme (SFVS)<sup>4</sup> which works in this way. Despite the challenges posed by increases in pupil numbers and the cost of food and fuel over the last few years, the contract cost had been kept at £41.5m per year since 2010/11, achieving a real-term saving of more than £12m since then.
48. For childcare providers there would be no financial outlay and no need to claim reimbursement or keep receipts thereby delivering them an administrative saving.

<sup>4</sup> The School Fruit and Vegetable Scheme has been running since 2005 and offers a free piece of fruit or veg every school day to children in fully state-funded infant, primary and special schools throughout England. Currently, approximately 2 million children in 16,000 schools are receiving free fruit and vegetables. The supply chain is operated by a private contractor – ‘NHS Supply Chain’ – who have been responsible for delivering the scheme across England for the last 7 years.

## **Costs**

49. The exchequer savings represent a loss to some existing milk suppliers in the form of the loss of profits they are currently gaining by taking advantage of the scheme.
50. This option would involve one-off set up costs to DH, including running the tendering process and formulating the contract and on-going running costs such as monitoring. These costs are likely to be very small compared to the value of the exchequer savings and have therefore not been quantified, but for more detail and discussion see 'administrative costs' section below (paragraphs 78-83).
51. All milk suppliers currently participating in the scheme would have the opportunity to tender, perhaps as part of a consortium(ia), to supply milk under the new arrangements. The competitive tender process may result in efficiency savings being found by suppliers. However, as the eventual contract will be the result of a competitive tender, some suppliers may cease to be suppliers of nursery milk (though this will be a gain to those that replace them).

## **Risks**

52. Some schools and nurseries use both the nursery milk scheme and the EU school milk subsidy scheme and have the milk for each supplied and delivered by one company. There is a risk that if this company is not involved in the central contract childcare providers may have difficulty sourcing milk under the EU scheme. This may happen for two reasons: firstly, existing suppliers that rely on revenue from the Nursery Milk scheme but do not take part in the central contract may go out of business; secondly, those companies that do continue to operate outside the central nursery milk contract may be reluctant to supply milk under the EU school milk scheme alone as lower volumes may make it commercially unattractive.
53. However, there are a number of ways around this problem that could allow childcare settings to source the supply and delivery of all their subsidised milk in a simple and cost effective manner. For example, the company supplying milk under the nursery milk scheme could take on the supply of milk under the EU scheme as well. Or alternatively, the contractors for the nursery milk scheme could sub-contract supply to the affected childcare settings to companies that are prepared to supply both nursery milk and EU subsidised school milk. DH will address this issue during the negotiations with the potential contractor/s. We do not believe this to be a significant concern as the number of schools and other child care providers claiming the EU milk subsidy is small.
54. This option involves centralised purchasing and therefore carries the risk that milk suppliers will have limited incentives to provide milk sensitively to the needs of individual childcare providers. However, through proper contract design this risk should be mitigated.
55. There is a danger that we do not receive any bids for the contract or that the bids submitted quote a higher per pint price than is currently paid. In this event we would not pursue this option and the alternative options would be considered, although discussions so far with key potential stakeholders, indicate that this risk is likely to be very low.

## **Small and Medium Sized Enterprises**

56. We are keen to ensure that small and medium sized milk suppliers are not disadvantaged in choosing Option 4 where milk is supplied under a centralised contract. We will take measures during the tendering process to ensure they can participate either directly, in consortia, or in the supply chain. Again, the SFVS serves as a useful example: under the scheme, although it is run by a single contractor; NHS supply chain – their principal role is to coordinate the process. Much of the supply and delivery of the fruit and veg itself is made by smaller sub-contractors. For further analysis on the likely impact to small business see small firms impact section below.

## Option previously considered but dropped following consultation

### Issue e-voucher cards with or without economy incentives

#### *Description*

57. Under this option, childcare providers would no longer have to pay for milk and then claim reimbursement from the Nursery Milk Reimbursement Unit. On joining the scheme, childcare providers would indicate how many children would be attending for two hours or more per day. They would then be credited with a prospective monthly payment equal to the number of pints required, multiplied by a fixed reimbursement rate which we would set at a rate in excess of an average market price per pint. For stand-alone nurseries, creches and child-minders, this would be credited to an e-voucher card that would be topped up electronically each month.
58. In the event of childcare providers purchasing milk at a very low cost and as a result generating a surplus there are 2 alternative approaches we envisaged for the use of this surplus. Either the surplus is returned to the scheme or childcare providers would be allowed use any savings on the e-voucher card arising from the scheme to purchase more milk for the children in their care.

#### *Costs and benefits*

59. This option would involve a one-off set up cost of £600,000 in the first year and additional running costs of £450,000 per year thereafter, as suggested by evidence from similar schemes. These costs would include hiring/purchasing the technology needed for the scheme as well as the cost of processing payments. The magnitude of the additional administrative cost of this scheme, because of the technology involved, is likely to be higher than that of the other options.

#### *Rationale for dropping the e-voucher option*

60. As well as being the most expensive option to the exchequer, this option also came out as the least popular amongst respondents to the consultation. Only 16% chose it as their preferred option, compared to 53% who were in favour of direct supply (Option 4) and 39% who were in favour of the price cap (Option 2). 66% of respondents thought Option 3 would disadvantage specific population groups. Small childcare settings not having access to the internet or having staff with adequate IT capabilities was the main concern, followed by ready availability of local retail outlets and / or milk delivery services having the e-voucher technology to process their orders, and a perception that using the e-voucher would be too complex / be too much of a hassle to use and would result in additional management time to administer. Furthermore, when asked if they would feel comfortable using the e-voucher card, 41% of childcare providers who responded to the consultation said 'no'.
61. As with the cap option (Option 2) it also has the disadvantage that it may reduce the take up of the scheme. To meet the price restriction, childcare providers who currently use agents may need to source their milk independently which they may find less convenient. Convenience is the strongest factor influencing how respondents to the consultation sourced their milk - 61% of respondents ranked it as their most important consideration (supplementary comments show that 'delivery to the setting' and 'less paperwork' are the two key aspects of convenience).
62. A further weakness of this option is that it does not address the problem that those deciding where to buy milk are not those bearing the cost (the 'principal-agent' problem). Two possible scenarios were being considered: in the first, any money not spent would be returned to DH; in the second, any money saved could be spent on additional milk over and above the 1/3<sup>rd</sup> pint allocation. The first doesn't provide any incentive for childcare providers to seek out value for money and the second only does if they wish to give more than the 1/3<sup>rd</sup> of a pint allocation to their children. It is not clear that this is the case for a majority of childcare providers - only 54% of respondents thought the money should be kept by childcare settings, suggesting that demand for additional milk over and above the third of a pint allowance is limited. This option is therefore less likely than the contract option (Option 4) to promote economic efficiency.
63. Although this option may encourage milk suppliers to compete on both the quality of the milk they provide and the service they offer, we believe that, with the correct monitoring, quality can be maintained when a company or companies are contracted to supply milk directly. For example, the School fruit and veg scheme which is run in a manner similar to the contract option proposed in the consultation has only had 109 complaints in July 2011. Against a scheme that supplies fruit and veg daily to over 2m children.

64. A further draw back of the option is that some childcare providers may have difficulty in sourcing milk at the normal market rate, perhaps because of a lack of supply options in their area, because local suppliers were reluctant to accept the e-voucher card, or because they needed to purchase specialist milk such as organic or soya. The survey found that 11% of respondents bought specialist milk so this option could have adversely affected a significant minority of childcare providers.

### *Risks*

65. The technology involved may leave DH with greater exposure to the risk of the scheme being used fraudulently and may make it easier for money assigned to the scheme to be misused.
66. In summary, no one criteria should be seen as the deciding factor in dropping this option but cumulatively these points make it significantly less favourable than the other options considered.

## **COMPARISON OF OPTIONS**

### *Methodological note*

67. The basis for estimating the costs and benefits of all options is formed by estimating demand for nursery milk in the 10-year period under consideration, 2013/14-2022/23. Firstly, ONS population projections for the 0-5 age group for England, Scotland and Wales are multiplied by the scheme's coverage, assumed to stay constant at the current rate of 40% of those of eligible age (which corresponds to 62% of those in childcare settings). Secondly, added to this are increases in scheme participation due to the Department of Education's plans to make 128,000 additional nursery places available by 2014/15. Thirdly, the number of pints of milk demanded is estimated, observing that each child covered by the scheme gets 1/3 pint of milk on each day in childcare. 3 and 4 year olds are entitled to free early education for 15 hours per week, 38 weeks a year. This is equivalent to 190 days at 3 hours per day. Because the number of days of care children receive is unknown, this figure is used as an estimate of the average available to all under 5s. This is a rough estimate and we acknowledge that there is likely to be significant variation around this figure with some children receiving no care and others receiving it for most weekdays of the year. Out of the 190 days of possible attendance, estimates are calculated assuming 180 days in attendance (allowing for sickness and other reasons for absence, as well as children only attending childcare on a part-time basis). This assumption generates estimated milk demand best reflecting recent observations. On average, 109m pints of milk are estimated to be claimed annually under the Nursery Milk Scheme in the 10-year period in consideration.
68. The baseline costs of Option 1 are estimated by multiplying the milk demand each year by the average cost of a pint of milk under the Nursery Milk Scheme – this is assumed to increase by 3p per year from the 2010/2011 value of 60p/pint, given recent trends (see paragraph 21 and figure 3). Costs are then discounted at 3.5%, to arrive at a cost of £741.25m over the 10-year period starting in 2013/14.
69. For Option 2, the Exchequer financial benefit is estimated by calculating savings relative to the above baseline, given the same demand patterns and caps of 50p and 70p. For Option 4, the Exchequer financial benefit is calculated as savings relative to Option 1, given negotiated milk prices at 40, 50 and 60 pence.

### *Exchequer financial benefit*

70. The policy objective is to simplify the scheme and to obtain greater value for money whilst maintaining or ideally improving current take up rates. **This is essentially a financial and procurement issue aimed at ensuring that DH pays a fair, market price for the milk for children in nurseries and other childcare providers.** Option 2 (capping) and Option 4 (direct supply) both result in a financial benefit to the Exchequer. This follows directly from the options' capacity to bring the total cost of milk under control. Option 2 represents direct control over reimbursement. The best estimates of Exchequer financial benefits for Option 2 are calculated under the assumption of a 70p/pint cap on milk reimbursement, and amount to £215m over 10 years

(discounted). Note that the Exchequer financial benefit for option 2 assumes that a proportion of childcare settings would continue to claim below cap (based on 2010/2011 data).

71. Option 4 (direct supply and delivery) results in the highest estimate of financial benefit to the Exchequer. This is due to the expectation that a large supplier or consortium(ia) of suppliers would be able to buy milk closer to farmgate prices (rather than retail prices), and a lower price could be negotiated for a pint of milk than the cap in Option 2. As an illustration, based on an assumed negotiated price of milk of 50p/pint, the best estimate of Exchequer financial benefit is £289m. However, this is based upon assumptions regarding economies of scale (and absence of diseconomies of organisation) and carries a small risk regarding the sensitivity of quality of supply (especially timeliness) to the needs of individual childcare providers. A risk that would need to be mitigated through contract design.
72. It is important to note that the preference for Option 4 is not sensitive to the estimate of the negotiated price of milk. Given that the price cap (Option 2) is likely to be the next best option in terms of cost effectiveness, as explained above, as long as the negotiated price per pint under Option 4 is around 12p cheaper than the cap level (likely to be around 70p/pint to allow for delivery costs), the contract delivers the biggest exchequer savings. (Assuming we ignore the impact of administration costs as these are likely to be relatively very small compared to the sums saved by limiting the price we pay for milk.) Given the farmgate price of milk is currently around 19p per pint we think it is realistic to expect to be able to find a contractor/s who is willing to supply milk for a per pint price of less than 58p.
73. Option 4 is also likely to improve the take up rate of the scheme. For many childcare providers, particularly those not currently using agents, the administrative burden of claiming milk will fall and they will be guaranteed delivery. This is likely to encourage more childcare providers to participate in the scheme.
74. In summary, Option 4 is the preferred option as it is likely to offer the best value for money whilst maintaining or possibly improving the take up rate of the scheme. The administrative burden for childcare providers would fall and those with specific requirements, for example for geographic or religious reasons, are unlikely to be disadvantaged.

#### *Economic costs and benefits*

75. As stated above, one of the main objectives of changing the scheme is to secure value for money. Both Option 2 (capping) and Option 4 (direct supply and delivery) are neutral in terms of quantified economic cost. The financial saving to the Exchequer of each option is matched by a financial cost to the private sector in terms of lower milk payments.
76. However, both options are likely to deliver additional, non-monetised, benefits from encouraging greater competition in the milk market. Milk retailers, agents and suppliers will be incentivised to become more efficient, which should promote a more productive use of resources in the economy as a whole. Because of the difficulty in measuring these impacts we have not attempted to quantify them here.
77. In the invitation to tender, the Government will ask prospective suppliers to set out their ideas for how some of the EU Nursery Milk Subsidy might be claimed - without adding unreasonable burdens on hard pressed childcare providers and, at the same time, ensuring the EU compliance required to claim the subsidy. Claiming the EU subsidy is not straightforward, and any money received needs to be carefully balanced against new burdens on childcare settings. However, this is an area worthy of further exploration to ensure the scheme achieves the maximum possible value for money.

#### *Administrative Costs*

78. Under the status quo, the administrative burden of the scheme is shared by childcare providers who claim independently, agents who claim on behalf of their clients, and DH who administer the scheme. For childcare providers that use agents, the administrative work involved in claiming is done entirely by these specialist suppliers who then cover their costs through the money they claim back from the Government.
79. Under Option 2, it is likely that less of the milk supplied will be by specialist agents, and therefore the administrative burden on childcare providers (who now claim for themselves) will increase. Moreover,



as claiming is decentralised, it is likely to be done less efficiently and the total administrative burden will rise.

80. Under the cap, in addition to the burden from claims, an administrative cost will be incurred by DH in setting and monitoring the cap levels. This will include the work involved in defining exemptions and possibly setting regional or local cap levels where there is significant variation in the price of milk. The total size of this burden is, however, likely to be small; probably in the region of the £100,000s per year - as the claims process is flexible and straightforward. For this reason, and the fact that the figure is likely to be dwarfed by the exchequer savings (or equivalently, the lost profit to agents) we have not monetised this additional cost.
81. Conversely, under Option 4 we are likely to see a reduction in overall administrative costs. Although there will be one off costs for DH associated with running the tendering process and drawing up the contract, and on-going costs associated with monitoring it. These are likely to be outweighed by the reduction in the administrative burden for childcare providers and agents in claiming back the price of milk. Whilst there are currently some efficiency gains made by agents claiming on childcare providers behalf, these are likely to be small compared to the likely savings that could be gained were a company/consortium to take over the running of the whole scheme. This is especially likely given that the claiming system, in its current form, would no longer be required. Under the proposals, childcare providers would instead simply notify the supplier how many children they had in their care and their milk entitlement would be delivered to them.
82. The e-voucher scheme (Option 3) is likely to have the highest additional administrative cost of any of the proposals considered. Firstly, because of the technology involved, significant capital outlay would be required. We would also need to employ a financial services company to administer the pre-payment cards. Secondly, as the option is in effect an implicit cap, DH would incur the costs associated with setting this cap and monitoring and adjusting its level as required.
83. In summary, Option 4 is likely to have the lowest administrative costs of any of the options being considered. In fact, because a company/consortium would be running the whole scheme – including the administration - it is likely that through efficiencies of scale the total administrative burden would be lower than it is now. Conversely, for all the other options, it is likely that the total administrative burden would increase.

## ANNEX A – SPECIFIC IMPACT TESTS

### Economic

#### *Small Firms*

84. As stated above, even though our preferred option is to arrange a centralised contract for the supply of milk to childcare providers, we are keen to ensure smaller milk suppliers (including milk roundsmen) are not excluded from the process. To this end, we will formulate the tendering process in such a way as to encourage small and medium sized firms to participate. Even if one or more larger firms were to win the contract it is likely that smaller businesses would still participate as part of supply chain. This is the system currently used to deliver the School Fruit and Vegetable Scheme where a single company subcontracts to smaller local suppliers.
85. When considering the impacts of the scheme on SMEs we should keep in mind that the milk supplied under the nursery milk scheme represents only 1% of the total liquid milk market<sup>5</sup>. Therefore, although there may be some local impacts from reforming the scheme, the effect on small and medium sized businesses as a whole across the industry is likely to be limited.
86. Most childcare providers are also small businesses operating in the private, voluntary or independent sectors; 99% of childcarers that responded to the survey had fewer than 50 employees and of these 92% had fewer than 10 employees. Because our preferred option reduces the administrative burden associated with claiming milk and also includes delivery, it is likely to be the most beneficial to childcare providers and is likely to be a significant improvement on the status quo for the many thousands that do not use agents. Small and micro businesses are likely to find these arrangements especially beneficial as they are less likely to have staff who can take time out to complete the administrative work and collect milk independently.

#### *Impact on milk suppliers*

87. Option 2 (capping) and Option 3 (e-vouchers) are likely to have a negative impact on high priced suppliers of milk, particularly the specialist suppliers or agents who charge high prices and where Nursery Milk may constitute a significant proportion of their total business. Such specialist suppliers may have the option of reducing the price they charged for milk in line with the standard market rate.
88. Option 4 (direct supply and delivery) would involve a tendering process in which milk producers, suppliers, distributors and retailers, including all those currently involved in the scheme, would have the opportunity to tender, either individually or as part of a consortium(ia), to supply milk under the new arrangements.

#### *Childcare providers, local authorities and primary school reception classes*

89. Under Option 2, childcare providers and local authorities who currently use one of the specialist suppliers to claim reimbursement on their behalf may not be able to find an agent willing to provide this service within the capped rate. In this case, they may have to submit monthly claims themselves. Although claiming online is very simple, this may involve a degree of administrative burden.

---

<sup>5</sup> Figure obtained from comparing 2011/12 data from MRM - the organisation that currently administers the Nursery Milk Scheme – and dairyco.org.uk figures for the milk market as a whole (<http://www.dairyco.org.uk/market-information/dairy-sales-and-consumption/liquid-milk-market/liquid-milk-market/>)

## Social

### *Wellbeing and health inequalities*

90. None of the proposals involve a change to the amount of milk provided or to the age, or number of children eligible to receive it. In view of this, we do not believe that any of the proposals would impact on wellbeing or health inequalities.

### *Rural areas*

91. We are concerned that childcare providers in geographically isolated areas may not have easy access to milk at the standard market rate. In view of this, if Option 2 (capping) was implemented, we would put in place arrangements to vary the capped rate in special circumstances.

### *Statutory Equality Duties*

92. We do not believe that any of the proposed changes would impact on age, disability, gender reassignment, pregnancy and maternity, race, sex or sexual orientation. We are concerned that Options 2 and 3 may make it harder for childcare providers to obtain, for example, Kosher milk, however we would build the measures described above into these options to ensure that groups with special requirements – because of, for example, certain religious beliefs - would not be disadvantaged.

## Environmental

93. Although there are environmental issues to consider under the plans to reform the scheme it is unlikely that any would be significant so we have not included a sustainable development impact test here.

94. One aspect of the reforms that may have environmental impacts is milk delivery. Although a high proportion of childcare providers currently have their milk delivered (almost 90% of those responding to the consultation) under the preferred option this proportion is likely to increase. Depending on the methods currently used by childcare providers to obtain their milk, increased levels of delivery may have detrimental environmental consequences from factors such as air pollution and congestion. Equally, however, new delivery arrangements may be an improvement in an environmental sense over existing ones and so it is difficult to predict the net result. In any event given the existing extent of delivery, the effect of the changes on levels of air pollution and congestion are likely to be small.

95. Another area where there may be environmental consequences is from changes in packaging. Childcare providers currently receive their milk in a variety of package sizes. Consultation responses indicate that there is a fairly even distribution of childcare providers that receive milk in containers ranging from 1/3 pint to 2 litres. Some childcare providers have no choice but to buy milk in 1/3<sup>rd</sup> pint serving cartons, (because of, for example, not having any facilities for washing glasses) and obviously this method has more environmental impact than supplying milk in 2 litre containers. There may be a risk that for convenience and simplicity a contractor/contractors would supply all milk in smaller packages. To avoid this we will build measures into the tendering and contractual process that encourages the winning bidder/s to supply milk in a sustainable manner.

## **ANNEX B – EU MILK SUBSIDY**

96. The European Milk Subsidy Scheme enables local authorities and schools to provide certain milk products at a marginally reduced price to pupils attending nursery/other pre-school establishments and primary and secondary schools. The EU rules were amended from the 1st of September 2008 after which time the Rural Payments Agency (RPA) accepted claims for the European School Milk Subsidy for children under five.

97. Whilst we recognise that claiming the EU School Milk subsidy may appear to be a further way in which we can improve the value for money of the scheme to the UK tax payer, we are also mindful of keeping burdens on childcare settings to a minimum. Through the consultation process, we discovered that many childminders would not be in favour of making the claims themselves, as the additional responsibility will place a further burden on them: To claim or receive the EU subsidy, they must observe certain rules - including an EU poster about milk and its benefits must be displayed and all receipts must be kept for up to 3 years.

98. In the invitation to tender to those bidding to run the scheme, we will be inviting ideas on how they might facilitate the receipt of any EU subsidy, bearing in mind it must be done in such a way that they ensure compliance with the EU rules for claimants and beneficiaries, and keep burdens on childcare settings to an absolute minimum.

### **The cost of claiming the EU Milk Subsidy**

99. The main affected groups will be the childcare providers who will be required to observe a number of requirements which must be strictly fulfilled in order for childcare providers to qualify for the payments. Many childcare settings are unable to fulfil these essential conditions. (Although it is feasible that larger local authority nurseries may be able to abide by the criteria required to claim the full subsidy).

100. The administrative costs to be borne by the childcare providers are not quantifiable, as this depends on the providers' capability to allocate the appropriate resources to fulfilling the conditions of claim. There has been feedback regarding concerns about smaller child care providers making the claims themselves. The concerns centre around the view that childcare providers are already over-stretched, and that this additional responsibility would place a further considerable burden on them.

### **The benefit of claiming the EU Milk Subsidy**

101. We recognise that there may be some benefit to claiming for the EU Milk Subsidy, but that this is limited and needs to be carefully balanced against the aim of keeping burdens on childcare settings on the scheme as low as possible and the increased administrative burden and complexity necessary to ensure that there is no possibility of dual funding under the two schemes resulting in over-payments.

102. DH is unable to claim on behalf of the childcare settings. This is because the EU has raised concerns that DH cannot guarantee that the childcare settings will be complying with the EU Milk Subsidy claim requirements.

103. Under the EU scheme every claimant must:

- claim the full subsidy within the three month period required by the Rural Payments Agency (RPA) - responsible for the EU Milk Subsidy
- complete the claim documentation correctly and within the specific time frame required by the EU Subsidy regulations
- be approved by the RPA before the milk can be supplied or claims for milk can be accepted.

104. Both childcare settings and claimants must:

- be familiar with the rules of the scheme and abide by those rules

- allow RPA inspectors or EU auditors access when requested
- be able to satisfy EU auditors that they are complying with the rules
- retain records and receipts for three years

105. Therefore, the financial benefit of claiming for the subsidy must be considered against the increased burden which it would place on many childcare providers and claimants.

## ANNEX C - APPRAISAL

106. Whichever option is taken forward, we would aim to evaluate the scheme 5 years after implementation to ensure it was meeting the policy objectives. If it wasn't, we would seek to end the arrangements and would reconsider all the options proposed in the consultation including the e-voucher scheme.

107. The evaluation criteria would be as follows:

- Quality of service: This could be measured both qualitatively through surveying childcare provider satisfaction and quantitatively through scheme uptake, as measured by the number of pints delivered.
- Exchequer savings: we will compare the per pint price paid under the new regime with the average price currently paid.
- Scheme coverage: we would monitor the number of pints supplied under the scheme to ensure the take up rate was being maintained and if the data is available, also keep track of the number of childcare settings that are receiving milk.