

## **Developing new eligibility criteria for free school meals under Universal Credit - Summary of a Draft Regulatory Impact Assessment (RIA)**

### **Problem under consideration and rationale for intervention**

Free school meals are a 'passported benefit' linked to a number of benefits, such as income-based Jobseeker's Allowance (JSA) and Child Tax Credit, which are being replaced by Universal Credit<sup>1</sup>. The current eligibility criteria are mainly based on receipt of out-of-work benefits. However, those who are in work and claiming Child Tax Credit (but not working enough hours to claim Working Tax Credit) are also entitled to free school meals.

In January 2017, there were around 76,200 pupils known to be eligible for free school meals in Wales, which is equivalent to 16 per cent of pupils in maintained schools<sup>2</sup>.

As there is no distinction between out-of-work and in-work benefits under Universal Credit, a lot of extra in-work claimants on low incomes would become entitled to free school meals under a blanket criteria for all Universal Credit claimants. Although a blanket criteria has been introduced as a temporary measure, this is not currently an issue as the rollout of Universal Credit to families in Wales is quite limited. However, this will change as the rollout progresses.

Imposing an annualised net earnings threshold<sup>3</sup> for families on Universal Credit is regarded as the fairest and simplest solution. Such a threshold will ensure that the poorest in-work parents qualify for free school meals. Currently, there are very low income families (in receipt of Working Tax Credit) who are not entitled to free school meals because of the number of hours they work. An earnings based criteria will resolve this issue. If we do not set a threshold, we will create unaffordable costs.

Using a net earned income threshold is consistent with the approach taken by other government departments and devolved administrations in updating eligibility criteria for passported benefits under Universal Credit. For example, in April 2018, the Department for Education (DfE) introduced a net earnings threshold of £7,400 per annum to assess a household's eligibility for free school meals under Universal Credit in England<sup>4</sup>. Similarly, for free school meal eligibility in Scotland, the Scottish

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<sup>1</sup> Universal Credit is replacing six existing means-tested benefits – Housing Benefit, Income Support, Child Tax Credit, Working Tax Credit, income-based Jobseeker's Allowance, and income-based Employment and Support Allowance.

<sup>2</sup> Source: Pupil Level Annual School Census (PLASC) data. Pupils are recorded as eligible if they have applied for free school meals to the local authority and (1) the relevant authority has confirmed their eligibility, or (2) final confirmation of eligibility is still awaited but the school has seen documents that strongly indicate eligibility. There are also some families (not included in these statistics) who may be entitled to free school meals based on their benefit receipt, but who have not applied for free school meals with their local authority.

<sup>3</sup> Net income from employee earnings and declared self-employment earnings would be taken into account. Net earned income is defined as household income after taxes and deductions. It does not include income from Universal Credit or other benefits.

<sup>4</sup> <https://www.gov.uk/government/consultations/eligibility-for-free-school-meals-and-the-early-years-pupil-premium-under-universal-credit>

Government introduced a net earnings threshold of £610 per month (equivalent to £7,320 per annum) in August 2017<sup>5</sup>.

## **Policy objectives**

The objectives of the policy are to revise eligibility criteria for free school meals, ensuring:

- those most in need are able to access free school meals, with the aim of improving health and educational outcomes;
- the affordability of free school meals for local authorities; and,
- the affordability of any new related financial burdens for the Welsh Government that might arise.

## **Description of options considered (including status-quo)**

Three policy options have been considered:

Option A: “Do nothing” i.e. maintain the status quo. This would mean that the blanket free school meal eligibility criteria for all Universal Credit claimants would remain.

Option B: Introduce an annualised net earnings threshold of £6,200<sup>6</sup>.

Option C (preferred): Introduce an annualised net earnings threshold of £7,400<sup>7</sup>.

If an earnings threshold were to be introduced (i.e. option B or option C), this would take effect from January 2019. We would plan to keep the threshold constant (i.e. fixed in cash terms) until the end of the Universal Credit rollout period (i.e. currently expected to be the end of March 2022, based on the latest published information). However, the threshold would be kept under review.

In terms of assessing eligibility for free school meals for those on Universal Credit, net income from employee earnings and declared self-employment earnings<sup>8</sup> would be taken into account<sup>9</sup>. Net earned income is defined as household income after taxes and deductions. It does not include income from Universal Credit or other benefits. The same threshold would apply to single adult and two-adult families. For the purpose of this policy, a household/family is defined as “one or two adults (living together as a couple) plus any dependent children they are living with”.

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<sup>5</sup> <http://www.gov.scot/Topics/Education/Schools/HLivi/schoolmeals/FreeSchoolMeals>

<sup>6</sup> £516.67 per month.

<sup>7</sup> £616.67 per month.

<sup>8</sup> For those parents who are self-employed, free school meals eligibility will be assessed on declared earnings. Parents will need to complete a self-employment eligibility declaration form to provide the required supporting evidence.

<sup>9</sup> This would be assessed using earnings information from up to three of a claimant’s most recent Universal Credit assessment periods. This recognises that some claimants may have earnings that fluctuate on a monthly basis.

## Costs and benefits of each option (including administrative burden)

We have undertaken analysis to estimate the potential impact of the proposed eligibility criteria for free school meals on the number of eligible children and the associated costs. Our analysis has used two models developed by the Department for Work and Pensions (DWP), namely the integrated forecasting model (INFORM) and the Policy Simulation Model (PSM).

The data and methodology we have used is very similar to that undertaken by DfE to inform the development of new eligibility criteria for free school meals in England. We have, however, made some adjustments to derive appropriate estimates for Wales.

As outlined in a DfE methodology note<sup>10</sup>, INFORM is a dynamic micro-simulation model that generates estimates of monthly flows across and between legacy benefits and Universal Credit. This provides estimates of the volumes of children in households moving onto Universal Credit, split by the corresponding legacy benefit type on the legacy system.

The PSM is a static micro-simulation model that calculates the effects of tax and benefit policies on a random sample of households from the 2015-16 Family Resources Survey. Future years are modelled by simulating announced policies consistent with growth in relevant economic forecasts. This model is used to estimate the earnings and age of children in those households moving on to Universal Credit, and to calculate whether or not they will be eligible for free school meals after the transition. It also tells us whether they would have been eligible for free school meals if they had never moved across to Universal Credit. We have used school census data for Wales and also England to help inform estimates at a Wales level.

Our analysis does take free school meal claiming rates into account given that not every entitled household will claim free school meals. This is based on our analysis of HM Revenue and Customs (HMRC) Tax Credit data and school census data.

The main type of cost that schools incur to offer free school meals to pupils is the cost associated with providing each additional meal<sup>11</sup>. This might be the cost of ingredients and kitchen staff for schools with their own kitchens who produce their own meals, or the amount charged by a local meal provider to buy in an additional meal. Such costs are covered by core funding from the local authority, and are estimated to be around £25 million in 2016/17<sup>12</sup>. As the cost of free school meals is

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<sup>10</sup> <https://publications.parliament.uk/pa/ld201719/ldselect/ldsecleg/82/8206.htm>;  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/707466/Additional\\_free\\_school\\_meal\\_pupils\\_under\\_Universal\\_Credit.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/707466/Additional_free_school_meal_pupils_under_Universal_Credit.pdf)

<sup>11</sup> There may also be upfront capital costs incurred as a result of buying new equipment and/or hiring extra staff, for example. However, these costs have not been considered mainly because two out of the three options considered (including the preferred option) are not expected to significantly increase the free school meals cohort.

<sup>12</sup> This estimate is based on the number of children known to be eligible for free school meals in Wales who are taking-up their entitlement (source: school census data 2016/17) and DfE funding rates of £2.41 per secondary school student per meal and £2.30 per primary school student per meal. (Source: <https://www.gov.uk/guidance/16-to-19-funding-free-meals-in-further-education-funded->

currently met by local authorities, including through funding provided through the Local Government Settlement, any additional direct costs/savings from an increase/decrease in the free school meal cohort and budget would fall to the local authority. The Welsh Government is considering providing financial support to meet the impact of the preferred threshold and transitional protection offer. We will work with local authorities to manage the distribution of this financial support, in particular through the Distribution Sub-Group<sup>13</sup> which advises on the Local Government Settlement formula (other wider impacts are discussed below).

Amendments to the eligibility criteria for free school meals will require changes to the Eligibility Checking System (ECS), which is managed by DfE. The Welsh Government pays for all local authorities in Wales to use this system to enable them to check eligibility for free school meals online. The direct cost to the Welsh Government for these system changes is uncertain at this stage (and excluded from the figures below), but is expected to be relatively small.

Although our analysis does have its limitations (as explained further in the risks section), it is based on the best available models and data. A summary of the key findings from our analysis is below.

**Option A:** Our analysis suggests that if no earnings threshold is put in place by the time Universal Credit is fully rolled out, the free school meals caseload in Wales would treble. This would mean that around half of all pupils would be eligible for free school meals (compared to 16 per cent in January 2017), which would be unaffordable.

**Option B:** An annualised net earnings threshold of £6,200 is estimated to be broadly cohort (and cost) neutral when Universal Credit is fully rolled out.

**Option C (preferred):** Overall, an annualised net earnings threshold of £7,400 is estimated to increase the number of children benefitting from free school meals in Wales by around 3,000 by the time Universal Credit is fully rolled out. This represents the estimated net change in the cohort size due to the new eligibility criteria proposed. It is relative to the estimated number of children that would have received free school meals under the benefit system that Universal Credit is replacing. There is a lot of uncertainty surrounding these estimates due to factors such as behavioural change, for example. In addition, economic forecasts (e.g. Office for Budget Responsibility forecasts of earnings growth and employment rates) and the underlying data (e.g. Universal Credit caseload projections and the Family Resources Survey) used in the models for this analysis will continue to be updated. New data and forecasts will have an effect on our estimates of the potential impact of new eligibility criteria for free school meals. Therefore, our estimates are subject to change.

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institutions; <https://www.gov.uk/guidance/universal-infant-free-school-meals-guide-for-schools-and-local-authorities>).

<sup>13</sup> Distribution Sub Group: <http://gov.wales/topics/localgovernment/finandfunding/dsg1/?lang=en>

Although our analysis suggests that the majority of children would see no change in their entitlement to free school meals under our preferred option, there would be some children who would lose entitlement (if transitional protection was not provided). The majority of these would be expected to be two adult families. However, we estimate that these would be outweighed by the number of children gaining entitlement (the majority of whom would be expected to be in lone parent families). Furthermore, as we are proposing to put in place a transitional protection offer, this would ensure that no child would lose entitlement to free school meals during the rollout of Universal Credit (and beyond for some children).

Transitional protection relates to measures that ensure families are shielded from the effects of a policy change for a limited period of time during the move to new arrangements. This protection would provide an adjustment period for affected families.

We propose a transitional protection offer that would mean the following pupils<sup>14</sup> would be protected against losing their free school meals:

- From 1 January 2019, all existing free school meals claimants would continue to receive free school meals whilst Universal Credit is rolled out (currently expected to be until 2022). This would apply even if they no longer meet the eligibility criteria period (e.g. if their earnings rise above the new threshold) at a later point during this period.
- Any pupil gaining eligibility for free school meals after 1 January 2019 would be protected against losing free school meals during the Universal Credit rollout period. This would still be the case even if they no longer meet the eligibility criteria at a later point during the rollout period.
- Following the completion of the roll out of Universal Credit, any existing pupil that no longer meets the eligibility criteria at that point (e.g. if their parent(s) earn above the threshold or are no longer entitled to Universal Credit) will continue to receive free school meals until the end of their child's current phase of education (i.e. primary or secondary).

In total, the additional meal costs associated with the £7,400 threshold and the proposed transitional protection measures are estimated to be in the region of around £10 million a year between 2019-20 and 2022-23.

Funding for free school meals is estimated to be around £400 a year per child<sup>15</sup>. This provides an indication of the extent to which parents benefit from free school meals. However, the amount actually spent on food by families for school lunches may be higher than this<sup>16</sup>. Given links between hunger in the classroom, free school meals,

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<sup>14</sup> The 3,000 figure on page 4 does not include children who retain free school meals as a result of the transitional protection measures proposed. We estimate the total number of children receiving transitional protection in any given year during the Universal Credit rollout period would be around 20,000 – 30,000. However, this estimate is uncertain and subject to change.

<sup>15</sup> Based on DfE funding rates for free school meals.

<sup>16</sup> An article by Dearden, L. and Farquharson, C. (2017) reports that some families with one child spend around £70 on food each week <https://www.ifs.org.uk/publications/9202>.

health, behaviour and educational attainment<sup>17</sup>, there may also be wider knock-on effects in these areas.

## **Risks**

It is very difficult to accurately predict the impact of an earnings threshold on the size of the free school meals cohort. We are targeting the group of households most affected by reforms, including changes to work incentives under Universal Credit and the National Living Wage. We cannot predict the behaviour of individuals as they migrate onto Universal Credit and the new free school meals net earnings threshold might also introduce its own behavioural effects. Our estimates are also sensitive to changes in the underlying data and economic forecasts that underpin our analysis.

There are risks that if we set the threshold too low, we could reduce the size of the free school meals cohort, which goes against the policy aim. On the other hand, if we set the threshold too high, we could expand the cohort too much, which would have financial implications for the free school meals budget. There would also be wider knock-on effects on the Pupil Development Grant (PDG), for example (as outlined in the next section).

In order to mitigate these risks, we will carefully monitor the impact of the new eligibility criteria on the number of children eligible for free school meals.

## **Wider impacts**

The PDG, which provides funding to schools, is based on the number of pupils eligible for free school meals. An increase to the size of this cohort will increase PDG costs. The funding mechanism for allocating the PDG in 2018-19 and 2019-20 is based on a two year allocation. Part of the rationale for 'fixing' allocations for two years is the current uncertainty around Universal Credit. 'Fixing' will provide some stability for schools and allow us time to consider the impact of the new eligibility criteria on the number of pupils eligible for free school meals.

We measure the attainment of pupils who are eligible for free school meals and use it to help us monitor the progress made in narrowing the attainment gap between pupils who are from more deprived backgrounds and those who are not. Changes in the numbers eligible for free school meals will impact on our ability to monitor the progress made in narrowing the attainment gap. We remain committed to publishing data on the attainment of disadvantaged pupils but recognise that we will also need to take into consideration increases in the numbers of pupils eligible for free school meals whilst Universal Credit is rolled out.

Data on the number of children eligible for free school meals is used as part of the Local Government Settlement calculation. Therefore, changes to the eligibility criteria for free school meals will have an effect on the distribution of the Settlement funding formula. We are considering transitional arrangements to allow authorities to

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<sup>17</sup> <https://www.ifs.org.uk/publications/9202>; [http://jandonline.org/article/S0002-8223\(05\)00151-3/fulltext](http://jandonline.org/article/S0002-8223(05)00151-3/fulltext); <http://www.sciencedirect.com/science/article/pii/S0047272714002497>; <http://www.nature.com/ejcn/journal/v64/n11/full/ejcn2010150a.html?foxtrotcallback=true>.

manage the distributional impact and will liaise with local government on this through the Distribution Sub Group.

The Education Improvement Grant (EIG) for schools is a further area where data on the number of pupils eligible for free school meals is used. The data is used in part to determine Local Authority/consortia allocations. When we use this data, we will monitor what impact any new eligibility criteria has on these allocations.

An Equality Impact Assessment accompanies this draft RIA summary. This provides an assessment of the impact of the proposals for new eligibility criteria for free school meals on various equality groups.

### **Summary and preferred option with description of implementation plan**

Option C (an annualised net earnings threshold of £7,400) is the preferred option. This is estimated to result in a small increase in the free school meals cohort once Universal Credit is fully rolled out. This our preferred option as opposed to a lower threshold of £6,200, which is estimated to be broadly cohort neutral (and hence benefit less children than a £7,400 threshold). However, not having a threshold in place would be unaffordable.

A typical family earning around £7,400 per annum would, depending on their exact circumstances, have a total household income of between £18,000 and £24,000 once benefits are taken into account<sup>18</sup>. Therefore, the net earnings amount does not represent a household's total income as it does not include income from benefits, which significantly increase a household's overall income.

Under the preferred option, we expect that the significant majority of children would see no change in their entitlement to free school meals. However, moving to an earnings threshold would create winners (mainly those currently in receipt of Working Tax Credit who work too many hours to be entitled to free school meals, but are low paid) and losers (mainly those currently in receipt of Child Tax Credit and earning above the £7,400 threshold when they migrate to Universal Credit). Based on our analysis we expect that the majority of the gainers would be children in lone parent families, and the majority of the losers would be children in two adult families. The gainers typically work longer hours, but have lower hourly earnings than those losing. However, as we propose to offer transitional protection alongside an annualised net earnings threshold of £7,400, this would ensure that no child would lose their entitlement to free school meals during the rollout of Universal Credit (and beyond for some children).

The new eligibility criteria for free school meals is planned to be introduced across Wales in January 2019. This will be kept under close review given the uncertainty surrounding the estimated impact on the free school meals cohort and budget.

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<sup>18</sup> Source: DfE (2017) Eligibility for free school meals and the early years pupil premium under Universal Credit <https://www.gov.uk/government/consultations/eligibility-for-free-school-meals-and-the-early-years-pupil-premium-under-universal-credit>

## **Post implementation review**

Given the difficulty in accurately predicting the impact of an earnings threshold on the size of the free school meals cohort, we will carefully monitor the impact of the threshold on the number of children known to be eligible for free school meals and those taking-up their entitlement, as well as the associated impacts on the budget and any wider knock-on effects. School census data will be used to provide an indication of such impacts, as well as additional data collection and analysis where necessary.