The cost of a child in 2013

CHILD POVERTY ACTION GROUP

Donald Hirsch

August 2013

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About the author

Donald Hirsch is Director of the Centre for Research in Social Policy, where he leads the Minimum Income Standard for the UK programme. A former journalist and writing and research consultant, he has written widely on poverty and related fields. From 1998 to 2008 he was Poverty Adviser to the Joseph Rowntree Foundation, where he wrote a number of major reports on child poverty, welfare reform, long-term care and the situation of older workers.

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One Introduction

The past five years have been particularly difficult ones for families with children struggling to make ends meet. Prices have risen more sharply than in previous years, especially the price of essentials, such as food and childcare. Wages have hardly risen at all. Benefit uprating is now falling behind these increases. So, quite simply, the cost of bringing up a family is increasing much faster than family incomes.

In 2012, the Child Poverty Action Group and the Joseph Rowntree Foundation supported a study developing a systematic calculation of the cost of a child.[1] This report is the first annual update of that calculation, and also assesses the changing relationship between the cost of a child and the wages and benefits of families on low incomes.

The context

After a decade in which prices rose by an average of only 1.5 per cent, more serious inflation returned to Britain after 2007, just at the time when family incomes were hit by recession. Between 2008 and 2013, prices rose by a total of 17 per cent, according to the consumer prices index (CPI).

For people on low incomes, this inflationary period hits especially hard, since it is driven largely by the world increase in the price of commodities, such as energy and food. This causes the cost of basics, such as grocery and heating bills, to rise faster than average inflation. There has also been a reduction in subsidy and a consequent rise in the price of public transport and social housing, also items relied on by low-income households. As a result, the minimum cost of living, as measured by the minimum income standard (see page 9), increased by 25 per cent between 2008 and 2013, substantially more than the CPI rise.[2] And the cost of childcare, the most expensive item purchased by many families with small children, rose by 37 per cent, over twice the official inflation rate.

At the same time, family incomes have lagged badly behind these rising living costs. Average earnings have risen by only 5 per cent since 2008, a 10 per cent fall in real terms (relative to CPI).[3] For families wholly or partly dependent on benefits and tax credits, the annual uprating has, until recently, ensured that this income keeps in line at least with the CPI. However, this has not meant that upratings have kept up with increases in the cost of essentials, which, as noted above, have been greater than the CPI. Moreover, in April 2013, for the first time since the 1930s, the link between prices and benefits was broken. Benefits are to rise by only 1 per cent a year for three years; in 2013, this capped increase was about 1.5 per cent behind inflation.

For many families who were already struggling, these factors have combined to cause a serious decline in income, relative to what they need as a minimum. By calculating the cost of a child in 2013, and comparing it with the incomes of families on benefits and on low wages, we can track this change.

Notes

1 D Hirsch, L Sutton and J Beckhelling, *The Cost of a Child in the Twenty-first Century*, Child Poverty Action Group, 2012

2 D Hirsch, *A Minimum Income Standard for the United Kingdom in 2013*, Joseph Rowntree Foundation, 2013

3 Office for National Statistics, *Labour Market Statistics*, 2013. Inflation and earnings figures shown in this report are for April 2013, and comparisons are with April 2008. The average earnings figure is for total weekly earnings.

Two The calculation

The 2012 study on the cost of a child developed a detailed, systematic and updatable method for making such a calculation.[1] This is based on the 'minimum income standard (MIS) for the UK', which researches regularly what members of the public think are the essential items that every family should be able to afford (see below).

The minimum income standard

The minimum income standard is the income that people need in order to reach a minimum socially acceptable standard of living in the UK today, based on what members of the public think. It is calculated by specifying baskets of goods and services required by different types of household in order to meet this need and to participate in society.

The research is funded by the Joseph Rowntree Foundation and carried out by the Centre for Research in Social Policy (CRSP) at Loughborough University, producing annual updates from 2008 onwards. It was originally developed in partnership with the Family Budget Unit at the University of York, bringing together expert-based and 'consensual' (based on what the public think) methods. The research entails a sequence of detailed deliberations by groups of members of the public, informed by expert knowledge where needed. The groups work to the following definition:

> *A minimum standard of living in Britain today includes, but is more than just food, clothes and shelter. It is about having what you need in order to have the opportunities and choices necessary to participate in society.*

The minimum income standard distinguishes between the needs of different family types. It applies to 'nuclear' families and to childless adults – that is, to households that comprise a single adult or a couple, with or without dependent children.

For further information, see www.lboro.ac.uk/research/crsp/mis.

The calculation of the cost of a child starts with MIS budgets for a range of family types. These are the product of detailed discussions among members of the public, specifying which goods and services a family would need in order to reach a minimum acceptable standard of living.[2] The costed items in MIS range from food, clothing and heating bills to modest items required for social participation, such as buying birthday presents and taking a week's self-catering holiday in the UK once a year.

The cost of an individual child is calculated not by producing a list of items that a child needs, but as the difference that the presence of that child makes to the whole family's budget. For example, the additional cost of a first child of a couple is the difference between the costs for a couple without children and a couple with one child. The additional cost of a second child aged, say, six with a sibling aged eight is calculated as the difference between the budget of a family with two children aged six and eight, and that of a family with just an eight-year-old. Similarly, calculations are also made for lone-parent families, whose costs with one child are compared with the costs of a single adult.

These calculations are made for different children according to their birth order, in each year of their childhood, and also added up to produce a total cost from birth to age 18. They are shown both with and without childcare costs (which, for those requiring childcare, comprise over 40 per cent of all the costs reported here). Additional housing costs are also included, using a model of minimum costs based on social rents, but this understates the cost to families in private housing, who may need to spend considerable additional sums to rent or buy a bigger home in order to accommodate additional children. The original *Cost of a Child* report estimated that, for private tenants, an additional child requiring an extra bedroom can add around £25 to £30 a week.[3] This contrasts with just £5.50 (for a second child) incorporated into the main calculations used here based on social rents.

Notes

1 D Hirsch, L Sutton and J Beckhelling, *The Cost of a Child in the Twenty-first Century*, Child Poverty Action Group, 2012
2 See www.lboro.ac.uk/research/crsp/research/mis-uk
3 D Hirsch, L Sutton and J Beckhelling, *The Cost of a Child in the Twenty-first Century*, Child Poverty Action Group, 2012, p43

Three The cost of a child in 2013

The following 'scorecard' summarises the cost of a child in 2013, its relationship to basic family incomes and the change in these figures since 2012.

Scorecard: cost of a child in 2013

A. How much extra a child adds to family costs, and how much benefits contribute to this	Minimum additional cost of a child (averaged for first and second child)* Couple	Lone parent
1. Basic cost** over 18 years	£81,772 (+2%)	£90,980 (+3%)
2. Cost over 18 years, including childcare	£148,105 (+4%)	£161,260 (+4%)
3. Percentage of basic cost covered by child benefit	19% (–1ppt)	17% (–1ppt)
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	85% (–2ppt)	77% (–1ppt)
B. The extent to which families have enough to cover the minimum cost of living	Net income** as a percentage of minimum family costs (family with two children aged 3 and 7) Couple	Lone parent
5. Not working	58% (–2ppt)	61% (–2ppt)
6. Working full time on the national minimum wage (£6.19 hour)	83% (–1ppt)	87% (–3ppt)
7. Working full time on the median wage (£11.26 hour)	106% (–2ppt)	92% (–2ppt)

* The change in Indicators 3–7 are expressed in percentage points (ppt). For example, if child benefit falls from 20% to 18% of the cost of a child, this is shown as a two-point fall, even though it represents a 10% fall in the value of the benefit, relative to costs.

**Net of rent, childcare and council tax. Some percentages in Indicators 6 and 7 were subject to small corrections following the 2012 report. The final figures for 2012 are shown in Appendix 2 for comparison.

The cost of a child and how it is changing

Indicators 1 and 2 are indicators of the cost of raising a child. As these evolve over time, we can see how this cost is changing, relative to general prices and to earnings. In the year to April 2013, basic costs rose at a similar rate to the general increase in consumer prices (2.4 per cent), though faster than the general rise in earnings (1.5 per cent) or in benefits (1 per cent). Moreover, when the much steeper rise in childcare costs (5.9 per cent) is factored in, the increase in the overall cost of a child is significantly greater (Indicator 2). This is influenced by the fact that, for families requiring childcare, the cost of childcare represents over 40 per cent of the overall cost of bringing up a child (although families on low incomes can get up to 70 per cent of these costs covered by tax credits).

The adequacy of children's benefits

Indicators 3 and 4 show how much of the additional costs of a child, not including childcare, are covered by benefits. Child benefit (Indicator 3) represents a contribution to these costs for most families (but not those with someone earning over £60,000 a year). This has fallen in 2013, to below one-fifth of the basic cost of raising a child (not including childcare). In the past three years, child benefit has been frozen, while the cost of a minimum basket of goods and services has risen by 15 per cent, meaning that child benefit is worth one-seventh less, relative to the cost of a child, than it was in 2010.

Child benefit combined with child tax credit (Indicator 4) represents the contribution that the state makes to the additional cost of a child for families with no, or very low, earnings. This covers most, but not all, of the minimum additional costs of a child, meaning that, in order to bring up their children at a socially acceptable level, parents on low incomes may have to find money out of their own benefits. As shown in Figure 2 on page 15, adult out-of-work benefits are already well below what is needed to produce a minimum acceptable living standard, so finding money from this source to help meet children's needs is likely to require parental sacrifice.

The movement of the percentage of children's costs covered by benefits is hence crucial to child poverty. In the past year, with both child benefit and child tax credit rising significantly more slowly than inflation, the proportion fell. This fall is likely to continue for at least the next two years when the 1 per cent cap on benefit and tax credit increases is in place. Note that the move to universal credit will not affect this crucial figure, since the base amount paid by universal credit is set at the same rate as benefits and child tax credit.

The adequacy of family incomes

Indicators 5 to 7 consider incomes relative to costs from a somewhat different angle. They show the overall adequacy of family income (rather than just the ability to cover additional children's costs) once payments for any childcare and rent (and the amount the government gives to help pay for these things) have been subtracted. They tell us what families who do not work, who work for the minimum wage or who earn the median wage are left with to pay weekly expenses, relative to what they need.

Out-of-work benefits (Indicator 5) fall far short of what is needed for a minimum acceptable standard of living. As noted above, the adequacy of children's benefits is declining (the difference between this indicator and Indicator 4 is that it includes costs and income for the whole family, not just those associated with children). As well as the 1 per cent cap on benefit increases, this fall has been influenced in 2013 by the introduction of a contribution to the cost of council tax by out-of-work families.

Families working full time on the minimum wage (Indicator 6) also fall significantly short of meeting their needs. While the tax credit system ensures they can afford most of their requirements, it has become less generous in this respect in the past three years, having reduced the eligible rate at which childcare is supported, increased the 'taper' (the rate at which payments are reduced as income rises) and, in 2013, introduced a 1 per cent cap on the annual increase in the amount paid in universal credit. These changes, combined with an increase in childcare costs and in rents, mean that families on low wages have disposable incomes that fall further short than before of what they need for a minimum acceptable living standard. Low wage increases have also affected the adequacy of family incomes in middle-income families, although for couples with children on median wages, income remains above the minimum needed. The worst hit group shown here has been lone parents on low wages, for whom rent and childcare costs are particularly high relative to family income, and hence any increase in their costs hits hard.

How much families need and the adequacy of benefits: further detail

The following table and graphs update those published in the 2012 *The Cost of a Child in the Twenty-first Century*. For more detail on their interpretation, see Chapter 5 of the 2012 report.[1]

- Table 1 shows the additional cost of children, according to their birth order and whether they are brought up by one or by two parents. This shows that, in general, the cost of each successive child in the family tends to fall with economies of scale, but that this is not a straightforward relationship. The arrival of a first child brings some general additional costs (notably the cost of a car, which is not considered essential for families without children), but also brings some economies in terms of the ways in which adults tend to specify their own needs as parents, compared with before they were parents. Since these savings are not repeated with subsequent children, the relative cost of the first child is not as great as it would otherwise be. Moreover, there are some features of having additional children that can bring new types of cost. For example, a tumble dryer is not considered essential until there are at least three children in the family.

Table 1
The additional cost of each child, 2013

	Couple parents				Lone parent		
All additional costs	First child	Second child	Third child	Fourth child	First child	Second child	Third child
Total cost over 18 years	£159,721.00	£136,490.00	£147,327.00	£130,700.00	£178,229.00	£144,291.00	£130,690.00
Average per year	£8,873.00	£7,583.00	£8,185.00	£7,261.00	£9,902.00	£8,016.00	£7,261.00
Average per week	£170.17	£145.42	£156.97	£139.25	£189.89	£153.73	£139.24
Excluding rent, childcare and council tax							
Total cost over 18 years	£84,707.00	£78,837.00	£82,308.00	£75,611.00	£96,243.00	£85,717.00	£80,959.00
Average per year	£4,706.00	£4,380.00	£4,573.00	£4,201.00	£5,347.00	£4,762.00	£4,498.00
Average per week	£90.25	£84.00	£87.70	£80.56	£102.54	£91.33	£86.26

Figure 1
Additional cost of first child of a couple, by age and childcare status, 2013

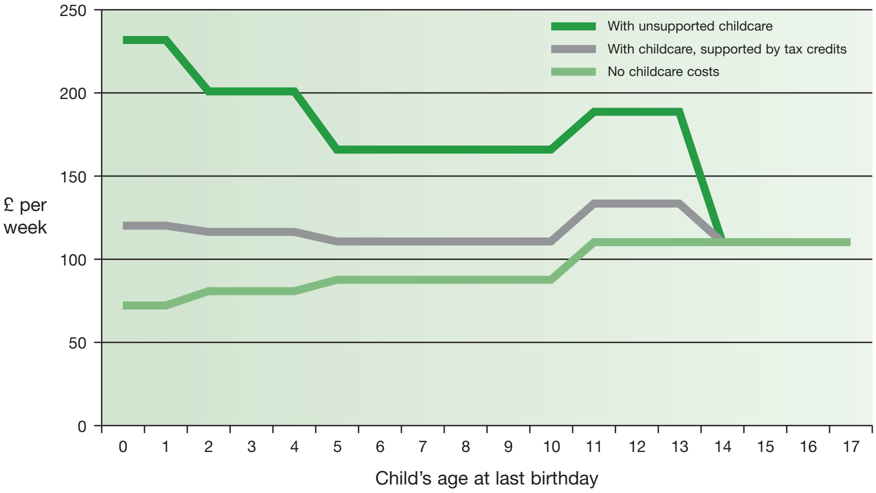


Figure 2
Cumulative costs and benefit entitlement for successive children, non-working families, 2013

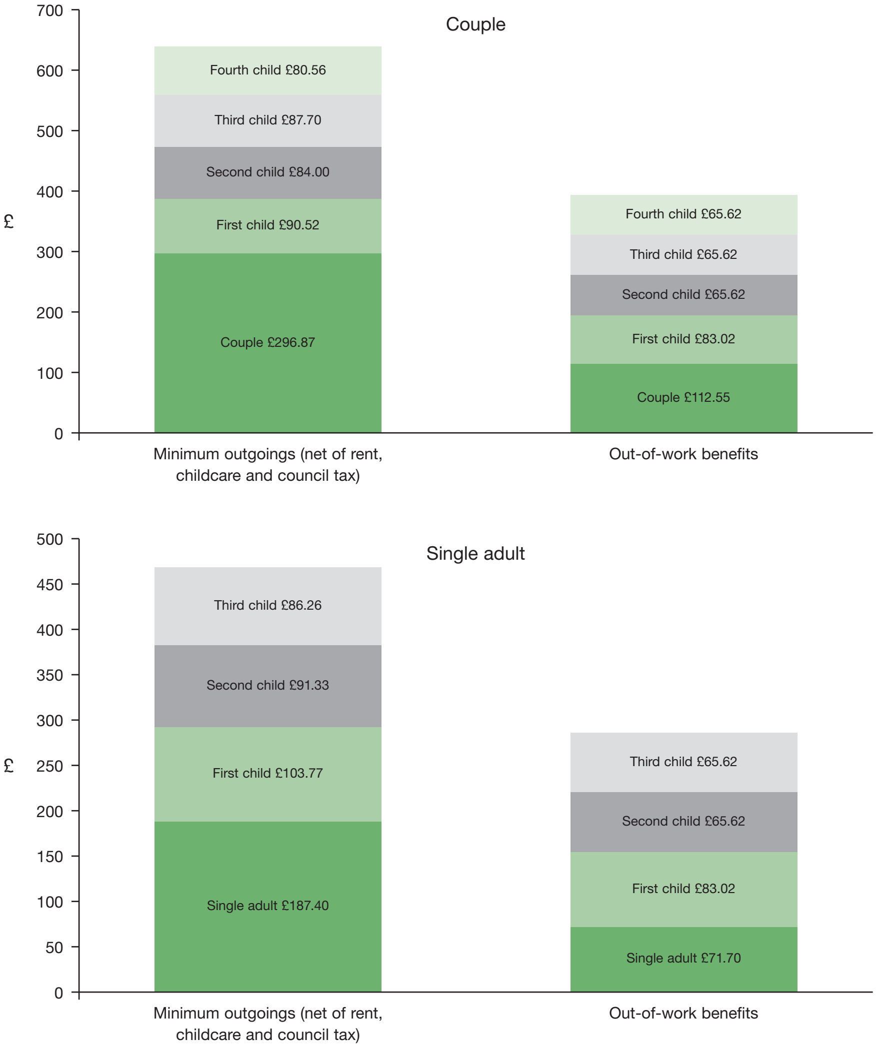
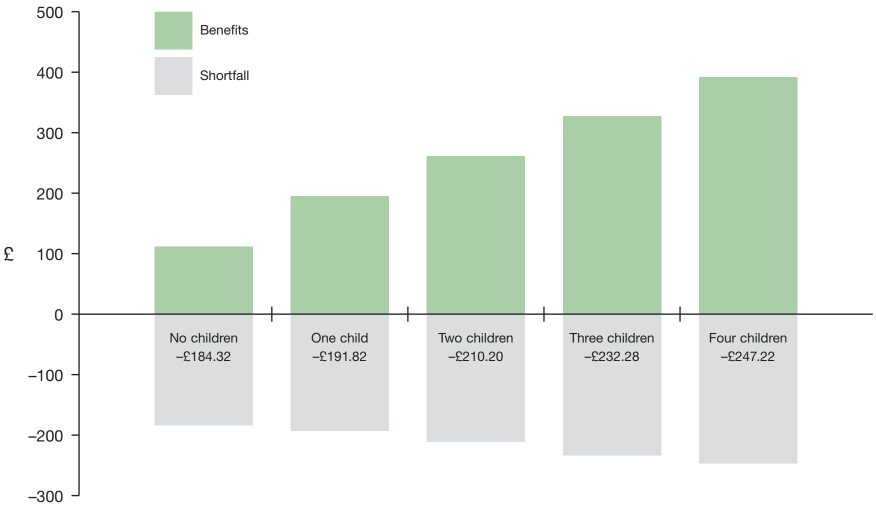


Figure 3
Adequacy of out-of-work benefits for couple families



Combined bars show minimum spending requirements, net of rent, childcare and council tax

- Figure 1 shows the relationship between the age of a child and weekly costs according to whether a family needs to use childcare and, if so, whether the family's income is sufficiently low to get help paying for it through tax credits. This graph shows that, for families paying for all of their childcare costs, the cost of children is greatest when they are youngest, while for those without childcare costs, the reverse is true. Tax credits help even out the cost of a child over the lifecycle, by giving working families on low incomes support with childcare. This means that net childcare bills when children are young are similar in scale to the additional cost of feeding, clothing and in other ways providing for children as they get older.

- Figures 2 and 3 show how much the state contributes to the cost of a child, in the case of families without any income from work. Figure 2 shows that benefit entitlement is more generous, compared to costs, for children than for adults. This means that a family with children has a greater *percentage* of its costs covered by benefits than a family without. However, as shown in Figure 3, having additional children increases the shortfall, in absolute terms, between benefit income and needs.

Notes

1 D Hirsch, L Sutton and J Beckhelling, *The Cost of a Child in the Twenty-first Century*, Child Poverty Action Group, 2012

Four The effect of universal credit: a preview

Universal credit will start to be introduced in autumn 2013, and will eventually replace the present tax credit system and most working-age benefits. Will this make a difference to the extent to which the state helps families cover the cost of a child?

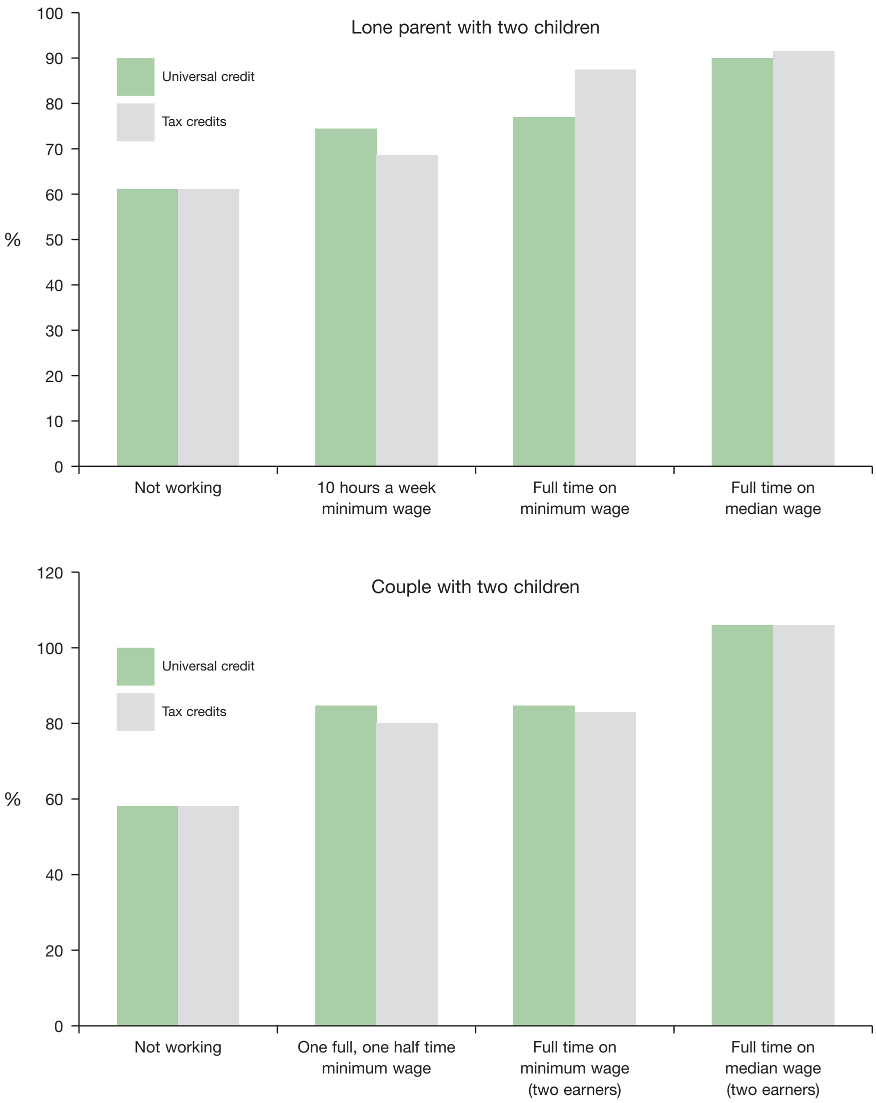
Figure 1 on page 17 shows that the answer is mixed. Importantly, the new system does not, in itself, change the entitlement of out-of-work families. (In 2013, families experienced cuts in entitlement, both under universal credit and the existing system, through the benefit cap and the new system of council tax support.)

Lone parents working a few hours a week will be able to provide more effectively for their families under universal credit than under tax credits because, unlike under tax credits, families do not have to work 16 or more hours to be eligible for universal credit. However, for those working full time, the picture is more mixed, with some gaining and others losing.

The most significant feature of Figure 1 is the extent to which a lone parent can cover minimum family costs with different working patterns. In both the existing benefit system and under universal credit, out-of-work entitlements cover less than two-thirds of minimum costs. Under universal credit, working a few hours on the minimum wage will raise this proportion to three-quarters of what the family needs, a substantially greater gain than under the present system. However, a lone parent on the minimum wage will be unable to become significantly better off than this (even by working full time) on universal credit, because almost all of additional earnings will be lost through taxation, a reduction in the amount of universal credit paid and additional childcare costs. In contrast, under the existing tax credits system, working full time makes the family significantly better off, with income rising to nearly 90 per cent of what the family needs, even on the minimum wage. Hence, while universal credit does not make any difference to the safety-net support given to families, in some cases it reduces the family's ability to move closer to an acceptable family living standard by working full time. This contradicts the objective of universal credit to encourage work progression and reduce poverty.

For couples with children, differences between the two systems are less marked. Both under tax credits and under universal credit, such families can raise their income from about 60 per cent of what they need as a minimum provided by out-of-work benefits, to about 80 per cent if one partner works full time and one part time. However, if the second earner increases her/his hours to full time, disposable income increases little under tax credits and not at all under universal credit, as a result of the combined effect of additional childcare costs, falling in-work credits and the payment of income tax. However, two-earner couples on median earnings get above the level at which they are entitled to either tax credits or universal credit, and are able to provide more than the minimum that their families need without such assistance.

Figure 1
Net income as a percentage of minimum family costs, with two children aged 3 and 7



Five

Conclusion

Families with children in 2013 are facing rising costs not matched by increases in their incomes. The general squeeze on living standards caused by stagnant wages and rising prices hits families particularly hard. This is partly because they are generally more stretched than smaller households in making ends meet, and partly because childcare fees have risen particularly quickly. Moreover, the help that the state has been giving to help offset the higher costs faced by families with children is now reducing in real terms.

Many of the changes reported reflect trends that have been occurring for several years. However, 2013 was distinctive in bringing in some historic changes to the ways in which the state helps families afford the cost of bringing up children.

- For the first time since the 1930s, safety-net benefits were cut in real terms rather than being uprated at least by inflation.
- For the first time since 1946, not all families with children got at least some state help with the cost of a child: child benefit stopped being universal, as it was withdrawn from families with someone earning £60,000 or more a year.
- Out-of-work families became subject to additional costs, reducing their net income available for spending on children. They were required by most local authorities to pay at least some council tax, which previously had been fully covered by benefits. For families in social housing who were considered to have one or more bedrooms than they require, the 'bedroom tax' was imposed, taking a large chunk out of their disposable incomes. And some large families or those with high housing costs became subject to the absolute cap on the level of benefit entitlement per family.

All these trends have made it harder for families to afford the basic cost of a child, especially if they are on modest incomes. Additional help for childcare is promised from 2016 for some families on low incomes, but until then, the current trends are set to continue. With the cap on benefit uprating at below the projected inflation rate extending for the next two years, and earnings projected to continue to rise at or below the consumer prices index for at least the next year, families are likely to struggle even more to make ends meet.

Appendix One

The main calculations

The following table sets out the basis for the cost of a child calculation.

Table A1

Additional costs 2013, £ per week

1. Excluding childcare, rent or council tax	**Couple**				**Lone parent**		
Age last birthday	First child	Second child	Third child	Fourth child	First child	Second child	Third child
0	69.44	61.62	66.82	51.85	81.73	67.95	60.47
1	69.44	61.62	66.82	51.85	81.73	67.95	60.47
2	77.67	69.64	76.32	61.00	89.97	75.97	69.97
3	77.67	69.64	76.32	61.00	89.97	75.97	69.97
4	77.67	69.64	76.32	61.00	89.97	75.97	69.97
5	84.05	76.31	82.34	67.02	96.34	82.64	75.99
6	84.05	76.31	81.43	66.90	96.34	82.64	75.26
7	84.05	76.31	81.43	66.90	96.34	82.64	75.26
8	84.05	77.08	81.41	67.63	96.34	83.40	76.03
9	84.05	77.08	81.41	67.63	96.34	83.40	76.03
10	84.05	77.08	81.41	104.25	96.34	83.40	76.03
11	106.90	99.93	103.38	103.38	119.19	106.25	98.87
12	106.90	99.93	103.38	99.93	119.19	106.25	98.87
13	106.90	99.93	99.93	99.93	119.19	106.25	106.25
14	106.90	99.93	99.93	99.93	119.19	106.25	106.25
15	106.90	106.63	106.63	106.63	119.19	118.98	118.98
16	106.90	106.63	106.63	106.63	119.19	118.98	118.98
17	106.90	106.63	106.63	106.63	119.19	118.98	118.98

2. Including childcare, rent and council tax	**Couple**				**Lone parent**		
Age last birthday	First child	Second child	Third child	Fourth child	First child	Second child	Third child
0	231.00	163.32	173.65	148.04	250.72	169.64	167.30
1	231.00	163.32	173.65	148.04	250.72	169.64	167.30
2	200.34	152.91	164.73	138.76	220.06	159.23	158.38
3	200.34	152.91	164.73	138.76	220.06	159.23	158.38
4	200.34	152.91	164.73	138.76	220.06	159.23	158.38
5	165.80	118.66	129.83	103.86	185.52	124.99	123.48
6	165.80	118.66	128.92	103.75	185.52	124.99	122.75
7	165.80	118.66	128.92	103.75	185.52	124.99	122.75
8	165.80	161.39	170.87	146.44	185.52	167.72	165.48
9	165.80	161.39	170.87	146.44	185.52	167.72	165.48
10	165.80	161.39	170.87	114.90	185.52	167.72	165.48
11	188.65	184.24	192.84	192.84	208.37	190.56	109.52
12	188.65	184.24	192.84	184.24	208.37	190.56	109.52
13	188.65	184.24	184.24	184.24	208.37	190.56	111.75
14	109.84	109.84	184.24	184.24	129.56	111.75	111.75
15	109.84	109.84	109.84	109.84	129.56	129.56	129.56
16	109.84	109.84	109.84	109.84	129.56	129.56	129.56
17	109.84	109.84	109.84	109.84	129.56	129.56	129.56

Appendix Two

Scorecard 2012

The following summary results from the 2012 scorecard can be compared with the 2013 scorecard shown in this report.

Table A2

Scorecard: cost of a child in 2012

A. How much extra a child adds to family costs, and how much benefits contribute to this	**Minimum additional cost of a child (averaged for first and second child)** Couple	Lone parent
1. Basic cost* over 18 years	£79,742	£88,330
2. Cost over 18 years, including childcare	£142,680	£155,015
3. Percentage of basic cost covered by child benefit	20%	18%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	87%	78%
B. The extent to which families have enough to cover the minimum cost of living	**Net income* as a percentage of minimum family costs (family with two children aged 3 and 7)** Couple	Lone parent
5. Not working	60%	63%
6. Working full time on the national minimum wage	84%	90%
7. Working full time on the median wage	108%	94%

* Net of rent, childcare and council tax

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