

Introduction

Up to now, all families receiving Universal Credit have been eligible for free school meals. However, from 1 April 2018 in England, the Government plans to introduce a new earnings limit so that families on Universal Credit earning over £7,400 a year (after tax and national insurance) are no longer eligible.

While some families will be protected in the Universal Credit transitional period, we are concerned about the impact that the measure will have on work incentives during, and following, full rollout.

The Children's Society and Child Poverty Action Group recently published briefings covering our full range of concerns about the new rules - accessible [here](#) and [here](#).^{1,2}

This note draws on new analysis by York University's Professor Jonathan Bradshaw and Dr Antonia Keung we commissioned which shows the new rules will put a significant number of families at risk of becoming worse off if they work more hours or get a pay rise in future³.

The 'free school meals poverty trap'

One of the principal goals of Universal Credit was to ensure that additional earnings would always leave families better off and to avoid 'cliff edges' in incomes. In the foreword to the Universal Credit white paper, the Secretary of State for Work and Pensions at the time said:

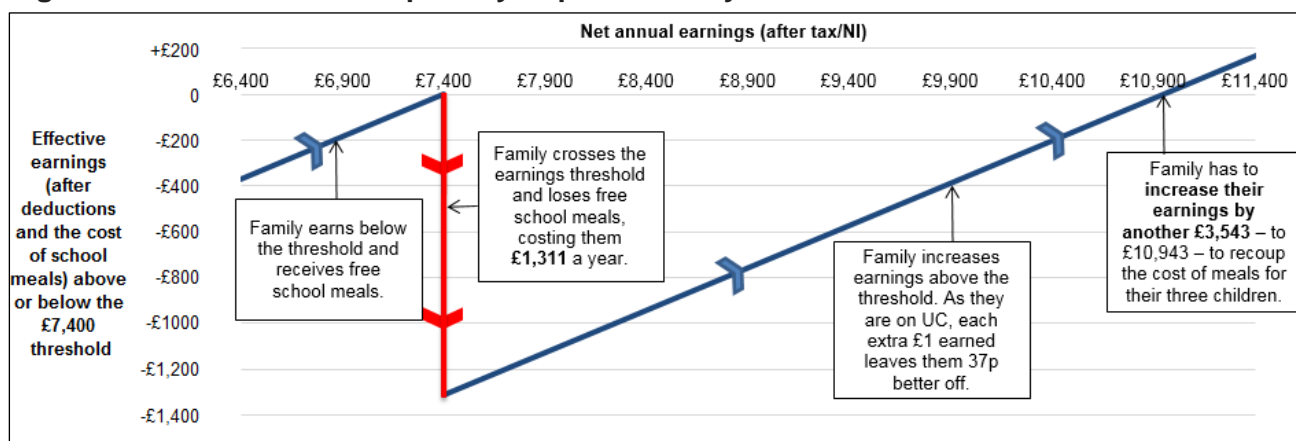
*"At its heart, Universal Credit is very simple and will ensure that work always pays and is seen to pay. Universal Credit will mean that people will be consistently and transparently better off for each hour they work and every pound they earn."*⁴

But the introduction of the £7,400 earnings limit for free school meals creates a serious cliff edge that fundamentally undermines this objective, and will mean that many families are trapped in poverty because they are worse off overall if their earnings increase.

If you're earning just under the £7,400 limit, taking on extra hours or getting a pay rise could make you worse off as you lose free school meals currently worth over £400 per child per year. And if you're earning just over the limit, you could be better off taking a pay cut.

This new 'free school meals poverty trap' exists neither in the legacy benefit system (because Working Tax Credit provides an offsetting income boost at the point free school meals are withdrawn), nor currently under Universal Credit (where until now all claimants have been eligible for free school meals).

Figure 1: Free school meals poverty trap for a family with three children



How many families are affected by the new trap?

Our new analysis shows that once Universal Credit is fully rolled out, the free school meals poverty trap could negatively impact a total of around 280,000 low income working families in England, containing over 700,000 children.

This includes around 125,000 families who might seek to increase their pay or hours up to the earnings limit – or indeed might be required to by their work coach. These families contain around 290,000 children.

It also includes around another 155,000 families who earn over the limit but who will find they could actually be better off overall by reducing their earnings but gaining free school meals. These families contain around 420,000 children.

Methodological details are given below and figures in full are provided in the Appendix.

Illustrations of the free school meals poverty trap

Example 1

A single parent with two children, renting her home and working part-time for £9.10 an hour (the expected National Living Wage in 2022 when Universal Credit will be fully rolled out), will be worse off if she increases her hours of work from 12 hours a week to 16:

Working 12 hours a week, this parent would earn £5,678 a year and therefore be eligible for free school meals for her children. If she increased her hours to 16 hours a week, she would earn £7,571 a year and lose entitlement to free school meals.

Although her earnings go up by £1,893 she only keeps £700 of this, as 63% is withdrawn via the Universal Credit taper (which withdraws Universal Credit as earnings rise). Losing free school meals means she will have to pay for her children's lunches at a current cost of around £874 a year⁵. This leaves her £174 worse off overall.

Example 2 (depicted in Figure 1)

A family with three children earning just under the £7,400 limit would lose free school meals currently worth £1,311 a year⁵ if they work an extra hour or get a small pay rise.

To make up for this and 'earn back' their lost free school meals, they would have to increase their annual wages by £3,543 (after paying national insurance) due to the 63% Universal Credit taper. This would mean working more than a day (7.5 hours) extra every week at the expected National Living Wage in 2022 of £9.10 an hour.

Broader context: Just the latest cut to work incentives

Cuts to Universal Credit work allowances have already significantly reduced the rewards from work for claimants, as Child Poverty Action Group's analysis with IPPR⁶ and briefings from The Children's Society⁷ have shown. These new free school meal rules make the situation considerably worse and put the Government's ambition to make work a route out of poverty in serious jeopardy.

The proposed earnings limit is expected to be approximately equal to 16 hours a week at the National Living Wage by 2020. This is normally also the threshold for families to escape the benefit cap, so a parent increasing their earnings to avoid the benefit cap might find that some or all of the gains they make from being 'uncapped' are lost when they have to pay for free school meals.

What should be done instead?

Eligibility for free school meals should be maintained for every family on Universal Credit. This would mean the cliff edge would occur at much higher earnings, greatly reducing its significance and supporting more working families who are living in poverty.

Even with an inevitable cliff edge effect remaining at the higher income level, its impact is greatly softened because the income required to overcome it is substantially lower once a family's earnings are high enough to escape the Universal Credit system. This is because deductions are made from earnings at only 32% (for tax and national insurance) compared to typical deduction rates of at least 63% for a family on Universal Credit.

Furthermore, the earnings level at which free school meals would be withdrawn would vary, better reflecting different household circumstances (such as any disabled children or the number of children in the household). This is because a family with a higher level of financial need will maintain Universal Credit entitlement until a higher earnings point than a family with a lower level of need.

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Methodology

1. Transitional protection means that no children will lose free school meals during the Universal Credit rollout period (scheduled to end by 2022), and those still on free school meals at that point will keep them until their current education phase ends. We estimate the number of families affected once Universal Credit is fully rolled out (assuming this will be 2022), and in the absence of transitional protections.
2. According to the Government in 2013 school meals were worth £437 a year per child⁵. Given the 63% Universal Credit taper, a family would have to earn £1,181 extra per year to recoup the cost of a school meal. For families with two children receiving a meal this figure is doubled; for families with three children it is trebled; and so on. We then adjusted these figures to account for expected inflation to 2022, using historical CPI inflation from the Office for National Statistics and projected CPI inflation from the Office for Budget Responsibility.
3. Using these figures, we identified the earnings levels at which families below the £7,400 earnings limit are at risk of falling into the poverty trap because they would be worse off - after the cost of school meals - if they increased their earnings up to the limit⁸. Similarly, we also identified the earnings levels (net of tax and national insurance) at which families above the limit would be better off reducing their earnings to just below the limit.
4. Professor Jonathan Bradshaw and Dr Antonia Keung of York University then analysed data on family earnings from the latest Households Below Average Income dataset⁹ (derived from the Family Resources Survey) to tell us how many families and children in England fall into these categories. The earnings data was adjusted to account for expected earnings growth to 2022, using historical growth in average earnings from the Office for National Statistics and projected growth in average earnings from the Office for Budget Responsibility.
5. Only families with children aged 8 to 15 are included in the analysis, as all children in Reception, Year 1 and Year 2 receive universal infant free school meals.
6. These figures are intentionally cautious and will likely underestimate the number of families affected. Firstly, they exclude the many children in Year 3 who are still 7 years old. Secondly, although a large proportion of 16-19 year olds are in schools or colleges where they can receive free school meals, we cannot identify how many fall within the relevant earnings brackets. Our analysis therefore ignores children over the age of 15.

APPENDIX: Figures in full

Table 1: Families earning under £7,400 who would be worse off working more¹⁰

Number of children in family aged 8 to 15	Earnings (in 2022) where family at risk of free school meals poverty trap	Number of families in England at risk	Number of children in these families
1	£6,043 - £7,400	27,373	27,373
2	£4,686 - £7,400	51,070	102,140
3	£3,328 - £7,400	27,722	83,166
4	£2,181 - £7,400	13,397	53,588
5+	£1,679 - £7,400	5,152	26,761
Total		124,714	293,028

Table 2: Families earning over £7,400 who would be better off working less¹⁰

Number of children in family aged 8 to 15	Earnings (in 2022) where family at risk of free school meals poverty trap	Number of families in England at risk	Number of children in these families
1	£7,400 - £8,757	22,988	22,988
2	£7,400 - £10,114	55,479	110,958
3	£7,400 - £11,472	43,239	129,717
4	£7,400 - £12,829	20,859	83,436
5+	£7,400 - £14,186	13,568	73,078
Total		156,133	420,177

¹ The Children's Society (2018) - Free school meals and Universal Credit <https://www.childrenssociety.org.uk/what-we-do/resources-and-publications/briefing-on-free-school-meals-and-universal-credit>

² Child Poverty Action Group (2018) - Free school meals and universal credit: CPAG's consultation response <http://www.cpag.org.uk/content/free-school-meals-and-universal-credit-cpags-consultation-response>

³ Professor Bradshaw has also published a blog on this topic <http://jonathanbradshaw.blogspot.co.uk/2018/03/new-free-school-mealscriteria.html>

⁴ Department for Work and Pensions (2010) - Universal Credit: Welfare that works <https://www.gov.uk/government/publications/universal-credit-welfare-that-works>

⁵ This note uses the Government's own estimate of the annual amount spent per child on school lunches of £437: Department for Education (2013) - Free school lunch for every child in infant school <https://www.gov.uk/government/news/free-school-lunch-for-every-child-in-infant-school>

⁶ Child Poverty Action Group (2017) - The Austerity Generation <http://cpag.org.uk/content/austerity-generation-impact-decade-cuts-family-incomes-and-child-poverty>

⁷ The Children's Society (2016) - Universal credit, children and families <https://www.childrenssociety.org.uk/what-we-do/resources-and-publications/universal-credit-the-impact-on-children-and-families>

⁸ At very low earnings levels a family's earnings will start off within their 'work allowance' where they keep 100% of any additional earnings. This has been accounted for in the calculated earnings levels, with the assumption that the family's Universal Credit claim includes support for housing costs and their work allowance is therefore £2,304.

⁹ Department for Work and Pensions (2017) - Households Below Average Income, 1994/95-2015/16 <https://discover.ukdataservice.ac.uk/catalogue/?sn=5828&type=Data%20catalogue>

¹⁰ Results for 5+ children shown as a combined figure, as families with over 5 children contribute a relatively small amount. Lower earnings level shown for 5+ children (£1,679) is for 5 children, but lowest level analysed (8 children) is £172. Upper earnings level shown for 5+ children (£14,186) is for 5 children but highest level analysed (8 children) is £18,258.