



# Briefing

## Options for reducing the cost of a 'Free School Lunch Programme' Budget initiative

To: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction  
Hon Chris Hipkins, Minister of Education  
Hon Tracey Martin, Minister for Children

Date	27/03/2019	Priority	HIGH
Deadline	29/03/2019	Briefing Number	DPMC-2018/19-1069 METIS – 1183664

### Purpose

This briefing sets out two options for a lower unit cost for the Free School Lunch programme than the 9(2)(f) previously specified in the Budget initiative submitted to the Treasury in January. It identifies the implications of these changes for the overall cost of the proposal, based on a staggered rollout, starting with 50 schools in Term 3 2019.

These options have additional risks and uncertainties, and the paper identifies strategies to mitigate these. Decisions are sought from Ministers about their preferred option. Once these are received, officials will be able to submit updated costings the Treasury, for consideration in further decisions about the final Budget package.

## Recommendations

1. **Note** that in February 2019, following submission of an initial Budget proposal, the Minister for Child Poverty Reduction and the Minister of Education agreed to the objectives and high level design parameters a Free School Lunch programme for Year 1 to 8 students in the twenty percent of state and state integrated schools with the highest concentrations of disadvantage (as identified by the Ministry of Education's Equity Index).
2. **9(2)(g)(i)** to provide further advice and updated costings that address the following:
  - a) Increasing the number of schools at the front-end of the roll-out, starting with 50 schools in Term 3 2019 (rather than 10 as currently proposed)
  - b) Options for reducing the unit cost of each lunch.

### ***A faster front end rollout revised approach to roll out to achieve greater coverage***

3. **Note** that a faster rollout increases the level of programme coverage achieved in 2019 and 2020, but does not change the coverage achieved by the end of 2022 (400 schools) and the timeframe for full rollout number from Term 1 2022)
4. **Agree** the following revised approach to the staggered rollout of the Free School Lunch programme

School Year	No. of schools	Estimated No. of students	% of eligible schools
2019 (2 <sup>nd</sup> half)	50	8,800	10%
2020 (terms 1 & 2)	100	17,900	20%
2020 (terms 3 & 4)	200	35,800	40%
2021 (terms 1 & 2)	300	54,600	60%
2021 (terms 3 & 4)	400	72,800	80%
2022	493	91,300	100%
2023 and on years	493	92,200	100%

Prime Minister Ardern **Agree / Disagree**

Minister Hipkins

**Agree / Disagree**

Minister Martin **Agree / Disagree**

### ***Options for reducing the unit cost of each lunch***

5. **Note** that the initial cost assumption of **9(2)(f)(iv)** was informed by information about overseas school lunch programmes, and existing commercial school lunch delivery programmes in New Zealand, with Budget sensitivity and uncertainties around programme design making it difficult to establish robust costings.

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6. **Note** that a lower unit cost may create risks and challenges for delivering sufficient nutritionally balanced food in some schools, particularly those in rural areas with a more limited existing market of potential food suppliers, fewer opportunities to achieve economies of scale, and higher transport / distribution costs.
7. **Note** that these risks can be offset in a number of ways, including by setting food quality standards, differentiating funding rates for rural and urban schools, and greater upfront support to assist schools to work together to achieve economies of scale.
8. **Note** that officials have identified the following options for reducing the unit cost of free school lunches, on the basis that there may be scope to reduce assumed food and / or overhead costs, and to achieve economies of scale by supporting schools to work together.
  - a) **Option 1:** s 9(2)(f)(iv) per lunch.
  - b) **Option 2:** 9(2)(f)(iv)
9. **Note** the financial implications of these two options for the overall cost of the policy, based on the staggered approach to rollout set out in Recommendation 1 above are as follows:

9(2)(f)(iv)

10. **Note** that officials recommend 9(2)(g)(i) the basis that this level of funding is likely to be more adequate, and leaves flexibility to differentiate funding rates by school type or location.

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11. **Indicate** your preferred unit cost (by circling one option) from the three options outlined in Recommendation 8 above:

Option	Prime Minister Ardern	Minister Hipkins	Minister Martin
9(2)(f)(iv) [Redacted]	Agree	Agree	Agree
[Redacted]	Agree	Agree	Agree
9(2)(f)(iv) [Redacted]	Agree	Agree	Agree

12. **Agree** that this joint report not be proactively released at this time because final decisions relating to Budget 2019 are still to be made.

Prime Minister Ardern **Agree / Disagree**

Minister Hipkins

**Agree / Disagree**

Minister Martin **Agree / Disagree**

Kristie Carter <b>Director</b> <b>Child Poverty Unit</b>
...../...../2019

Rt Hon Jacinda Ardern <b>Prime Minister</b> <b>Minister for Child Poverty Reduction</b>
...../...../2019

Damian Edwards <b>Associate Deputy Secretary, Education</b> <b>System Policy</b> <b>Ministry of Education</b>
...../...../2019

Hon Chris Hipkins <b>Minister of Education</b>
...../...../2019

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Geoff Short <b>Executive Director</b> <b>Child Wellbeing and Poverty Reduction Group</b>
...../...../2019

Hon Tracey Martin <b>Minister for Children</b>
...../...../2019

**Contact for telephone discussion if required:**

Name	Position	Telephone		1st contact
Kristie Carter	Director, Child Poverty Unit	9(2)(a)	9(2)(a)	✓
Damian Edwards	Associate Deputy Secretary, Ministry of Education	N/A	9(2)(a)	

**Minister's office comments:**

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to

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# Confirming the scope and cost of a ‘Free School Lunch Programme’ Budget initiative

## Background

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1. As you are aware, officials submitted a Vote Education Budget 2019 proposal ‘free school lunches for all students in schools with the highest concentrations of disadvantage’ (the ‘Free School Lunch’ programme) to the Treasury on 11 January 2019. Following further direction from the Minister for Child Poverty Reduction in February, officials provided further advice on a revised proposal (DPMC 2018/19-906 | METIS-1778270 refers). This focused the programme on Years 1 to 8 students only, with a staggered approach to rollout, beginning in a small number of schools in the second half of 2019. The indicative cost of these proposed parameters and approach to rollout was 9(2)(f)(iv) over the four year funding period (2019/20 to 2022/23).
2. s 9(2)(g)(i) to provide further advice and updated costings that address the following:
  - a) Increasing the number of schools at the front-end of the roll-out, starting with 50 schools in Term 3 2019 (rather than 10 as currently proposed)
  - b) Options for reducing the unit cost of each lunch
3. This briefing responds to this request.

## Approach to rollout

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4. A staggered approach to rolling out a Free School Lunch programme will help phase the costs over the four year Budget period. Limiting initial implementation to a small number of schools provides an opportunity to identify and address any programme design and implementation issues in a managed way.
5. The Minister for Child Poverty Reduction and the Minister of Education have agreed to such an approach, 9(2)(g)(i) ((DPMC 2018/19-906 | METIS-1778270 refers)).
6. Ministry of Education officials are currently identifying 50 potential ‘early adopter’ schools in which to implement the programme in the second half of 2019, in order to test delivery models and clarify support needs.
7. Building on this initial number, the rollout would proceed as shown in the following table. There would be no change to the level of coverage achieved by the end of 2021 (400 schools) and the achievement of a full rollout (493 schools) by the start of the 2022 school year.

Financial Year	2019/2020		2020/2021		2021/2022		2022/2023	
School Term	3 - 4	1 -2	3 - 4	1 -2	3 - 4	1 -2	3 - 4	1 -2
Number of schools	50	100	200	300	400	493	493	493
% of eligible schools	10%	20%	40%	60%	80%	100%	100%	100%
No. of students (incl. 1% annual roll growth)	8,800	17,900	35,800	54,600	72,800	91,300	91,300	92,200

8. Revised costings for the options outlined in the remainder of this paper, are based on the approach to rollout identified above.

## **Options for reducing the unit and capital costs of a Free School Lunch Programme**

### **Basis for the current unit cost 9(2)(f)(iv)**

9. The Budget 2019 proposal submitted to Treasury identified an indicative unit cost (per lunch, per student, per day) 9(2)(f)(iv). Our previous advice notes that this intended to cover all input costs (raw ingredients and food preparation), operating costs (e.g. packaging, distribution, storage, and overheads such as management, administration and procurement) and profit / earnings for external providers. We also noted the following information and assumptions:
- Approximately 60/40 split between food and overhead costs (with overseas models indicating that operating costs make up a substantial component of the total cost of providing school lunches).
  - Budget sensitivity and uncertainties around programme design make it difficult to establish robust costings.

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- Potential opportunities to leverage additional funding from non-government sources (e.g. through government or school-level partnership or matched-funding arrangements with private sector or charitable organisations), but these have yet to be explored.
  - The advice from the Swedish child wellbeing experts who visited New Zealand last year about the importance of providing a variety of appealing, quality and nutritious foods to ensure student and parent buy-in, and achieve desired outcomes.
10. We have attached information to this report to illustrate the unit costs of two New Zealand school lunch programmes. **Ka Pai Kai Charitable Trust** makes and delivers lunches 3-4 times a week to nine schools in Tokoroa and Rotorua. Prices vary from \$3.00 (soup and bread roll) to \$4.50 for a standard lunch bag (sandwich, yoghurt, fresh fruit and homemade 'sweet treat'). The price of lunches are at or below cost, which is possible due to the use of volunteers to prepare food and by obtaining corporate sponsorship and donations. **Champion Tuckshops** operate in a large number of secondary and some intermediate schools. Their \$6 'EatSmart' menu meets Heart Foundation Fuelled4Life Fresh Made nutritional standards. As shown, lunches include a substantial item (e.g. a roll, wrap, sandwich or burger), an apple, water or milk, and sometimes another item (e.g. muffin, yoghurt, or Grainwaves).

### ***Options for reducing the unit cost of each lunch***

11. Reducing the unit cost creates a number of risks and challenges. If schools perceive the amount to be insufficient, they may be discouraged from participating. They may find it more challenging to provide nutritionally balanced, appealing food in sufficient quantities to meet student needs and parental expectations. This is particularly the case for schools in isolated and rural areas, where there is a more limited existing market of potential food suppliers, fewer opportunities to cluster with other schools to achieve economies of scale, and higher transport / distribution costs. About 30 percent of the targeted schools are in rural areas (defined as having a population of under 1000).
12. Officials consider that a number of actions could be taken to mitigate these risks. These include:
- Providing greater upfront support to assist schools to work together to achieve economies of scale.
  - Providing differentiated funding rates for rural and non-rural schools.
  - Maintaining or increasing the current level of government support for the well-established Fruit in Schools programme, to enable schools to include fresh fruit and vegetables in their lunch offering to students (thereby reducing the unit cost provided through the Free School Lunch programme).
  - Setting food quality standards, or providing schools with advice and guidance to support the cost-effective provision of nutritionally balanced lunches.

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- Active facilitation of partnership arrangements between government and or schools and business or non-government organisations, to reduce the cost of food, labour and / or distribution.

13. Officials have identified the following two options for reducing the unit cost of free school lunches, on the basis of these mitigation strategies.

- **Option 1:** s 9(2)(f)(iv) per lunch

- **Option 2:** s 9(2)(f)(iv)

14. The following table sets out the financial implications of each of these two options, compared to those based on a s 9(2)(f)(iv). These costings are based on the approach to rollout identified in Paragraph 6 above.

s 9(2)(f)(iv)

15. Officials' advice is that retaining a flat unit cost at a slightly higher level of funding would better support participation by schools, and the provision of lunches that meet students' nutritional needs. It also retains some flexibility to consider differentiated funding, should the initial rollout identify the need for this.

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## Next Steps

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16. Officials are seeking confirmation of the proposed approach to the staggered rollout of a Free School Lunch programme, and an indication from Ministers of their preferred option for the unit costs for the programme.
17. Subject to Ministers' directions on these matters, and final decisions about the inclusion of this proposal in the Priority D (Child Poverty and Child Wellbeing) Budget package, officials will submit updated costs to the Treasury.