

**CHILD
POVERTY
ACTION
GROUP**

THE COST OF A CHILD IN 2016

SEPTEMBER 2016

Donald Hirsch



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Child Poverty Action Group works on behalf of the one in four children in the UK growing up in poverty. It does not have to be like this: we work to understand what causes poverty, the impact it has on children's lives, and how it can be prevented and solved – for good. We develop and campaign for policy solutions to end child poverty. We also provide accurate information, training and advice to the people who work with hard-up families, to make sure they get the financial support they need, and carry out high profile legal work to establish and confirm 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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Tel: 020 7837 7979
staff@cpag.org.uk
www.cpag.org.uk

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The logo for Child Poverty Action Group is a bright pink, tilted rectangle. Inside the rectangle, the words "CHILD POVERTY ACTION GROUP" are written in white, bold, uppercase letters, stacked vertically.

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ABOUT THE AUTHOR

Professor 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 fifth report in the series updates those calculations. It highlights the growing importance of childcare and housing costs in determining whether families can make ends meet.

THE CONTEXT

The UK has recently emerged from a period in which household costs were rising while household incomes stagnated. Since 2014, prices have been stable and household incomes have started to grow: median income increased by 3 per cent between 2013/14 and 2014/15.² Median wages have grown modestly – by roughly 2 per cent between 2014 and 2015³ – and for people over 25 on the statutory minimum, pay is now 11 per cent higher than a year ago (£7.20 rather than £6.50 an hour). Given all the uncertainties surrounding the exit of the UK from the European Union, it remains uncertain how long these positive general economic trends will continue. Meanwhile, the freezing of state benefits and tax credits is making it harder for people without work to get by, and even for those in work who receive pay rises, much of the benefit is being clawed back through the loss of tax credits. While some tax credit cuts were cancelled in autumn 2015, cuts in the terms of universal credit have gone ahead, creating more losers and fewer gainers than were originally intended as families switch to the new system. These cuts have especially affected lone parents.⁴

Parents are finding it particularly hard to cope with high costs on low incomes in an increasingly uncertain world. A recent report on what it is like for families to

lack the income required for a minimum socially acceptable standard of living highlighted a number of important themes.⁵ In particular, it showed how important stability is to families, yet identified various ways in which many face uncertainty and instability: insecure employment; uncertainties for the increasing number forced to rent private accommodation; and fluctuations in income from benefits and tax credits. Families interviewed for that study emphasised how making ends meet on a low income was a constant struggle, and that they had to work hard not just to do their jobs and bring up their families but also to squeeze the most out of a limited budget. Barriers included the difficulty in finding affordable childcare, the additional expense brought by servicing debt, and, in many cases, the extra costs associated with poor health of a family member.

This report updates the calculation of the cost of a child for the present year and, in its final chapter, considers the growing importance of two major costs – housing and childcare.

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 1994/95–2014/15*, 2016
3. Office for National Statistics, *Annual Survey of Hours and Earnings*, 2015
4. A Davis and others, *A Minimum Income Standard for the UK in 2016*, Joseph Rowntree Foundation, 2016; D Finch, *Universal Challenge: making a success of universal credit*, Resolution Foundation, 2016
5. K Hill and others, *Falling Short: the experiences of families living below the Minimum Income Standard*, Joseph Rowntree Foundation, 2016

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 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. Chapter Four considers different housing and childcare cost scenarios in greater detail.

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/

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

THREE THE COST OF A CHILD IN 2016

SCORECARD: THE COST OF A CHILD IN 2016

The following 'scorecard' summarises the cost of a child in 2016 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 2016

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	£72,596	£99,035
2. Full cost over 18 years	£151,561	£182,589
3. Percentage of basic cost covered by child benefit	22%	16%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	98%	72%

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	61%	63%
6. Each parent working full time on the national minimum wage for those aged 25 or over	88%	84%
7. Each parent working full time on the median wage	110%	89%

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

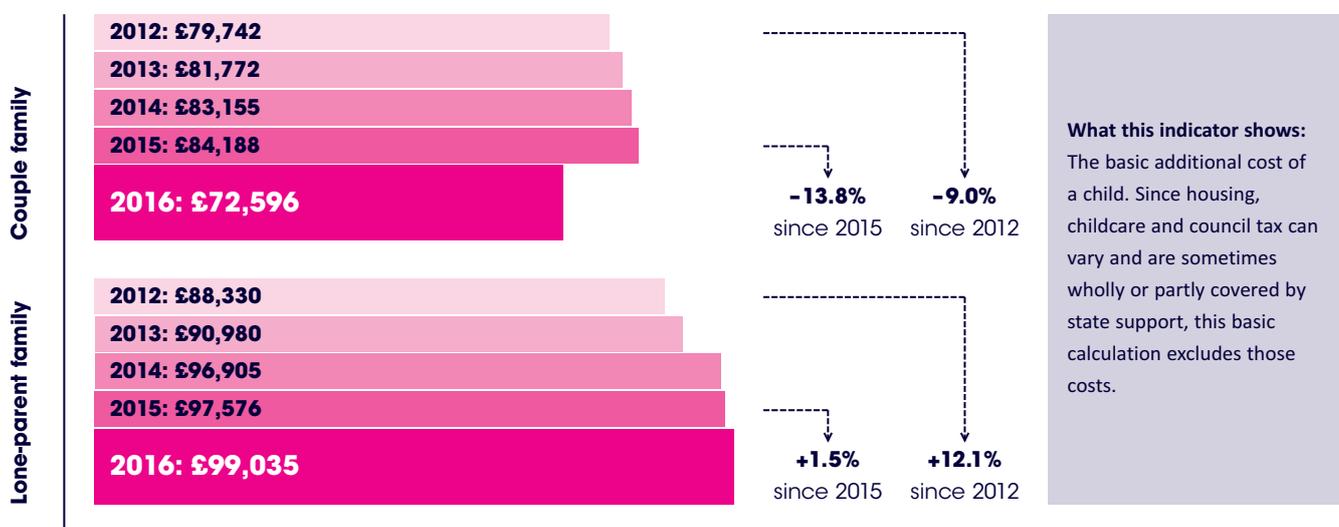
THE COST OF A CHILD AND HOW IT IS CHANGING

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 2016, the estimated minimum cost of bringing up a child rose slightly from £149,800 to £151,600 for a couple and rose more substantially from £167,300 to £182,600 for a lone parent. These changes must be seen in the context of a four-yearly reassessment of minimum costs, using new research on the minimum income standard, based on what parents consider to be required for a minimum budget.¹ This re-evaluation of what comprises a minimum in a changing world identified factors that both increased and reduced these costs. In particular:

- After experiencing nearly a decade of stagnating incomes, parents are in some respects specifying more economical ways of reaching a minimum living standard. For example, they place more emphasis on shopping around for deals, say that families need, as a minimum, to eat out less frequently than previously and accept that children in larger families may have to share bedrooms.
- In addition, falls in the price of some key commodities, such as food, petrol and domestic fuel, have reduced minimum costs.
- On the other hand, some everyday requirements have increased, including, for example, transport costs. Families are specifying

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



longer travel distances, saying, for example, that they may have to count on driving further to access work, partly because a tight housing market may make it harder to move close to their workplace. Working-age people without children still say they can meet their travel needs without a car, using a standard cost bus pass to get to work. Families with children say that at least one parent would need to use a car. The longer travel distances therefore produce an additional fixed cost associated with having children. This helps explain why lone parents' costs have risen.

- Families are also putting more emphasis on children having access to good nursery care when small and after-school activities when older. This mirrors the government emphasis on developmental experiences. The biggest cost implication is that families think they should have the choice of nursery care and not have to rely only on childminders, adding greatly to minimum childcare costs.

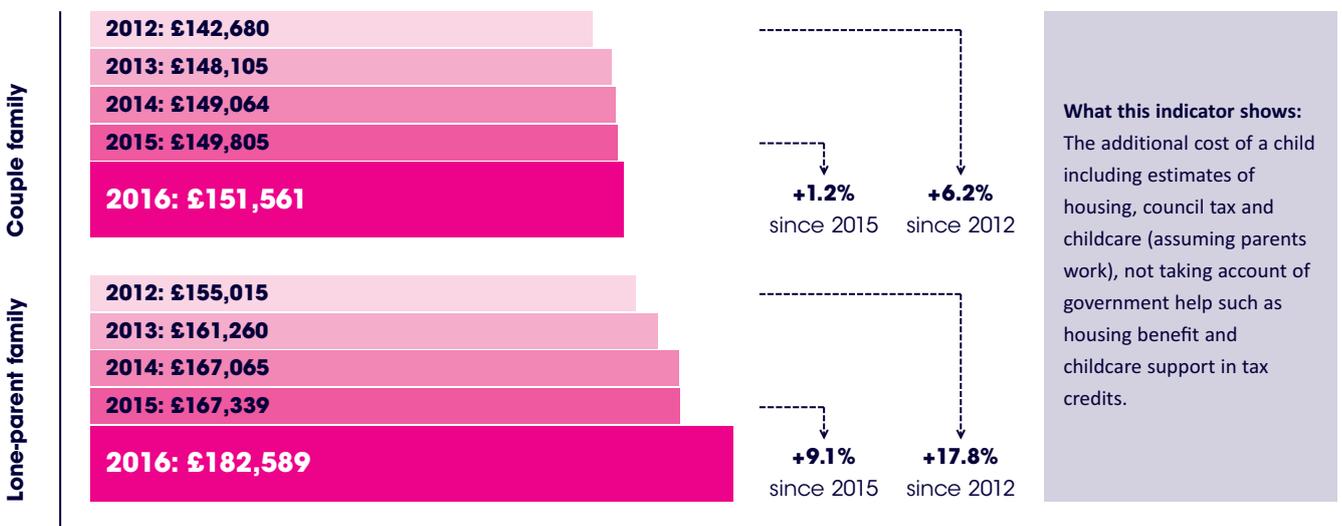
Overall, this has produced:

- falling costs, excluding rent and childcare, for couples with children;
- stable costs, excluding rent and childcare, for lone-parent families;
- rising childcare costs for both.

Rent, as shown in these main calculations, has reduced slightly, since the core assumption is that families have social rents. However, as discussed in Chapter Four, the increasing numbers unable to access social housing have much greater housing costs associated with having children.

Indicator 2

Full cost of a child, from birth to age 18

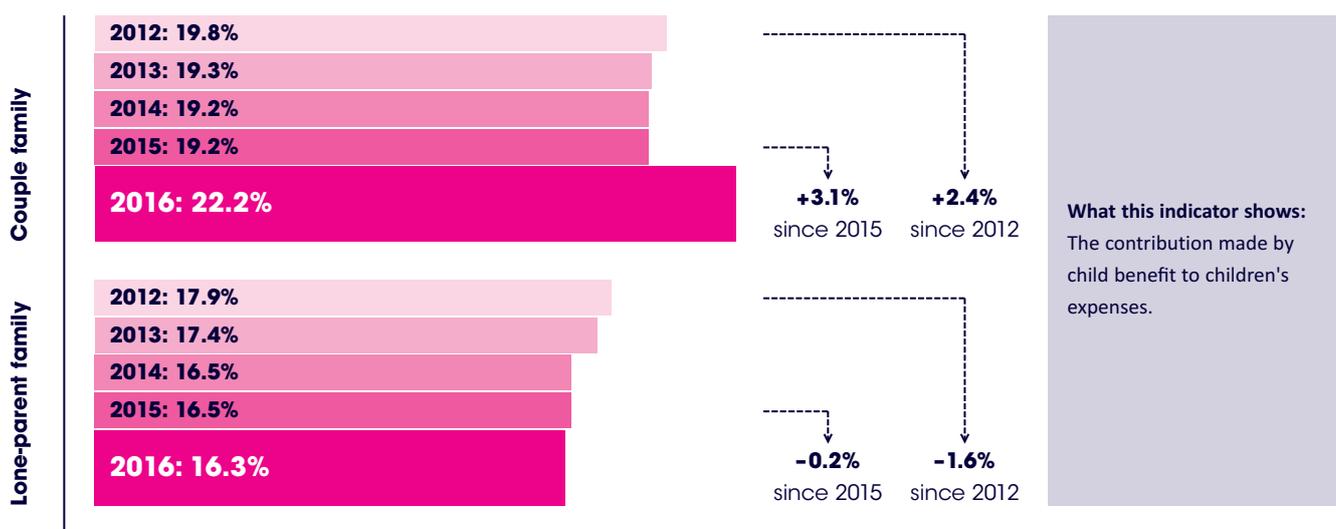


THE ADEQUACY OF CHILDREN'S BENEFITS

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

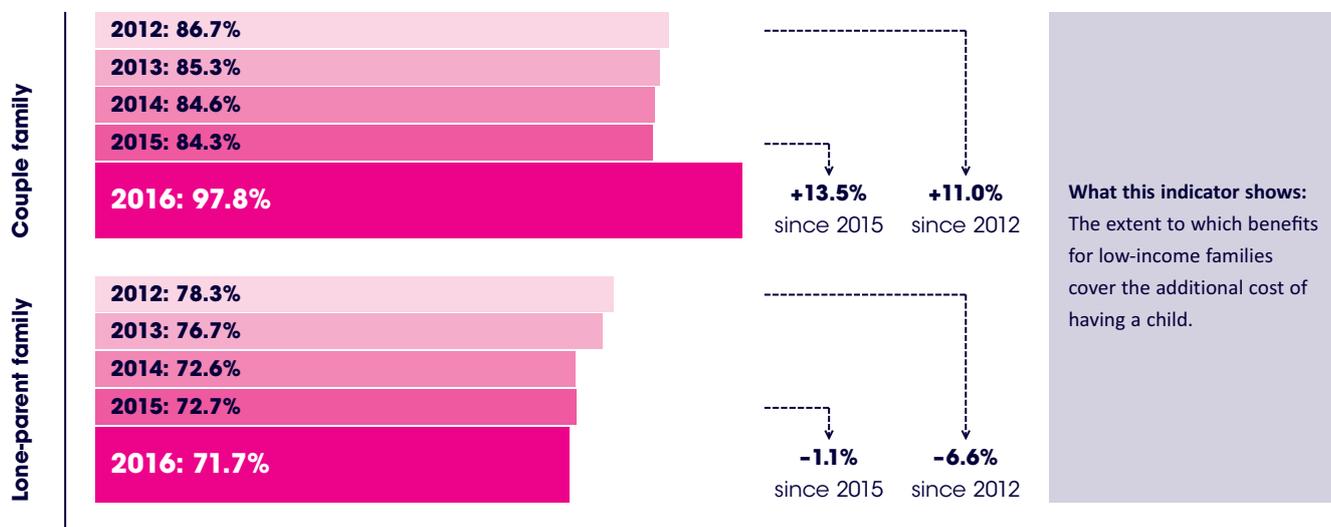
Child benefit and child tax credit have not changed since 2015. Since non-childcare costs have fallen for couple families and risen slightly for lone parents, benefits cover a greater proportion of costs for the former and smaller proportion for the latter than last year. Falling costs mean that for couple families, the additional benefits paid when people on the lowest incomes have children now come close to covering their costs (this calculation is for the first two children combined). Note that this does not make family benefit levels 'adequate' overall, since adult benefits fall far short of meeting adult needs (see Indicator 5). Moreover, while there has been some improvement for couple families (but not lone parents) in times when benefits have been frozen but costs have eased, the future is likely to bring the opposite. Inflation is projected to return² and general benefit increases remain frozen. Also, from 2017, two big cuts will reduce the adequacy of benefits for new cases. All families making new claims will get £10.45 a week less with the abolition of the family element in child tax credit, amounting to a 7 per cent reduction in the proportion of costs covered by benefits for the first two children of a couple. More seriously still for those affected, the third and subsequent child (for those born after 2017) will only affect the level of child benefit and not of child tax credit, meaning that only a fraction of their costs will be covered in additional benefits.

Indicator 3
Percentage of basic cost covered by child benefit



Indicator 4

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



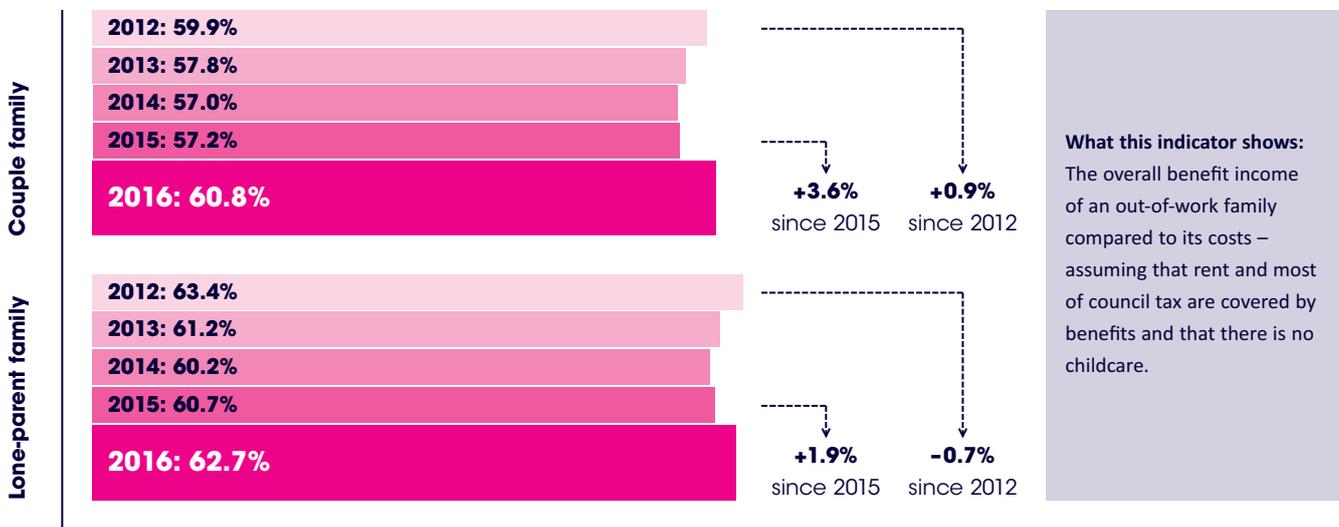
THE ADEQUACY OF FAMILY INCOMES

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 this year associated with more modest requirements – but with cuts ahead as mentioned above. The fact remains that, when considering children’s and adults’ benefits combined, a family with children depending only on benefits has to forego about 40 per cent of the budget that it needs for a socially acceptable minimum.

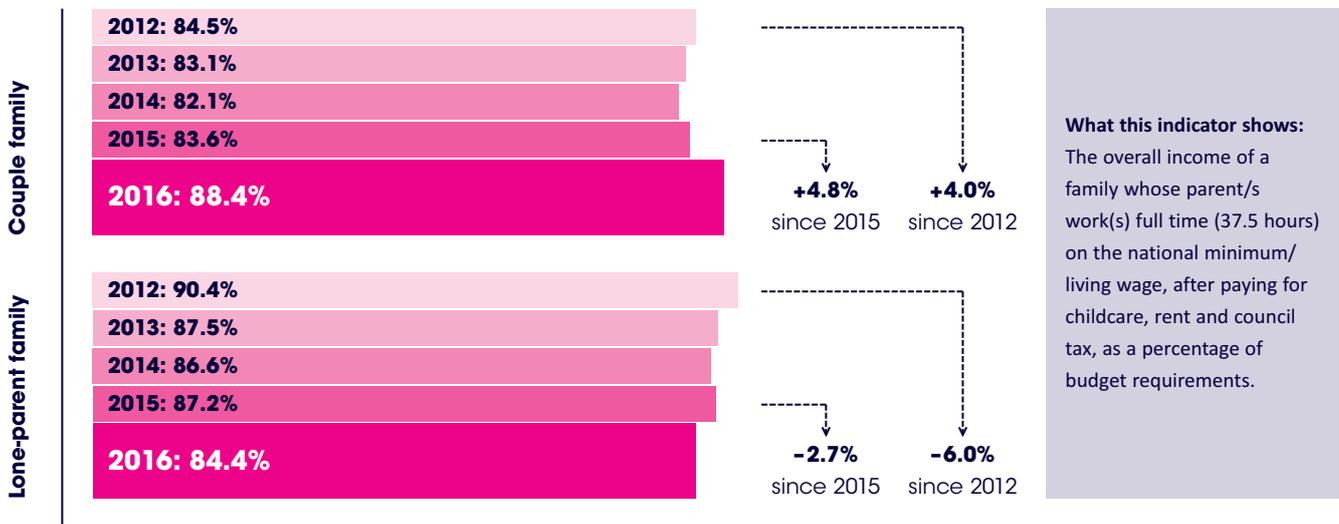
Indicator 5

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



Indicator 6

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

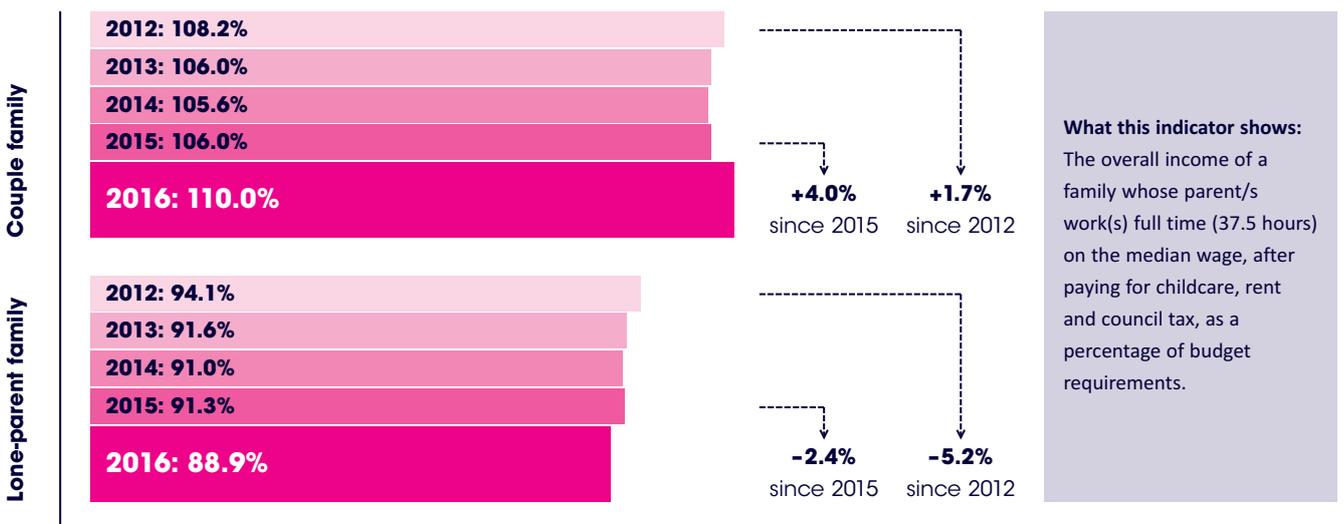


Despite the increase in the minimum wage for those aged 25 and over (the government calls this the ‘national living wage’), low-paid families are still unable to earn enough to meet their families’ needs, even if they work full time. Here, the fortunes of lone parents and couple families have diverged the most clearly. For lone parents, greater childcare costs have combined with a modest rise in all other expenses to sustain the gradual decline in the adequacy of a working income, despite the increase in minimum pay for over-25-year-olds from £6.50 an hour in April 2015 to £7.20 a year later. As a consequence, the lone parent working full time on this pay falls 16 per cent short of the minimum required income – up from 13 per cent in 2015 – whereas the shortfall has fallen from 16 to 12 per cent for couples. This divergence will continue with the introduction of universal credit, which treats working lone parents relatively less generously than working couples compared with the present system, particularly after the large cut in the ‘work allowance’ (the earnings level above which universal credit is withdrawn) for lone parents in 2016.³

For families on median earnings, the contrast between lone parents and couple families is even more pronounced. The former still fall over 10 per cent short of an adequate income even with a reasonably paid job, burdened in particular by the high cost of childcare. For a couple with two young children, on the other hand, median wages are enough to get 10 per cent above the minimum. Such couple families will also be less vulnerable to future benefit cuts than lone parents. A couple working full time on median wages, even paying for childcare, is unlikely to 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 support childcare if s/he pays for it.

Indicator 7

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



HOW MUCH FAMILIES NEED AND THE ADEQUACY OF BENEFITS: FURTHER DETAIL

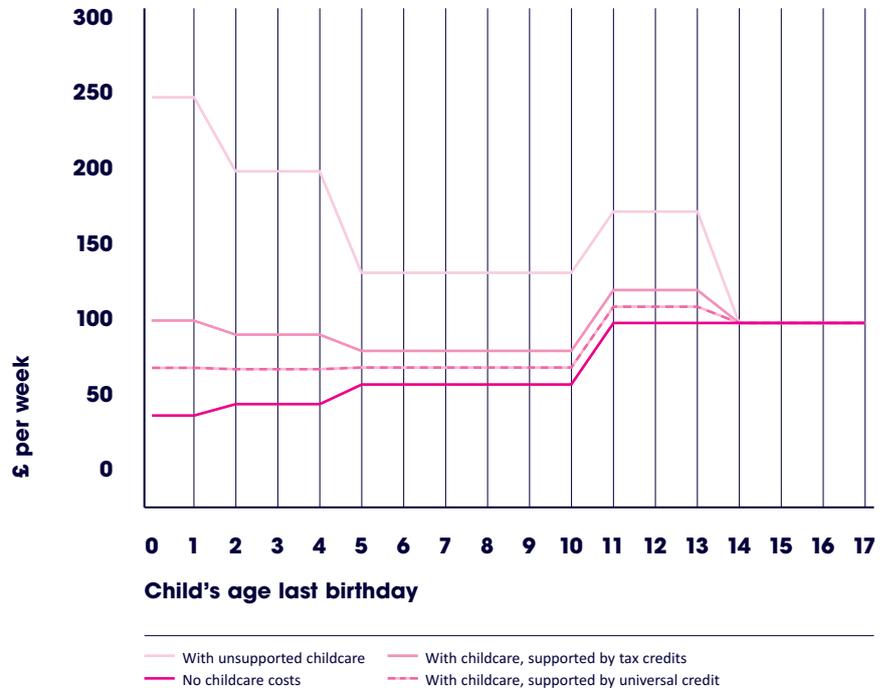
The following table and graphs update those published in the 2012 *The Cost of a Child in the Twenty-first Century*. For more detail on their interpretation, see Chapter Five of that report.⁴

- 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.
- 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

Table 3.1
The additional cost of each child, 2016

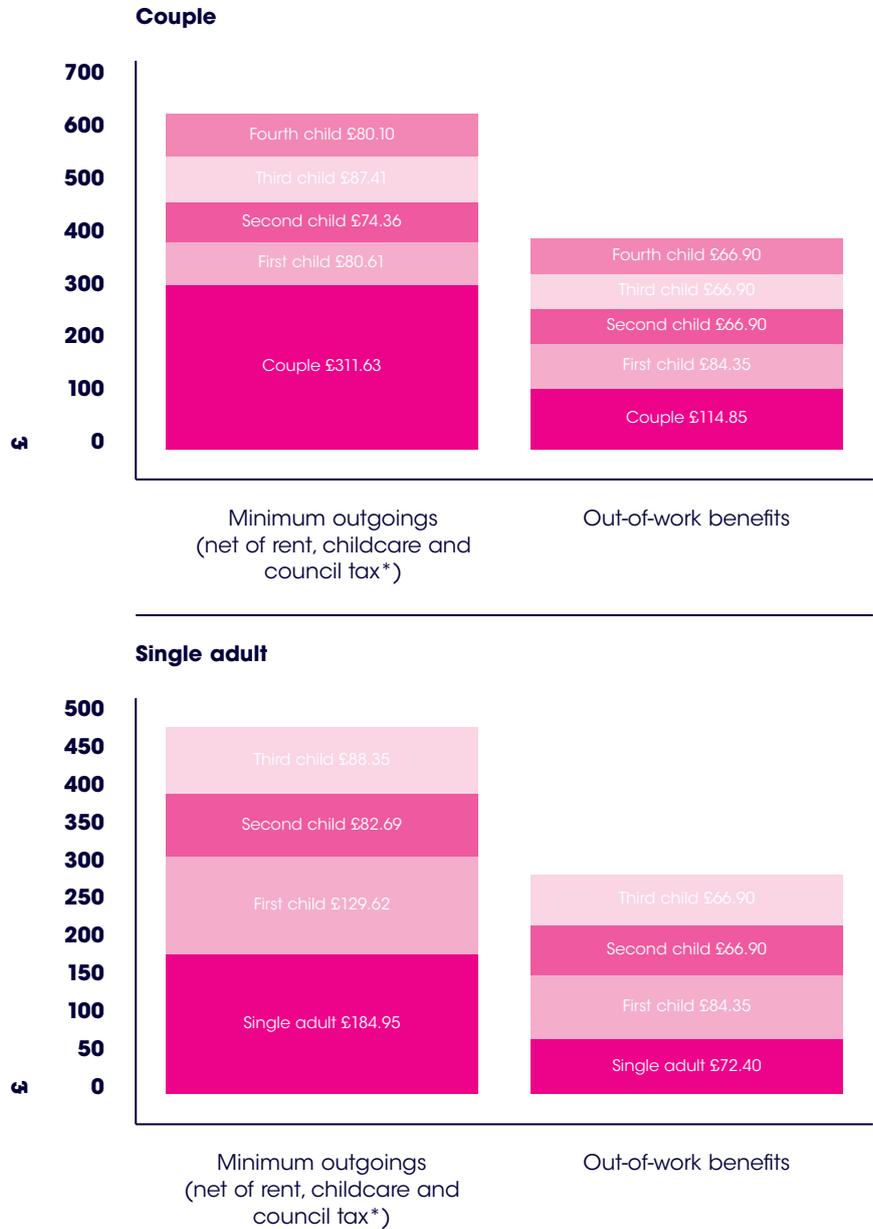
	Couple parent				Lone parent		
	First child	Second child	Third child	Fourth child	First child	Second child	Third child
Total cost over 18 years	£149,028.29	£154,094.35	£166,265.78	£155,865.96	£201,766.95	£163,411.16	£152,983.67
Average per year	£8,279.35	£8,560.80	£9,236.99	£8,659.22	£11,209.27	£9,078.40	£8,499.09
Average per week	£158.78	£164.18	£177.15	£166.07	£214.97	£174.11	£163.00
Excluding rent, childcare and council tax							
Total cost over 18 years	£75,393.03	£69,798.96	£82,047.85	£75,185.53	£120,450.80	£77,619.77	£82,927.39
Average per year	£4,188.50	£3,877.72	£4,558.21	£4,176.97	£6,691.71	£4,312.21	£4,607.08
Average per week	£80.33	£74.37	£87.42	£80.11	£128.33	£82.70	£88.35

Figure 3.1
Additional cost of first child of a couple, by age and childcare status, 2016



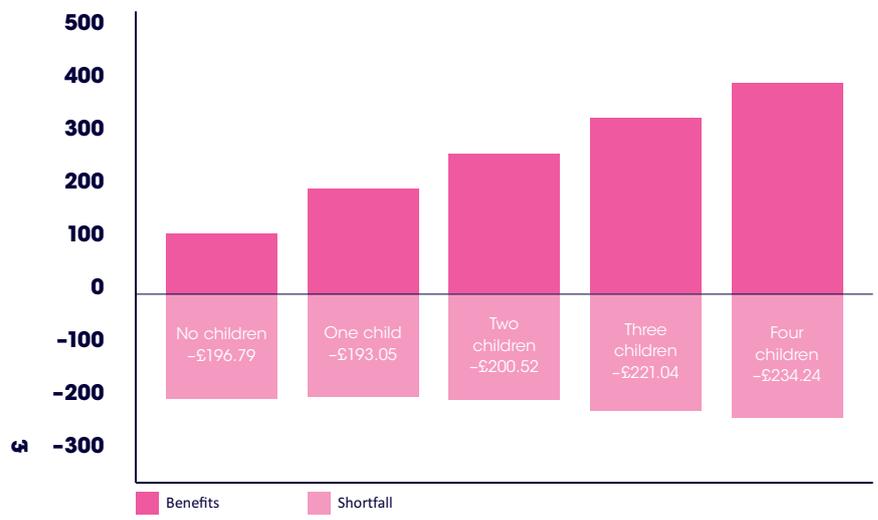
paying for it through tax credits. This graph shows that, for families paying for all of their childcare costs, the cost of children is greatest when they are youngest, while for those without childcare costs, the reverse is true. Tax credits help even out the cost of a child over the lifecycle, by giving working families on low incomes support with childcare. This means that with tax credits, net childcare bills when children are in their early years are similar in scale to the additional cost of feeding, clothing and in other ways providing for children at secondary school. For those on universal credit, which pays up to 85 per cent of childcare costs rather than up to 70 per cent under tax credits, net costs are more tilted towards higher ages. (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.)

Figure 3.2
 Cumulative weekly costs and benefit entitlement for successive children, non-working families, 2016



*except the portion of council tax not covered by benefits

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.

- 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. 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 now slightly exceed additional cost. For other examples shown here, additional benefits for children are between two-thirds and nine-tenths of additional costs; still much higher than for adults, where it is well under a half. 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 3.3, having additional children increases the shortfall, in absolute terms, between benefit income and needs, with the exception of the first child of a couple.

Notes

1. A Davis and others, *A Minimum Income Standard for the UK in 2016*, Joseph Rowntree Foundation, 2016
2. Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2016, forecasts a return to 2% inflation, even before the Brexit referendum and decline in the value of the pound.
3. A Davis and others, *A Minimum Income Standard for the UK in 2016*, Joseph Rowntree Foundation, 2016; D Finch, *Universal Challenge: making a success of universal credit*, Resolution Foundation, 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 THE VARIABLE IMPACT OF RENT AND CHILDCARE COSTS

Many basic costs in the UK can be standardised by looking at supermarket and other chain store prices to work out a budget for a minimum basket of goods, such as food, clothing and furniture. Some other budget items, such as an after-school activity or a day out, have more variable costs, but groups in the minimum income standard (MIS) research are able to come to a considered agreement on what would be a reasonable minimum budget sufficient to allow social participation.

What is a lot harder to standardise are two large items that potentially comprise a large part of the cost of raising a child, but where minimum costs vary greatly according to people's circumstances. In the case of paying for one's housing, it is possible to get agreement about the minimum size of accommodation that a family requires, but costs will vary vastly according to where one lives and whether one pays a social rent, a private rent or a mortgage. In the case of childcare, actual needs will vary according to how much people work and what informal support they can draw on, fees vary according to childcare setting, and net costs now vary according to whether families are able to take advantage of free entitlements and whether they can claim support through tax credits or universal credit.

The MIS research, on which the costs presented above are based, deals with these differences by making a standardised set of assumptions as a starting point, used to represent a modest, minimum set of costs, but in the case of childcare not assuming access to informal help. This chapter presents a range of other scenarios to illustrate the variability of these costs. Given that rent and childcare can account for at least half of the cost of bringing up a child, these differences are central to the cost of a child, and indeed point to ways in which it can potentially be reduced.

RENT

The baseline assumptions made in the above calculations are that families have access to social housing, and those on low incomes are eligible for full support for their rent through housing benefit, without any curtailment through the so-called ‘bedroom tax’ because they have more bedrooms than allowed for their size of family. In this ‘best case scenario’, rents have actually fallen by 1 per cent in the past year, under the new policy of reducing social rents by this amount each year.

For many families, rent levels and the ways in which they are supported will be far less favourable than this.

Looking first at rent levels, the key issue for many families is whether they can access an affordable rent. An increasing proportion of families with children rely on private rentals, where rents are much higher than in social housing. When rents were deregulated and assured shortholds introduced in 1988, fewer than a tenth of all households were in private rented, compared to a quarter in social housing. Today, in contrast, more households rent privately than from social landlords, and among English families with children who rent, only 1.3 million have social landlords compared with 1.6 million private.¹

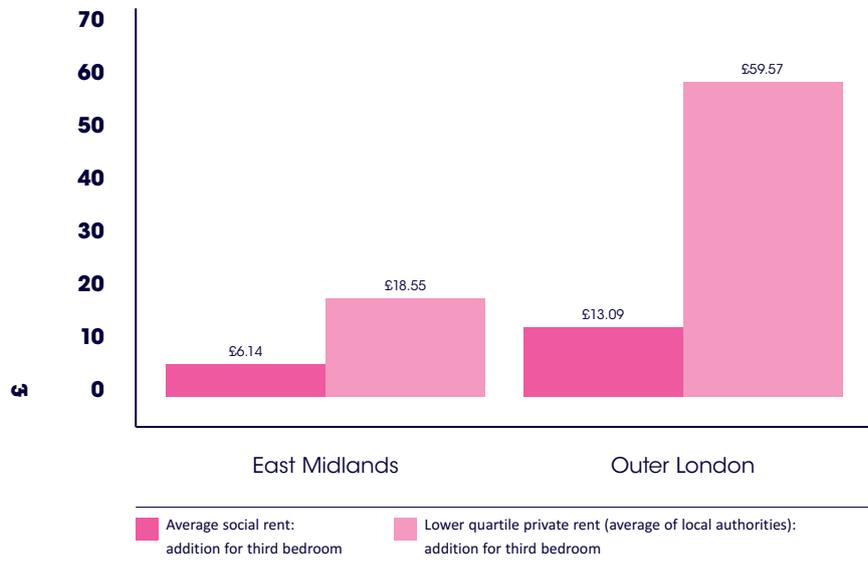
Rents in the private sector are highly variable, so it is impossible to generalise about how much a private rent adds to the costs assumed by a social renting model. However, Figures 4.1 and 4.2 compare examples of modest private rents in two parts of the country with the average social rents. (A ‘modest’ private rent

Figure 4.1
Weekly rent, public and private sector, three bedrooms, 2016



Source: Valuation Office Agency, *UK Housing Review*, author calculations

Figure 4.2
Additional rental cost of extra (third) bedroom, 2016



Source: Valuation Office Agency, *UK Housing Review*, author calculations

is shown here as one that is lower than three-quarters of rents for the same size of property – ie, the lower quartile rent.) The East Midlands and Outer London have been selected as a relatively low-cost, compared with a high-cost, rental area, but not the extremes (Inner London is the most expensive and the North East the cheapest private rental region). Figure 4.1 compares rent levels in these cases for a standard three-bedroom family home, while Figure 4.2 gives an example of the additional cost of an extra child where this necessitates an extra bedroom, by comparing rents for three- and two-bedroom properties.

These results show that both region and sector make a huge difference in the costs that families face. Private rents are far higher than social rents in all areas, but by a much greater extent in London. Even social rents in London are higher than modest private rents outside. Looked at (in Figure 4.2) in terms of the additional cost of a bedroom, to represent the rental element of the ‘cost of a child’, the picture is similar, except that in the social rented sector this is modest, even in London. An additional bedroom in the private sector costs nearly £20 a week in the East Midlands and nearly £60 in Outer London, adding substantially to the weekly cost of a child calculated in this report.

For some families, additional rental costs will be covered in full, or in part, by the state. For example, a London family in social housing that is not ‘under-occupying’ the home and has income low enough to qualify for housing benefit is currently fully compensated for the higher rent on their property than elsewhere. But even this could start to change, as caps on eligible rents will, in future, be applied to the ‘affordable rent’ sector – ie, new homes rented out at up to 80 per cent market rate. Other cases where the full rent is not covered by housing benefit include the following.

- The ‘bedroom tax’ penalty for having more bedrooms than prescribed in social housing, which costs a family 14 per cent of rent for one additional bedroom. Note that this penalty is higher in London because of the higher level of social rents, as shown in Figure 4.1: 14 per cent of the average social rent for a three-bedroom home works out as about £20 a week in London compared with £13 in the East Midlands.
- Private tenancies where actual rents exceed the maximum allowed by the local housing allowance. This is already widespread, and shortfalls will inevitably grow as a result of freezing the local housing allowance limits at a time when rents continue to increase. Again, there is a regional difference here, with rents having risen by around 8 per cent in London, compared with 2 per cent outside London.²
- The benefit cap, which causes rent support to be curtailed for larger families and, in the private sector, even potentially for families of four. As analysed in last year’s *Cost of a Child* report, larger families in private housing in London risk having little income left to cover non-rental expenses as a result of paying high rents with capped income.
- A family with earnings too high to qualify for housing benefit, but paying a high private rent, may be unable to get close to covering minimum costs even if their earnings are near average. For example, a couple with two children, with both parents working full time on a median wage in Outer London and renting at the modest end of the private market, will fall over £60 a week short of the minimum disposable income, even without childcare costs, and twice this amount if they pay for childcare.

CHILDCARE COSTS

The cost of childcare is potentially even more variable than rent, because not only do prices vary by region and sector, but the amount of childcare required by a family is not standard. Some parents are able to work while their children are looked after free of charge by relatives or neighbours; others have to pay high hourly childcare costs, not just for the hours they work, but potentially also for the time spent getting to and from work. Some who pay may find good arrangements through a relatively economical childminder; others may find that an expensive nursery is the only acceptable option. This situation is summed up in Figure 4.3, which shows how the cost of childcare can vary by mode and by region. As with Figures 4.1 and 4.2, examples are given of a cheaper and a more expensive part of the country. Note that in London, where childcare is more expensive generally, the difference between childminding and nursery provision is relatively small.

Figure 4.3
Average weekly childminding cost, by mode and region, one child, full time (50 hours)



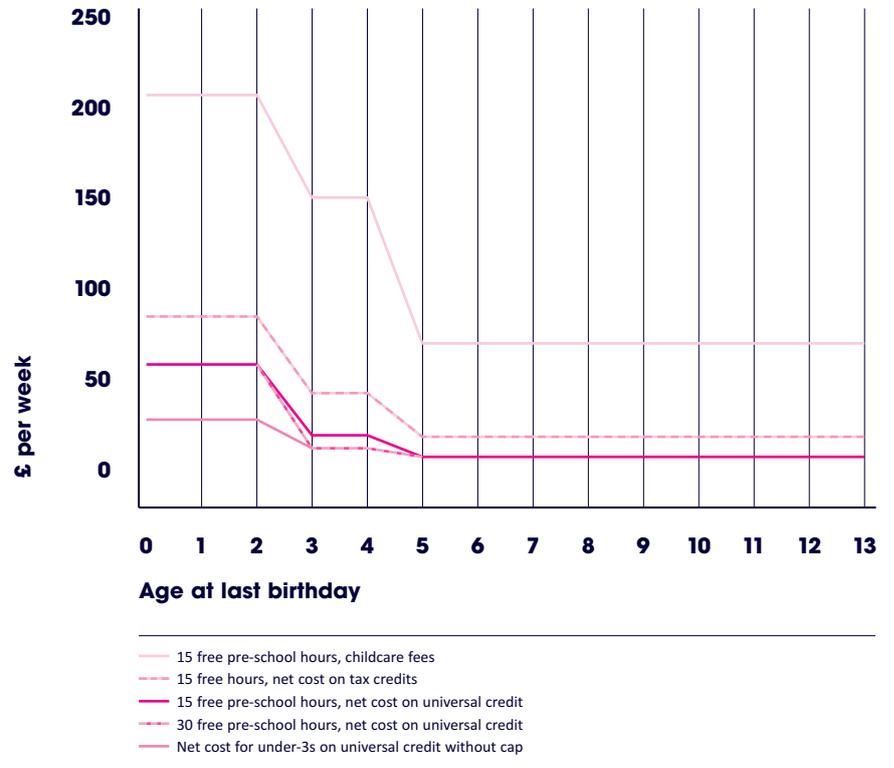
Source: Family and Childcare Trust, *Annual Childcare Costs Survey, 2016*

As with the case of rental costs, the impact of childcare costs on family budgets is heavily influenced by the extent of government support. This comes both in the form of free childcare hours for three- and four-year-olds (and some two-year-olds in families on the lowest incomes) and means-tested help through tax credits and universal credit. In some ways, this help is becoming more generous: the free entitlement is increasing in late 2017 from 15 to 30 hours and the maximum proportion of childcare eligible for support has risen to 85 per cent this year under universal credit, although it remains at 70 per cent under tax credits. Each of these increases has a caveat, however. It is uncertain how real the 30 hours' entitlement will be because a relatively low rate being offered to providers might make them reluctant to supply places that are eligible. The additional help in universal credit is only available up to the maximum fees of £175 for one child or £300 for two or more – a limit that has not changed for over a decade and which will normally be exceeded in the case of full-time childcare, as illustrated in Figure 4.3.

Therefore, the actual net cost of childcare will vary greatly, according to whether families are able to claim universal credit rather than tax credits, whether they need childcare hours that exceed the cost limit and whether the 30-hour offer ends up being offered by the provider they wish to use. Figure 4.4 shows, for the case of nursery provision outside London, how even with a given level of fees the impact on a family can vary greatly. If the 30 hours' entitlement can be made a reality, if families are able to obtain the 85 per cent rate in universal credit and if the cap on eligible fees is updated to achieve its original intention of only preventing atypically expensive childcare from being supported fully, working families would have much better opportunities to make ends meet. Most couple

Figure 4.4

Net cost to a family of full-time nursery care, under different policy scenarios (central England, average year-round weekly costs, taking account of holidays)



parents with up to two children are likely to have at least enough to meet the minimum income standard if they work full time under such a scenario. Many lone parents would still fall short, however, because of the more unfavourable terms of universal credit for lone parents, in aspects other than childcare support.

Notes

1. English Housing Survey 2014
2. Author analysis of Valuation Office Agency data

FIVE CONCLUSION

This year's report shows that some aspects of the cost of a child are easing, while others continue to rise. In interpreting these trends, it should be borne in mind that the starting point is a high level of costs that many families cannot afford. Over one in three children are growing up with household incomes too low to cover a minimum acceptable standard of living.¹

Some families on low income relying on benefits and tax credits have so far been spared the deterioration of living standards that could have resulted from the freeze in benefit rates that came into effect this year. Not only has general inflation been flat, but some core costs, such as food and energy, have become cheaper. Moreover, research on how people see a minimum living standard suggests that, after eight years in which family incomes have stagnated, parents are finding new ways of achieving the minimum more economically, with more shopping around and finding deals becoming the norm.

However, this has been offset by two important factors that are making the cost of bringing up children just as hard, or harder, to afford for many parents. The first is they feel a number of additional pressures that add to costs. The promotion of early years education has underlined the importance of high quality childcare, potentially with a nursery, rather than a childminder, involving higher fees. Housing choices have become more constrained, leading many to rely on the expensive private sector. And fewer housing choices can also lead to higher transport costs, as accessing work can mean travelling further afield, and less opportunity to move to close to where one works.

The other important factor is a changing benefits system. Some aspects have the potential to help families, notably the increase in childcare support under universal credit. Others will lower living standards, such as the cut in the 'work allowance' in universal credit. The lowering of the benefit cap this autumn will make life even tougher for larger families and those with high housing costs who are out of work and already struggling with not much more than half of the incomes they need. Other families have their benefit reduced through the 'bedroom tax' or because their private rent exceeds permitted levels.

A particularly striking aspect of the trends identified by this report is that, in several ways, the position of lone parents is worsening relative to couple parents – or to put it another way, it is becoming increasingly difficult to bring up a child alone. Some of this change comes on the cost side. A more expensive childcare model and more expensive family transport costs represent a proportionately larger burden for one parent to finance than two. Some is related to benefits: lone parents do worse in general from the switch to universal credit and this is accentuated by the greater cut in the work allowance for lone parents than for couples. Moreover, on the income side, the offsetting effect of the increased national minimum wage for people aged 25 or over gives more extra help in meeting these costs if you have two wages coming in rather than one. This explains why the government mission to reduce in-work support and replace it with better pay is particularly problematic for lone parents, in terms of large losses but small gains.

In the uncertain times ahead following the European Union referendum, public budgets are likely to be put under renewed pressure. In order for this not to make low-income families worse off still, commitments to address some of the highest family costs, particularly in housing and childcare, need to be honoured. This means developing an adequate supply of affordable housing. For childcare, the promise of additional free hours will need to be made a reality, which means funding it at a level that makes it attractive for suppliers to provide places, or going further and supplying public childcare places directly at low or no cost. These are essential investments in our children's futures.

Notes

1. M Padley and D Hirsch, *Households Below a Minimum Income Standard 2008/09 to 2013/14*, 2016

APPENDIX

THE MAIN

CALCULATIONS

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

Table A1 Additional costs 2016, £ 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	48.42	46.04	63.90	48.55	96.42	46.42	54.04
1	48.42	46.04	63.90	48.55	96.42	46.42	54.04
2	55.96	53.61	71.43	56.16	103.97	53.99	61.57
3	55.96	53.61	71.43	55.80	103.97	53.99	61.57
4	55.96	53.61	71.43	55.80	103.97	53.99	61.57
5	69.04	59.22	76.96	61.52	117.05	59.60	67.10
6	69.04	59.22	77.10	62.91	117.05	59.60	67.24
7	69.04	59.22	77.10	62.91	117.05	59.60	67.24
8	69.04	60.02	77.89	62.25	117.05	60.40	68.04
9	69.04	60.02	77.89	62.25	117.05	60.40	68.04
10	69.04	60.02	77.89	117.93	117.05	60.40	68.04
11	109.56	100.05	119.35	119.35	157.56	100.43	109.49
12	109.56	100.05	119.35	100.05	157.56	100.43	109.49
13	109.56	100.05	100.05	100.05	157.56	100.43	100.43
14	109.56	100.05	100.05	100.05	157.56	100.43	100.43
15	109.56	109.27	109.27	109.27	157.56	157.35	157.35
16	109.56	109.27	109.27	109.27	157.56	157.35	157.35
17	109.56	109.27	109.27	109.27	157.56	157.35	157.35

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	251.72	263.21	274.93	259.58	307.92	263.59	265.07
	1	251.72	263.21	274.93	259.58	307.92	263.59	265.07
	2	202.67	214.17	225.86	210.59	258.86	214.56	216.00
	3	202.67	214.17	225.86	210.22	258.86	214.56	216.00
	4	202.67	214.17	225.86	210.22	258.86	214.56	216.00
	5	135.30	139.34	150.94	135.50	191.49	139.73	141.09
	6	135.30	139.34	151.08	136.89	191.49	139.73	141.23
	7	135.30	139.34	151.08	136.89	191.49	139.73	141.23
	8	135.30	140.14	151.88	136.23	191.49	140.52	142.02
	9	135.30	140.14	151.88	136.23	191.49	140.52	142.02
	10	135.30	140.14	151.88	117.93	191.49	140.52	142.02
	11	175.82	180.17	193.33	193.33	232.01	180.56	109.49
	12	175.82	180.17	193.33	180.17	232.01	180.56	109.49
	13	175.82	180.17	180.17	180.17	232.01	180.56	106.57
	14	101.84	101.84	180.17	180.17	158.03	106.57	106.57
	15	101.84	101.84	101.84	101.84	158.03	158.03	158.03
	16	101.84	101.84	101.84	101.84	158.03	158.03	158.03
	17	101.84	101.84	101.84	101.84	158.03	158.03	158.03

