Title: Next steps for Nursery Milk **IA No:** 3053 **Lead department or agency:** Department of Health **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 16/11/2011 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Secondary legislation

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option: there is no preferred option at this stage

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
N/A	NA	N/A	N/A	N/A

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, with a corresponding increase in the total cost of the scheme. If nothing is done to contain costs, the total annual cost of the scheme is expected to rise to £76m 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 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, 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)

1) Do nothing
2) Cap the price that can be claimed for milk
3) Issue e-voucher cards with devolved incentives for childcare providers to buy milk economically
4) Contract with a company(ies) or consortium(ia), for the direct supply and delivery of milk to all childcare providers.

There is no preferred option at this stage

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** Month/Year					
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.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

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: [signature] Date: 2/5/2012

Summary: Analysis & Evidence Policy 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

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	0		0	**0**

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

The 'do nothing' option sets the baseline for net costs and benefits. The absolute financial costs of the option are £713.16m 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).

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

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.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	0		0	**0**

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

The 'do nothing' option presents zero net benefits. It is assumed that the scheme's coverage will stay constant, implying no net health benefits.

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

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

- The scheme's coverage stays constant.
- The average price of milk claimed increases by 3p per pint annually.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m: 0			In scope of OIOO?	Measure qualifies as
Costs: 0	**Benefits:** 0	**Net:** 0	No	N/A

Summary: Analysis & Evidence Policy 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: - 0.08	**High: -** 0.08	**Best Estimate: -** 0.08

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0		36.51	**295.18**
High	0		50.21	**408.70**
Best Estimate	0		36.51	**295.18**

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 35p/pint for the 'High' cost value of £408.70m, and at 50p/pint for the 'Low' cost value of £295.18m.

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

Administrative costs borne by childcare providers, local authorities or agents of making claims under the scheme. These costs are not quantified as there are multiple ways to claim. Childcare providers and local authorities who currently pay/claim over the cap will need to re-source or re-negotiate with their suppliers; those who use agents may have to cease using agents and buy milk and claim directly, which will impose further search and administrative costs.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		36.50	**295.10**
High	0		50.20	**408.62**
Best Estimate	0		36.50	**295.10**

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

The total benefit figures are composed of a financial saving of £295.18m ('Low') and £408.70m ('High') on the cost of milk (identical to figures calculated as costs to the private sector above), and a financial cost £0.08m in additional running costs of the scheme. This results in a financial saving to the Exchequer of £295.10m and £408.62m.

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.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

- The scheme's coverage stays constant.
- Milk can be obtained by almost all childcare providers and local authorities at a price per pint which falls within the cap limit.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m: see para. 64			In scope of OIOO?	Measure qualifies as
Costs:	**Benefits:**	**Net:**	Yes	

Summary: Analysis & Evidence Policy Option 3

Description: Issue e-voucher cards with devolved incentives for childcare providers to purchase milk economically

FULL ECONOMIC ASSESSMENT

Price Base Year 2	PV Base Year 2013	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -4.34	**High:** - 4.34	**Best Estimate: -** 4.34

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.6		34.38	**278.18**
High	0.6		50.09	**408.35**
Best Estimate	0.6		34.38	**278.18**

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, as well as transitional Exchequer costs of setting up the new system of £0.6m. The implicit cap limit in the calculations is set at 35p/pint for the 'High' value, and at 50p/pint for the 'Low' value.

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

Costs to childcare providers and local authorities who currently pay/claim over the nominal voucher value and will need to re-source or re-negotiate with their suppliers; those who use agents may have to cease using agents and buy milk and claim directly, which will impose further search and administrative costs and impose costs on agents. Additional costs to milk suppliers to the extent that childcare providers are able to secure milk more economically.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		33.93	**273.84**
High	0		65.71	**404.01**
Best Estimate	0		33.93	**273.84**

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

The total figures are composed of a financial saving of £277.58m ('Low') and £407.75m ('High') on the cost of milk (derived from figures calculated as costs to the private sector of lower payments above) and a financial cost £3.74m in additional running costs of the scheme. This results in a financial saving to the Exchequer of £273.84m and £404.01m.

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. Additional benefits to childcare providers who can use savings to purchase more milk for children. Over time, there is potential to use the information arising from the scheme to set reimbursement rates close to actual payments, yielding greater exchequer savings to be redeployed.

The Exchequer costs are expected to represent, more closely, the fair market price for milk. Increased competition should encourage suppliers to become more efficient, and promote a more productive use of resources in the economy as a whole.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

- The scheme's coverage stays constant.
- Milk can be obtained by a majority of childcare providers and local authorities at a price per pint which falls within the value of the e-voucher.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m: see para 64.			In scope of OIOO?	Measure qualifies as
Costs:	**Benefits:**	**Net:**	Yes	

Summary: Analysis & Evidence Policy 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 Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
			Low: - 1.03	**High:** - 1.03	**Best Estimate:** - 1.03

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.2		44.86	**364.56**
High	0.2		65.81	**538.13**
Best Estimate	0.2		44.86	**364.56**

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, as well as transitional Exchequer costs of setting up the new system of £0.2m. The negotiated price of milk in the calculations is set at 20p/pint for the 'High' value, and at 40p/pint for the 'Low' value.

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

Possible loss in quality of supply (particularly timeliness) as centralised purchasing decisions remove incentives for milk suppliers to be sensitive to needs of local childcare providers. Losses to agents where they are replaced in the supply chain and potentially to local suppliers if the new contractor sources milk from alternative companies.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		44.76	**363.53**
High	0		65.71	**537.10**
Best Estimate	0		44.76	**363.53**

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

The total figures are composed of a financial saving of £364.36m and £537.93m on the cost of milk (identical to figures calculated as 'costs' to the private sector above), a financial cost £0.83m in additional running costs of the scheme. This results in a financial saving to the Exchequer of £363.53m and £537.10m.

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.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5

- The scheme's coverage stays constant at 40% of children under 5 years.
- 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. 20p - 40p per pint).

BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m: see para. 64			In scope of OIOO?	Measure qualifies as
Costs:	**Benefits:**	**Net:**	Yes	

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, with a corresponding increase in the total cost of the scheme.
2. If nothing is done to contain costs, the total cost of the scheme is expected to rise to £76m by 2015/16. Intervention is necessary to modernise the scheme, contain costs and improve value for money, while ensuring that all children under five in childcare settings continue to receive free milk.
3. This consultation stage impact assessment has been prepared to support a GB-wide public consultation exercise. It seeks 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. By engaging key stakeholders, including parents, childcare providers and producers, suppliers, distributors and retailers of milk and their representative bodies, the consultation process will shape the future of the Nursery Milk Scheme and its delivery throughout GB. We will use the findings from the consultation, alongside the results of a detailed survey of childcare providers, to further develop this impact assessment. We will also engage specifically with representatives of the dairy industry and local government to seek their views on how they might be affected.

Policy context and background

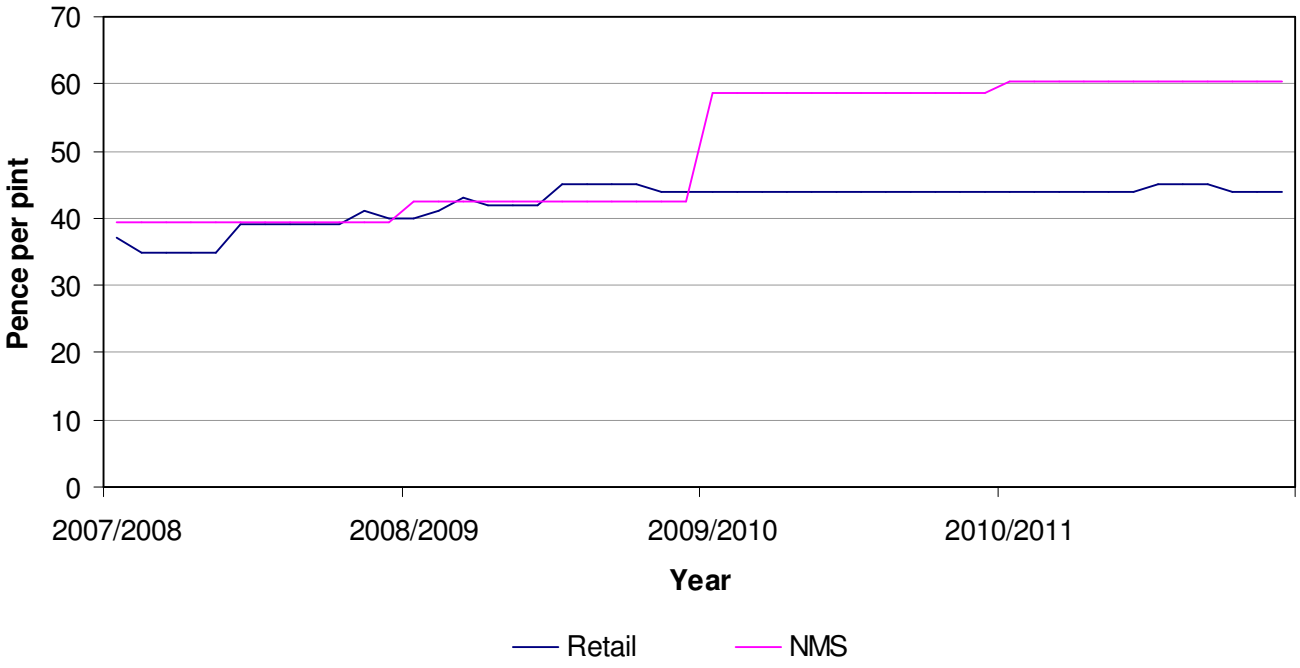
5. The Nursery Milk Scheme reimburses childcare providers for the full cost of purchasing milk they provide, free of charge, to children in their care. All children under five in a day care or early years setting for two or more hours a day are eligible to receive a free daily drink of milk (1/3 pint). For children under one year old, this is given as infant formula.
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.

Rationale for intervention

8. 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 claiming as little as 20p per pint and others as much as 92p per pint during the 2010/11 financial year.
9. Over recent years the prices claimed for milk supplied under the scheme have risen significantly and this has driven the total cost of the scheme up from £27m in 2007/08 to £53m in 2010/11. This trend looks likely to continue with costs potentially rising to £76m by 2015/16.
10. 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 2010/2011. Starting at similar levels in 2007/2008 when the retail price of milk was between 35p and 41p per pint and the average pint of milk claimed under the Nursery Milk Scheme

cost 40p, prices have since diverged greatly. In 2010/11, the average retail price of milk fluctuated between 44p and 45p, whilst the average Nursery Milk Scheme pint cost 60p.

Figure 1: Average price of milk - 04/2007 - 03/2011



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

Policy Objective

12. 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 explored in this consultation do this.

13. 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 options 3 and 4 reduce it.

Options

Option 1 - Do nothing

Description

14. 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.

15. We believe that, under this option, the total cost of the scheme may rise as high as £76m by 2015/16.

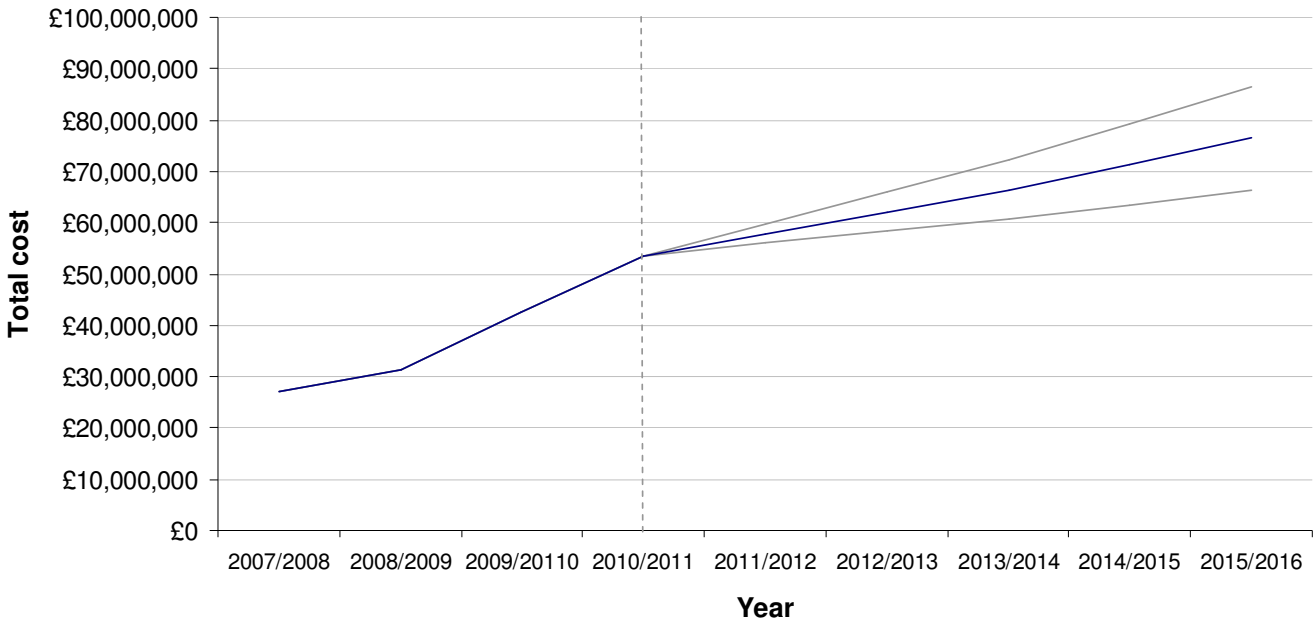
16. However, even under this option, we feel we would need to improve our ability to plan and forecast expenditure, and we would therefore seek to reduce the time limit for claiming reimbursement from two years to 6 months.

Costs and benefits

17. The cost of the scheme has risen significantly over recent years, almost doubling between 2007 and 2011.

18. Figure 2 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 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.

Figure 2: Past and future costs of the Nursery Milk Scheme



19. 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.

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

Description

20. 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.

21. Under this option, an upper limit on the price that could be claimed for milk would be introduced.

22. Data from the Family Food Survey suggests little regional variation in milk process, with the 3 year (2007 – 2009) average price per pint of milk standing at 36p for England and Scotland, and 35p for Wales. 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

23. 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

24. 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. Arrangements would be put in place to vary the capped rate in special circumstances.

25. 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. Some may currently be purchasing special types of milk, such as organic or Kosher, which tend to be more expensive than standard cows' milk.

26. The capped rate of reimbursement may be insufficient to cover these special milks, or single-serve packaging, and, as a result, some parents or childcare providers may not be able to participate in the scheme. In order to ensure access for these groups, this option would have to be adapted to allow certain childcare suppliers to purchase special milks priced above the normal market rate. This might add to the administrative costs of this option.

Costs and benefits

27. It is estimated that this option would increase the administrative running costs of the scheme by approximately £10,000 per year, while saving between £37m and £50m per year on the total cost of milk. The calculation of savings is based on assumed cap values at 50p and 35p per pint respectively. The best estimate is based on the 50p value as it is believed, based on the average retail price data in Figure 1 above, that milk can be obtained at or below this price by almost all childcare providers. Data from the Family Food Survey furthermore suggest little regional variation in milk prices, with the 3-year (2007-2009) average price per pint of milk standing at 36p for England and Scotland, and 35p for Wales.

28. Childcare providers who currently use very high cost suppliers will 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.

29. 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.

30. 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.

31. For individual nurseries and childminders the administrative burden of claiming directly, particularly using the on-line claiming facility, is small. However for local authorities with many nurseries, or large chains, the work involved in claiming on behalf of a large number of nurseries may be correspondingly greater. We will be specifically engaging with local authorities during the consultation period to explore in more detail the potential impact on them.

32. Milk suppliers who deliver and include this cost in the per pint price may lose business if the total price is above the cap level. However, suppliers may be able to avoid this loss if they separate delivery charges from milk charges, and charge childcare providers for delivery separately. Furthermore, suppliers pressured to lower costs may be incentivised to increase efficiency.

Option 3 – Issue e-voucher cards with or without economy incentives

Description

33. 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 rate in excess of an average market price per pint. For stand-alone nurseries, creches and childminders, this would be credited to an e-voucher card that would be topped up electronically each month. We would aim to have a wide range of producers, suppliers, distributors and retailers accept the e-voucher card, in all parts of GB.

34. 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 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.

35. Under the approach where nurseries are allowed to spend the surplus on extra milk, such a system would incentivise childcare providers actively to search for the best prices in their local markets. Suppliers would then be encouraged to seek efficiency savings in order to offer the best prices possible, resulting in overall efficiency gains in the market. For local authorities with a number of nurseries, who may wish to take advantage of economies of scale by entering into a bulk contract to supply all of their nurseries, monthly payments could be made to a special account.

36. Childcare providers would have to inform the Nursery Milk Reimbursement Unit if the number of children in attendance changed and otherwise reconfirm their details annually.

Access

37. 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 or because local suppliers were reluctant to accept the e-voucher card.

38. 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. Some may currently be purchasing special types of milk, such as organic or Kosher, which tend to be more expensive than standard cows' milk.

39. To ensure access for these groups, this option would have to be adapted to allow certain childcare suppliers to purchase special milks priced above the normal market rate, which makes it less attractive.

Costs and benefits

40. 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. Both figures are included in the summary cost and benefit analysis: (set up costs are in the costs section, running costs are in the benefits section.) These costs would be set against savings of between £34m and £50m per year on the total cost of milk. The calculation of savings is based on assumed cap values at 50p and 35p per pint respectively. The best estimate is based on the 50p value believed to be sufficient to elicit supply for reasons set out previously.

41. Childcare providers who currently use very high cost suppliers will 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.

42. To the extent that purchasing decisions are devolved to childcare providers, option 3 preserves incentives for milk suppliers to compete on quality.

43. Additional benefits might be gained through option 3 using the approach where childcare providers can use any surplus to purchase more milk, if the incentives to economise on milk purchases to individual childcare providers is used together with information gathered from the scheme to set tighter maximum rates as the scheme progresses, compared with Option 2. There would create

additional Exchequer cost-savings over time. This potential stream of savings has not been quantified in this assessment.

44. Milk suppliers who charge prices above the normal market rate and are unable or unwilling to supply at or below it, may lose business. However, business may not be lost where suppliers separate delivery charges from milk charges, and where individual childcare settings are willing to pay for delivery themselves

45. The flow of information to the Department of Health regarding purchasing patterns and milk prices would improve under this option as such information would be readily available from accounts on the use of e-vouchers. This would allow better monitoring and could lead to future improvements in the scheme.

46. Such monitoring would be necessary to mitigate the risks posed by option 3. These risks include childcare providers not using e-vouchers correctly, or misuse of any surplus generated.

Option 4 – Direct supply (including delivery)

Description

47. 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. 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.

48. 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 is 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

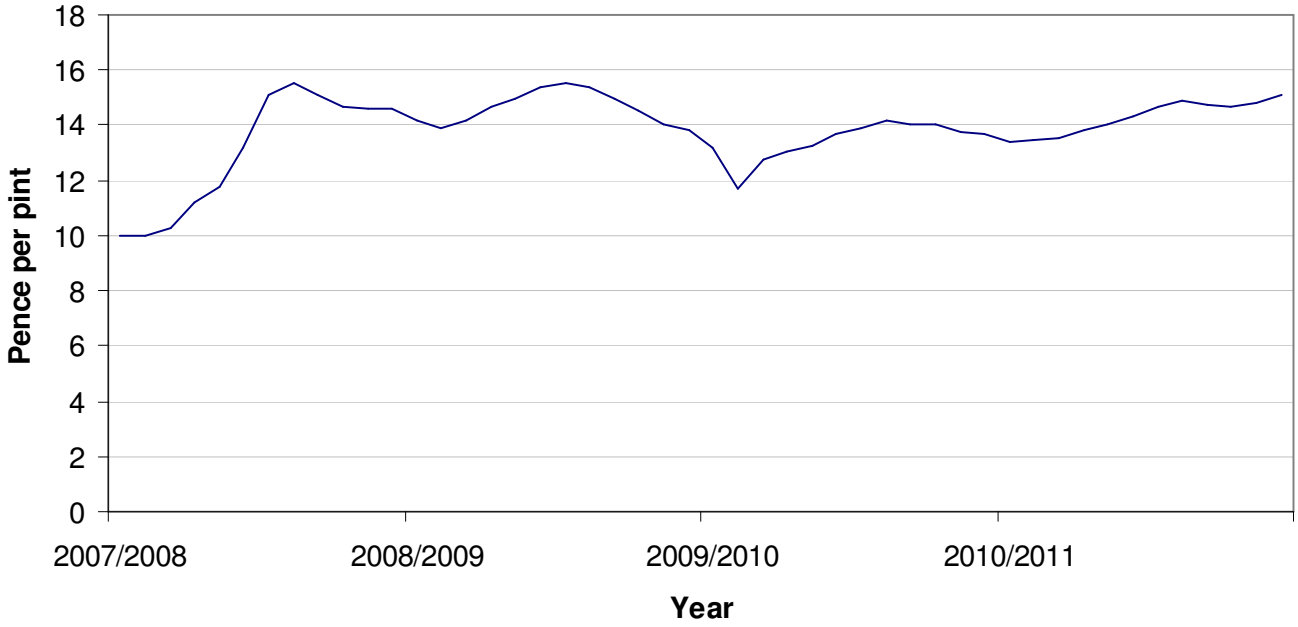
49. Milk would be supplied and delivered directly to childcare providers. The response to the public consultation and survey of childcare providers will provide a greater understanding of issues around the need for special types of milk, such as organic and Kosher, or particular styles of packaging, and other similar issues of which we may not yet be aware. If option 4 were chosen, this understanding would then be reflected in the development of the invitation to tender for the direct supply and delivery of milk, allowing the needs of different groups to be taken into account.

Costs and benefits

50. This option would involve an initial one-off set up cost of £200,000 in the first year and additional running costs of £100,000 per year thereafter. Both figures are included in the summary cost and benefit analysis above: (set up costs are in the costs section, running costs are in the benefits section). These costs would be set against savings of between £45m and £66m per year on the total cost of milk. The calculation of savings is based on assumptions of the Department of Health negotiating a contract with a company(ies) or consortium(ia), whereby the price paid for milk is 40p and 20p per pint respectively to represent a possible range of prices. The price actually paid under the contract is difficult to forecast; it is not possible to predict what the farmgate price will be as market rates can change, and any processing and distribution costs added by the contractor(s) are likely to depend on the shape of the supply chain.

51. The values in option 4 are lower than those chosen for options 2 and 3, as the contracted company(ies) or consortium(ia) is/are expected to be able to purchase milk close to farmgate prices, which currently stand at approximately 16p per pint (September 2011). Figure 3 below shows UK farmgate milk prices between the 2007/2008 and 2010/2011 financial years. The best estimate of savings under this option is based on the 40p value, as delivery will also be factored in within the contract.

Figure 3: UK Farmgate Milk Prices - 04/2007 - 03/2011



52. For childcare providers there would be no financial outlay and no need to claim reimbursement or keep receipts thereby delivering them an administrative saving.

53. 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).

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. This risk to quality of supply (in the broadest sense) will be considered further in the final Impact Assessment.

55. This option also implicitly assumes that efficiency in supply can be attained through central purchasing and supply. This will need further investigation, particularly with regard to the costs of distribution. However, there is good evidence to suggest this approach can work, given the Department of Health's positive experiences with the School fruit and vegetable scheme which works in this way.

COMPARISON OF OPTIONS

Methodological note

56. The basis for estimating the costs, benefits and net benefits of all options is formed by estimating demand for nursery milk in the 10-year period under consideration, 2013/2014-2022/2023. 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%. Secondly, 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. Out of the 190 days of possible attendance in the school year, 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, 104.7m pints of milk are estimated to be claimed annually under the Nursery Milk Scheme in the 10-year period in consideration.

57. 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 18 and figure 2). Running costs of £200,000 per annum are added to this. Costs are then discounted at 3.5%, to arrive at a cost of £713.16m over the 10-year period starting in 2013/14.

58. For options 2 and 3, Exchequer financial benefits are estimated by calculating savings relative to the above baseline, given the same demand patterns and caps of 35p and 50p. For option 4, Exchequer financial benefits are calculated as savings relative to option 1, given negotiated milk prices at 20p and 40p per pint.

Exchequer financial benefit

59. The policy objective is to simplify the scheme and to obtain greater value for money. **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), option 3 (e-voucher) and option (4) all result in a financial benefit to the Exchequer. This follows directly from the options' capacity to bring the total cost of milk under control. Options 2 and 3 represent direct control over reimbursement – an explicit cap in the case of option 2, and an implicit cap in the case of option 3 (implied by the fixed rate of reimbursement used to determine monthly payments to e-vouchers). The best estimates of Exchequer financial benefits for options 2 and 3 are calculated under the assumption of a 50p/pint cap on milk reimbursement, and amount to £295.10m for option 2, and £273.84m for option 3. Note that the Exchequer financial benefit is higher for option 2 due to the assumption that a proportion of childcare settings would continue to claim below cap (based on 2010/2011 data). Under option 3, on the other hand, childcare settings are assumed to spend the entire e-voucher value. The additional costs of option 3 might be offset over time by provision of incentives to economise if this approach is chosen, which might allow the development of tightening of the reimbursement regime over time without compromise to the primary purpose of the scheme (healthier children).

60. Option 3 may involve a redistribution of financial benefit from milk providers to childcare providers, who would be constrained to dedicate the additional resource to childcare quality.

61. 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 at farmgate prices (rather than retail prices), and a lower price could be negotiated for a pint of milk than the cap in options 2 and 3. The best estimate of Exchequer financial benefit is £363.53m, based on an assumed negotiated price of milk of 40p/pint. 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.

Economic costs and benefits

62. As stated above, the objective of changing the scheme is essentially financial, securing value for money. Option 2 (capping), option 3 (e-vouchers) and option 4 (direct supply and delivery) all result in quantifiable net economic costs. The financial saving to the Exchequer of each option is matched (minus the transition costs in options 3 and 4) by a financial cost to the private sector in terms of lower milk payments. Option 3 (e-vouchers) results in the highest monetised net economic cost at £4.34m, subject to the assumptions set out. Note that additional differences between the values for options 2 and 3 stem from differing running costs – these are assumed to be higher under option 3 (£0.6m in set-up costs, and additional running costs of £0.45 annually) than under option 2 (£0.01m additional annual running costs only).

63. This explicit quantifiable net economic cost would be offset, however, by non-monetised benefits from 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. These benefits are not easily quantified.

BUSINESS ASSESSMENT

Direct impact on business

64. Although at this stage we feel we lack the information required to accurately measure the impact on business, we will be gathering data during the consultation process to address this knowledge gap. Based on the evidence received, we will provide a fuller assessment of the direct impact on business (including an estimate of the equivalent annual net cost to business of the different policy options) in the final IA.

Impact on micro-businesses

65. Many of the businesses involved in delivering the nursery milk scheme are micro-businesses. These include independent local shops that sell milk, self-employed milkmen and small childcare providers. We anticipate that the cost and benefits described in the options above will apply to firms of all sizes in the affected sectors, including those that employ less than 10 people.

Annex A - Specific Impact Tests

COMPETITION and SMALL FIRMS TESTS TO BE ADDED FOR FINAL IA

Impact on milk suppliers

a. 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 are charging high prices, and where Nursery Milk may constitute a significant proportion of their total business. Such specialist suppliers would, of course, have the option of reducing the price they charged for milk in line with the standard market rate.

b. 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

c. 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.

d. The majority of childcare settings would be expected to be equipped with facilities and staff to clean drinking cups for the children in their care. However children under 5 in primary school reception classes are also eligible for Nursery Milk and these classrooms may have no facilities, or staff, for cleaning cups. Therefore if option 4 (direct supply) were to include a move away from supplying milk in single-serve 1/3 pint cartons, separate provision may have to be made for some reception classes.

e. In addition to the questions in the public consultation, we will be proactively seeking views from all childcare providers currently registered with the scheme to evaluate the extent of this problem.

Social

Wellbeing and health inequalities

f. 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

g. 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) or option 3 (e-vouchers) were implemented, we would put in place arrangements to vary the capped rate in special circumstances. We are also seeking views on this issue in the public consultation.

Statutory Equality Duties

h. 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, 3 and 4 may make it harder for childcare providers to obtain, for example, Kosher milk, and we are therefore seeking views on this and other equality issues, in the public consultation, and considering options that could meet these interests.

Environmental

i. Option 2 (capping) and option 3 (e-vouchers) are unlikely to have any impact on environmental issues. Option 4 offers the potential to reduce packaging waste by standardising supply in more environmentally-friendly packaging, such as papier-mache cartons and plastic bags which use around a quarter of the plastic of an equivalent sized plastic bottle.

Annex B – Consultation Questions

Consultation questions for option 1

For all

Q1.1 Do you think that paying 92p for a pint of milk is a good use of public money?

yes	
no	

Q1.1a If yes, please say why.

Q1.1b If no, what do you think would be a reasonable price for the taxpayer to pay for a pint of milk?

Consultation questions for option 2

For all

Q2.1 In what range should the maximum price be set? (tick only one)
Please note, the average price of milk in 2011 was 45p per pint

below 25 p per pint	
25 to 29 p per pint	
30 to 34 p per pint	
35 to 39 p per pint	
40 to 44 p per pint	
45 to 49 p per pint	
50 to 54 p per pint	
55 to 59 p per pint	
60 to 64 p per pint	
65 to 69 p per pint	
above 70p per pint	
below average price per pint	
ave price to ave price + 5p per pint	
ave price + 5p to ave price + 10p per pint	
ave price + 10p to ave price + 20p per pint	

Q2.2 What circumstances other than geographical isolation would affect childcare providers' ability to purchase milk at the normal market rate? (tick all that apply)

lack of transport	
small number of children looked after	
a long way from nearest shops	
special milk required for religious or cultural reasons, e.g. Kosher	
require single-serve packaging	

other – please specify

Q2.3 Is there a risk that introducing a cap, even with the facility to vary the cap in special circumstances, would disadvantage specific population groups? If yes, which population groups do you think would be disadvantaged and why?

Q2.3a If yes, can you suggest how such risks could be mitigated?

Consultation questions for option 3

For all

Q3.1 Is there a risk that introducing an e-voucher card would disadvantage specific population groups? If yes, which population groups do you think would be disadvantaged and why?

Q3.1a If yes, can you suggest how such risks could be mitigated?

Q3.2 A childcare provider who sought very good value for money, may end up with a positive balance on the e-voucher card at the end of the year. What should happen to this money? (tick one)

The money should be returned to the Nursery Milk Scheme

The childcare provider should be allowed to keep the money - in order to use the money to buy extra milk for children in their care (which they could use, for example, in preparing the children's meals)

other – please specify

Q3.3 A local authority who sought very good value for money, may end up with a small positive balance in the ring-fenced account at the end of the year. What should happen to this money? (tick one)

The money should be returned to the Nursery Milk Scheme

The local authority should be allowed to keep the money - in order to use the money to buy extra milk for children in their care (which they could use, for example, in preparing the children's meals)

other – please specify

For childcare providers

Q3.4 Would you feel comfortable using an e-voucher card which was updated electronically every month? (tick one)

yes ☐
no ☐

For suppliers, distributors and retailers of milk

Q3.5 Do you think there would be a risk of the voucher card being used inappropriately?

yes ☐
no ☐

Q3.5a If yes, what measures could be put in place to avoid this risk?

Consultation questions for option 4

For all

Q4.1 Is there a risk that introducing direct supply of milk would disadvantage specific population groups? If yes, which population groups do you think would be disadvantaged, and why?

Q4.1a If yes, can you suggest how such risks could be mitigated?

For producers, suppliers, distributors and retailers of milk

Q4.2 Would you be interested in participating in the direct supply and delivery of milk to childcare providers, either to supply the whole country yourselves or as part of a consortium?

yes ☐
no ☐

Q4.3 Are there any parts of the country that you think would be difficult to supply under this model?

yes ☐
no ☐

Q4.3a If yes, please state where.

Q4.4 Are there any types of childcare provider that you think would be difficult to supply under this model?

yes ☐
no ☐

Q4.4a If yes, please state what types.

Q4.5 What do you think is an appropriate price per pint to charge for supply and delivery of milk?

Q4.6 What ideas do you have for ways the scheme could operate more efficiently in the future, including supply chain options?

Consultation questions on time limit for making a claim

For childcare providers

Q5.1 Is six months a sufficient time period within which to claim reimbursement?

yes ☐
no ☐

Q5.2 If no, what time period would be sufficient?

Consultation questions on the way forward

For all

Q6.1 Which of the three options for change do you prefer? Please rank the options in order of preference, (1 – 3) with 1 indicating the most preferred.

☐
Option 2 – Capping the price that can be claimed for milk ☐
Option 3 – Issuing e-vouchers with economy incentives ☐
Option 4 – Direct supply ☐

For childcare providers and local authorities

Q6.2 Do you currently buy your milk from a milk roundsman, specialist supplier (agent) or through any other arrangement where you contract in advance for milk to be supplied?

yes ☐
no ☐

Q6.2a If one of option 2, 3, or 4 were to be introduced and, as a result, you needed to change or end your current arrangements, how much notice would you need to give your current milk supplier?

no notice required ☐
1 months notice ☐
2 months notice ☐
3 months notice ☐
4 months notice ☐
5 months notice ☐
6 months notice ☐
more than 6 months notice ☐
please specify ☐

Q6.3 Do you have any ideas for suitable options which have not been mentioned in this consultation document?

Annex C – Survey of Childcare Providers

Nursery Milk Scheme
Survey for Childcare Settings

This survey asks some questions about your organisation and the milk you provide to children as part of the Nursery Milk Scheme. In answering the questions, include only the milk paid for under the Nursery Milk Scheme and not any other milk you might purchase for staff use or for the preparation of the children's meals. This information will help us to ensure that the scheme is operating fairly and effectively.

We manage the information you provide in accordance with the Department of Health Information Charter. Information we receive, including personal information, may be published or disclosed in accordance with the access to information regimes (primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations Act 2004)

Anonymised data may be shared with commercial milk suppliers and colleagues in the health departments of Scotland and Wales.

This survey should be completed by the individual childcare setting providing daily milk to children.

Section one: about your organisation

A) Please enter your Nursery Milk Reimbursement Unit Number:

B) What country (or countries) do you operate in (tick all that apply):

- ☐ England
- ☐ Scotland
- ☐ Wales

C) What type of organisation are you? (tick all that apply)

- ☐ Childminder
- ☐ Nursery
- ☐ Early years education
- ☐ Independent Preschool
- ☐ Charity Preschool
- ☐ Workplace crèche
- ☐ Other (please state) _____

D) Are you certified by:

- ☐ Ofsted
- ☐ Care and Social Services Inspectorate Wales (CSSIW)
- ☐ Scottish Care Commission
- ☐ Independent Schools Inspectorate (ISI)
- ☐ Not certified

E) How many staff do you employ?

- ☐ Less than 20 staff
- ☐ 21-50 staff
- ☐ 50+ staff

We'd like to know more about how many children under five you look after and when you look after them:

F)

What is the maximum number of children, aged under five, per day care session your registered to look after? ☐

How many of these children stay all day?

How many of these stay in the morning only?

How many of these children stay in the afternoon only?

Fill out all boxes that apply:

	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
All day							
Morning only							
Afternoon only							

Section two: how you use the Nursery Milk Scheme

1) Where do you buy or order the milk that is paid for under the Nursery Milk Scheme? Please tick all boxes that apply

- ☐ supermarket
- ☐ corner shop
- ☐ milk rounds men
- ☐ farm gate
- ☐ wholesaler
- ☐ market
- ☐ local authority
- ☐ specialist supplier (choose below)
    - ☐ Braeforge LTD T/A Pensworth
    - ☐ Cool Milk
    - ☐ Craigs Farm Dairy
    - ☐ D & B Diaries
    - ☐ Hope Dairy
    - ☐ Johal Dairies
    - ☐ Kidsunlimited
    - ☐ Kidzmilk
    - ☐ Milk Factory Limited
    - ☐ School Milk Services
    - ☐ Scotts Distribution
    - ☐ Wells Farm Dairy
    - ☐ Woodside Farm Distribution
- ☐ Other - please state _____

2) Do you get milk delivered to your premises?

- ☐ Yes
- ☐ No

Section three: the milk you use as part of the Nursery Milk scheme

3) What kind of milk do you buy or order? (Please tick all boxes that apply)

- ☐ whole milk
- ☐ semi skimmed milk
- ☐ skimmed
- ☐ Kosher milk
- ☐ Organic
  - ☐ whole milk
  - ☐ semi skimmed milk
  - ☐ skimmed
- ☐ soya
- ☐ rice
- ☐ infant formula
- ☐ follow on formula
- ☐ other special – please specify _____

3a) If you ticked boxes other than for standard whole, or semi-skimmed milk or infant formula in question 3, please tell us more about why you buy other types of milk.

- ☐ because of your own religious or cultural beliefs
- ☐ to fit in with the religious or cultural beliefs of the families of children in your care
- ☐ because of your own beliefs about the health benefits of different types of milk
- ☐ to fit in with the beliefs about the health benefits of different types of milk held by the families of children in your care
- ☐ to meet the needs of children in your care who have allergies or intolerances
- ☐ other – please explain _____
  _____
  _____
  _____

4) Are there any children in your care who, because of their religion or cultural beliefs, or disability, or special needs, or for any other reason, cannot benefit fully from the Nursery Milk Scheme? If so, please tell us about them.

_____
_____
_____
_____

5) How often do you buy or order milk? (tick one box)

- ☐ every day
- ☐ every other day
- ☐ once a week
- ☐ fortnightly
- ☐ monthly
- ☐ other, please specify (e.g. each term, twice a year) _____

6) How much milk do you buy or order each time? (Please say the total number of pints or litres that you buy each time) _____

7) What size of bottle or pack do you normally buy or order milk in? (tick all that apply)

- ☐ 1/3 of a pint
- ☐ 250 ml (1/2 pint)
- ☐ 1 pint
- ☐ 1 litre
- ☐ 2 litres
- ☐ 4 litres
- ☐ 6 litres
- ☐ other – please state _____

8) What type of container do you get your milk in? (tick all that apply)

- ☐ glass bottle
- ☐ plastic bottle
- ☐ plastic bag
- ☐ tetra pack (carton)
- ☐ other – please state _____

9) How is the milk served to the children? (tick all that apply)

- ☐ drinking directly from a single-serve tetra pack (carton)
- ☐ poured into a reusable bottle or feeding cup
- ☐ poured into reusable cups
- ☐ poured into disposable cups
- ☐ other – please state _____

10) If you currently get your milk in a particular type of packaging, would it be an issue if that changed?

- ☐ yes
- ☐ no

10a) If you answered yes to question 10, please tell us why.

- ☐ children drink directly from single-serve tetra packs and we have no facilities to wash cups or glasses
- ☐ we have only a small fridge and large containers won't fit
- ☐ the type of packaging we use reduces packaging waste
- ☐ the type of packaging we use reduces wastage of milk
- ☐ other – please explain _____
  _____
  _____
  _____

11) How often do you claim from the NM reimbursement unit?

- ☐ monthly
- ☐ every second month
- ☐ quarterly
- ☐ twice a year
- ☐ annually
- ☐ longer
- ☐ we use a specialist supplier to manage our claims
- ☐ other – please state _____

12) What influences how you buy or order your milk? (Please rank your top 3 influences on a scale of 1 to 3, with 1 as most important)

- ☐ convenience
- ☐ loyalty
- ☐ price
- ☐ quality
- ☐ service
- ☐ packaging type available
- ☐ other – please state _____

13) How much do you pay for milk (i.e. for each unit of milk as ticked in question 7 above)?

__ pence per 1/3 of a pint
__ pence per 250 ml (1/2 pint)
__ pence per 1 pint
__ pence per 1 litre
__ pence per 2 litres
__ pence per 4 litres
__ pence per 6 litres
__ pence per other quantity – please state _____
☐ don't know

14) Any other comments about the Nursery Milk Scheme _____
_____
_____
_____
_____
_____

THANK YOU
Nursery Milk Team

For more information about the Nursery Milk Scheme please visit www.nmru.co.uk
or email nurserymilk@dh.gsi.gov.uk