The cost of a child in 2014

Donald Hirsch

CHILD POVERTY ACTION GROUP

August 2014

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Published by CPAG
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www.cpag.org.uk

A CIP record for this book is available from the British Library

Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (registration number SC039339), and is a company limited by guarantee, registered in England (registration number 1993854). VAT number: 690 808117

Design by Devious Designs 0114 2755634
Cover photo by John Harris/reportdigital.co.uk
Printed by Calverts Press 020 7739 1474

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Acknowledgements

Thanks to Lindsay Judge and Katie Schmuecker for advice on this report, and to Lisa Jones and Nicola Lomax for administrative support.

This report was jointly funded by the Child Poverty Action Group and the Joseph Rowntree Foundation.

JRF JOSEPH ROWNTREE FOUNDATION

Contents

One Introduction

The cost of bringing up children is a crucial factor affecting family wellbeing and poverty. Many parents find it hard to afford the additional expense that children bring, while often having less disposable income because of caring responsibilities or care costs.

In 2014, the UK economy is starting to grow after the longest period of shrinkage and stagnation in recent times. In these difficult years, families have become less able to afford an adequate living standard, as the cost of bringing up a child has risen much faster than earnings, while help from the state to cover these costs has shrunk. Although wages are now forecast to start growing again, in real terms, the uprating of family benefits and tax credits has been capped at a level below inflation. This means that the reduced living standards being experienced by families on low incomes is not only persisting, but could continue to get worse.

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 second 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. This year's report also considers some of the key drivers pushing up the cost of living for families.

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 2014, prices rose by a total of 19 per cent, according to the government's preferred indicator of inflation, the consumer prices index (CPI).

For people on low incomes, this inflationary period has hit especially hard, since it is driven largely by the worldwide 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 27–28 per cent between 2008 and 2014, 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 42 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 9 per cent since 2008, a 9 per cent fall in real terms (relative to the CPI).[3] For families wholly or partly dependent on means-tested 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 now rising by only 1 per cent a year. In 2013 and 2014 combined, this meant that they declined by 2 per cent relative to the CPI.

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, and comparing it with the incomes of families on benefits and on low wages, we can track this change over time.

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 A Davis, D Hirsch and M Padley, *A Minimum Income Standard for the United Kingdom in 2014*, Joseph Rowntree Foundation, 2014

3 Office for National Statistics, *Labour Market Statistics*, 2014. Inflation and earnings figures shown in this report are for April 2014, 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 for 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 around 45 per cent of all the costs reported here). Additional housing costs are also included, using a model of minimum costs based on social rents for families with children, 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 for families. Housing cost issues are discussed further in Chapter 4.

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 2014

The following 'scorecard' summarises the cost of a child in 2014 and its relationship to basic family incomes. Each of the seven indicators in the scorecard is then looked at more closely, in graphs showing the change since the costs were first calculated in 2012.

Scorecard: cost of a child in 2014

A. How much extra a child adds to family costs, and how much benefits contribute to this cost	**Minimum additional cost of a child (averaged for first and second child)** Couple	Lone parent
1. Basic cost over 18 years	£83,155	£96,905
2. Full cost over 18 years	£153,679	£172,694
3. Percentage of basic cost covered by child benefit	19%	16%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	85%	73%
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	57%	60%
6. Each parent working full time on the national minimum wage	82%	87%
7. Each parent working full time on the median wage	106%	91%

Note: Basic cost does not include rent, childcare or council tax, and net income is income after subtracting these costs.

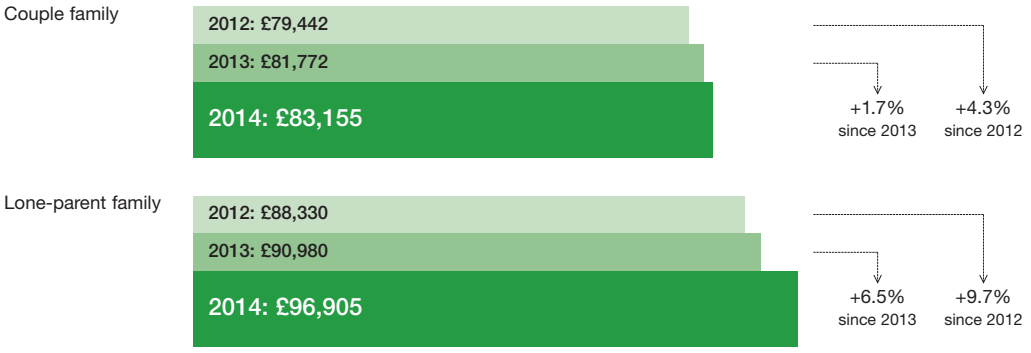
The cost of a child and how it is changing

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 2014, the consumer prices index (CPI) rose by 1.6 per cent. The basic cost of a child in a couple family rose by a similar amount (1.7 per cent), reaching £83,000 over the course of a child's upbringing.

Indicator 1

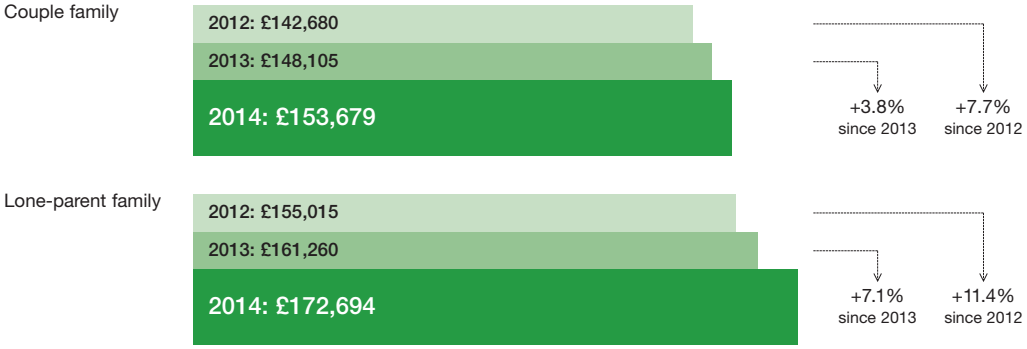
Basic cost of a child, from birth to age 18



What this indicator shows: The basic additional cost of a child. This excludes housing, childcare and council tax costs, all of which are sometimes wholly or partly covered by state support.

Indicator 2

Full cost of a child, from birth to age 18



What this indicator shows: The additional cost of a child including estimates of housing, council tax and childcare (assuming parents work), not taking account of government help such as housing benefit and childcare support in tax credits.

However, as calculated here, the cost to a lone parent of bringing up a child and the total cost, including housing and childcare, of bringing up a child in either a couple or lone-parent family increased by considerably larger percentages. While these single-year changes need to be interpreted with some care, they do reflect ways in which the cost of a child is increasing faster than inflation in the long term. Three key factors are contributing to these increases.

- A continued increase in childcare costs at a greater rate than the CPI. Although childcare inflation was more moderate than in previous years, at 3.3 per cent (for childminder fees outside London), it was still higher than general inflation.
- The updating of the minimum income standard (MIS) research lies behind these calculations. In 2014, the baskets of goods and services required as a minimum by households without children were researched again from scratch, through discussions with members of the public. This found that some requirements, particularly for single people, have become a bit more modest since they were last researched in 2008, and that the minimum overall budget had therefore fallen in real terms. Since this is not true for families with children, the additional cost of having children, especially for lone parents, has risen. While not all this change took place in a single year, as a literal reading of the cost of a child data would suggest, the evidence in MIS shows that, over time, costs for households with and without children have been diverging, which means that the additional cost of having a child has increased. (It may be argued that lower budgets for households without children does not, in itself, make it harder for families with children to make ends meet. However, this must be seen in the context of most households becoming worse off in real terms as benefits and wages have declined. Those without children have lost out less, so the presence of children is making it harder to reach an acceptable minimum.)
- Changes in relative housing costs, alongside a new method for counting rent in MIS. In 2014, groups of members of the public said that a working-age individual or couple without children could not expect to be in social housing, so these households are now

assumed to rent privately (at the cheaper end of the market). This did not make a large difference to the assumed rent levels. However, it does affect the rate of change in rents. The cost of social housing has been increasing rapidly, while average private rents have barely changed in the past two years. As a consequence, the additional growth in social rents for family houses greatly exceeds the growth in rents for private flats suitable for a couple or single person without children, which previously had been close together in price. This represents a new additional cost of having a child. It means that housing costs will grow when children arrive, even if their presence makes the family eligible for social housing, since the cost of a larger home will exceed the advantage of moving from a private to a social rent. The issue of rents is discussed further in Chapter 4.

The following discussion of trends in income adequacy needs to take account of the above provisos, showing that the 2014 study has picked up some long-term increases in costs that cannot all be attributed to the most recent year.

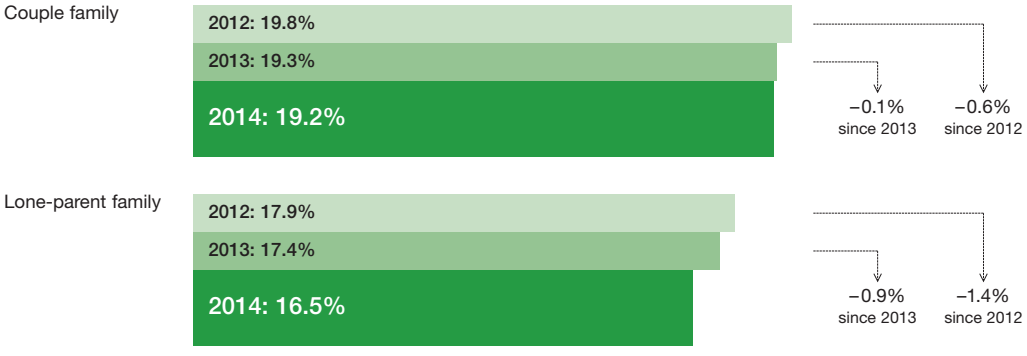
The adequacy of children's benefits

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). However, it covers less than one-fifth of minimum costs, and this is gradually reducing. In 2014, child benefit rose for the first time since 2010, but only by 1 per cent. As a result, it has lost 11 per cent of its value compared to the CPI and 17 per cent compared to the cost of a minimum basket of goods and services (as calculated by MIS).

Indicator 3

Percentage of basic cost covered by child benefit



What this indicator shows: The contribution made by child benefit to children's expenses.

Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

Indicator 4

Percentage of basic cost covered by child benefit plus maximum child tax credit

What this indicator shows: The extent to which benefits for low-income families cover the additional cost of having a child.

Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

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 cost 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, 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 two years, with a freeze or 1 per cent cap applying to all children's benefits, the percentage that it covers has fallen substantially. An out-of-work couple with children is now left 15 per cent, and a lone parent 27 per cent, short of covering the minimum additional cost of a child with child-related benefits.

The adequacy of family incomes

Indicators 5 to 7 consider incomes relative to costs from the perspective of the whole family, rather than just the additional cost of children. They show the adequacy of family income after any childcare costs and rent have been paid (but including as income the amount the government gives to help pay for these things). 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 fall far short of what is needed for a minimum acceptable standard of living. As noted above, the adequacy of benefits is declining, and this applies to the adult benefits received by parents as well as to children's benefits. (Indicator 5, shown here, includes costs and income for the whole family, not just those

Indicator 5

Disposable family income as a percentage of minimum family costs: out-of-work family

What this indicator shows: The overall benefit income of an out-of-work family compared to its costs – assuming that rent and most of council tax are covered by benefits and that there is no childcare.

Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

Indicator 6

Disposable family income as a percentage of minimum family costs: working full time on minimum wage

What this indicator shows: The overall income of a family whose parent/s work full time (37.5 hours) on the minimum wage, after paying for childcare, rent and council tax, as a percentage of budget requirements.

Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

associated with children as shown in Indicator 4.) Overall, a family on benefits is left more than one-third short of being able to afford a socially acceptable minimum.

Families in which all the adults work full time on the minimum wage 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 four 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 in-work support. These changes, combined with increases in childcare costs and 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. This is despite the fact that the minimum wage increased by 1.9 per cent in 2014, rising slightly faster than inflation for the first time in five years. A small real increase in earned income produces a gain smaller than the loss through real-term cuts in in-work support from the state.

Indicator 7

Disposable family income as a percentage of minimum family costs: working full time on median wage

What this indicator shows: The overall income of a family whose parent/s work full time (37.5 hours) on the median wage, after paying for childcare, rent and council tax, as a percentage of budget requirements.

Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

On the other hand, for some families on median earnings, real-term increases in wages during the economic recovery can be expected to bring a degree of improvement in living standards. This applies, for example, to a couple with both parents working, whose only state help comes through child benefit, meaning that they are less exposed to cuts than a family relying on tax credit support. In the latest year, real median wages grew by a similar amount to the increase in the cost of essentials as represented by a MIS basket.[1] This helped the adequacy of the income of a couple with children, on median earnings, to stabilise, having fallen significantly during the economic downturn as a result of falling real wages. However, for a lone parent on a median wage requiring full-time childcare, cuts in in-work benefits will continue to counteract gains from wage growth, since such a family is still eligible for tax credits or, in future, universal credit. Note that even working full time on a median wage, a lone parent is now left nearly 10 per cent short of being able to afford the minimum.

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.[2]

- 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

Table 1
The additional cost of each child, 2014

	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	£166,408.36	£140,950.12	£152,102.36	£134,860.83	£194,950.24	£150,437.30	£136,385.97
Average per year	£9,244.91	£7,830.56	£8,450.13	£7,492.27	£10,830.57	£8,357.63	£7,577.00
Average per week	£177.30	£150.18	£162.06	£143.69	£207.71	£160.28	£145.31
Excluding rent, childcare and council tax							
Total cost over 18 years	£85,887.34	£80,423.19	£84,093.57	£77,331.86	£105,102.06	£88,708.77	£83,813.15
Average per year	£4,771.52	£4,467.95	£4,671.86	£4,296.21	£5,839.00	£4,928.27	£4,656.29
Average per week	£91.51	£85.69	£89.60	£82.39	£111.98	£94.51	£89.30

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.

- 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. Note that the jump in costs shown at age 11 in Figure 1 is due to the simplified assumption that day-to-day costs are the same for any child aged 5–11 and the same for any child aged 11–18, so the increased cost of a secondary school child comes all at once. On the other hand, a schoolchild's childcare needs are assumed to continue until age 14, so there are three

Figure 1
Additional cost of first child of a couple, by age and childcare status, 2014

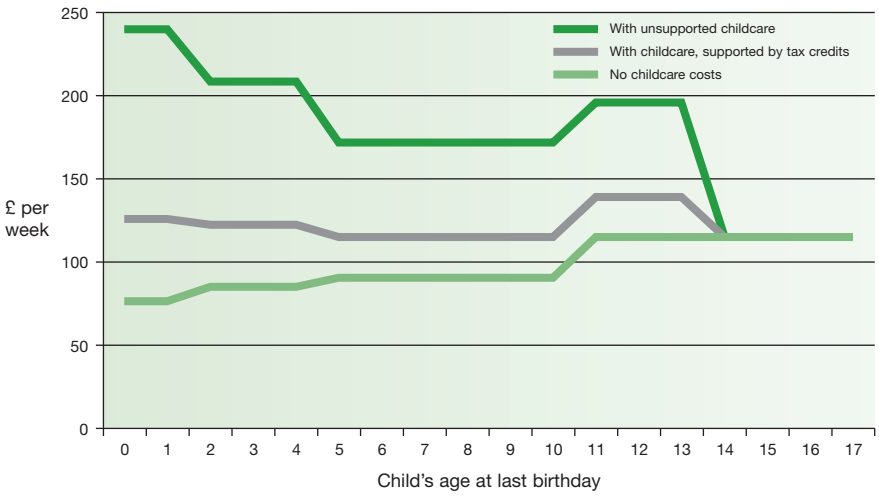


Figure 2

Cumulative weekly costs and benefit entitlement for successive children, non-working families, 2014

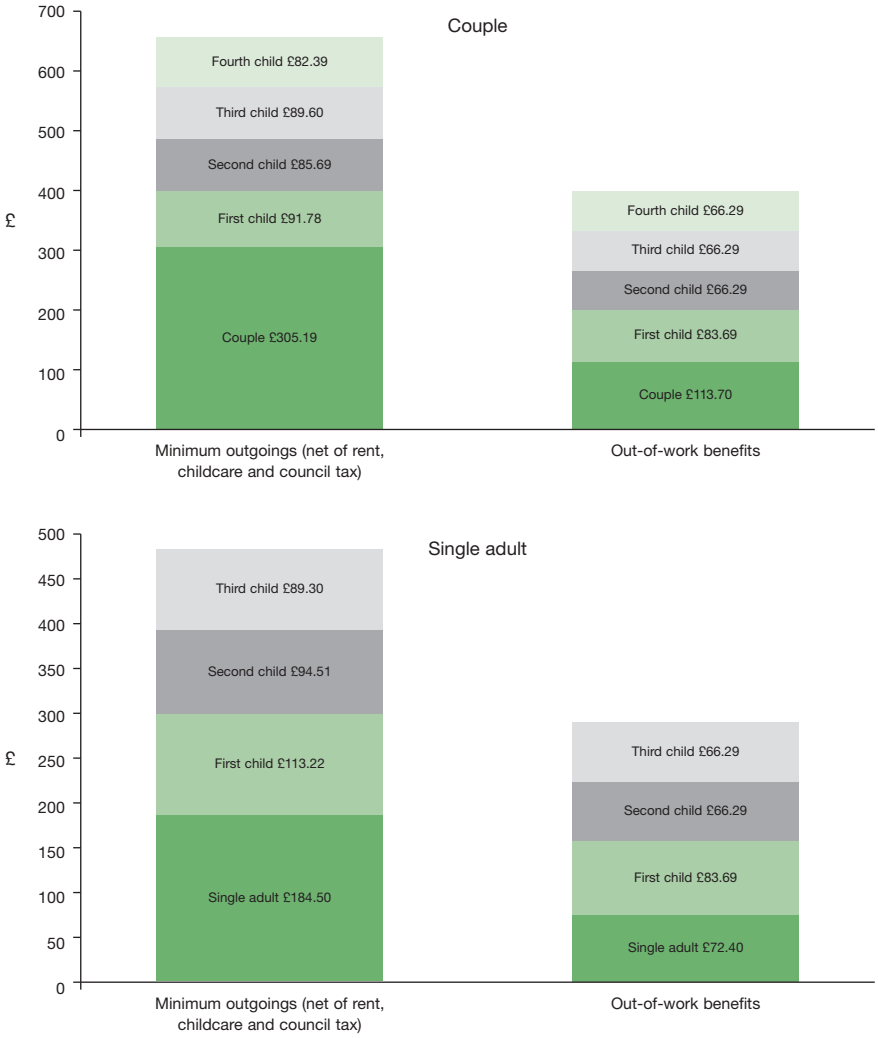
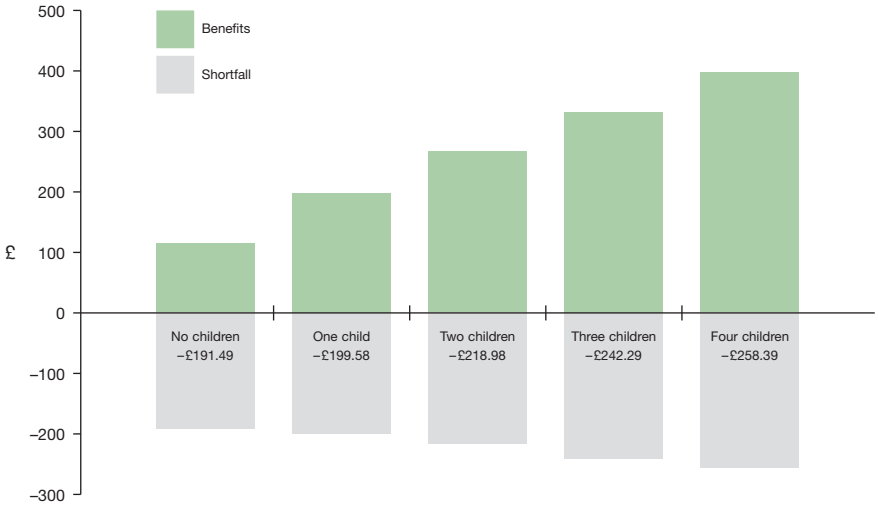


Figure 3

Adequacy of out-of-work benefits for couple families



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

years when both of these costs combine. In reality, changes are likely to be more gradual, but it is reasonable to assume that the growing cost of a child at secondary school will start to kick in before the expense of childcare ceases.

- 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 Based on *Annual Survey of Hours and Earnings* data – comparing median wages for 2013, the latest data available, with 2012, which shows 3 per cent growth. The cost of MIS baskets also grew by around 3 per cent.

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

Four

Key cost drivers and public policy

As discussed in detail in the 2012 report, additional costs of having children derive from a wide range of expenses.[1] These include physical costs, such as housing, clothing and feeding children, as well as attending to social and developmental needs, such as the participation in various activities and access to acceptable quality childcare.

Much of the growing difficulty for low-income families in covering the minimum cost of children results from an across-the-board increase in costs that has not been matched by a growth in household incomes. However, from a public policy perspective, there are also some specific costs that could potentially be reduced, which would help families address the cost of a child in a more targeted way. Four current issues that could be considered in this respect are: the cost of adequate housing; access to finance for household goods; rising food prices and the rising cost of childcare.

Housing

The arrival of children can greatly increase a family's housing costs. Larger accommodation costs more – to greatly varying degrees according to forms of tenure. However, the existence of affordable social housing has reduced this discrepancy, partly because the difference between rents in different size homes has tended to be lower in the social than in the private sector. For example, the rent for a three-bedroom house is less than 20 per cent higher on average than a one-bedroom flat in the social sector,[2] whereas in the private sector, based on lower-cost (30th percentile) rents, it is nearly 70 per cent higher.[3]

This means that if one assumes that households both with and without children are in social housing, the additional housing cost of having a child is relatively modest. However, since few working-age people without children or special requirements can get access to social housing, the calculations used here assume that those without children are in private rented flats, at the cheaper end of the market, while a family is in a socially rented house. Private rents have been relatively flat in recent years, increasing only by 1 per cent a year since 2011, while social rents have been rising by 6 per cent.[4] This means that the cost of renting a one-bedroom flat at the lower end of the private rental market is, on average, now cheaper than the same size property in social housing (influenced also by the stronger relationship between size of property and rent level in the former). As a consequence, the additional rental cost associated with having children is considerable, and is growing. In the past two years, the gap between the rent for a

family with two children and a single person, as calculated in the MIS, has widened from £8 a week to £14 a week. This trend is directly linked to the government policy of allowing social rents to rise closer to market levels.

Another crucial factor amenable to government policy is the extent to which rent is actually reimbursed through housing benefit for families on very low incomes. The calculations made in this report assume that it is fully reimbursable. However, in practice, half a million social tenants (22 per cent of those getting housing benefit) now have their payments reduced because they 'under occupy' their properties under the so-called 'bedroom tax' rules.[5] This particularly affects families with children, for whom the rules for the number of 'permitted' bedrooms is tighter than the members of the public in the MIS research thought was needed. For example, people do not consider it is appropriate, other than in large families, for children to have to share bedrooms, whereas the bedroom tax rules require this, other than for children of the opposite sex who are aged 10 or over. On average, families affected by the bedroom tax lose £14 a week, reducing the money available to a lone parent with two children by the equivalent of about 4 per cent of the family's weekly budget.

Buying household goods

Compared to some other expenses, the long-term cost of additional household goods that need to be bought, as a minimum, as a result of having children is not very large. On average, this amounts to about £9 a week for a first child and £4–£5 for a second, accounting for 5–10 per cent of the overall cost of a child. This is partly because some items (such as a refrigerator or a television) are needed whether or not a family has children and partly because many items last a long time, so their average weekly cost is low. Additional household goods for children include items such as furniture and carpets for an additional bedroom, and equipment such as pushchairs and stair gates.

However, this overall calculation masks the fact that it can be difficult for someone on a low income to find the finance needed to buy an item when it is required. S/he may end up paying much more than the usual retail cost of the item if using high cost credit or catalogue buying. This is also currently an important issue for government for two reasons. Firstly, new regulatory arrangements are trying to address the exploitation of people on low incomes by companies offering credit with high rates of interest, contributing significantly to the 'poverty premium'. Calculations made for a previous study estimated that families using high cost credit to buy household items could potentially add 4 to 8 per cent to the minimum cost of living for families with children (not including any rolled-up interest).[6] For a family setting up or moving home, a concentration of purchases at one time could create a larger debt financing requirement. A further calculation showed that during the first year after setting up home,

spending on credit could be over double the amount in a 'steady state', and hence could add nearly 20 per cent to the cost of a minimum weekly budget in some cases.[7]

Secondly, in 2015, local authorities will no longer be given support from central government to offer local welfare assistance, which replaced the social fund in 2013 as a source of emergency finance for people unable to buy larger essential items. In this context, even relatively modest one-off costs of buying items for children can be an unaffordable burden for the least well-off families. Perhaps the most direct common cost attributable solely to children is that of equipping a bedroom. According to the MIS calculations, uprated for inflation since they were first made in 2012, it costs a total of £300 to buy a bed, mattress and bedding and £175 to buy the most basic bedroom furniture, including a wardrobe and storage box (both examples calculated for a primary school child). These are substantial sums, not easy for the worst-off families to find without assistance. The 'lumpy' cost of spending on larger items could, moreover, become more serious as pressures on families to live in housing that is neither 'under occupied' nor above the rent limits set in the housing benefit system make it likely that more will have to move, and incur additional costs associated with setting up a new home.

Paying for food

Over the past six years, the cost of food has increased by 25 per cent, more than the overall increase in consumer prices of 19 per cent. This has put particular pressure on families with falling real incomes in terms of affording to feed their children adequately and healthily. On average, the cost of feeding a first child at a minimum acceptable level (including very occasional eating out) comes to £17.50 a week, but this is considerably higher, £26 a week, for a secondary school-age child, in contrast to just £7 a week for a baby. On average, food accounts for about one-fifth of the basic cost of an additional child.

It is uncertain what will happen to food bills over the coming years, and governments have little ability to affect them. However, the issue of free school meals has been important in ensuring that at least one hot meal is guaranteed every weekday in the school term. Because of the stigma attached to claiming free school meals when they are means-tested, universal free school meals have been shown in pilots to be effective, improving both diet and attainment, with gains concentrated among those on low incomes.[8] From September 2014, all pupils in reception, year 1 and year 2 will be offered free school lunches, regardless of income.

Such a measure will save families an estimated £6.94 a week in term-time, equating to an average of £5.20 a week annually, for each child affected. (This is the amount that is estimated as being spent on packed lunches.) This reduces by one-third the additional cost of food associated with having an additional child of primary school age. Thus,

while saving on packed lunches is only a relatively small cost in relation to a total family budget, it makes a tangible difference to the additional cost of a particular child.

Childcare

Childcare costs have consistently been rising faster than inflation in recent years. Since 2008, they have increased by 42 per cent on average, over twice as fast as the consumer prices index (CPI).[9] While the free 15 hours' early years entitlement for three- and four-year-olds, and its extension to two-year-olds for those on the lowest incomes, has helped some families, the reduction of support through the tax credit system from a maximum of 80 per cent to a maximum of 70 per cent of costs in 2011 has made childcare much more expensive for low-income families – requiring them to cover 30, rather than 20, per cent of the fees.

With childcare accounting for around 45 per cent of the cost of a child (for those working full time, and before taking account of tax credits), government action to help families pay for it is by far the single most important policy decision affecting the cost of a child.

- For example, if childcare were still being paid at 80, rather than 70, per cent in the tax credits system, a lone parent working full time on the minimum wage would only be 9 per cent short of what is needed to meet a minimum standard, rather than 13 per cent (as shown in Indicator 6).
- If, in addition, childcare costs had only risen by the same rate as the CPI since 2008, this gap would have shrunk to 7 per cent.
- On the other hand, if the government did not pay for 15 hours of childcare for three- and four-year-olds, the cost for the family in question would be greater, resulting in a 17 per cent shortfall (if other policies were the same as they are now).

Recognising the importance of this issue, and the destructive impact of high childcare costs on family living standards and work incentives, the government plans to increase childcare support from 2016. For those on universal credit (which is replacing tax credits), the subsidy will increase from 70 to 85 per cent – halving the family contribution from 30 to 15 per cent of the costs. Universal credit also removes restrictions to childcare support based on hours worked. If such a policy were in place at present, it would also halve the amount by which a lone parent working full time, with children aged three and seven, falls below the minimum income standard (MIS), from £49 a week to £25 a week.

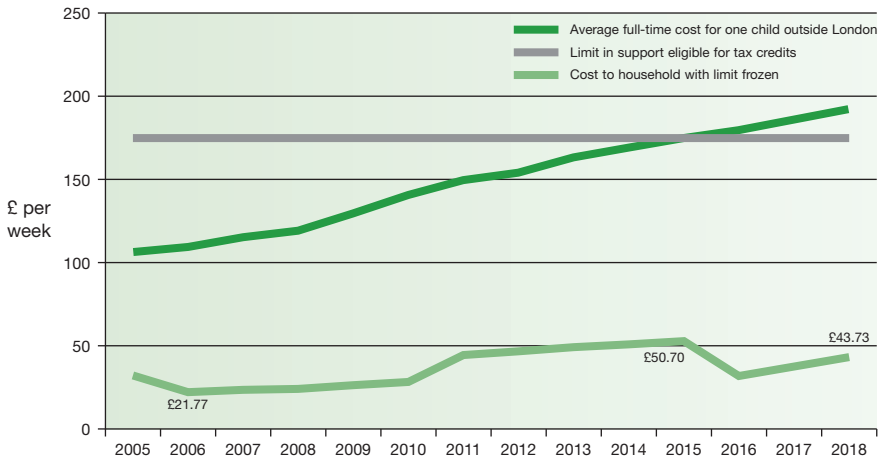
However, in practice, the introduction of the higher rate of subsidy may not result in such a drastic reduction in net childcare costs. This is because of another feature of the policy: the maximum childcare costs eligible for support. These are presently £175 for one child and

£300 for two or more children, and have been unchanged since 2005. When they were set, they were designed to prevent subsidies being paid for people with exceptionally high childcare costs. Since then, the cost of childcare outside London has risen by nearly 60 per cent, so that someone working full time and paying an average childcare fee for one young child (without the early years entitlement) has fees of £169 a week, only slightly below the limit. Those in more expensive areas, with more intensive care needs, such as for disabled children, or with more than one child may already be well above the cap. With continued childcare inflation, even the average outside London is likely to exceed the limit within about a year. For London families, average full-time childcare fees are already well above the limit.

If the limits to reimbursable childcare costs continue to be frozen and childcare costs continue to rise, this will have two serious consequences for families. Firstly, many parents will face a severe additional work disincentive. Where childcare costs reach the reimbursable limit for less than full-time hours, it will not generally be worth a parent working more than part time, unless s/he has above average wages. Even on a median wage of £11.60 an hour, a parent on universal credit gains less than £3 for each hour worked, due to the fact that additional earnings cause the benefit to be reduced and are also taxed. On average, additional childcare costs about £3.70 an hour, so without further help from the state to pay for this, or other action to reduce the cost of childcare overall, the family would become worse off as a result of working more hours. Secondly, for any family at or above the limit, each year in which childcare costs increase would cause a substantial loss of disposable income, as the family would foot the whole increase rather than being helped out through additional state support.

Figure 1 looks at the combined impact over time of past and proposed changes in the percentage rate and the fee limit of childcare support through tax credits and universal credit. It shows that since 2006,

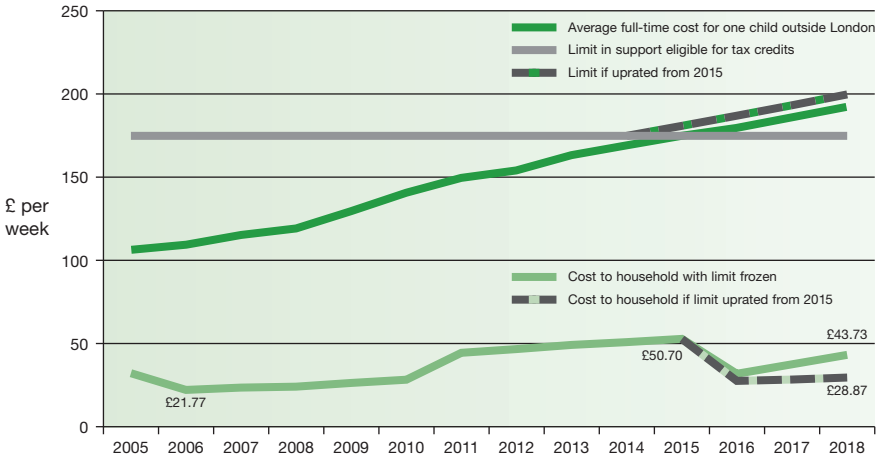
Figure 1
Childcare costs and eligible tax credit limit, 2005–2018



Note: It is assumed that costs continue to increase at the same rate (3.3%) as the latest year.

Figure 2

Childcare costs if eligible tax credit limit uprated from 2015



when the reimbursement rate was increased to 80 per cent, the net full-time cost of childcare for one child without any early years entitlement has more than doubled, from £22 to £51 a week. This is partly because the rate was reduced to 70 per cent in 2011 and partly because of increasing childcare fees. Assuming a continued increase in childcare fees at the same rate as they rose between 2013 and 2014 (which is more slowly than in the previous few years), and that the limit remains frozen, this cost to families will increase further to £52 in 2015, then reduce to £32 in 2016 when the new 85 per cent is introduced. However, it will increase rapidly thereafter, as additional costs will be above the reimbursable rate, so that by 2018 it will be back up to twice its 2005 level – £44 a week.

Thus, if the present limit is not increased, the gains of introducing the higher rate will be quickly eroded for many families with young children, especially those working full time. An alternative would be to start uprating the limits in line with childcare inflation. The consequences of such a policy are shown in Figure 2. In this case, the net cost of childcare to families would fall to around the level (adjusted by the CPI) of the mid-2000s, and remain at this level.

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 Calculations from *UK Housing Review* 2014, table 74
3 Calculation of average for local reference rents, Valuation Office Agency, June 2014
4 A Davis, D Hirsch, and M Padley, *A Minimum Income Standard for the United Kingdom in 2014,* Joseph Rowntree Foundation, 2014.
5 Department for Work and Pensions, *Housing Benefit Caseload Statistics*, February 2014
6 D Hirsch, *Addressing the Poverty Premium: approaches to regulation*, Consumer Futures, 2013
7 D Gibbons, L Vaid and L Gardiner, *Can Consumer Credit be Affordable to Households on Low Incomes?* Centre for Affordable Credit, 2011
8 Department for Education, *Evaluation of the Free School Meals Pilot: impact report*, 2012
9 Calculations based on Daycare Trust's childcare cost surveys for a childminder of a child over two, out of London average

Five Conclusion

In the past five years, families have faced rising costs, while the amount that they receive in earnings and benefits has barely increased. This is true across all working-age groups, and not just those with children. However, families with children have been hit particularly hard by the rapid increase in childcare fees. Moreover, low-income families with children, both in and out of work, are particularly likely to rely on help from the state, through benefits and tax credits, to make ends meet. These benefits and tax credits are set to continue being uprated below the rate of inflation, meaning that as other working households start to make up lost ground in the economic recovery, low-earning families with children are likely to be stuck on inadequate incomes. Those depending on out-of-work benefits are likely to fall even further behind.

Some of the drivers of the cost of essentials are down to global market forces. Nonetheless, public policy will also be crucial for the ability of low-income families to meet their children's costs in the next few years. An early return to inflation-based uprating would at least help prevent things from getting worse. Other measures that could keep family costs down include curbing increases in social rents, widening access to free school meals and looking for ways of giving families access to affordable credit. However, the single measure that would do most to make life more affordable for many families with children is giving effective support for paying for childcare or finding other ways to reduce the cost of childcare. The halving of the private contribution of low-income families to the cost of childcare in 2016, from 30 to 15 per cent, could make a huge difference to many parents. However, without an increase in the cap on eligible fees, the burden of paying for childcare could actually increase, particularly for those working full time. Without effective support for childcare, other measures to help families earn enough to pay for the cost of raising their children could prove fruitless – since many parents with young children will lack the opportunity to attain a decent level of disposable income.

Appendix 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 and council tax	**Couple**				**Lone parent**		
Age last birthday	First child	Second child	Third child	Fourth child	First child	Second child	Third child
0	70.47	63.16	68.60	53.43	90.95	69.64	61.92
1	70.47	63.16	68.60	53.43	90.95	69.64	61.92
2	79.12	71.61	78.59	63.07	99.59	78.09	71.91
3	79.12	71.61	78.59	63.07	99.59	78.09	71.91
4	79.12	71.61	78.59	63.07	99.59	78.09	71.91
5	84.71	77.48	83.79	68.27	105.18	83.96	77.11
6	84.71	77.48	82.89	68.15	105.18	83.96	76.38
7	84.71	77.48	82.89	68.15	105.18	83.96	76.38
8	84.71	78.26	82.89	68.91	105.18	84.75	77.17
9	84.71	78.26	82.89	68.91	105.18	84.75	77.17
10	84.71	78.26	82.89	106.84	105.18	84.75	77.17
11	108.66	102.21	105.98	105.98	129.13	108.70	101.12
12	108.66	102.21	105.98	102.21	129.13	108.70	101.12
13	108.66	102.21	102.21	102.21	129.13	108.70	108.70
14	108.66	102.21	102.21	102.21	129.13	108.70	108.70
15	108.66	108.38	108.38	108.38	129.13	128.92	128.92
16	108.66	108.38	108.38	108.38	129.13	128.92	128.92
17	108.66	108.38	108.38	108.38	129.13	128.92	128.92

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	240.59	168.67	179.39	152.80	271.00	175.15	172.71
1	240.59	168.67	179.39	152.80	271.00	175.15	172.71
2	209.07	158.09	170.35	143.40	239.48	164.58	163.67
3	209.07	158.09	170.35	143.40	239.48	164.58	163.67
4	209.07	158.09	170.35	143.40	239.48	164.58	163.67
5	172.38	121.69	133.28	106.33	202.79	128.17	126.60
6	172.38	121.69	132.38	106.22	202.79	128.17	125.88
7	172.38	121.69	132.38	106.22	202.79	128.17	125.88
8	172.38	165.82	175.73	150.32	202.79	172.31	170.01
9	172.38	165.82	175.73	150.32	202.79	172.31	170.01
10	172.38	165.82	175.73	118.27	202.79	172.31	170.01
11	196.33	189.77	198.82	198.82	226.74	196.26	112.55
12	196.33	189.77	198.82	189.77	226.74	196.26	112.55
13	196.33	189.77	189.77	189.77	226.74	196.26	114.85
14	114.93	114.93	189.77	189.77	145.34	114.85	114.85
15	114.93	114.93	114.93	114.93	145.34	145.34	145.34
16	114.93	114.93	114.93	114.93	145.34	145.34	145.34
17	114.93	114.93	114.93	114.93	145.34	145.34	145.34

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