

**CHILD
POVERTY
ACTION
GROUP**

THE COST OF A CHILD IN 2015

AUGUST 2015

Donald Hirsch



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CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement. If you are not already supporting us, please consider making a donation, or ask for details of our membership schemes, training courses and publications.

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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

Many families in the UK have found it increasingly difficult to cover the cost of bringing up children in recent years. Costs have risen faster than incomes. Parents are reluctant to see their children go without essentials, yet those on low incomes may face a stark choice between neglecting their children's needs, making severe material sacrifices themselves or going into debt.

Since 2012, a series of calculations supported by the Child Poverty Action Group and the Joseph Rowntree Foundation have systematically monitored the minimum cost of a child.¹ This fourth report in the series updates these calculations, and considers the likely effect of forthcoming policy changes on the ability of families to make ends meet.

THE CONTEXT

The UK has recently emerged from a period in which household costs were rising while household incomes stagnated. In 2013/14, median household income remained 6 per cent below what it had been, in real terms, four years earlier. In the past year, general prices have stopped rising, although some key items, including rents and childcare, continued to increase. Wages have started to grow and employment has picked up. However, while real-terms wages are projected to rise over the coming years,² most state benefits and tax credits will be frozen or cut, meaning that with the projected return of modest inflation, families could find it harder still to afford the cost of a child.

Some key aspects of the current context include the following.

- The contrast between the minimum cost of living and the growth in earnings in recent years. The consumer prices index shows prices as being 19 per cent higher in 2015 than in 2008, but a minimum acceptable basket of goods and services costs over 25 per cent more,³ while earnings have risen by around 11 per cent.

- The detachment of increases in benefits and tax credits from the inflation rate – since 2011 for child benefit and since 2013 for other working-age benefits. The 2015 summer Budget announced that a three-year period of 1 per cent increases will now be followed by a four-year period of frozen benefit and tax credit rates. This is causing the value of benefits to fall steadily in real terms (except in the unusual situation in 2015 when the last of the series of 1 per cent increases coincided with zero inflation).
- The freezing over the past few years, and the cutting in 2016, of disregards for tax credits and the work allowance for universal credit. These are the amounts that claimants can earn before their additional earnings trigger proportionate reductions in the credit. Freezing these levels has the important effect that any increase in wages, even where it only just covers inflation, gets sharply clawed back through means testing. The 2016 cut will substantially reduce the incomes of most working families on low incomes who have children.
- A range of other cuts in the pipeline announced in the 2015 summer Budget, notably: an increase in the tax credit taper rate (the rate at which the amount of tax credits fall with rising income); the limitation of child tax credit entitlement to two children for new claimants from 2017; the removal of the family element of child tax credit for new claimants from 2017; and the reduction in the benefit cap.

This report updates the calculation of the cost of a child for the present year and, in its final chapter, considers future prospects for a family's ability to afford this cost under policies announced in the July 2015 Budget. A further report later in 2015 will make similar calculations for London, for where minimum costs can be calculated for the first 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. Office for Budget Responsibility, *Economic and Fiscal Outlook: July 2015*, Cm9088, 2015
3. D Hirsch, *A Minimum Income Standard for the United Kingdom in 2015*, Joseph Rowntree Foundation, 2015

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.

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 cost 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 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.

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 the United Kingdom 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-uk.

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 2015

SCORECARD: THE COST OF A CHILD IN 2015

The following 'scorecard' summarises the cost of a child in 2015 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 2015

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	£84,188	£97,576
2. Full cost over 18 years	£149,805	£167,339
3. Percentage of basic cost covered by child benefit	19%	17%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	84%	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%	61%
6. Each parent working full time on the national minimum wage	84%	87%
7. Each parent working full time on the median wage	106%	91%

Note: 'Basic cost' does not include rent, childcare or council tax. 'Net income' refers to disposable income, after subtracting rent, childcare and council tax.

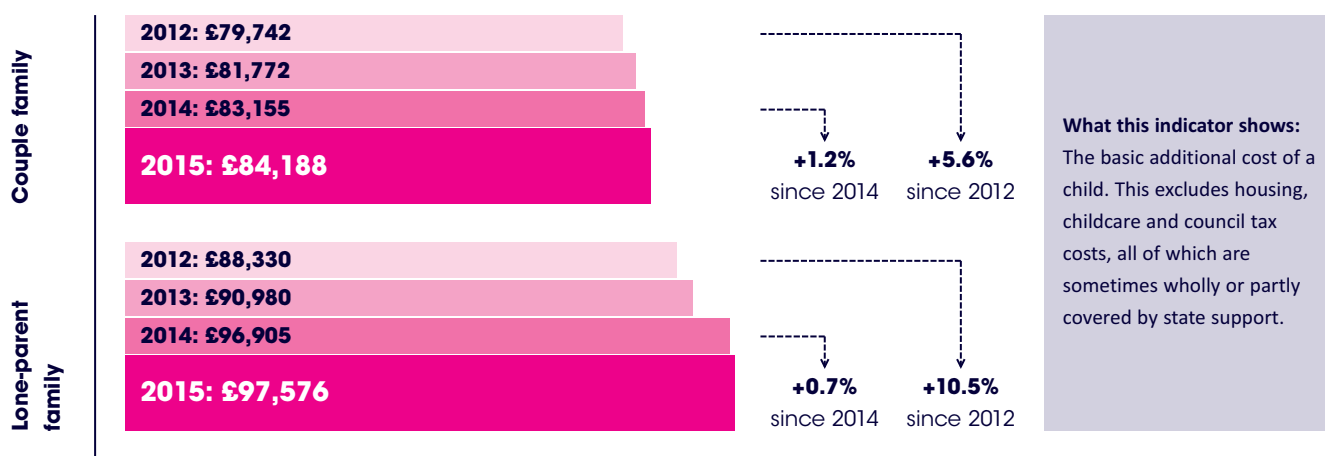
THE COST OF A CHILD AND HOW IT IS CHANGING

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 2015, the consumer prices index (CPI) barely changed: it fell by 0.1 per cent. Similarly, the cost of a child changed only slightly, rising by around 1 per cent in the family types shown. Due to some increases in rent and childcare, the costs including these items have risen slightly faster than basic costs that exclude them. As a consequence, some families with high rent or childcare fees

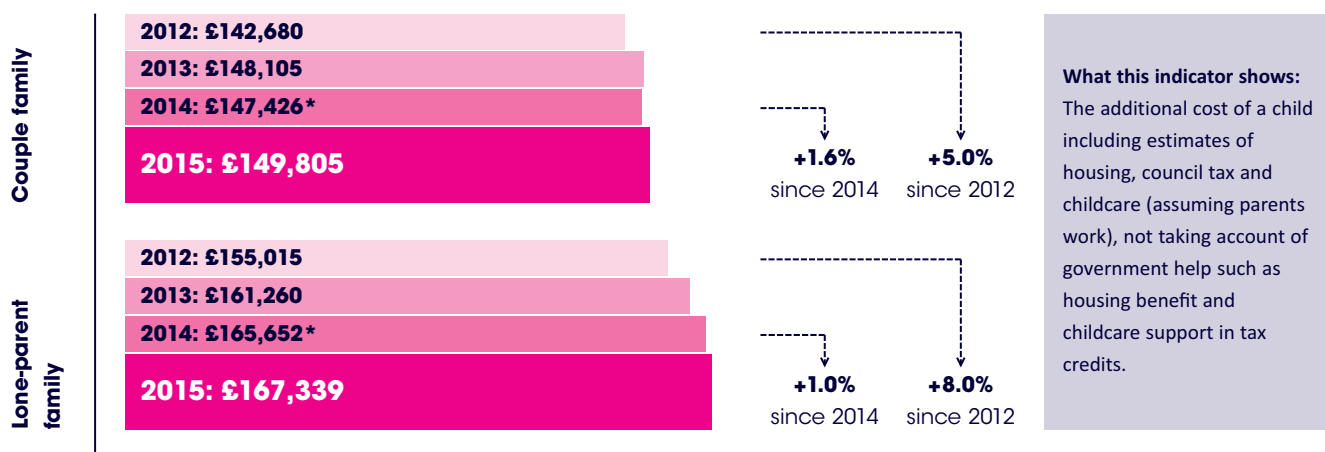
Indicator 1

Basic cost of a child, from birth to age 18



Indicator 2

Full cost of a child, from birth to age 18



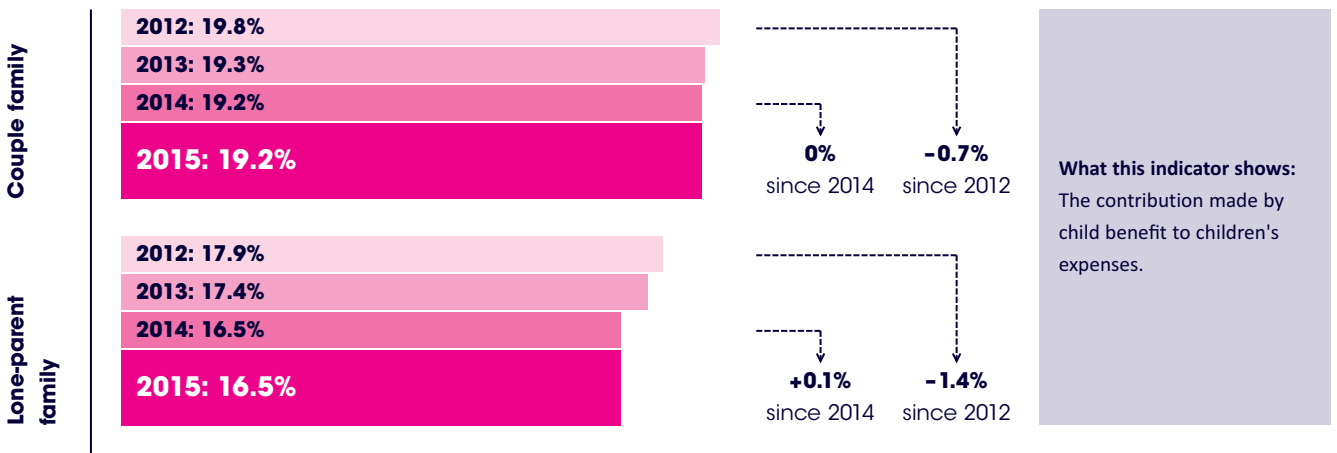
*Due to a technical revision in the way rent is calculated, Indicator 2 shows slightly lower values for 2014 than reported in that year.

are likely to have seen more substantial increases in the overall cost of living (childcare costs have risen on average by about 3 per cent and rent by about 2 per cent in the past year). It must also be borne in mind, as shown in Indicators 1 and 2, that this stable period of children's costs follows significant increases in recent years, and therefore can be interpreted as the cost of a child remaining at a high level.

THE ADEQUACY OF CHILDREN'S BENEFITS

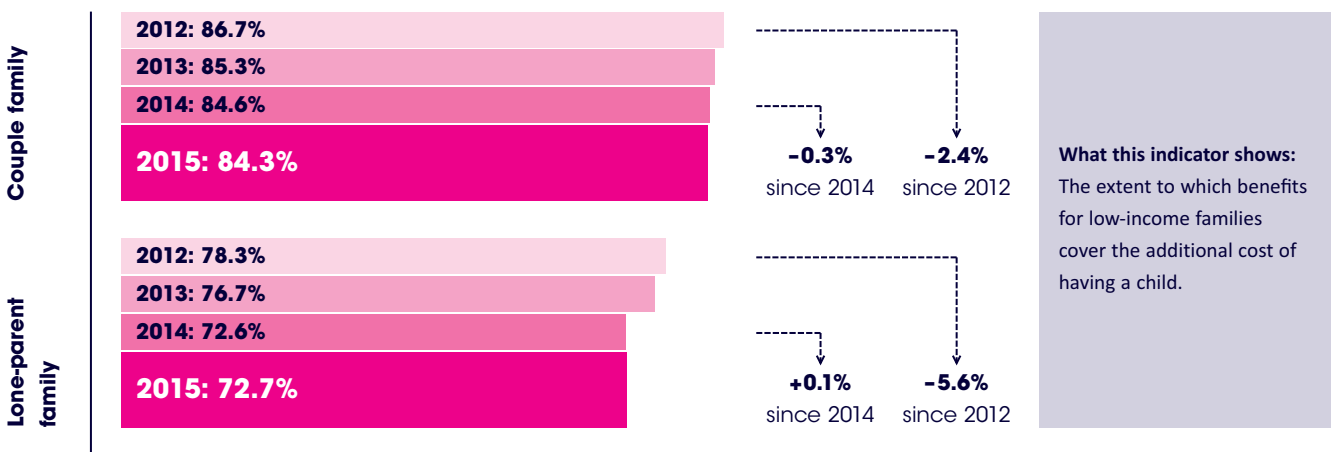
Indicators 3 and 4 show how much of the additional costs of a child, not including childcare, are covered by benefits.

Indicator 3
Percentage of basic cost covered by child benefit



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



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 and child tax credit continued to provide a similar proportion of children’s costs in 2015 as in 2014, improving slightly for lone parents and becoming slightly less generous for couples. This is because the 1 per cent increase in benefit rates was very similar to the increase in the cost of a child. Here again, however, the improvement follows significant deterioration since 2012, particularly for children of lone parents on low incomes, for whom overall support relative to children’s costs is nearly 6 per cent lower than three years ago – falling from 78 per cent to 73 per cent of costs. Looked at another way, for a lone parent on a low income, child tax credit plus child benefit fell 22 per cent short of covering the minimum cost of a child in 2012, and now falls 27 per cent short.

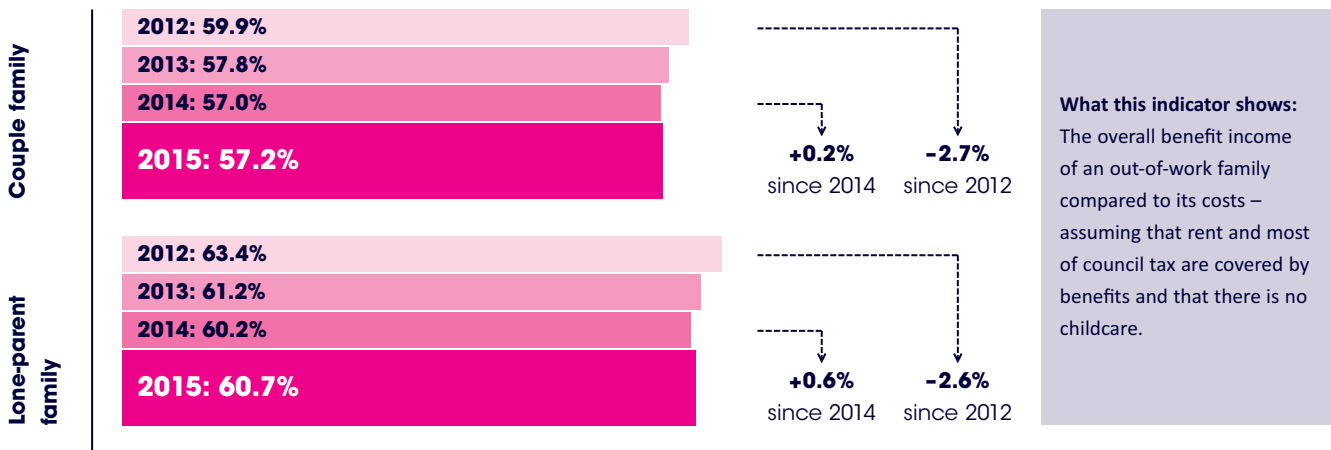
THE ADEQUACY OF FAMILY INCOMES

Indicators 5 to 7 go on to 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 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 shown in Indicator 5, there has been a very small improvement in the adequacy of benefits in 2015, but they remain significantly lower in relation to the cost of a child than in 2012. (Indicator 5 includes costs and income for the whole family, not just those associated with children as shown in Indicator 4). Overall, a family on benefits is left well over a third short of being able to afford a socially acceptable minimum.

Indicator 5

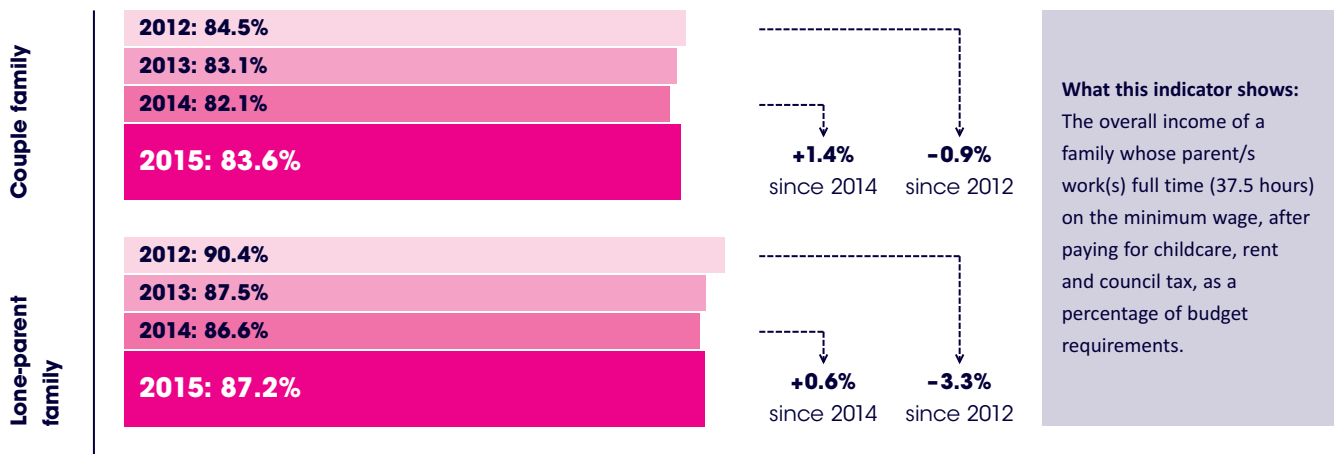
Disposable family income as a percentage of minimum family costs: out-of-work family



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

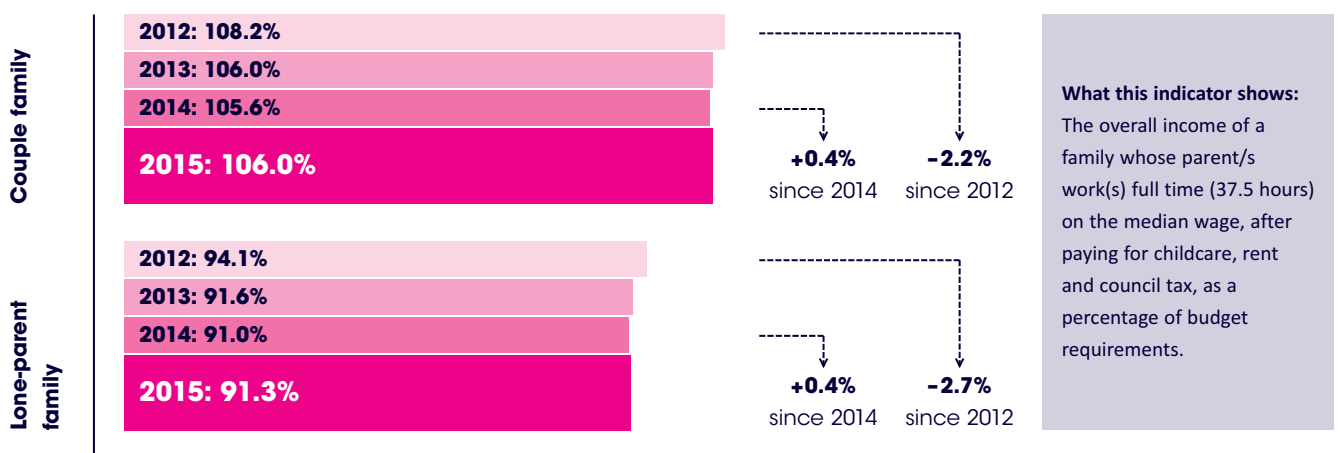


Note: The changes are shown in percentage points – eg, a reduction of one-tenth from 20% to 18% is shown as a 2% fall, not a 10% fall.

Families in which all the adults work full time on the minimum wage also fall significantly short of meeting their needs. While the tax credits system ensures they can afford most of their requirements, it has become less generous in this respect in recent 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. On the other hand, in the latest year, this small increase combined with an increase in the tax allowance allowed a small improvement in the adequacy of incomes relative to the minimum income standard for families on the minimum wage.

Indicator 7

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



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.

The slight recent improvement in incomes in 2015 for families on low wages (Indicator 6) is mirrored for those on median earnings, who are starting to gain from economic recovery (Indicator 7). If earnings growth picks up as expected, this trend will continue for those depending mainly on market incomes. However, families receiving tax credits or universal credit are more vulnerable to cuts in their income (see Chapter 4). It is worth noting that this includes the lone parent example shown in Indicator 7: even on the median wage, a lone parent working full time with two children and requiring childcare is eligible for tax credits/universal credit. Such a family remains 9 per cent short of the minimum income required.

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 Five of that 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

Table 1
The additional cost of each child, 2015

All additional costs	Couple parent				Lone parent		
	First child	Second child	Third child	Fourth child	First child	Second child	Third child
Total cost over 18 years	£158,976.15	£140,633.29	£152,054.75	£134,697.33	£184,660.87	£150,017.73	£135,440.16
Average per year	£8,832.01	£7,812.96	£8,447.49	£7,483.18	£10,258.94	£8,334.32	£7,524.45
Average per week	£169.38	£149.84	£162.01	£143.51	£196.75	£159.84	£144.30
Excluding rent, childcare and council tax							
Total cost over 18 years	£87,312.68	£81,062.87	£84,312.93	£77,612.33	£106,052.60	£89,098.97	£83,939.00
Average per year	£4,850.70	£4,503.49	£4,684.05	£4,311.80	£5,891.81	£4,949.94	£4,663.28
Average per week	£93.03	£86.37	£89.83	£82.69	£112.99	£94.93	£89.43

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.

- 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 the age of 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 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.

Figure 1
Additional cost of first child of a couple, by age and childcare status, 2015

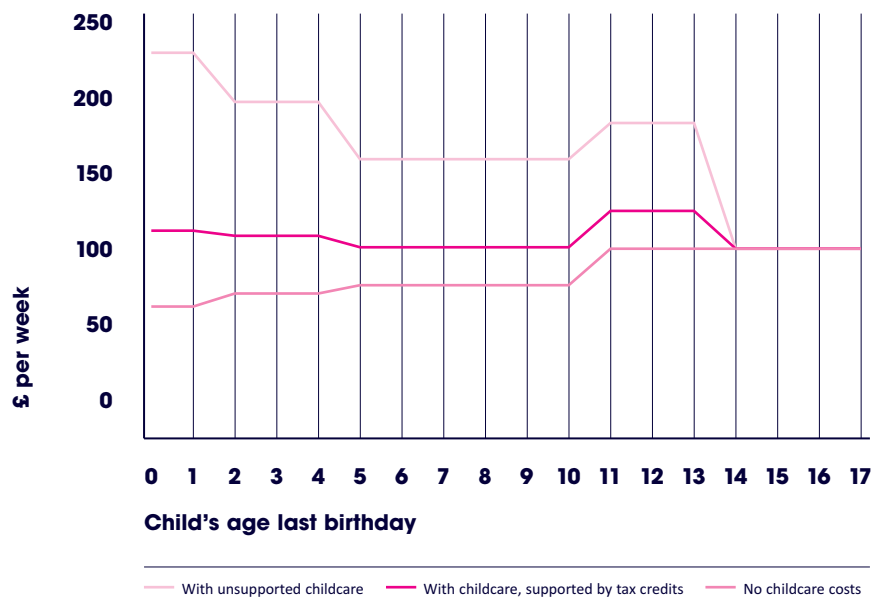
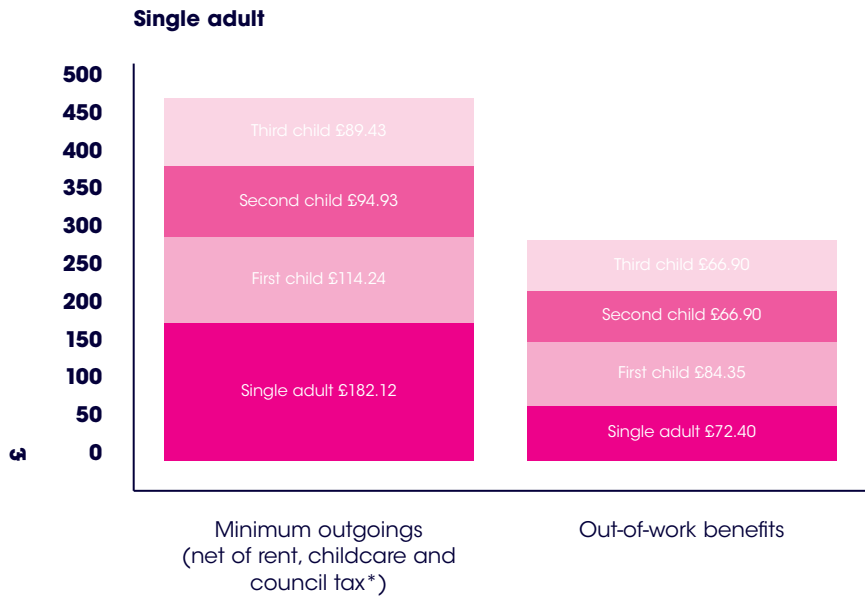
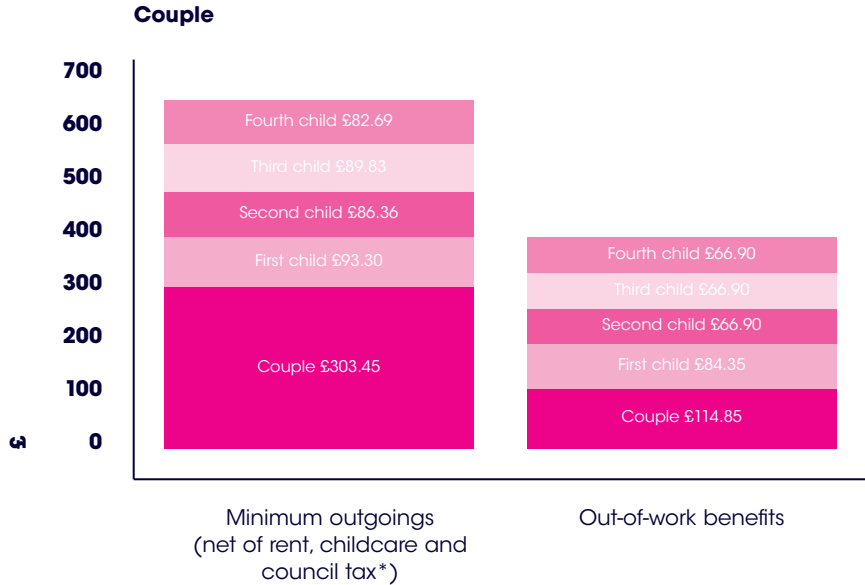
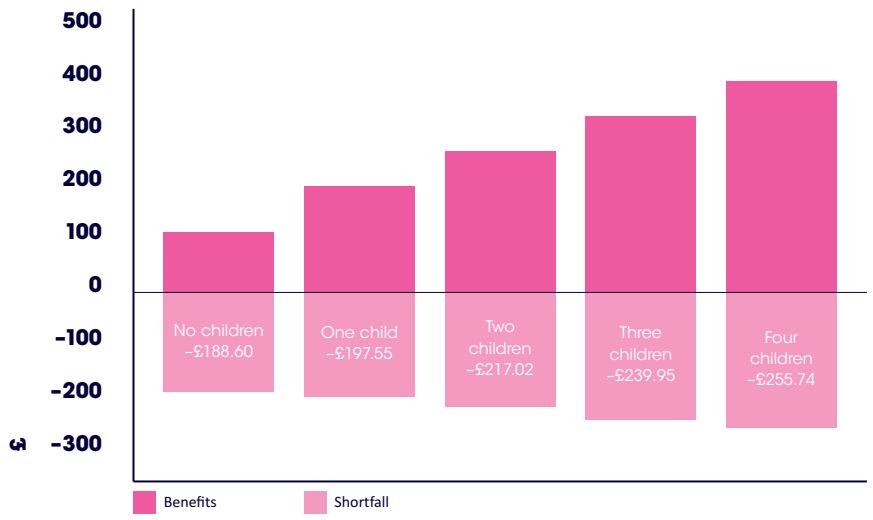


Figure 2
 Cumulative weekly costs and benefit entitlement for successive children, non-working families, 2015



*except the portion of council tax not covered by benefits

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.

- 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 their costs covered by benefits than those 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 CURRENT POLICY PLANS AND THE COST OF A CHILD

The election of a new government sees a number of important changes planned in the benefits and tax credits system, as well as in the universal credit system that is replacing them. This chapter identifies five key sets of policy changes and notes the impact that each will have on the ability of families to meet the cost of a child.

REAL-TERMS CUTS IN WORKING-AGE BENEFITS

The July 2015 Budget announced that all working-age benefits, including child benefit, will be frozen for at least four years. This means quite simply that as children's costs increase, help to cover them will not.

Cumulative inflation from 2015 to 2019, the period covered by the freeze, is forecast by the Office for Budget Responsibility to be about 7 per cent.¹ This will potentially cause the basic cost of a first child to rise by about £6 to £8 a week, leaving low-income families, both in and out of work, that much further behind meeting this cost. (If actual costs rise by more than the index, the effect will be greater.)

From 2017, new claimants will also have their tax credits or universal credit reduced by a further £10.45 per week per family, with the loss of the family element of child tax credit.

CHANGING THE TERMS FOR WITHDRAWING IN-WORK BENEFITS

Both tax credits and universal credit are withdrawn at a given rate once earnings reach a certain level. The July 2015 Budget announced cuts in that level (income ‘disregards’) for both tax credits and universal credit, and an increase in the withdrawal rate for tax credits. Moreover, in addition to the one-off cut, disregards have been frozen.

The effect of the increase in the taper rate will vary according to each household’s earnings. However, the one-off cut in disregards has a common effect on virtually all working families eligible for this support. Specifically:

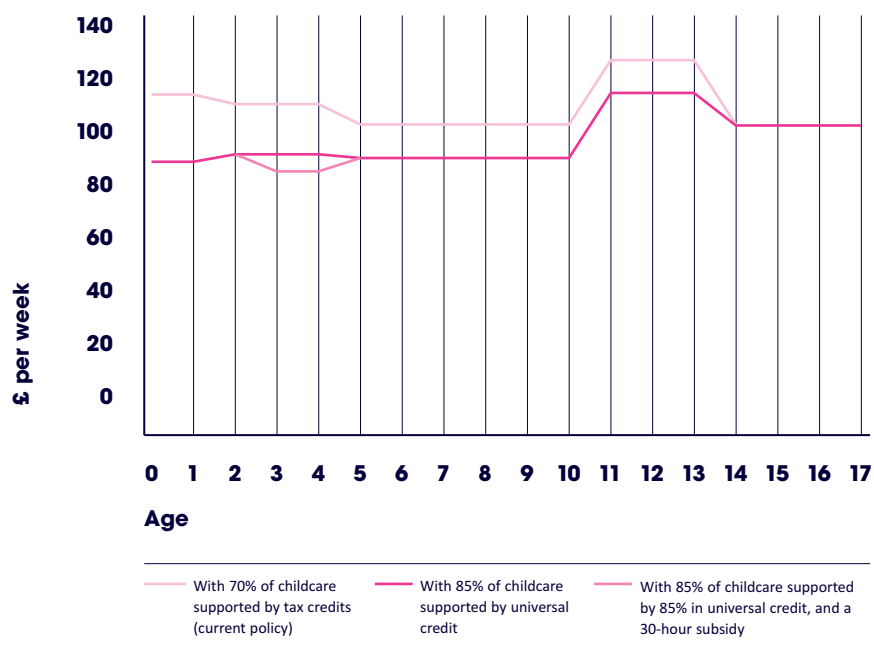
- For families on tax credits, the income disregard has been cut by £49 a week. At the new withdrawal rate of 48 per cent, this creates a major loss per working family of £24 a week. Combined with the two changes described above, this means a cut of nearly £50 a week in the level of support for a working family with two children, relative to the cost of those children, by 2019 for new claims.
- A cut in the universal credit work allowance (disregard) for lone parents of £16 a week, multiplied by a withdrawal rate of 65 per cent, will have a smaller, but still substantial, effect, reducing income by £12 a week. The equivalent for couples with children is a £5-a-week cut.

Note also that the plan not to uprate disregards in line with rising prices or earnings will severely affect the extent to which the new national living wage offsets the cuts outlined above. This is because most of the increase will be clawed back in reduced support and higher taxes. For example, the planned 70p-an-hour increase (compared to the current minimum wage) planned for next year, works out at about £26 for a full-time working week, but once this amount has been subject to tax, national insurance and the income taper, only about £6.50 will remain in disposable income (even taking into account an increasing tax threshold).

ADDITIONAL SUPPORT FOR CHILDCARE FROM 2016 AND 2017

Under universal credit, the percentage of childcare eligible for support will rise to 85 per cent in 2016, compared with 70 per cent under tax credits. In 2017, the eligible hours of free childcare for three- and four-year-olds will also double, from 15 to 30 hours per week (available only to working families). Both these policies have the potential to bring down costs substantially for those families using paid childcare. Figure 1 illustrates how, if both these entitlements are fully

Figure 1
 Cost of a child 2015 compared with cost after childcare policy changes



Note: Costs with future policy changes are at 2015 value.

taken up, the schedule of costs could change over the course of childhood. For a family with a young child, the net cost of bringing up a child on a low income could reduce by up to £25 a week. Given that non-childcare costs tend to increase with the child’s age, while childcare costs reduce, this change would help make the first years of a child’s life the cheapest ones, even for families paying substantial amounts for childcare.

However, several caveats need to be borne in mind when projecting these beneficial effects of the additional help with childcare.

- The 85 per cent support rate for childcare does not apply to families on tax credits, so the slow changeover to universal credit will delay this increase for many families well beyond 2016.
- Even when they become eligible for additional support, it may be hard for many families to afford to work full time and pay for childcare, due to cash limits on support levels. The system only supports childcare fees of up to £175 a week for one child or £300 for two or more – limits that have not changed since 2005. The soaring price of childcare has meant that many families already pay more than this, meaning that every time childcare costs increase they must bear the whole cost.

- There has been widespread concern that the 30 hours' free childcare will not work because nurseries will not be offered a viable rate to provide this. In the case of the 15 hours' free entitlement offered to date, there has been scope for nurseries to cross-subsidise from the paid element, but this will be harder to manage if many parents only use the free hours, given the increase number of hours available.

Thus, improvements to childcare support have the *potential* to make a large difference to the cost of a child faced by low-earning working families, helping to offset some of the cuts, but the details of policy design and implementation will influence how many are able to take advantage of these improvements.

LOWERING THE BENEFIT CAP

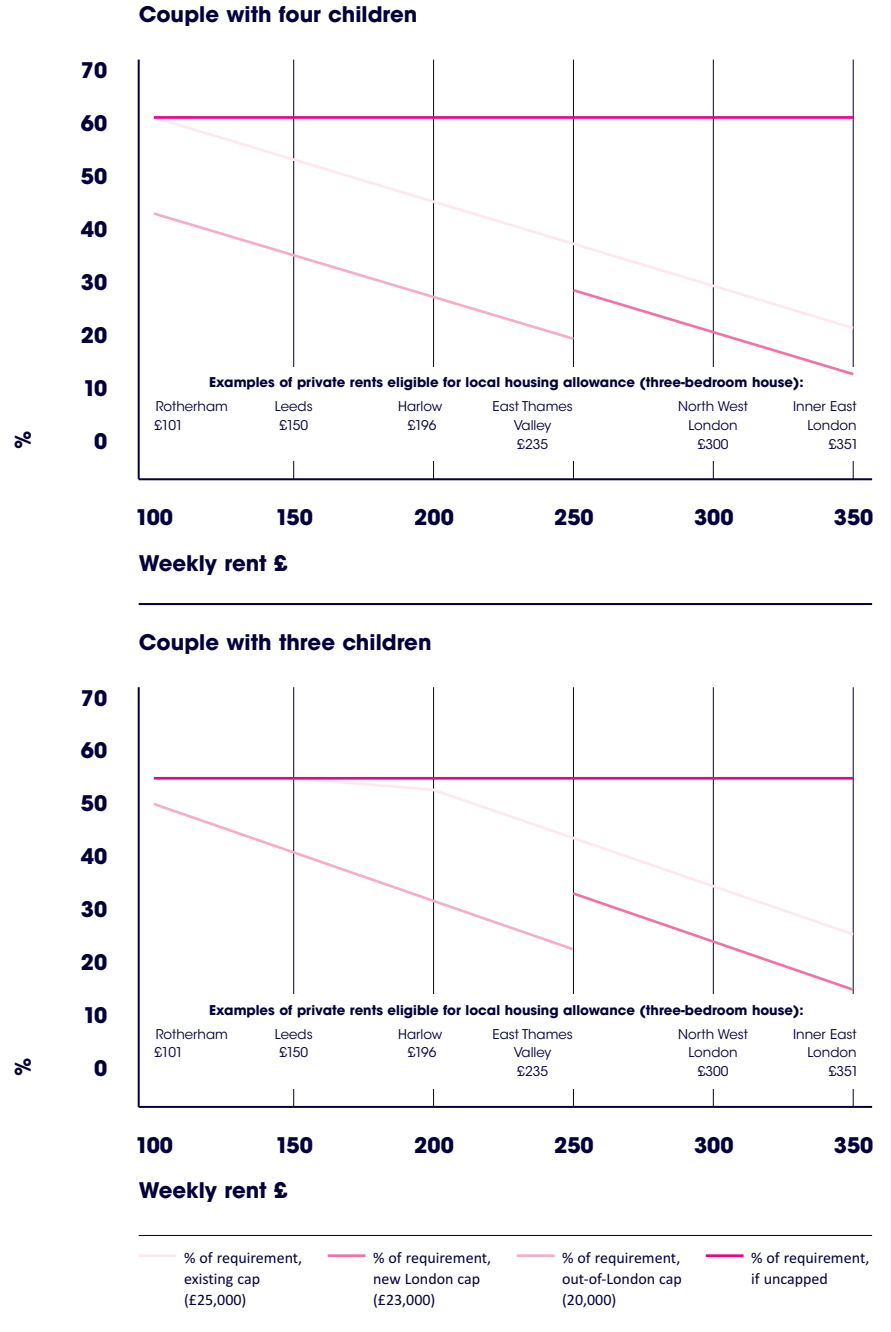
From 2016, the maximum that out-of-work families can receive on benefits will be decreased from £26,000 to £23,000 a year in London, and £20,000 outside London. The effect of this cut is straightforward to calculate for families already on the cap: it reduces their net income by £3,000 a year, or £58 a week, in London and £6,000 a year, or £115 a week, outside London. Other families with benefits between the old and new limits will be hit by smaller amounts.

For the families affected, out-of-work benefits, which until recently covered about two-thirds of minimum needs, will typically be cut to less than half the minimum required, and sometimes leave only a small fraction of what the family needs after paying their rent.

The way that this will affect families of different size and rent levels is illustrated in Figure 2. This shows examples of the overall proportion of a minimum budget covered for a couple with four children and for a couple with three children, under the old and new caps. The higher those costs, the less a family will have to cover non-rent items if an overall cap is put on benefits. For a family with a private rent at the levels eligible for housing benefit for a three-bedroom house in parts of inner London (around £350 a week), benefits will cover as little as 14 per cent of a family's post-housing needs under the new cap level, because most of it will need to go to paying the rent. Even in medium-rent parts of the country, the lower benefit cap will cause families to have well under half of what they need. Moreover, while some couples with three children escape the existing benefit cap in lower cost areas, this is not the case under the new cap. In fact, a couple with three children only needs to have £52 a week entitlement to housing benefit in order to be hit by the outside London cap. For a couple with two children, the figure is £119, meaning that even these families are now highly vulnerable to the benefit cap.

Figure 2

Adequacy of basic benefits under the benefit cap: % of budget covered by benefits (after paying rent and council tax), by rent level



LIMITING THE NUMBER OF CHILDREN ELIGIBLE FOR CHILD TAX CREDIT

The July 2015 Budget limited eligibility to child tax credit to two children for new claimants from 2017. While this measure will only come in gradually, its long-term effect will be to cut incomes dramatically for larger families on low incomes, both in and out of work.

Ironically, the more draconian levels of the benefit cap mean that this measure may have a limited effect on some non-working families. As noted above, even a very modest rent will put most couples with three or four children above the cap. Where such families are capped by more than the value of tax credits for the third and subsequent child, the loss of this entitlement will make no difference. On the other hand, it will cut income further for those whose incomes the cap reduces by less than this amount. Moreover, it will have a huge effect on working families on universal credit, to whom the cap does not apply.

The size of this cut will comprise a substantial percentage of the cost of children. At present, the child element of child tax credit is £53.20 a week, which is of the order of 60 per cent of the cost of bringing up a third child. For a couple with three children, it represents 16 per cent of minimum family costs. Thus, this measure will make it far more difficult for any low-income family with over two children to make ends meet.

Notes

1. CPI forecasts, Office for Budget Responsibility, *Economic and Fiscal Outlook: July 2015*, Cm9088, 2015

FIVE CONCLUSION

This year has seen a lull before a very severe storm that is about to hit the ability of families on modest and low incomes to afford the cost of children.

Without inflation, the cost of a child more or less stood still in 2015. With benefits rising very slightly and wages more healthily, some families found it slightly easier to afford the cost of a child.

For low-income families, however, these changes are very minor compared both with the decline in incomes relative to children's cost over the past few years and the severe cuts in state support to help meet these costs that lie ahead.

The extent and nature of this projected deterioration will hit different families in different ways. For those not working, the biggest hits will be felt by larger families. A couple with three children hit by a lowering of the benefit cap may lose support worth up to £6,000 a year, equivalent to over 20 per cent of the minimum budget required by such a family. Even without this cap, the future benefits of families of this type will be worth over £3,000 less a year (or £6,000 for a family of four), and this will also apply to low-income working families. More generally for working families, lower disregards will create an immediate cut in income of £1,250 a year, and the freeze in benefits, combined with the eventual loss of the family element in tax credits, will erode incomes further.

One countervailing wind in this storm is more generous childcare. For the relatively small number of low-income families who at present manage to pay substantial amounts for childcare, the gains could be great – for example, full-time working parents of a child under five will typically have to pay £25 a week, or £1,300 a year, less for childcare. However, note that this is worth only as much as the most immediate of the cuts outlined above – ie, the reduction in the amount of income disregarded in tax credits.

The other positive news, for those families with workers on the lowest hourly earnings, is the announcement of the national living wage. As has previously been shown,¹ this will initially only offset to a small degree the cuts faced by low-earning families. It will not help at all those on modest but not the lowest

earnings (including many parents working part time) or out-of-work families. The improvement in gross earnings that it brings to some families will be severely clawed back through a steeper tax credit taper; the fact that the amount of income not exposed to this taper will be frozen after being cut means that all additional earnings will be subject to clawback. Nevertheless, for a full-time working couple on the minimum wage, an increase in joint earnings to a joint £35,000 a year will potentially bring significant net gains, especially where combined with extra help for childcare.

These calculations have been made assuming the very modest increases in costs, forecast in official inflation projections. So, the outlook appears to be for the cost of a child to increase less steeply than it has in recent years, but state support in covering these costs to deteriorate sharply, creating a net loss for most families. In the case of renewed inflation, the damage to family living standards could be even worse.

Notes

1. See for example, Resolution Foundation: www.resolutionfoundation.org/media/press-releases/welcome-boost-on-low-pay-but-severe-welfare-cuts-will-mean-big-losses-for-many-low-income-working-families

APPENDIX

THE MAIN

CALCULATIONS

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

Table A1 Additional costs 2014, £ 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
0	71.98	63.59	68.42	53.29	91.95	69.86	61.77
1	71.98	63.59	68.42	53.29	91.95	69.86	61.77
2	80.70	72.18	78.52	63.06	100.67	78.45	71.87
3	80.70	72.18	78.52	63.06	100.67	78.45	71.87
4	80.70	72.18	78.52	63.06	100.67	78.45	71.87
5	86.11	77.88	83.51	68.06	106.07	84.15	76.87
6	86.11	77.88	82.66	67.95	106.07	84.15	76.18
7	86.11	77.88	82.66	67.95	106.07	84.15	76.18
8	86.11	77.68	82.70	68.71	106.07	84.94	76.98
9	86.11	77.68	82.70	68.71	106.07	84.94	76.98
10	86.11	77.68	82.70	106.85	106.07	84.94	76.98
11	110.26	102.83	106.03	106.03	130.22	109.09	101.13
12	110.26	102.83	106.03	102.83	130.22	109.09	101.13
13	110.26	102.83	102.83	102.83	130.22	109.09	109.09
14	110.26	102.83	102.83	102.83	130.22	109.09	109.09
15	110.26	109.98	109.98	109.98	130.22	130.01	130.01
16	110.26	109.98	109.98	109.98	130.22	130.01	130.01
17	110.26	109.98	109.98	109.98	130.22	130.01	130.01

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
0	234.68	171.57	181.73	155.04	262.05	177.83	175.09
1	234.68	171.57	181.73	155.04	262.05	177.83	175.09
2	202.27	160.66	172.34	145.32	229.63	166.93	165.70
3	202.27	160.66	172.34	145.32	229.63	166.93	165.70
4	202.27	160.66	172.34	145.32	229.63	166.93	165.70
5	164.39	123.08	134.05	107.03	191.76	129.34	127.41
6	164.39	123.08	133.20	106.92	191.76	129.34	126.72
7	164.39	123.08	133.20	106.92	191.76	129.34	126.72
8	164.39	168.26	177.63	152.08	191.76	174.53	171.91
9	164.39	168.26	177.63	152.08	191.76	174.53	171.91
10	164.39	168.26	177.63	118.42	191.76	174.53	171.91
11	188.54	192.41	200.96	200.96	215.91	198.68	112.69
12	188.54	192.41	200.96	192.41	215.91	198.68	112.69
13	188.54	192.41	192.41	192.41	215.91	198.68	115.32
14	105.18	105.18	192.41	192.41	132.54	115.32	115.32
15	105.18	105.18	105.18	105.18	132.54	132.54	132.54
16	105.18	105.18	105.18	105.18	132.54	132.54	132.54
17	105.18	105.18	105.18	105.18	132.54	132.54	132.54

