

Free school meals under universal credit

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1. Introduction

Eligibility for a free lunch was recently extended to all state school children in England and Scotland who are in Year 2 or below (i.e. up to age 6 or 7). For all other state school pupils in the UK, eligibility remains restricted by a means test so that free school meals (FSMs) go to a relatively narrow set of children in poor households. Around 1 million children currently receive means-tested FSMs: equivalent to 15% of those who are not entitled to universal FSMs.¹ We estimate that around two-thirds of those children are in the lowest-income fifth of households with children.

A change to the rules governing entitlement to FSMs is now taking place, due to the introduction of universal credit (UC): one of the most radical changes to the working-age benefit system in several decades, which will integrate six existing means-tested benefits – housing benefit, income support (IS), child tax credit (CTC), working tax credit (WTC), income-based jobseeker’s allowance (JSA), and income-based employment and support allowance (ESA) – into a single payment. This will have major impacts on the cash incomes and incentives of different families, analysed in detail elsewhere.² But, from the beginning, this reform also raised the question of how eligibility for FSMs will be determined. This is because, under the ‘legacy’ system that UC replaces, children are simply ‘passported’ to FSMs if their families are receiving IS or income-related JSA or ESA, or if they receive maximum CTC and do not receive WTC. When these no longer exist as distinct benefits, an alternative method of assessing entitlement to FSMs is required. This inevitably involves either the government spending more on the provision of FSMs or some families losing eligibility, or some combination of both.

The government has delayed making this tricky decision for some time, simply extending entitlement to FSMs to all school children in families receiving UC as an interim measure in the early stages of its roll-out. It has now provided the long-awaited confirmation of how entitlements will work under UC, from this month (April 2018). It has said that it expects a net increase of around 50,000 children receiving FSMs in 2021–22 under UC, relative to the number that would have received them under the system that UC replaces.³ But it has provided no further information on, for example, who will gain entitlement and who will lose entitlement. The analysis in this briefing note is intended to help understand better the effects of the plans.

¹ Department for Education, ‘Schools, pupils, and their characteristics: January 2017’, <https://www.gov.uk/government/statistics/schools-pupils-and-their-characteristics-january-2017>; Scottish Government, ‘School meals and PE supplementary data, 2017’, <http://www.gov.scot/Topics/Statistics/Browse/School-Education/MealsSD/mealspesd>; StatsWales, ‘Pupils eligible for free school meals by local authority, region and year’, <https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Pupil-Level-Annual-School-Census/Provision-of-Meals-and-Milk/pupilseligibleforfreeschoolmeals-by-localauthorityregion-year>; Northern Ireland Department of Education, ‘School meals – 2016/17 statistical bulletin’, <https://www.education-ni.gov.uk/publications/school-meals-201617-statistical-bulletin-11-april-2017>.

² See J. Browne, A. Hood and R. Joyce, ‘The (changing) effects of universal credit’, in C. Emmerson, P. Johnson and R. Joyce (eds), *The IFS Green Budget: February 2016*, <https://www.ifs.org.uk/publications/8136>.

³ Department for Education, *Eligibility for Free School Meals, the Early Years Pupil Premium and the Free Early Education Entitlement for Two-Year-Olds under Universal Credit: Government Consultation Response*, 2018, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/692644/Government_response_FSM_and_EY_entitlements_under_Universal_Credit.pdf.

2. Eligibility for FSMs under UC

The government has said that it will offer FSMs to families in receipt of UC who have annual net earnings (i.e. after income tax and employee National Insurance) of £7,400 or less. All state school children in England and Scotland in Year 2 or below will continue to be entitled to FSMs, with no means test.

The government has also stated that the £7,400 threshold will be fixed in cash terms until the end of the UC roll-out period – which it assumes to be the end of 2021–22 – after which the threshold will be reviewed. Between the point at which the new threshold is introduced (2018–19) and then (2021–22), the Office for Budget Responsibility expects prices (as measured by the CPI) to rise by 6%, nominal average earnings to increase by 8% and the National Living Wage (NLW) by 11%⁴ – meaning that, as we show later, considerably fewer families will be entitled than if the threshold had increased in line with inflation or with average earnings. This new £7,400 threshold joins a growing list of parameters that have been introduced into the tax and benefit system and whose value has not subsequently been indexed to anything economically meaningful (such as prices or earnings) – an unfortunate habit.

The government has also announced a number of transitional protections to ensure that current recipients of FSMs do not immediately lose their entitlement.⁵ The analysis in this briefing note ignores this, focusing on the long-run implications of the plans, after transitional protections have expired.

Removing eligibility for all means-tested FSMs once earnings exceed £7,400 creates a ‘cliff-edge’: families receiving FSMs will be worse off if their earnings increase from just below to just above this level. This cliff-edge also occurred under the passporting criteria for FSMs of the legacy system. It also occurred under the interim arrangements in the early stages of UC rollout whereby all UC recipients were eligible for FSMs – at the point where the last pound of UC entitlement was exhausted, FSM eligibility was removed too. Relative to those arrangements, the newly announced plan simply moves the cliff-edge further down the family earnings distribution. It would not be straightforward to avoid such a cliff-edge under any system for means-testing FSMs.

⁴ Office for Budget Responsibility, *Economic and Fiscal Outlook: March 2018*, <http://obr.uk/efo/economic-fiscal-outlook-march-2018/>.

⁵ For details of the transitional protections, see Department for Education, *Eligibility for Free School Meals, the Early Years Pupil Premium and the Free Early Education Entitlement for Two-Year-Olds under Universal Credit: Government Consultation Response*, 2018, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/692644/Government_response_FSM_and_EY_entitlements_under_Universal_Credit.pdf.

3. Who gets FSMs? Comparing the legacy and UC systems

For this analysis, we use data from the Family Resources Survey, an annual survey of the incomes and circumstances of around 20,000 UK households per year. We pool data from financial years 2013–14, 2014–15 and 2015–16, giving us a sample of 18,000 households with children. We calculate entitlements to FSMs under both the legacy and UC systems using the IFS tax and benefit microsimulator, TAXBEN.⁶ We simulate entitlements as they will be in 2021–22 – the last year for which the government has confirmed its plan to retain the £7,400 threshold in nominal terms. Our analysis accounts for the fact that families' earnings (and particularly those on the NLW) will increase between now and 2021–22, pushing some of them above the fixed £7,400 threshold. As we shall see, this is important. If the threshold were uprated more slowly than earnings growth beyond 2021–22 as well, the number of children entitled would fall after that (all else equal). We simulate the number of families *entitled* to FSMs, ignoring whether or not they take up their entitlement. Later we discuss how many might actually claim them.

Which types of families gain and lose from this way of means-testing FSMs? To understand some of the patterns, it is useful to remember that under the current system it is generally only possible for lone parents to be entitled if they in paid work for 15 hours a week or fewer, and for couples to be entitled if they are in paid work (combined) for 23 hours a week or fewer. This is because if they work more than that they are entitled to working tax credit, which makes them ineligible for FSMs. In contrast, under UC, entitlement is only dependent upon family net earnings being below the £7,400 threshold (irrespective of hours worked). That means that, in general, families working more hours at a lower hourly wage are more likely to be eligible for FSMs under UC than under the legacy system, and vice versa for lower-hours, higher-earning families. For example:

- A lone parent working 12 hours a week at £12 per hour would be entitled to FSMs under the legacy system, because they could receive maximum child tax credit – a passporting benefit – and would not qualify for working tax credit (as they work too few hours a week). But they would not be entitled to FSMs under the UC system as their earnings would be too high (£7,488 per year).
- A lone parent working 18 hours a week at £7.83 per hour (the NLW) would not be entitled to FSMs under the legacy system, because they would be entitled to working tax credit. But they would be entitled to FSMs under the UC system, as their earnings (at £7,329 per year) would be below the threshold.

The wider context of the UC reform is worth bearing in mind here. Under the legacy system, WTC becomes payable once families work 16 hours (for lone parents) or 24 hours (for couples) per week, and is then gradually withdrawn as earnings rise further. Because UC will abolish these hours-based premiums, families working just enough hours to be entitled to WTC will tend to do especially badly out of the move to UC in terms of their cash benefit entitlement. The fact they are relatively likely to *gain* FSM entitlement is linked closely to the fact that they will *lose* cash entitlements, since it is their eligibility for WTC

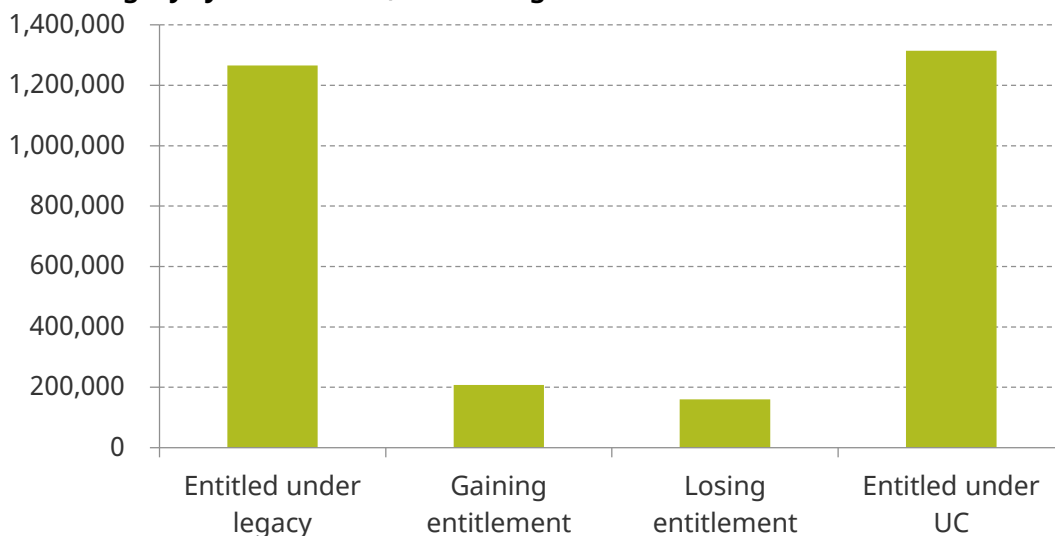
⁶ For a brief description of TAXBEN, see T. Waters, 'TAXBEN: the IFS tax and benefit microsimulation model', 2017, <https://www.ifs.org.uk/publications/12858>.

under the current system which makes them ineligible for FSMs. Conversely, some families in ‘mini-jobs’ who do not work enough hours to qualify for WTC will do relatively well out of UC in terms of their cash entitlement, whilst being relatively likely to lose eligibility for FSMs. For an analysis of winners and losers from the wider UC reform, see Browne et al. (2016).⁷

Figure 1 shows our estimates of the number of children entitled to FSMs, under the legacy system and under UC. Overall, we estimate that the UC system will result in around 50,000 (4%) more children being entitled to FSMs than would have been the case under the legacy system. This means our analysis produces very similar results to those produced by government modellers, although the government figure also incorporates a small additional effect from increased take-up of UC (as discussed later).

However, that net change of around 50,000 is the result of considerably larger offsetting numbers of winners and losers. We estimate that around 160,000 children (13% of those entitled under the legacy system) will lose entitlement under a UC system, while about 210,000 (equivalent to 16% of the number entitled under the legacy system) stand to gain entitlement for FSMs under UC.⁸

Figure 1. Estimated number of children entitled to means-tested free school meals, under legacy system and UC, in the long run



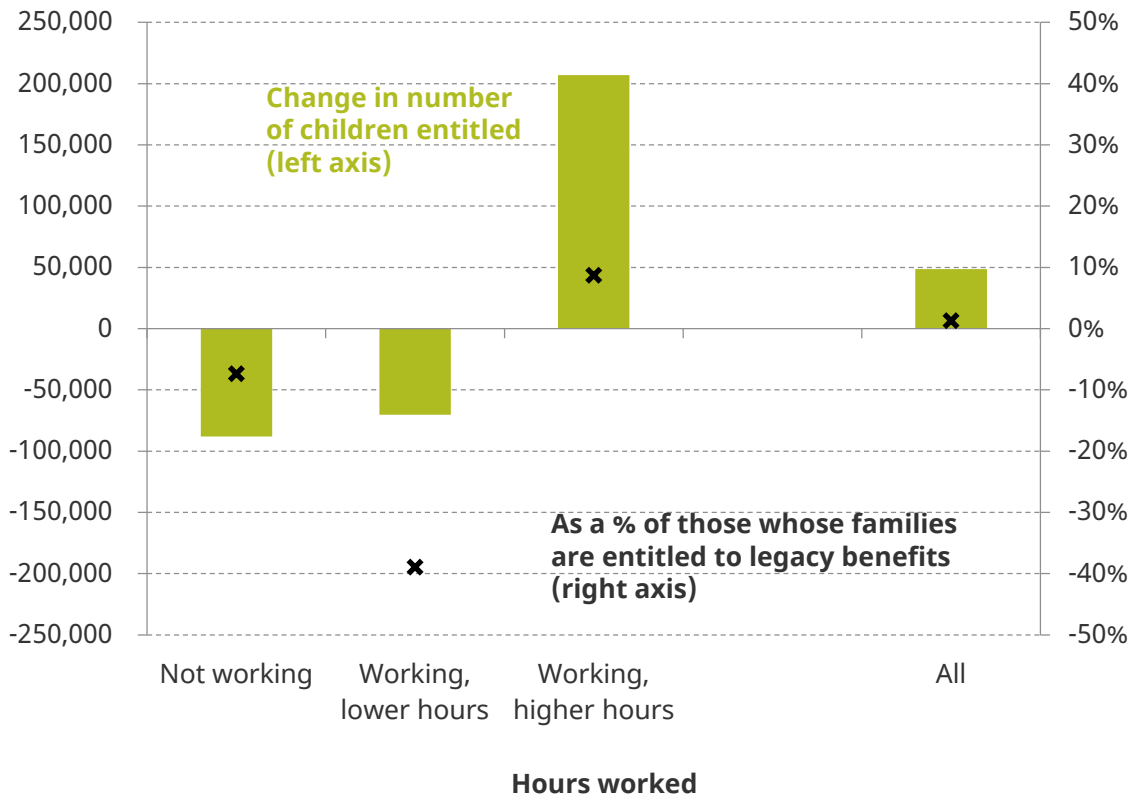
Note: A child is defined as entitled to means-tested FSMs if: they are not entitled to universal FSMs, they live in a family that is entitled to at least one passporting benefit, and (under the UC system) the family’s earnings are below the net earnings threshold.

Source: Authors’ calculations using Family Resources Survey, 2013–14, 2014–15 and 2015–16, and TAXBEN, the IFS microsimulation model.

⁷ J. Browne, A. Hood and R. Joyce, ‘The (changing) effects of universal credit’, in C. Emmerson, P. Johnson and R. Joyce (eds), *The IFS Green Budget: February 2016*, <https://www.ifs.org.uk/publications/8136>.

⁸ As the Children’s Society has pointed out, more than a million fewer children would be eligible for FSMs under the proposed UC system than if the transitional arrangements (whereby all UC recipients were entitled) had persisted (see Children’s Society, ‘Free school meals and universal credit: briefing on government’s proposed changes to eligibility criteria for free school meals’, 2018, <https://www.childrensociety.org.uk/sites/default/files/free-school-meals-universal-credit-briefing-15-jan-2018-final.pdf>) – although the government had never indicated that this was its long-term plan, and it would have more than doubled the number entitled relative to the legacy system.

Figure 2. Net change in entitlement to means-tested free school meals from moving to UC system, by parental hours worked



Note: See Figure 1. 'Lower hours' is defined as working 1–15 hours per week for a single person or 1–23 for a couple. 'Higher hours' is defined as working 16+ hours for a single person or 24+ for a couple. Net change in entitlement given as a percentage of children who are school age and not eligible for universal FSMs, and who live in a family entitled to legacy benefits.

Source: See Figure 1.

The decision to fix the £7,400 threshold until 2021–22 has a significant impact in reducing the generosity of the FSM regime under UC. If the government uprated the threshold in line with average earnings or CPI between 2018–19 and 2021–22, rather than 50,000 more children being entitled to FSMs under the UC system, UC would increase the number of children entitled to FSMs in 2021–22 by 140,000 or 120,000 respectively, rather than the 50,000 increase implied by the current plan. This also serves to highlight the significance of whether or not the government chooses to uprate the £7,400 threshold *beyond* 2021–22. If it does not, the FSM regime under UC would eventually give fewer children an entitlement than the legacy system would have done.

Figure 2 splits our results by employment type and hours worked. This illustrates two main points:

- Children living with at least one parent in paid work gain, on average, from the new way of assessing FSM eligibility under UC. The number of such children eligible will be about 140,000 higher under UC than under the system it replaces. Contrastingly, about 90,000 children in workless families will lose eligibility for FSMs. This is largely because their parents have unearned income or assets which disqualify them from UC (but did not disqualify them from all legacy benefits).

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- As explained above, however, within the group of working families there are both winners and losers. Those working enough hours to be entitled to working tax credit and hence ineligible for FSMs (the 'higher hours' group) can gain from the new way of assessing eligibility. Meanwhile, those working fewer hours than that are likely to lose – and in fact, as the right-hand axis of the figure shows, proportionally those losses are very substantial. About 40% of children on legacy benefits in the 'lower hours' group (and about half of those entitled to FSMs under the legacy system) would lose entitlement to FSMs under UC.

Again it is useful to set this alongside the wider impacts of the UC reform on cash benefit entitlements. In some respects the changes to FSM eligibility reinforce those wider impacts, and in other respects they counteract them. The workless families who lose eligibility for FSMs under UC largely do so precisely because they will not be eligible for UC at all in light of assets or unearned income, which UC treats more harshly than the legacy system. In other words, they both lose cash benefit entitlements and FSM entitlements. However, as explained at the start of this section, among working families without unearned income or significant financial assets there is a tendency for the relative winners and losers in terms of FSM entitlements to be opposite to the relative winners and losers in terms of cash benefit entitlements.

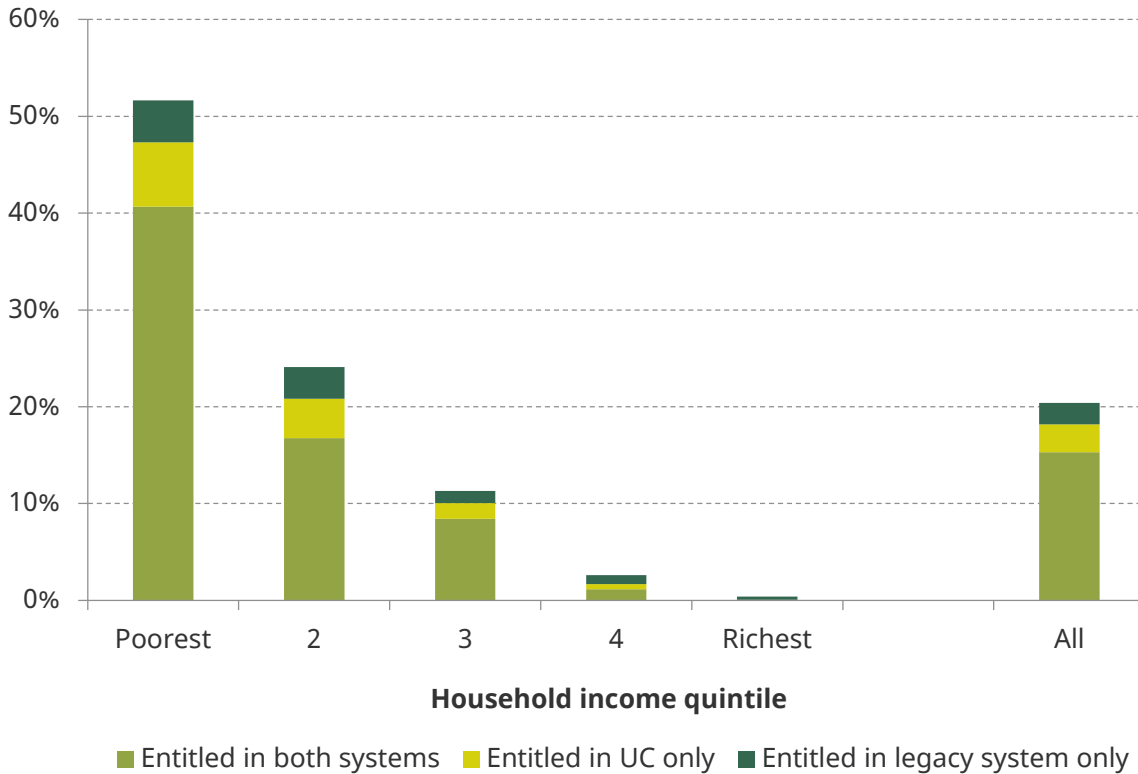
The impacts also differ by family type. The children of lone parents actually account for all of the net increase in FSM eligibility under UC: we estimate that around 60,000 more of them will be entitled to FSMs in 2021–22 than would have been the case under the legacy system (though again there are winners and losers among the children of both lone parents and couple parents). This difference can be partly explained by the fact that couple families are relatively likely to be in the 'lower hours' group (which, for them, means working fewer than 24 hours per week) *and* yet still be earning over £7,400. As stated above, all families in such circumstances will lose their FSM entitlements under UC.

Figure 3 shows the proportion of children entitled to FSMs across the income distribution, and how that proportion changes as a result of the introduction of UC. Unsurprisingly, the share of children who are entitled to FSMs under either system decreases sharply as you move up the income distribution. The net effect of the policy is to increase the share of children in the poorest fifth of households who are entitled by about 2 percentage points. The net change in the other deciles is relatively small. The higher net proportion of winners in the bottom quintile is roughly in proportion to the higher proportion of entitlements that go to those families in the first place: in other words, under UC, the proportion of means-tested FSMs going to the bottom quintile will be approximately unchanged (at 65%). Notably, under both the UC system and the legacy system it replaces, fewer than half of the children in the lowest income quintile will be entitled to FSMs.

Thus far, we have focused our analysis on the entitlement to FSMs. However, some children will not receive FSMs even though they are entitled to them – either because their parents do not claim passporting benefits to which they are entitled or because they do not register for FSMs despite claiming a passporting benefit. Changing 'take-up' rates could affect overall receipt, even if there were no change in entitlement. It is plausible that UC will increase receipt of FSMs over and above its effect on entitlement. UC makes it impossible to claim just some (cash) benefits to which one is entitled and not others (since it is a single integrated benefit). As a result, it is likely that the move to UC will result in an

increase in benefit take-up. That may in turn affect the number claiming FSMs. For example, a family that is entitled to housing benefit and child tax credit, but only claims

Figure 3. Percentage of children entitled to means-tested free school meals under legacy system and UC, by net income quintile among households with children



Note: This figure gives the number gaining, losing or maintaining entitlement as a percentage of all school-age children who are not entitled to universal FSMs. Incomes are measured after taxes and benefits, under the assumption of full take-up of benefits. Position in the income distribution is measured relative to all households with children.

Source: See Figure 1.

the former, would not be able to claim FSMs under the current system, as they do not claim a passporting benefit. But when they are transitioned to UC, they would be able to claim FSMs so long as their earnings are under the threshold. This increase in benefit take-up may result in a small increase in FSM receipt. If we look at FSM receipt, rather than entitlement, and account for a plausible increase in benefit take-up, we estimate around 70,000 extra children will receive FSMs under UC than under the legacy system.⁹ This is a similar result to that produced by the government, who estimated that the policy would lead to an additional 50,000 children in receipt of FSMs.¹⁰ It is of course receipts, rather

⁹ In this analysis, we assume that families will claim UC if and only if they claim a benefit that is to be replaced by UC. We also assume that, conditional on claiming a passporting benefit, 89% of them will register for FSMs. This is in line with Department for Education research – see A. Lord, J. Easby and H. Evans, *Pupils Not Claiming Free School Meals – 2013*, Department for Education Research Report RR319, 2013, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/266339/DFE-RR319.pdf.

¹⁰ Department for Education, *Eligibility for Free School Meals, the Early Years Pupil Premium and the Free Early Education Entitlement for Two-Year-Olds under Universal Credit: Government Consultation Response*, 2018, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/692644/Government_response_FSM_and_EY_entitlements_under_Universal_Credit.pdf.

than entitlements, which determine the cost to government of providing free school meals. These figures imply that FSMs will cost around £20-30 million more to the Exchequer in 2021–21 than would have been the case under the legacy system (a fiscally negligible impact).¹¹

¹¹ Assuming a cost per meal of £2.30, as suggested by Department for Education, *UIFSM: guide for local authorities and schools*. <https://www.gov.uk/guidance/universal-infant-free-school-meals-guide-for-schools-and-local-authorities#revenue-funding-allocations>.

4. Conclusion

In summary, the government's plans for FSMs under universal credit are likely to result in a small increase of around 50,000 in the number of children eligible for FSMs. Fiscally the cost of this small increase in generosity is negligible, at around £20-30 million per year. Looking more closely at the effects, though, there are both winners and losers and different groups do differently.

UC will not materially change how focused FSM entitlements are on the lowest-income families. But it will result in a significant reprofiling of those entitlements. It will tilt entitlements away from families where no parent is in paid work and towards families with at least one parent in paid work. The lost entitlements among workless families are largely driven by the small minority of them whose unearned income or assets disqualify them from UC altogether (hence, they will lose both cash benefit entitlements and FSM entitlements). Within working families, there are winners and losers too, however: entitlements will be tilted towards families working more hours on lower hourly wages and away from families where the parents work low numbers of hours on a higher wage. This actually partly offsets the pattern of relative winners and losers from the wider UC reform, in terms of cash benefit entitlements. There are also differences by family structure: in fact, the net increase in eligibility is entirely accounted for by the children of lone parents.

One important factor behind our results is the government's decision to freeze the £7,400 eligibility threshold under UC until 2021–22. Had it updated this threshold in line with earnings or CPI, approximately an additional 100,000 or 80,000 children respectively would be entitled to FSMs once UC is fully rolled out than under the current plan. This highlights the significance of whether the government chooses to begin updating the threshold after 2021–22.