CHILD POVERTY ACTION GROUP

THE COST OF A CHILD IN 2018

AUGUST 2018

Donald Hirsch

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Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It does not have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high-profile legal work to establish and protect families' rights. 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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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 not meeting 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 have systematically monitored the minimum cost of a child.[1] This seventh report in the series updates those calculations. It highlights the growing significance of the benefit cap and the 'two-child limit' on means-tested benefits, together with the increasingly complex situation determining the childcare costs parents face.

THE CONTEXT

The past decade has been unprecedentedly tough for families on modest incomes. Household costs have risen, while household incomes have stagnated. After a fall in general household incomes at the end of the last decade, median income (after housing costs) started to grow relative to the Consumer Price Index (CPI) in 2012/13, and by 2016/17 was 9 per cent above its inflation-adjusted level in that year.[2] However, many families on low incomes have seen little or no increase in their living standards since that time, and some have seen a further fall.

Families on low incomes have been particularly disadvantaged by cuts in benefits and tax credits, affecting disposable incomes both in and out of work. The various elements of child tax credit and child benefit have increased by between zero and 3 per cent since 2012, whereas consumer prices have risen by 9 per cent. Many families have faced additional losses through the benefit cap, cuts in housing benefit and the introduction of the 'bedroom tax'. Working families have benefited from a modest rise in real wages, with over-25-year-old parents on the national minimum wage having seen a much sharper increase of 29 per cent between April 2012 and April 2018. However, much of these gains are clawed back through the tax credit system, since the level at which tax credits are reduced as income rises has stayed the same, and losses through the freezing of tax credits have tended to outweigh net gains from earnings.

The net effect of these trends on family wellbeing depends not only on what is happening to incomes, but also on what happens to costs. The use of the CPI to compare the 'real' value of family income over time neglects the fact that not all costs rise in line with the CPI. Indeed, a recent review of changes in the minimum required for an acceptable living standard over the past decade[3] suggests minimum household costs have grown substantially faster than the CPI, largely because certain essentials, such as essential foods, energy and transport, have risen more rapidly in price than goods and services generally – creating a higher rate of inflation for low-income families than the published CPI rate. It is in this context that it is important to monitor the actual cost of raising children, and not just family incomes.

This report updates the calculation of the cost of a child for the present year, and then goes on to make comparisons between these costs and incomes. Chapter Two explains the basis of the calculation and Chapter Three shows the main results for 2018. Chapters Four and Five go on to consider two important issues: the important and complex issue of how different families cover the cost of childcare, and the squeeze on the incomes of larger families caused by the benefit cap and the two-child limit on eligibility for means-tested benefits.

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. Department for Work and Pensions, *Households Below Average Income 1994/95 to 2016/17*, 2018
3. A Davis, D Hirsch, M Padley and C Shepherd, *A Minimum Income Standard for the UK, 2008–2018: continuity and change*, Joseph Rowntree Foundation, 2018

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 p10).

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 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, now comprise nearly half 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 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.

This research process involves agreement being reached by groups of members of the public, and then checked and rechecked by subsequent groups. Each group has detailed discussions stating its rationale for what should be included in a minimum household budget. The standard thus represents a considered, settled agreement on what is the minimum, rather than just a collection of subjective opinions held by individuals.

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.

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

THREE
THE COST OF A CHILD IN 2018

SCORECARD: THE COST OF A CHILD IN 2018

The following 'scorecard' summarises the cost of a child in 2018 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 2018

A. How much extra a child adds to family costs, and how much benefits contribute towards this cost	Minimum additional cost of a child (averaged for first and second child)	
	Couple	Lone parent
1. Basic cost over 18 years	£75,147	£101,883
2. Full cost over 18 years	£150,753	£183,335
3. Percentage of basic cost covered by child benefit	21%	16%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	94%	70%
B. The extent to which income covers overall family costs	Net income as a percentage of minimum family costs (family with two children, aged 3 and 7)	
	Couple	Lone parent
5. Not working	58%	60%
6. Each parent working full time on the national living wage	89%	80%
7. Each parent working full time on the median wage	110%	85%

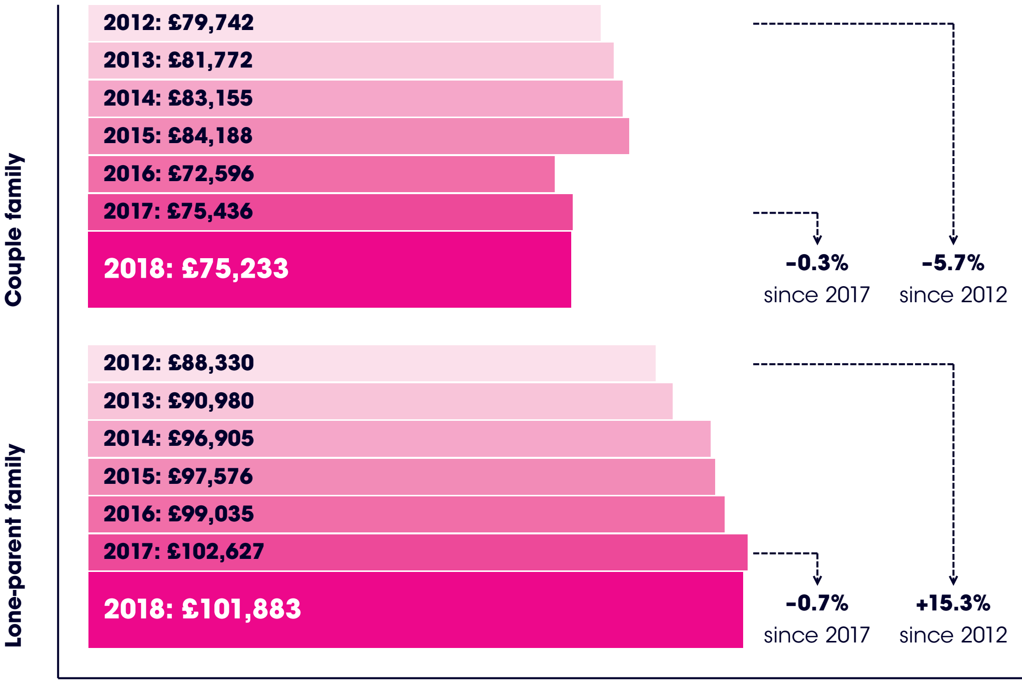
Note: 'Basic cost' does not include rent, childcare or council tax. 'Net income' refers to disposable income, after subtracting rent, childcare and council tax.

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.

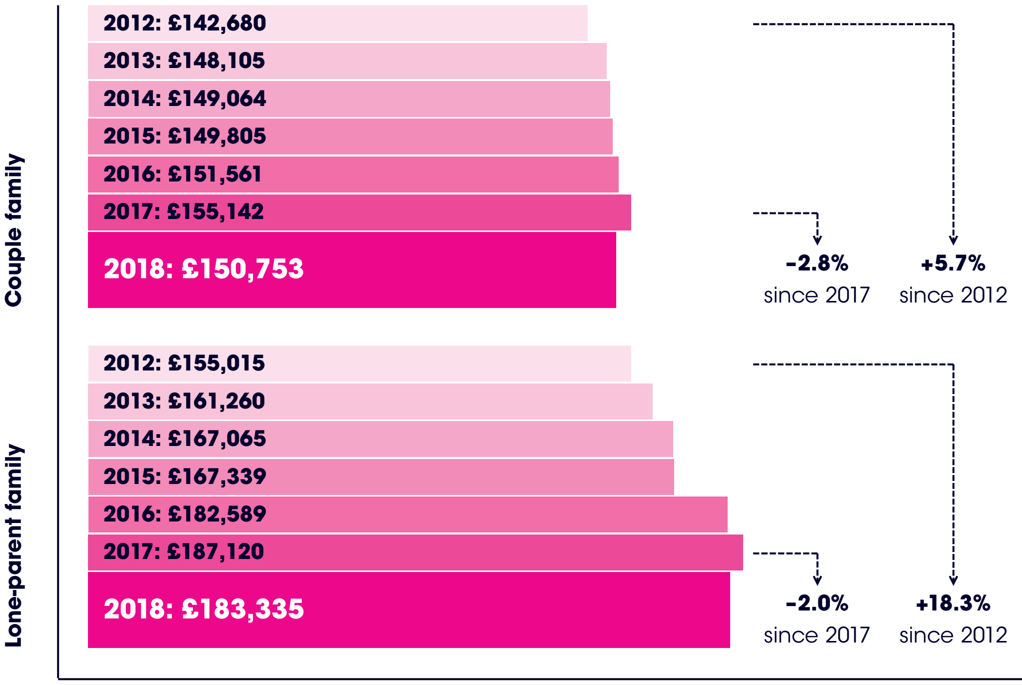
Overall, in the year to April 2018, the estimated minimum cost of bringing up a child from birth to her/his 18th birthday, excluding rent and childcare costs, stayed stable at about £75,000 for a couple and £102,000 for a lone parent. (Actual family costs rose with inflation, but newly available findings showing an increase in costs for people without children meant that the additional cost of having a child is shown as almost unchanged.[1]) The overall cost of a child, including rent and childcare, fell from £155,100 to £150,800 for a couple and from £187,100 to £183,300 for a lone parent. This fall is due to the calculations taking account of the new 30-hour subsidy for childcare for three- and four-year-olds, although it is important to note that there have been difficulties with this policy's implementation, and for many families it is not accessible – including those not working, those with limited hours of work and those in the half of local authorities where there are not enough 30-hour places to cover all working families.[2] For a family using childcare without this subsidy, the estimated overall cost of a child rises to around £156,000 with the previous 15-hour subsidy or £162,000 with no subsidy, in the case of couple parents, and to £189,000 or £194,000 respectively without it. Even for those who have gained from the introduction of the 30-hour childcare policy, the overall cost of bringing up a child has risen by 6 per cent for couples and 18 per cent for lone parents in the past six years.

Indicator 1
Basic cost of a child, from birth to age 18



What this indicator shows: The basic additional cost of a child. Since housing, childcare and council tax can vary and are sometimes wholly or partly covered by state support, this basic calculation excludes those costs.

Indicator 2
Full cost of a child, from birth to age 18



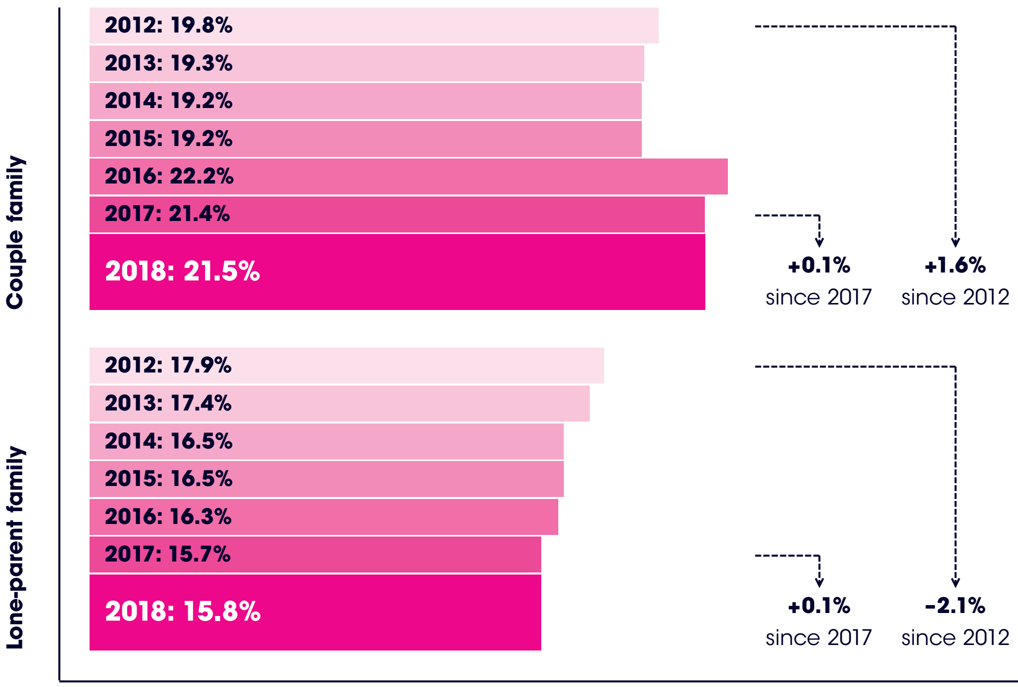
What this indicator shows: The additional cost of a child including estimates of housing, council tax and childcare (assuming parents work), not taking account of government help such as housing benefit and childcare support in tax credits.

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.

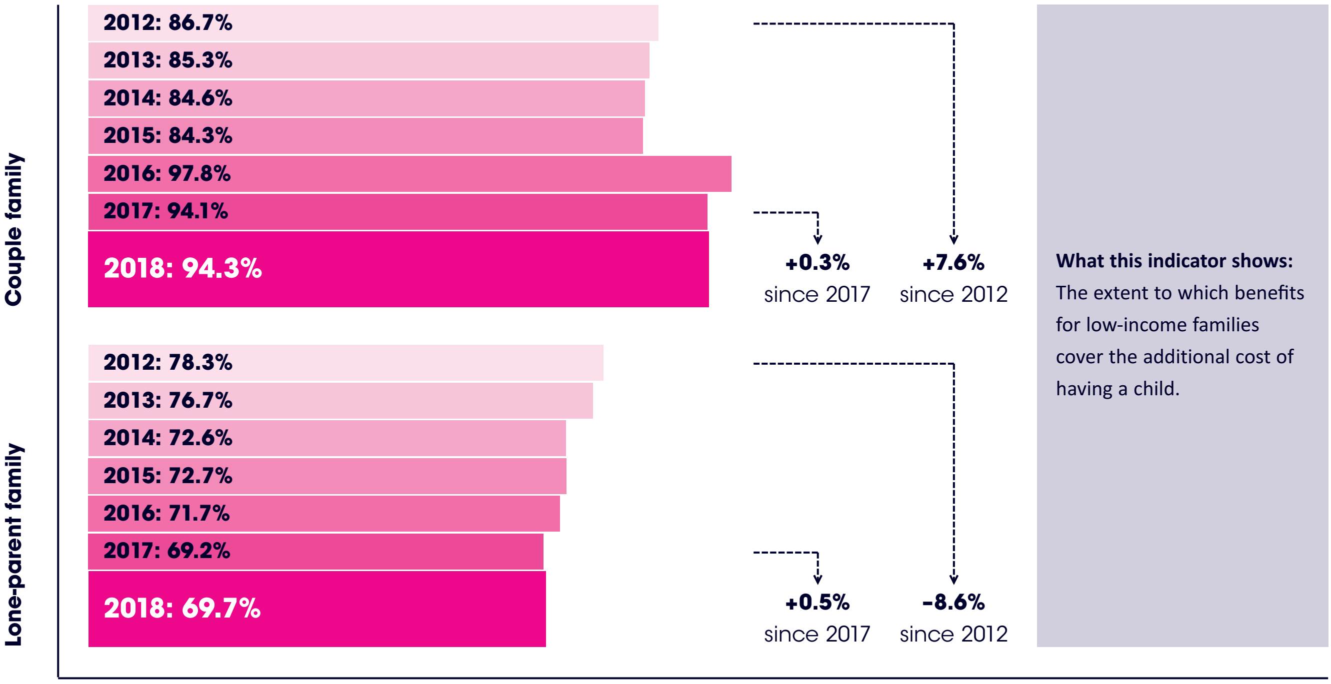
Child benefit and child tax credit have not increased in cash terms since 2015. The return of inflation since 2016 has caused a fall in the proportion of the minimum provided by this benefit, with no signficant change in the past year. Child benefit now covers barely a fifth of the cost of a child for a couple, and less than a sixth for a lone parent. For those receiving maximum child tax credit and child benefit, the overall benefit package for children now falls 30 per cent short of covering the cost to a lone parent of bringing up a child, up from 22 per cent in 2012. For a couple, it is only 6 per cent short – an increase in the shortfall since last year but a decrease since 2012, influenced by a more modest assesment of minimum costs made by couple parents in 2016, in the wake of years of austerity.[3] It is important to bear in mind that while children's benefits still cover the bulk of the *additional* cost of a child, adult benefits fall so far short of covering the cost of adults that families fall far short of meeting their costs overall, as shown in Indicator 5.

Indicator 3
Percentage of basic cost covered by child benefit



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

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.

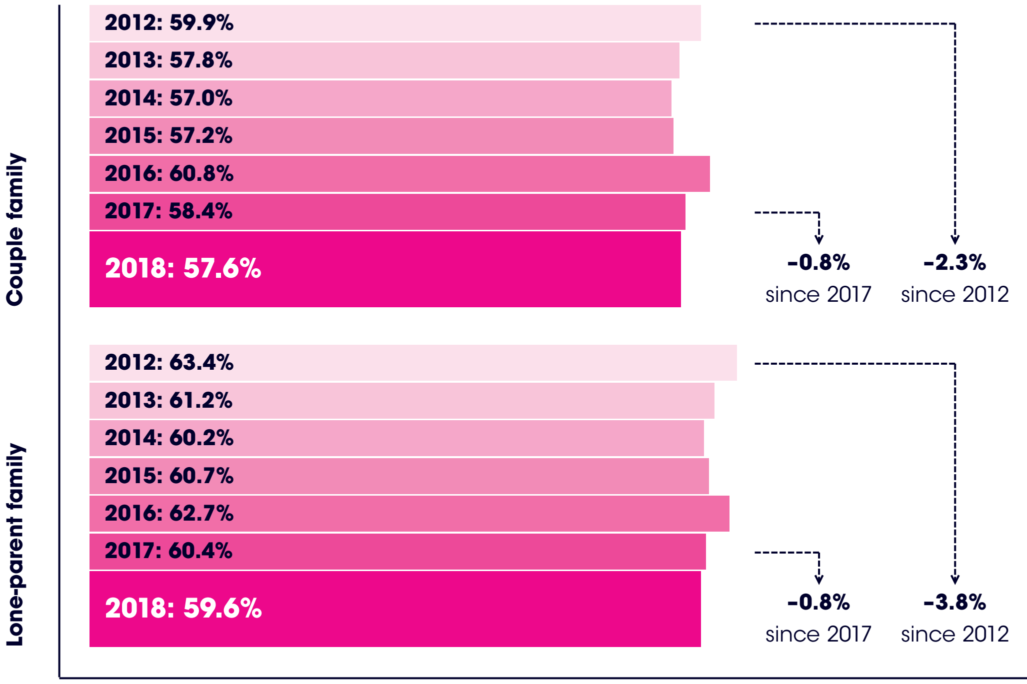
THE ADEQUACY OF FAMILY INCOMES

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 continue to fall far short of what is needed for a minimum acceptable standard of living. As shown in Indicator 5, these have fluctuated since 2012, with a relative improvement for couple families in 2016 associated with more modest requirements, but a deterioration in the past two years due to incomes falling behind inflation. Both couple families and lone parents who rely on benefits now have to live without over 40 per cent of the budget that they need for a socially acceptable minimum.

Despite the introduction of the national living wage, parents over 25 who are on the minimum wage set at this rate are unable to earn enough to meet their families' needs, even if they work full time. Gains made from higher minimum wages have been offset by the freeze in tax credit support. A family with two

Indicator 5
Disposable family income as a percentage of minimum family costs: out-of-work family

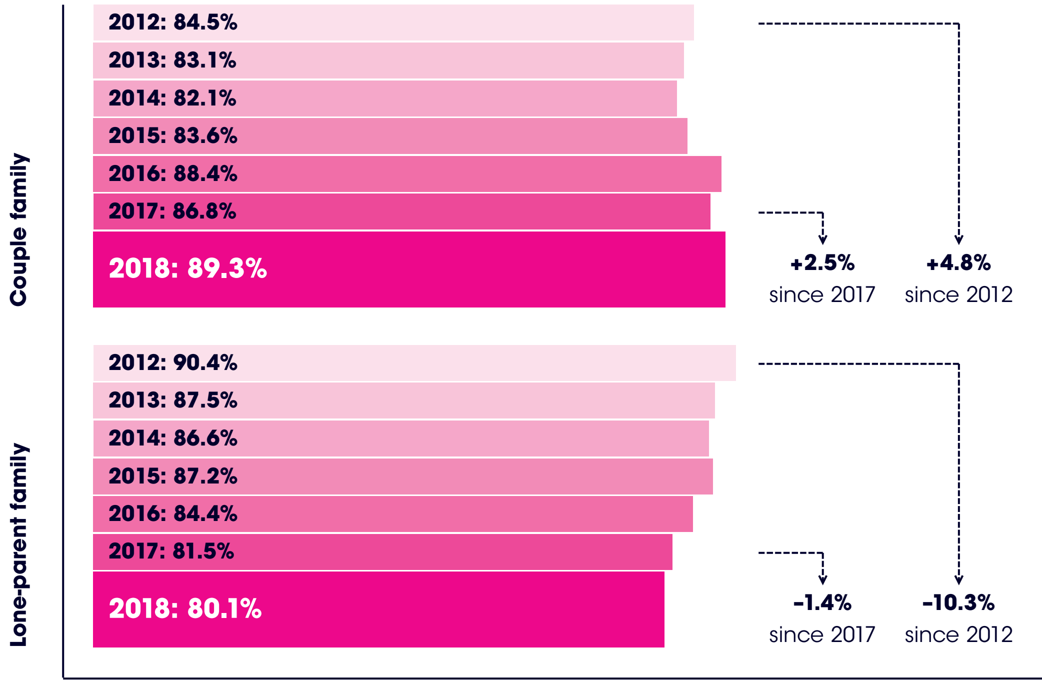


What this indicator shows: The overall benefit income of an out-of-work family compared to its costs – assuming that rent and most of council tax are covered by benefits and that there is no childcare.

parents working full time has made a net gain in the past year and now falls 11 per cent short of the minimum disposable income, down from 16 per cent in 2012. For a working lone parent, on the other hand, who only has one wage that benefits from the increase, offset by a similar loss from tax credit cuts, disposable income has fallen steadily relative to the minimum required. In 2018, a lone parent working full time falls 20 per cent short of the budget needed to provide adequately for the family, double the gap in 2012. An important influence on these trends is the fact that as wages rise, much of the gain is clawed back through the means-testing of tax credits against earnings. The amount that families can earn before this 'tapering' occurs has not been adjusted to reflect rising pay and prices, meaning that only around a quarter of additional pay is retained (once taxes are taken into account).

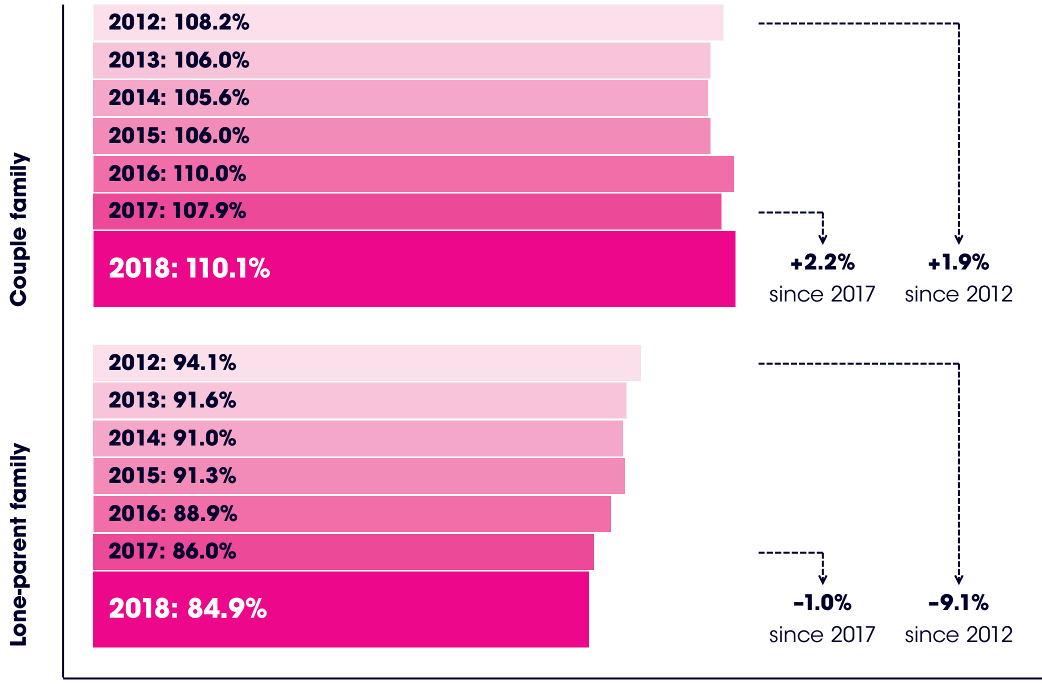
For families on median earnings, the contrast between lone parents and couple families is particularly pronounced. The former now fall 15 per cent short of an adequate income even with a reasonably paid job, more than twice as much as in 2012, burdened in particular by the high cost of childcare. For a couple with two young children, on the other hand, median wages produce disposable income 10 per cent above the minimum. Such couple families are now less vulnerable to benefit cuts than lone parents. A couple with two children working full time on median wages do not receive any support from tax credits or universal credit (although they do receive child benefit), whereas a lone parent on such a wage still relies on this support to help fund childcare if s/he pays for it.

Indicator 6
Disposable family income as a percentage of minimum family costs: working full time on national minimum/living wage



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

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(s) full time (37.5 hours) on the median wage, after paying for childcare, rent and council tax, as a percentage of budget requirements.

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.[4]

- Table 3.1 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, and some larger families need a larger car.

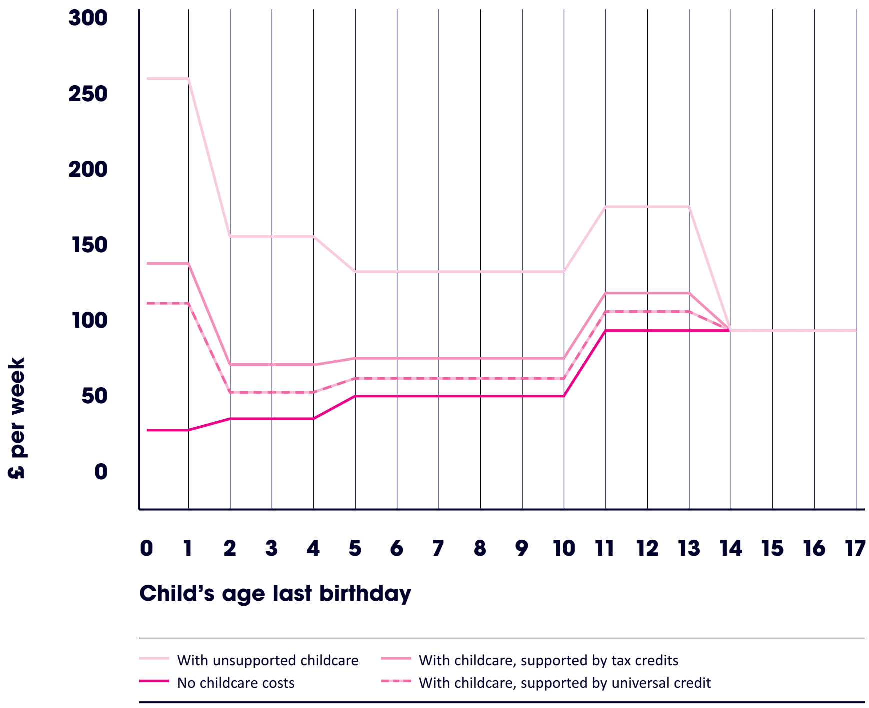
Table 3.1
The additional cost of each child, 2018

	Couple parent				Lone parent		
	First child	**Second child**	**Third child**	**Fourth child**	**First child**	**Second child**	**Third child**
Total cost over 18 years	£144,385.63	£157,119.70	£170,655.38	£159,700.46	£199,265.28	£167,405.03	£155,837.74
Average per year	£8,021.42	£8,728.87	£9,480.85	£8,872.25	£11,070.29	£9,300.28	£8,657.65
Average per week	£153.84	£167.40	£181.82	£170.15	£212.31	£178.36	£166.04
Excluding rent, childcare and council tax							
Total cost over 18 years	£76,642.67	£73,822.98	£86,347.93	£79,344.56	£122,016.53	£81,750.16	£87,061.08
Average per year	£4,257.93	£4,101.28	£4,797.11	£4,408.03	£6,778.70	£4,541.68	£4,836.73
Average per week	£81.66	£78.65	£92.00	£84.54	£130.00	£87.10	£92.76

- Figure 3.1 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, most particularly before they are eligible for up to 30 'free' hours of childcare, now available to three- and four-year-olds whose parents work. For those without childcare costs, on the other hand, expenses increase with the child's age.

  Tax credits help even out the cost of a child over the lifecycle, by giving working families on low incomes support with childcare. The combination of the early years entitlement and tax credits reduce net childcare bills for a pre-school child to a level similar in scale to the additional cost of feeding, clothing and in other ways providing for children at primary school, making the net cost of a child similar at pre-school and primary school ages. By secondary school age, however, the costs rise significantly. For those on universal credit, which pays up to 85 per cent of childcare costs rather than the 70 per cent under tax credits, net costs are more tilted towards higher ages.

Figure 3.1
Additional cost of first child of a couple, by age and childcare status, 2018



(Note that the jump in costs shown at the age of 11 in Figure 3.1 is due to the simplified assumption that day-to-day costs are the same for any child aged five to 11 and the same for any child aged 11 to 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.)

A *new feature* of Figure 3.1, however, is that the overall cost of the first child, even helped by childcare tax credits or universal credit, is now substantially higher for under-two-year-olds who require childcare than at any other stage of childhood. Children at this age get no early years entitlement and, as a result, full-time childcare costs are more than £175: the maximum level of childcare fees that are supported at 70 per cent or 85 percent by tax credits or universal credit. Recent increases in childcare costs have therefore been borne fully by these families, while families with three- or four-year-olds who benefit from the early years entitlement have a lower childcare bill fully eligible for tax credit support. As a consequence, the total cost of a first child with full-time working parents, net of government subsidies for childcare, comes to:

– £143 a week for a one-year-old in a family receiving tax credits;

– £117 a week for a one-year-old in a family on universal credit;

– £76 for a three- or four-year-old in a family receiving tax credits and benefiting from the 30-hour subsidy;

– £58 for for a three- or four-year-old in a family receiving universal credit and benefiting from the 30-hour subsidy;

– £99 for a secondary school age child not requiring childcare.

The issue of covering the cost of childcare is explored further in Chapter Four.

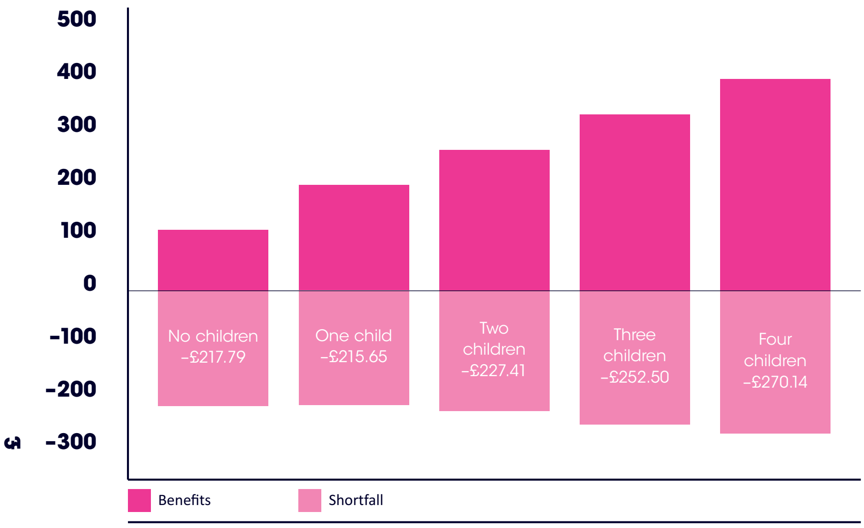
- Figures 3.2 and 3.3 show how much the state contributes to the cost of a child in the case of families without any income from work (not taking account of the benefit cap or the 'two-child limit' with respect to children born after April 2017, which are discussed in Chapter Five). Figure 3.2 shows that benefit entitlement is more generous, compared to costs, for children than for adults. For the first child of a couple, additional benefits very slightly exceed additional cost. For other examples shown here, additional benefits for children are between 64 per cent and 85 per cent of additional costs; still much higher than for adults, where it is well under a half.

Figure 3.2
Cumulative weekly costs and benefit entitlement for successive children, non-working families, 2018

Note: Applies to children born before April 2017, and therefore not subject to the two-child limit.
*Except the portion of council tax not covered by benefits.

This means that a family with children has a greater *percentage* of their costs covered by benefits than those without – provided that they are not subject to the two-child limit. However, as shown in Figure 3.3, having additional children increases the shortfall, in absolute terms, between benefit income and needs, with the exception of the first child of a couple. Moreover, the highest entitlement shown in Figure 3.2, the £400 entitlement of a couple with four children, will now rarely be paid, since it is already above the benefit cap limit outside London and less than £50 below the London benefit cap, which also takes account of housing benefit paid on top of the basic benefit amounts shown.

Figure 3.3
Adequacy of out-of-work benefits for couple families



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

Notes

1. Specifically, the exact cost of a child figures this year have been influenced by the fact that research on the cost of households without children was updated in 2018, and rose modestly in real terms. Since the cost of a child is calculated as the difference between household costs with and without children, this adjustment caused a very small decline in the reported cost of a child, not attributable to any real fall in family costs.

2. C Harding and J Cottell, *Childcare Survey 2018*, Family and Childcare Trust, 2018

3. See D Hirsch, *The Cost of a Child in 2016*, Child Poverty Action Group, 2016

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

FOUR
COVERING THE COST OF CHILDCARE: AN INCREASINGLY COMPLEX PICTURE

It is clear from this report that the cost of a child is heavily influenced by the cost of childcare. On the assumptions made in this report, full-time childcare costs about £80,000 over the course of a child's life, around half the total cost of a child. For different families this will vary according to the following:

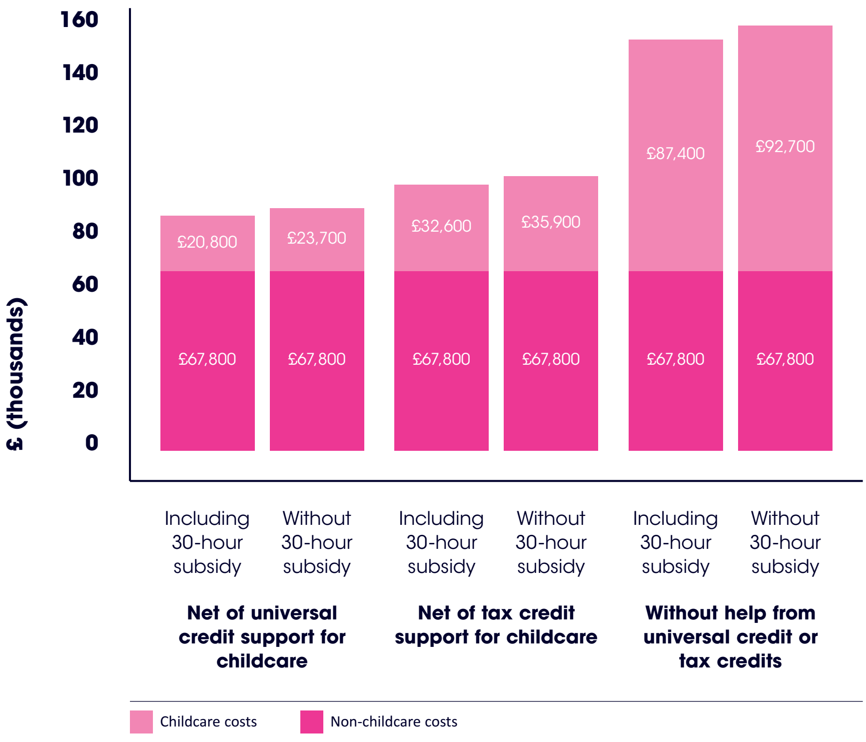
- Parents' working hours, and the consequences for how much childcare they require. While the figures in this report show the full-time cost, just over two-thirds of children with at least one employed parent have at least one parent who does not work full time.[1] While this reduces the costs shown earlier in this report, it also reduces the income available to cover these costs, compared to the assumption of full-time wages.
- The availability or otherwise of informal childcare, including that provided by friends or family free of charge. This may include not just a grandparent looking after a child under five, but also after-school or holiday arrangements that could avoid or reduce the cost of making paid arrangements for school-age children, which can continue to be substantial even though lower than at pre-school age.
- Whether families who pay for childcare are able to claim tax credits, reimbursing up to 70 per cent of childcare costs, or whether they are in receipt of universal credit and, if so, whether they are able to claim their entitlement to 85 per cent reimbursement of childcare costs. While the universal credit reimbursement rate is more generous, claiming this entitlement is proving highly

problematic, because of complicated reporting requirements and the payment in arrears making it hard to pay childcare fees charged in advance.[2]

- Whether parents of three- and four-year-olds are able to access the new '30 free hours' early years entitlement. This requires both parents to work and to earn at least the equivalent of 16 hours at the minimum wage, and for providers to offer appropriate provision. Nearly 20 per cent of nurseries and nearly half of childminders and school nursery classes were not offering this in early 2018.[3]

It is beyond the scope of this report to assess this complex system for financing childcare, but Figure 4.1 illustrates the implications of these multiple aspects for the overall cost of bringing up a child – even for the case of a full-time working family who pays for childcare, rather than getting some or all of it covered by family or friends. If such a family gets maximum state support, the net cost is around £21,000, whereas at the other extreme with no support it is £93,000. The overall cost of a child in these two cases is £89,000 and £161,000 respectively.

Figure 4.1
Total cost of first child of a couple working full time, over 18 years, under different childcare scenarios



These figures show both how childcare costs can now dominate the cost of bringing up a child, and how these costs are heavily dependent on the family's circumstances and its ability to access state help for childcare – to which there are substantial barriers. In practice, low-income families who face high childcare costs will frequently not actually incur these costs, but rather have their earnings limited by having constrained working hours, because childcare is unaffordable.

Notes

1. Author calculation from Department for Work and Pensions, *Households Below Average Income 1994/95 to 2016/17*, 2018, Table 4.1db
2. Gingerbread, *Universal Credit Rollout Inquiry*, Gingerbread written submission to the Work and Pensions Select Committee, 2017
3. C Harding and J Cottell, *Childcare Survey 2018*, Family and Childcare Trust, 2018, p17

FIVE
THE TIGHTENING SQUEEZE ON THE INCOMES OF LARGER FAMILIES

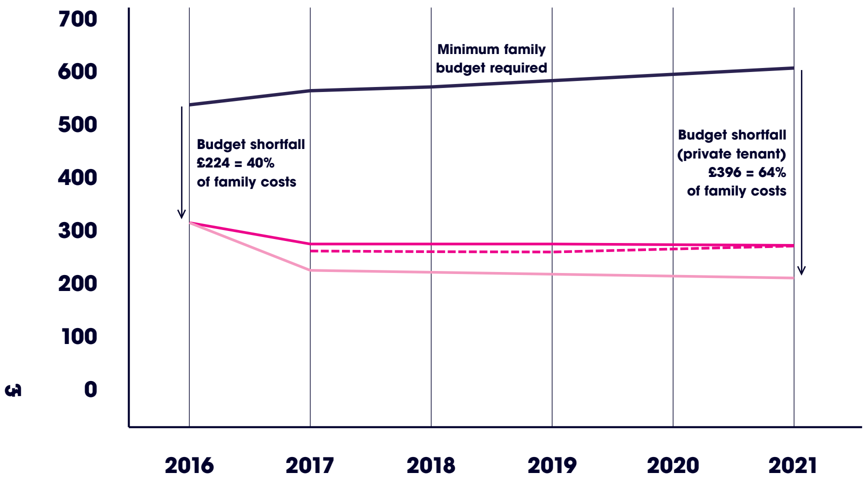
In addition to general benefit cuts, larger families are being severely affected by two policies restricting their income from the state.

One is the benefit cap, a limit to the total amount that out-of-work families (or those on very low earnings) can receive in benefits. Since this is the same level regardless of the size of family, larger families with higher entitlements are the most affected. In November 2016, the limit was lowered from £26,000 a year to £23,000 in London and £20,000 outside London, more than tripling the number of affected families.[1] The other is the 'two-child limit', which restricts the amount paid for children in child tax credit and universal credit to two children (although this is not applied to the third and subsequent children born before 1 April 2017). Affected families will receive nearly £2,800 less a year for each third and subsequent child.

These large cuts will affect the majority of children living in larger families in the UK: about 3 million out of 3.8 million children with at least two siblings have parents in receipt of child tax credit.[2] All will face large losses, whether working or not. However, the cuts are coming sooner for out-of-work families than for working families due to the immediate implementation of the benefit cap, but only the gradual introduction of the two-child limit.

Figure 5.1 shows how these two policies are already severely affecting a non-working family, using the example of a couple with three children. For those with more children, the losses from both policies will be more serious. Up until 2016, most families with three children with modest rents outside London were not affected by the benefit cap of £500 a week. However, its lowering late in that year resulted in a severe cut in disposable income for such families, particularly

Figure 5.1
Weekly disposable income of couple with three children, on out-of-work benefits, compared to minimum required



Social tenant, youngest child born before 2017
Social tenant, youngest child born 2017 or after
Private tenant

Notes:

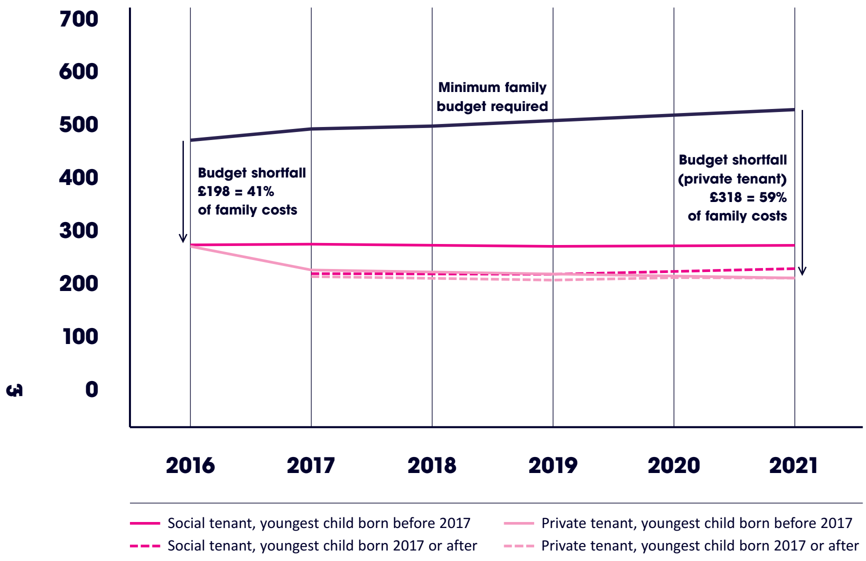
Figures apply to April of each year shown. Based on examples of families paying low social rents outside London: an average social rent in the East Midlands or the average of the lower quartile of private rents in English regions other than London. Projections based on 2 per cent a year increase in prices, and in benefits beyond the limit of announced freezes, but on the benefit cap remaining constant.

For social tenants, those with a child born after 2017 affected by the two-child limit on child tax credit, under which their income is kept below the benefit cap over the period shown. For other families in social housing, the benefit cap affects income from 2017 after it was lowered. For private tenants, the benefit cap since 2017 lowers income to the same level whether or not the family is entitled to tax credits for the third child.

those with private rents, even at a modest level (the graph is based on private rents at the lower quartile). Since income based on the entitlements of a two-child family with a private rent is now subject to the benefit cap, the two-child limit will not lower such families' income further. For social tenants, on the other hand, who do not yet reach the cap with two children, the two-child limit does reduce income. However, if the benefit cap remains frozen and benefits are uprated with inflation from 2020 (when the announced freeze ends), the entitlement for a three-child family will be the same by 2021, regardless of whether the two-child limit is applied, since even families in social housing subject to the limit will have benefit entitlements about equal to the cap.

In all the cases shown in Figure 5.1, the adequacy of incomes is set to fall drastically over this period. In 2016, families were already falling 40 per cent short of what they needed, and had over £200 a week too little to cover costs. By 2021, with rising costs and falling benefits, this gap will have nearly doubled for private tenants, who will have little over a third of what they need to cover their costs. This represents a major reduction in the living standards of families who already had considerably less than they required to cover children's costs.

Figure 5.2
Weekly disposable income of lone parent with three children, on out-of-work benefits, compared to minimum required



Notes:

For definitions and assumptions, see notes to Figure 5.1

In the case of lone parents, the lower benefit cap since 2017 has reduced the incomes of private tenants, but not social tenants. The two-child policy at present reduces the incomes for both social and private tenants, but by 2020, the benefit cap will make private tenants' incomes the same, whether or not the two-child limit is applied.

Figure 5.2 makes the same calculation for a lone parent. A difference here is that the benefit cap, which is the same as for a couple, does not 'bite' for a lone parent with a social rent, whose overall benefit entitlement is lower than for a couple. Since last year, therefore, the most serious losses have been seen in families with a third child born after April 2017, and for those with a private rent for whom the benefit cap does bite if families still have tax credit entitlement for the third child.

Overall, these results illustrate how the benefit cap is likely to be the most significant determinant of reduced income for larger families in the cases of non-working couples and of non-working lone parents who rent privately.

On the other hand, the two-child limit will be more significant for lone parents with social rents, as well as for working parents, to whom the benefit cap does not apply. Working families in receipt of tax credits or universal credit will receive up to £2,800 a year less for each child who does not qualify for support because of the limit. At today's tax credit and wage rates, this would mean a couple with three children aged four, eight and 12, with parents working full time on the national living wage, having disposable income 28 per cent below what they need, rather than 19 per cent without this policy. For a lone parent working full time, it would be 35 per cent rather than 24 per cent. In other words, even people working full time stand to be up to a third short of what they need to provide for their families as a result of having a third child who is unsupported under the two-child policy.

Notes

1. Department for Work and Pensions benefit cap statistics to 2017, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/701173/benefit-cap-statistics-to-nov-2017.pdf

2. Author estimate from HM Revenue and Customs tax credit statistics 2015/16, Table 2.2 and Department for Work and Pensions, *Households Below Average Income 1994/95 to 2016/17*, 2018, Table 4.3db

SIX
CONCLUSION

In the six years since the first survey in this series, the overall cost of bringing up a child has risen from just over £140,000 to just over £150,000. In itself, this increase is relatively modest, but from a high starting point relative to the incomes of many families. The increase has been moderated this year by the introduction of a 30-hour a week childcare entitlement, but this is not available to all families.

At least as important as the overall increase in costs has been the development of policies affecting families' ability to meet them. While some influences have been positive, including not just the 30-hour childcare provision but also the higher support available to fund childcare under universal credit, in both these cases there are serious obstacles to accessing the entitlement, leaving the actual costs of many families still higher. Meanwhile, the freeze on benefits and tax credits mean that increases in the cost of living put a growing pressure on family budgets.

The toughest restrictions on families' ability to make ends meet come for those with at least three children. The benefit cap is making any concept of a safety net for such families, if they are not working, a fiction. Under present policies, a couple with three children and no work and in privately rented housing will soon have barely a third of what they need to meet their costs. For those larger families not hit by the benefit cap – including some lone parents in social housing and most working families – the two-child policy will also have dramatic effects on future incomes. A lone parent with three children, even on a low rent, will have well under half of what s/he needs if s/he is out of work.

Thus, while the story in the first *Cost of a Child* report in 2012 was largely about how recent inflation had raised the level of these costs, today the most important finding is that the ability of families to afford these still-high costs has been eroded by restrictions on their incomes. This is having profound consequences, in terms of hardship, in families who have nowhere near enough to make ends meet.

APPENDIX
THE MAIN CALCULATIONS

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

Table A1 Additional costs 2018, £ 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	47.27	48.48	67.21	51.16	95.62	48.89	56.94
1	47.27	48.48	67.21	51.16	95.62	48.89	56.94
2	54.30	55.53	74.26	58.16	102.65	55.93	63.99
3	54.30	55.53	74.26	57.94	102.65	55.93	63.99
4	54.30	55.53	74.26	57.94	102.65	55.93	63.99
5	69.75	63.00	81.73	65.53	118.10	63.41	71.46
6	69.75	63.00	81.71	65.53	118.10	63.41	71.46
7	69.75	63.00	81.71	65.53	118.10	63.41	71.46
8	69.75	63.84	82.50	66.36	118.10	64.24	72.29
9	69.75	63.84	82.50	66.36	118.10	64.24	72.29
10	69.75	63.84	82.50	127.08	118.10	64.24	72.29
11	113.41	108.42	125.63	125.63	161.76	108.82	115.46
12	113.41	108.42	125.63	108.42	161.76	108.82	115.46
13	113.41	108.42	108.42	108.42	161.76	108.82	108.82
14	113.41	108.42	108.42	108.42	161.76	108.82	108.82
15	113.41	112.68	112.68	112.68	161.76	161.34	161.34
16	113.41	112.68	112.68	112.68	161.76	161.34	161.34
17	113.41	112.68	112.68	112.68	161.76	161.34	161.34

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	265.28	287.29	300.00	283.94	323.76	287.69	289.72
1	265.28	287.29	300.00	283.94	323.76	287.69	289.72
2	160.59	182.61	195.32	179.22	219.06	183.01	185.04
3	160.59	182.61	195.32	179.00	219.06	183.01	185.04
4	160.59	182.61	195.32	179.00	219.06	183.01	185.04
5	136.80	150.84	163.55	147.35	195.27	151.24	153.28
6	136.80	150.84	163.53	147.35	195.27	151.24	153.28
7	136.80	150.84	163.53	147.35	195.27	151.24	153.28
8	136.80	151.67	164.32	148.18	195.27	152.08	154.11
9	136.80	151.67	164.32	148.18	195.27	152.08	154.11
10	136.80	151.67	164.32	127.08	195.27	152.08	154.11
11	180.46	196.26	207.45	207.45	238.93	196.66	115.46
12	180.46	196.26	207.45	196.26	238.93	196.66	115.46
13	180.46	196.26	196.26	196.26	238.93	196.66	114.84
14	98.64	98.64	196.26	196.26	157.11	114.84	114.84
15	98.64	98.64	98.64	98.64	157.11	157.11	157.11
16	98.64	98.64	98.64	98.64	157.11	157.11	157.11
17	98.64	98.64	98.64	98.64	157.11	157.11	157.11

Source: minimum income standard data

CHILD POVERTY ACTION GROUP