

**CHILD
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Trust for London

Tackling poverty and inequality

CHILDREN IN LONDON

THE EXTRA COST

Donald Hirsch



CHILDREN IN LONDON: THE EXTRA COST

Donald Hirsch

SEPTEMBER 2015

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

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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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KEY POINTS

- London parents can face much higher costs than parents elsewhere in paying for a family home and for childcare. However, children are cheaper to bring up in London when it comes to transport costs, and not significantly different when it comes to other costs.
- There are huge variations in the additional cost of a child according to housing sector. London families able to access social housing can live much more cheaply than those renting privately without children. However, families who rent privately must spend large amounts for the extra space needed for each child. The arrival of a first child typically adds £50 a week in rent for a couple in Outer London, rising to £150 for a single person becoming a lone parent in Inner London.
- Overall, for a family renting in the private sector, the additional cost of two young children is estimated to be nearly £11,000 a year higher in Inner London and £6,000 higher in Outer London than in the rest of the country. So, a couple with two children must find an extra £208 a week (in Inner London) or £115 a week (in Outer London), where additional private rental costs are included.
- The benefits system potentially helps low-income families pay their additional housing costs in London, but this support is being reduced in many ways. The under-occupation penalty (the 'bedroom tax') and the freeze in the local housing allowance are hitting Londoners harder than people outside London. The new benefit cap will force almost all out-of-work London families renting privately, and some larger families in social housing, to use part of their non-housing benefits towards paying their rent.
- Childcare can cost 50 per cent more in London than elsewhere in the UK, making it far harder for London parents to cover their costs by working longer hours. This has been exacerbated by the cap on support for childcare in tax credits and universal credit, which has not been raised for a decade. The cost of full-time childcare in London exceeds this cap, making it not worthwhile for London parents to work full time if they pay for childcare.
- Cars are not essential for families in London, and children travel free on London buses and on the Underground if they are under 12. This means that, unlike in other parts of the country, having a child does not generally bring additional transport costs. However, the overall transport costs faced by London families can nevertheless be higher than elsewhere, since the minimum cost of public transport used by adults is much higher than in the rest of the UK.

ONE INTRODUCTION

Any Londoner with a child knows that bringing up a family in the capital is not cheap. Londoners face high housing costs, and affording a family home brings prohibitively high costs for many.

London parents, whether lone parents or couples, may need to work long hours to cover their housing costs, yet this can be difficult with young children due to the other stand-out difference between costs in London and the rest of the UK: that of childcare.

Such additional costs need to be set against certain factors that can make the cost of children lower in London. Most importantly, bus travel is free for all children and Tube travel is free for the under-12s. London's museums and parks provide many free leisure opportunities, and are not available to the same extent elsewhere in the country. And for many other costs, such as prices in supermarkets and national chain stores, there is no general London premium, so it would be wrong to think of London as being uniformly more expensive than the rest of the country.

What does this mean for the overall cost of children in London, compared to the rest of the UK? This report draws on evidence from studies of minimum household costs in London to comment on the size of the differences in children's costs in various categories. This analysis builds on new research on a minimum income standard for London,¹ compared with the minimum income standard for the UK as a whole,² and also draws on the approach developed in the *Cost of a Child* studies for the Child Poverty Action Group.³ All these studies use as a benchmark the minimum cost of maintaining an acceptable living standard, based on what groups of ordinary people say is essential in the minimum income standard research.

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 households 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 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/research/mis-uk.

Comparing the cost of a child inside and outside London using these methods is not straightforward. The national cost calculation is derived by comparing minimum household costs with and without children. Regional comparisons using this method can therefore be influenced by differences in adult costs, not just by children’s costs. For example, adults without children in this research specify slightly more eating out than do parents, reflecting the reality that lifestyles change when people have children. Since eating out is more expensive in London, this ‘saving’ from having children is greater in the capital, but to say that this helps ‘reduce’ the cost of children there does not really make sense. For this reason, this report does not try to replicate the overall ‘cost of a child’

calculation for London, but rather comments on which children's costs are genuinely shown to be higher or lower, and compares the magnitude of these differences for various categories of spending.

Section two of this report starts by giving an overview of cost differences. The following three parts look at areas where they are most significant – housing, childcare and transport – and at how they interact with policies that might better address the needs of Londoners. Part six concludes.

In discussing the development of public policy, including measures introduced by the summer 2015 Budget, this report focuses on issues particular to the additional costs of bringing up children in London. A more general discussion of recent reforms can be found in the national *Cost of a Child* report.⁴

Notes

1. M Padley, L Marshall, D Hirsch, A Davis and L Valadez, *A Minimum Income Standard for London*, Trust for London, 2015
2. D Hirsch, *A Minimum Income Standard for the UK in 2015*, Joseph Rowntree Foundation, 2015
3. D Hirsch, *The Cost of a Child in 2015*, Child Poverty Action Group, 2015
4. D Hirsch, *The Cost of a Child in 2015*, Child Poverty Action Group, 2015

TWO PATTERNS OF CHILDREN'S COSTS IN LONDON COMPARED WITH THE REST OF THE UK

Buying a pint of milk, a shirt in Primark or a tube of toothpaste costs much the same throughout the UK. Most of the items that Londoners specify as being part of a minimum acceptable standard of living, and the price they pay for them, are identical to those in other parts of the country. On the other hand, there are stark differences for a limited number of items making up a significant portion of household spending.

Table 2.1 starts by illustrating where the differences lie by making a straight comparison between weekly budgets for couples with and without children in Inner London, Outer London and the UK outside London. For the moment, housing is left out of the picture (for reasons explained later). The table shows that:

- Other than housing, the main areas with a cost difference are childcare and transport.
- Of these, the biggest difference, by far, is much more expensive childcare in London.
- In the case of transport, children bring a large additional cost outside London, but little or none in London (in fact, there is initially a net 'saving' – see Part five).

- Other than housing, childcare and transport, the additional weekly cost associated with having two young children is very similar in London as elsewhere – an estimated £3 net cheaper in Inner London and under £1 cheaper in Outer London.

This is the product of some slightly higher, and some slightly lower, costs in London. For example, the additional domestic fuel cost of a family home is slightly greater due to an older social housing stock that is slightly less fuel-efficient. Net changes in food costs resulting from children are slightly smaller in London due to a greater saving on adult eating-out costs referred to earlier. Other variations are too small to be attributed to meaningful differences. Some differences between London and elsewhere, such as the availability of free museums and of parks on the one hand and more cramped living conditions on the other, may be said to affect the quality of life, rather than the minimum cost of living. Free leisure amenities, for example, did not affect the budget for paid-for social participation specified by groups in this research.

The following sections, therefore, focus on the three types of spending on children that bring significantly different costs in London and the rest of the country.

Table 2.1

Comparisons of weekly costs for couples with and without children, inside and outside London, excluding housing costs, 2015

	UK outside London			Inner London			Difference in extra costs: Inner London compared with UK outside London
	Couple	Couple, two children aged 4 and 10	Extra cost with children	Couple	Couple, two children aged 4 and 10	Extra cost with children	
Food	£77.91	£103.25	£25.34	£87.44	£109.52	£22.08	–£3.26
Alcohol	£9.57	£7.21	–£2.36	£9.57	£8.21	–£1.36	£1.00
Clothing	£14.49	£46.21	£31.72	£14.49	£44.87	£30.38	–£1.34
Water charges	£5.59	£9.56	£3.97	£5.98	£7.02	£1.04	–£2.93
Council tax	£19.69	£22.97	£3.28	£19.56	£22.10	£2.54	–£0.74
Household insurances	£1.13	£2.33	£1.20	£0.82	£1.19	£0.37	–£0.83
Fuel	£19.90	£24.71	£4.81	£17.61	£30.91	£13.30	£8.49
Other housing costs	£1.93	£10.25	£8.32	£1.93	£9.58	£7.65	–£0.67
Household goods	£13.00	£28.38	£15.38	£13.00	£26.30	£13.30	–£2.08
Household services	£5.25	£9.10	£3.85	£5.25	£11.55	£6.30	£2.45
Childcare	£0.00	£165.62	£165.62	£0.00	£248.72	£248.72	£83.10
Personal goods and services	£24.98	£44.54	£19.56	£28.84	£47.08	£18.24	–£1.32
Motoring	£0.00	£56.22	£56.22	£0.00	£0.00	£0.00	–£56.22
Other travel costs	£53.35	£15.24	–£38.11	£94.51	£86.59	–£7.92	£30.19
<i>Total travel</i>	<i>£53.35</i>	<i>£71.46</i>	<i>£18.11</i>	<i>£94.51</i>	<i>£86.59</i>	<i>–£7.92</i>	<i>–£26.03</i>
Social and cultural participation	£75.21	£102.78	£27.57	£75.21	£101.27	£26.06	–£1.52
Total	£321.99	£648.38	£326.39	£374.21	£754.90	£380.69	£54.31
Total excluding childcare	£321.99	£482.76	£160.77	£374.21	£506.19	£131.98	–£28.79
Total excluding transport and childcare	£268.64	£411.30	£142.65	£279.70	£419.60	£139.90	–£2.76

	Outer London			Difference in extra costs: Outer London compared with UK outside London
	Couple	Couple, two children aged 4 and 10	Extra cost with children	
Food	£87.44	£104.83	£17.39	-£7.95
Alcohol	£9.57	£8.32	-£1.25	£1.11
Clothing	£14.49	£48.12	£33.63	£1.92
Water charges	£5.98	£6.98	£1.00	-£2.97
Council tax	£19.56	£22.35	£2.79	-£0.49
Household insurances	£0.83	£0.94	£0.11	-£1.09
Fuel	£17.61	£29.78	£12.17	£7.36
Other housing costs	£1.93	£9.65	£7.72	-£0.60
Household goods	£13.01	£26.57	£13.56	-£1.82
Household services	£5.25	£11.91	£6.66	£2.81
Childcare	£0.00	£234.97	£234.97	£69.35
Personal goods and services	£26.31	£45.86	£19.55	-£0.02
Motoring	£0.00	£0.00	£0.00	-£56.22
Other travel costs	£124.52	£107.80	-£16.72	£21.38
<i>Total travel</i>	<i>£124.52</i>	<i>£107.80</i>	<i>-£16.72</i>	<i>-£34.84</i>
Social and cultural participation	£75.21	£103.86	£28.65	£1.08
Total	£401.71	£761.95	£360.24	£33.85
Total excluding childcare	£401.71	£526.98	£125.27	-£35.50
Total excluding transport and childcare	£277.19	£419.18	£141.99	-£0.66

Source: Minimum income standard database

THREE HOUSING COSTS

How do housing costs change when a family has children? A standardised answer to this question is harder than, say, asking how much extra it costs to buy clothes for a child.

This is because a family with children may end up with a different type of home, possibly in a different sector, than before it had children. This makes it hard to separate out the cost of housing associated with providing for an individual child from the general cost of a home to a family.

The ‘minimum cost’ assumption used in the minimum income standard research is that a family with children will require more space, but also that it may be able to access social housing, which is not a realistic possibility for those without children. As a consequence, a straightforward comparison of the ‘minimum’ housing costs of a couple before and after having children assumes that they go from a privately rented flat to a socially rented house (or, in London, a socially rented flat). This suggests that having children brings a small *saving* in housing costs outside London, and a much larger saving in London, due to the much greater expense there of renting privately. However, in reality, this will only apply in the event that social housing becomes available with the birth of a child, something that no London family can take for granted.

In practice, there could be a range of costs or savings for people renting property when they first have children, according to which sector they rent in before and after this occurs. The sector they live in will also influence the marginal cost of increasing the size of their accommodation with the arrival of additional children. Nowhere are these differences affected by housing availability more important than in London, where rental costs in all sectors are higher than elsewhere, and the difference in costs between sectors is also much greater than outside of the capital.

Figures 3.1 and 3.2 illustrate these differences. Using criteria for the minimum acceptable size of property for different household types agreed in London and in the UK outside London by minimum income standard research groups, and applying standardised assumptions about the actual cost of property (based on average rents in social housing and mainly on lower-quartile rents in private

housing), the graphs show what would happen to rents on the arrival of the first child, whether staying in the same housing sector or moving into social housing, and on the arrival of the second child, assuming the family stays in the same sector. For the first child, there are different results for lone parents and couples, since it is assumed that a single person without children would be living in a studio flat and a couple in a flat in London, while outside London the single person would be living in a cheaper one-bedroom flat than a couple. For the second child, there is no such distinction, since families with children are assumed to live in the same size of property with a given number of children, regardless of whether they are headed by a lone parent or a couple.

The figures show very clearly that the housing cost of having children can be much greater, and varies much more according to sector, for families in London (and especially in Inner London) than elsewhere in the country. Moreover, the additional cost of having children in the private sector dwarfs other costs. For example, the cost of a family home suitable for one child in Inner London is over £200 a week more in the private sector than in social housing. The additional cost for a single person with a child moving into such a privately rented home, compared to renting a studio flat, is around £150, compared to a £70 saving if s/he were able to move into social housing. For a couple moving from a one-bedroom flat, the equivalent figures are around £80 more if they stay in the private sector, or nearly £150 less if they can move into social housing. Outside London, on the other hand, the difference in the cost of a small family home rented privately is only around £20 a week more than social housing, one-tenth of the London difference. (This is based on the East Midlands, which is used in the minimum income standard to represent a low-cost region outside London.)

Figure 3.2 shows that the cost of adding a bedroom for an additional child is also extremely high in London's private sector, compared with the private sector outside London or the cost of social housing – although relatively high social rents in London also mean that it costs twice as much to add a bedroom in the social sector there as elsewhere.

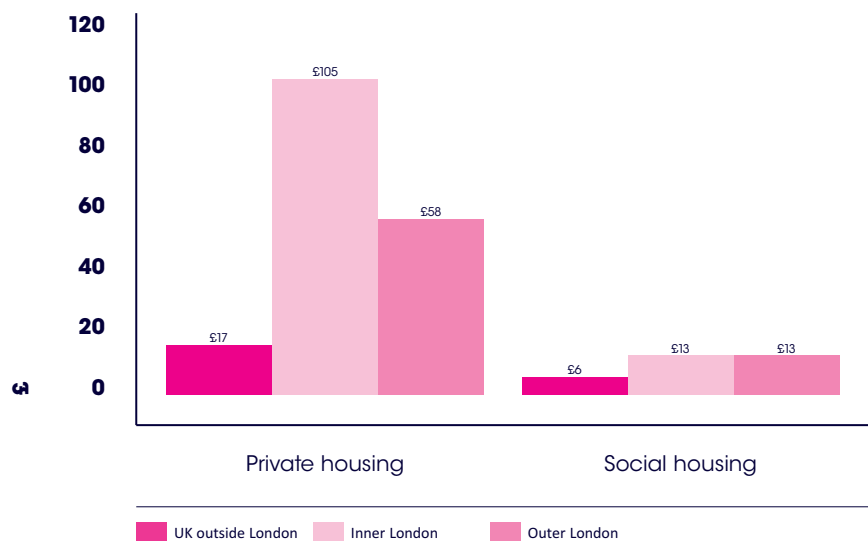
So, in London, the issue of rent can be more important to the cost of a child than the rest of children's costs combined, other than childcare – which are around £90 a week in the UK outside London¹ and slightly lower in London due to lower travel costs. However, it is also important to note that, unlike most other costs, high housing costs can potentially trigger greater support from the state for those on low incomes – and thus a family does not have to bear all of this additional cost.

Figure 3.1
Additional rental cost on arrival of first child, 2015



Sources: D Hirsch, *A Minimum Income Standard for the UK in 2015*, Joseph Rowntree Foundation, 2015; M Padley, L Marshall, D Hirsch, A Davis and L Valadez, *A Minimum Income Standard for London*, Trust for London, 2015; Valuation Office Agency data

Figure 3.2
Additional rental cost on arrival of second child, 2015



Sources: D Hirsch, *A Minimum Income Standard for the UK in 2015*, Joseph Rowntree Foundation, 2015; M Padley, L Marshall, D Hirsch, A Davis and L Valadez, *A Minimum Income Standard for London*, Trust for London, 2015; Valuation Office Agency data

HIGH RENTS AND PUBLIC POLICY

To what extent does current housing policy affect the ability of Londoners on low incomes to afford higher rents than elsewhere? Clearly the extent to which the availability and cost of social housing make rents affordable for low-income families is particularly pertinent in London. In addition, the benefits system and its reform have important effects on whether households can afford their rents. The influence of benefits varies according to whether Londoners are in or out of work and whether renting in the social or private sector.

Out-of-work benefits

Families who are not working may, in principle, be no worse off as a result of rents being higher in London than elsewhere, because these rents are fully covered by housing benefit. However, significant numbers of tenants are being affected by a curtailment of this benefit for one of two reasons. The first is because their eligibility is restricted because they 'under-occupy' their property or its rent is above the 'reference' level that is reimbursable. The second is because housing support brings their total benefits above the maximum permitted by the benefit cap.

The system does not support families to rent a home considered too large for their needs in either social or private housing. In the social sector, the rules for the 'bedroom tax' (the under-occupancy penalty) reduce housing benefit by 14 per cent of rent if a tenant has one 'spare' bedroom and by 25 per cent for two spare bedrooms. This creates a higher charge for a family in London because social rents are substantially higher than elsewhere. In the two-child example used in minimum income standard research, groups of members of the public say that they do not think that a seven-year-old boy should have to share a bedroom with a girl aged three, so a family with these children needs three bedrooms, including one for the parents. The 'bedroom tax' rules say that because both children are under 10, two bedrooms for such a family would suffice. The penalty of having three bedrooms, which members of the public believe the family needs, amounts to £20 a week in London compared with £13 outside London, based on average social rents.

In the private sector, the 'reference rent' that limits housing benefit eligibility is restricted by similar home size rules, and the cost of being in 'too large' a home to be supported in London will be much greater for private tenants due to high overall rent levels. For example, the consequence of renting a three-bedroom property so that each of two children can have their own bedroom, when the system will only pay for one, can be seen from Figures 3.1 and 3.2 (which show the difference between having two bedrooms for a one-child family and three bedrooms for a two-child family). This shows that a family may have to find an additional £105 a week in Inner London and £58 in Outer London in order to

finance an extra bedroom for a second child – which is another way of saying that, in practice, the children will have to share. However, in the private sector, even a family keeping to the occupancy rules is highly unlikely to find a property within the reference rent level, which was originally set to allow access to the cheapest 30 per cent of the rental market, as it has recently been updated more slowly than London rents have increased, and from 2016 will be frozen. In the past two years, reference rent increases have been restricted to 1 per cent a year, while average London rents have risen by 3 per cent per year.² Applied to a private rent for a two-bedroom home supported by housing benefit, this creates a loss of £15 a week in Inner London and £11 in Outer London over this period. With support now frozen, if rents were to continue to increase at just 3 per cent a year (which is very modest compared to what many Londoners are now experiencing), this will add roughly £10 each year to the weekly amount that a family renting a private home in London needs to contribute to rent from its non-housing benefit income.

Higher rents in London also make it more likely that social tenants in London will be hit by the benefit cap – the £26,000-a-year (falling to £23,000 in 2016) limit on all out-of-work benefits that a family can receive. Table 3.1 illustrates what level of housing benefit entitlement would trigger a curtailment of benefits under the cap at these two levels for families of different sizes, in both the social and private sectors. It shows that:

- Anyone renting a family home in the private sector in Inner London at an average reference rent, whatever their family size, is already hit by the £26,000 cap, and will therefore lose a further £3,000 a year when the level is lowered. For the largest family shown here, a couple with four children, the ‘bite’ of the benefit cap (the amount by which it reduces benefits) will be over £400 a week. But even for a family of half that size – a lone parent with one child – it will be nearly £100 a week, a huge sum for an out-of-work family to find.
- In Outer London, only a lone parent with one child will, at the average rent payable for a private letting, avoid the £23,000 cap. A couple with two children will lose about £90 a week as a result of this new cap.
- Even some families with social rents will be hit by the cap in London. Under the old cap, this just applied to a couple with four children, but the new one will affect couples with three children and lone parents with four.

Overall, then, the lower cap will make it all but impossible for the vast majority of out-of-work families to pay a private rent in London, or for larger families to pay a social rent if they are not working. Moreover, the scope to escape the cap or reduce its effect by moving into smaller accommodation is limited. Starting from the assumption in Part C of Table 3.1 that children already share a bedroom,

Table 3.1
Benefit entitlement, London rents and the benefit cap, 2015

Family type	A. Non-housing benefit entitlement (child benefit + child tax credit + income support)	B. Maximum weekly rent within cap (= cap minus non-housing benefits)		C. Weekly London rent assuming two children share bedroom		
		£26,000 cap (£500 a week)	£23,000 cap (£442 a week)	Social housing average	Local reference rent average for Inner London (not central)	Local reference rent average for Outer London
Couple, one child	£199	£301	£243	£133	£379	£263
Couple, two children	£266	£234	£176	£133	£379	£263
Couple, three children	£333	£167	£109	£146	£466	£317
Couple, four children	£400	£100	£42	£146	£466	£317
Lone parent, one child	£157	£343	£286	£133	£379	£263
Lone parent, two children	£224	£276	£219	£133	£379	£263
Lone parent, three children	£291	£209	£152	£146	£466	£317
Lone parent, four children	£357	£143	£85	£146	£466	£317

Note: Figures in Part B show gap between non-housing benefits and cap. Shading in Part C shows whether housing entitlements exceed these amounts.

Hit by £23,000 cap Hit by £26,000 cap

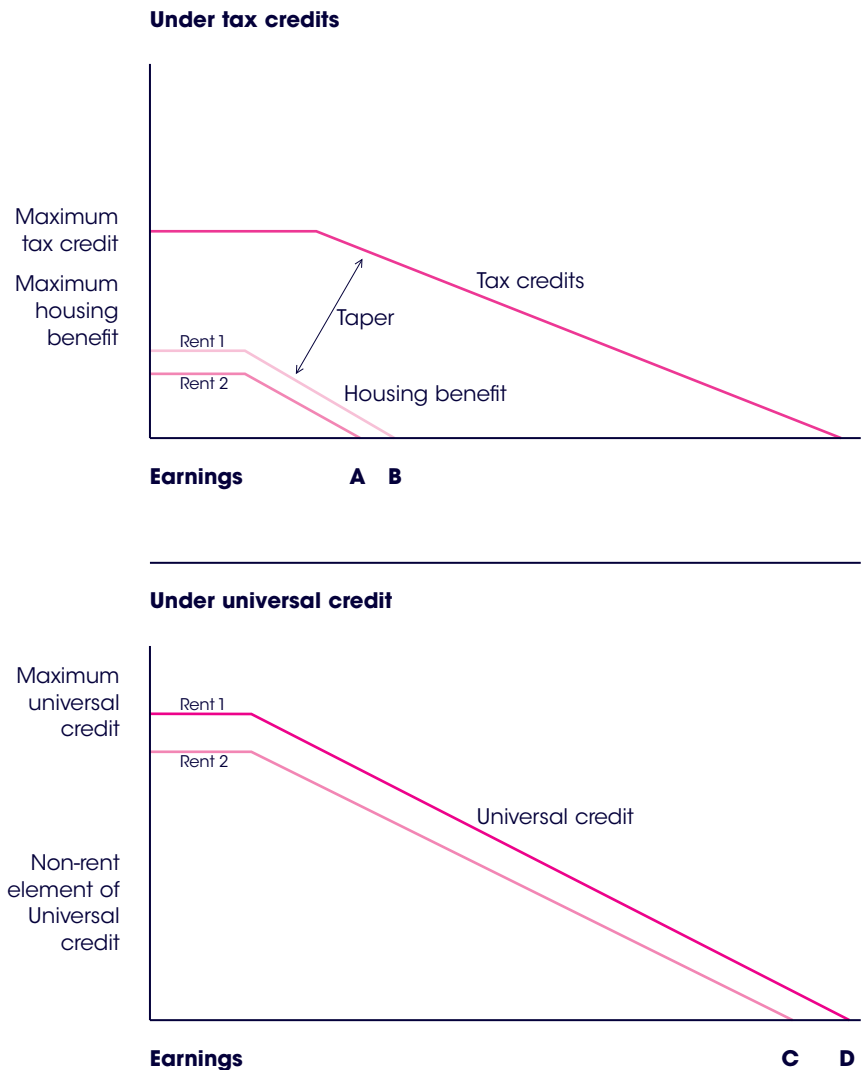
Sources: D Hirsch, *A Minimum Income Standard for the UK in 2015*, Joseph Rowntree Foundation, 2015; M Padley, L Marshall, D Hirsch, A Davis and L Valadez, *A Minimum Income Standard for London*, Trust for London, 2015; Valuation Office Agency data

having one fewer bedroom would mean parents and children sharing. The only other ways to escape the cap for such families are by moving out of London or finding work – yet only one in seven families hit by the cap are in categories expected to seek work.³

In-work benefits

Working families are not subject to the benefit cap.⁴ However, those with an entitlement to housing support when working, through housing benefit at present and universal credit in the future, will be affected in cases where the maximum entitlement is curtailed. They will be subject to similar losses to those described above for out-of-work claimants, if subject to the ‘bedroom tax’ or having a private rent higher than the reference rent.

Figure 3.3
Schematic representation of in-work benefits, old and new systems



The number of working families affected by such curtailment in housing support, which as noted above has greater impact for London families because of their higher rents, is likely to grow under universal credit. This is due to an effect of welfare reform that has not been noticed by most commentators. The incorporation of housing benefit into universal credit could increase greatly the number of working families whose benefits from the state are sensitive to their rent levels. Under the existing system, housing benefit entitlement generally runs out at a lower level of earnings than tax credits, whereas in universal credit a combined entitlement, including the housing element, all runs out at the same time. This effect is illustrated schematically in Figure 3.3 and in the example on page 23. Under tax credits, housing benefit can run out much earlier because its tapering with rising earnings works separately (and more steeply from a lower starting point). Thus, for earnings higher than at point A, the additional income

associated with a higher rent is reduced, and at earnings higher than point B, rent levels make no difference to state support. Under universal credit, on the other hand, for anyone with any entitlement to means-tested in-work support, the level of this support is sensitive to eligible rent levels. In Figure 3.3, the extent to which the system gives additional help for higher rents only starts to fall when earnings are at point C, and only disappears when they reach point D.

This phenomenon could help give more working Londoners access to support to compensate for their high rents. On the other hand, it also means that many more people may be affected by the 'bedroom tax' and by cuts in the private rent level eligible for housing support. These factors will influence the extent to which working Londoners can make work pay.

Example

The above phenomenon can be illustrated through the case of a couple with two school-age children (not requiring childcare), who rent a three-bedroom property from a social landlord. If this family receives out-of-work benefits, it has the same disposable income, after rent (around £287 a week), whether living in or out of London, since the rent is fully covered in both cases (assuming for the moment that the 'bedroom tax does not apply). However, if both parents work full time on the minimum wage, under the old system they earn too much to get any housing benefit outside London and lose all but £5 a week in London, so their disposable income is much lower in London because social rents are higher there. (Disposable income when working rises to around £450 a week outside London, but just over £400 with a London rent.) Under universal credit, on the other hand, disposable income when working is the same in London as outside (about £457 a week), since universal credit for the London family is higher than it is outside London by the same amount as the difference in the rents. Thus, in such cases, the reward for working is lower for the family with the higher rent under the old system, but the same under universal credit. However, the other side of this coin is that if this family type were 'under-occupying' its home, it would be hit by the 'bedroom tax' in work as well as out of work under universal credit, but only out of work under the old system, meaning that the imposition of the 'bedroom tax' no longer improves the incentive to work.

Notes

1. D Hirsch, *The Cost of a Child in 2015*, Child Poverty Action Group, 2015
2. Office for National Statistics, *Experimental Index of Private Housing Rental Prices*, April 2013 to April 2015
3. Department for Work and Pensions, *Benefit Cap Quarterly Statistics: GB households capped to May 2015*, 6 August 2015
4. Lone-parent families are exempt from the cap if they work over 16 hours a week and couple parents are exempt if they work over 24 hours a week.

FOUR THE COST OF CHILDCARE

As every London parent knows, childcare costs have risen sharply in the city in recent years. According to the Family and Childcare Trust, living in London adds around £60 per week to the cost of 50 hours of childcare – the weekly amount that is typically needed by a parent working full time. Childcare costs in London for the over-twos have increased by 41 per cent since 2010, a faster increase than in other regions.¹

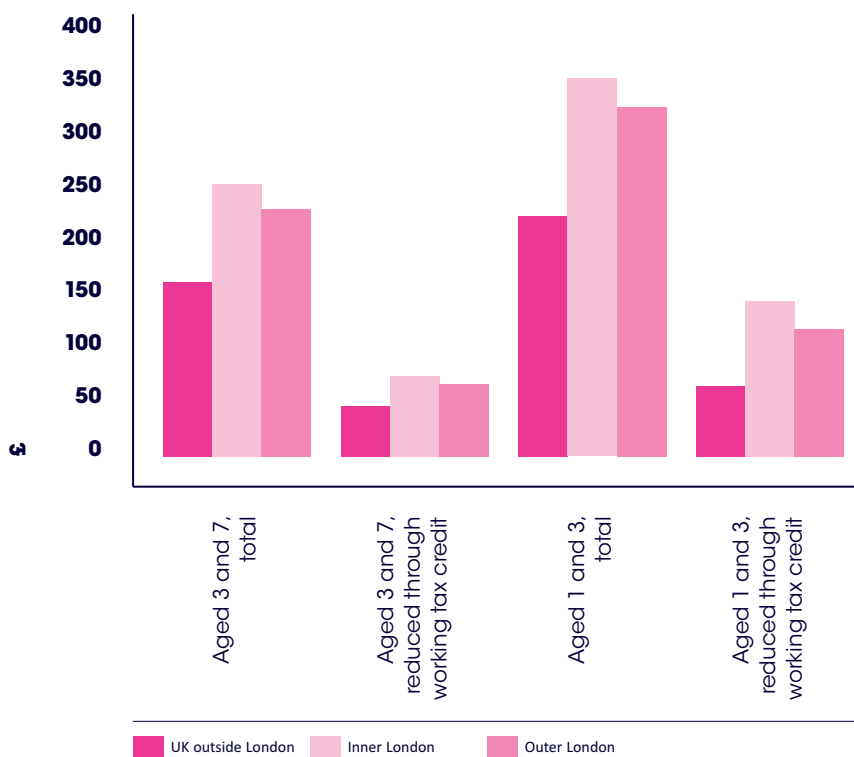
Figure 4.1 compares the cost of childcare for two young children of different ages in London and in other parts of the country. It shows that childcare can cost 50 per cent more in London than in a lower cost part of the country. (The outside London figures in this case are for the central part of England.)

The graph also takes account of the fact that low-income families get substantial help with childcare costs if they are receiving tax credits, currently up to 70 per cent of the costs paid. This will increase to 85 per cent under universal credit from 2016. However, the limit on costs that can be supported in this way, of £175 a week for one child and £300 for two or more, have not been changed for a decade, and now falls well short of what is paid on average for full-time childcare in London. This explains why Figure 4.1 shows that the additional net cost of childcare in London to families on tax credits can, in some cases, be around double that in other parts of the country – increasing this cost from under £70 outside London to nearly £150 a week in Inner London for a family with two pre-school children. This is because, whereas outside London the full childcare fee (£229) is supported by a 70 per cent subsidy, the Inner London fees of £358 exceed the £300 subsidy, with the excess having to be met in full by the family, in addition to the £90 that it must pay towards the first £300 of fees.

This issue of the cap on childcare support has crucial implications for the ability of London families to improve their living standards by working. Table 4.1 shows the net gain of working an additional hour inside and outside London for a parent on the minimum wage with one child, requiring an additional hour's childcare for

Figure 4.1

Weekly childcare costs for two young children whose parents work full time, 2015



Source: www.minimumincome.org.uk

each extra hour worked, both in 2015 under tax credits and in 2016 under universal credit – also taking account of the introduction of the ‘national living wage’. It shows that for part-timers, the improvement in wages and in childcare support is counteracted by a large increase in the taper rate in universal credit compared to tax credits for non-taxpayers, leaving incentives slightly worse both inside and outside London. On the other hand, for those earning enough to pay tax, the income taper rates are similar enough in the two systems so that the higher rate of support for childcare under universal credit helps improve work incentives outside London. In London, on the other hand, anyone requiring more than 30 hours of childcare (typically required by someone working about 24 hours a week) will hit the cap on support, meaning that an additional hour of childcare needs to be funded entirely by the family. This creates a heavy net loss, and makes it counterproductive for someone to increase her or his hours if this requires additional childcare.

Without a higher cap on support for childcare in London, then families with children on low earnings will be prevented from working full time – even though a full-time wage may be needed to begin to address the high cost of living in the capital. As discussed elsewhere, a higher cap would have minor costs and possibly even savings to the Treasury, since it would allow families to increase their earnings, pay more taxes and require lower tax credits for non-childcare purposes.²

Table 4.1

The effect of one hour's additional work on disposable income, before and after childcare, inside and outside London under 2015 and 2016 policies

A. Moving from 20 to 21 hours a week						
	Minimum wage for over-25s (per hour)	Combined withdrawal rate (tax, national insurance, taper)	Retained earnings, before childcare (per hour)	Cost of one hour of childcare	Percentage of childcare paid through tax credits/universal credit	Retained earnings, after childcare (per hour)
UK outside London						
2015 tax credits	£6.50	41%	£3.84	£3.77	70%	£2.70
2016 universal credit	£7.20	65%	£2.52	£3.77	85%	£1.95
London						
2015 tax credits	£6.50	41%	£3.84	£5.77	70%	£2.10
2016 universal credit	£7.20	65%	£2.52	£5.77	85%	£1.65
B. Moving from 32 to 33 hours a week						
UK outside London						
2015 tax credits	£6.50	73%	£1.76	£3.77	70%	£0.62
2016 universal credit	£7.20	76%	£1.73	£3.77	85%	£1.16
London						
2015 tax credits	£6.50	73%	£1.76	£5.77	0%	-£4.02
2016 universal credit	£7.20	76%	£1.73	£5.77	0%	-£4.04

Note: Section A considers marginal returns from work for people working too few hours to pay tax and national insurance, and having childcare requirements within the limits for support, even in London. Section B considers someone working more hours, paying tax and national insurance and not receiving additional help with childcare at London rates because the limit for support has been exceeded.

Sources: Author's calculations; Family and Childcare Trust data

Notes

1. L Marshall, *Costs and Needs in London*, Centre for Research in Social Policy, 2015
2. D Hirsch, *Paying the Price: childcare in universal credit and implications for single parents*, Gingerbread, 2015

FIVE TRANSPORT COSTS

Minimum family transport costs differ greatly in London from other parts of the UK. Parents in urban areas outside London where the minimum income standard research has taken place – large towns and small cities such as Derby – agree that a basic car is needed to have a minimum acceptable standard of living if you have children, but not if you do not. London parents agree that a car is not required.

Public transport in London is considerably more expensive than in other parts of the UK, particularly when contrasting the cost of a travelcard that includes the Underground, which is considered part of getting around London, with the cost of a bus pass elsewhere. However, for children, public transport is free up to the age of 12 and half price thereafter. In addition, bus travel is free up to age 16, and in Outer London (but not Inner London), research groups felt that teenagers could, as a minimum, rely on the bus to get around.

These factors combine to mean that Londoners without children have to spend much more on travel than their equivalents outside London, but the additional cost of travel when children arrive is far less. Indeed, while outside London the cost of acquiring a car adds substantially to overall transport costs, in London a new parent will pay no additional transport costs for her/his child and is expected to spend less on her/himself. This is attributed to a lower specification for a minimum amount of travel by taxi and by train among parents than non-parents, due to changes in patterns of socialising. Those without children specify modest amounts of travel outside London to visit friends (from Inner London) and occasional trips home late from a social event (in Outer London), and these expenses reduce for those with children.

Figure 5.1 shows the consequences of these patterns for overall travel costs. It shows that, outside London, a couple needs to spend £16 a week more with two children than without children when the children are young, and £24 when they are older (of secondary school age). In London, on the other hand, in most cases spending is reduced for parents, because children travel free and parents are considered to incur less additional travel costs than non-parents above the cost of having a monthly travelcard. (These extra costs arise from more trips by taxi

and by train to outside London, as mentioned above.) The exception is a family with older children in Inner London, where teenagers are considered to require a travelcard that includes the Tube in order to meet routine travel requirements. For an Inner London family with two children at secondary school, overall travel costs are £17 a week higher than for a couple without children.

This relatively favourable situation for Londoners in terms of the cost of bringing up children is partly the result of having a good transport system that avoids the need for a car, and partly the result of public subsidies allowing children to travel free. Hence, public policy has an overall benign effect in the case of transport. However, Figure 5.1 also shows that when considering the *overall* cost of transport for a family, rather than just the additional cost of children, the situation is less favourable. The high cost of the two adults' travel in the couple family shown, mainly the cost of their travelcards, makes the family travel budget higher than if they were outside London and ran a modest second-hand car. Hence, getting public transport costs down remains an important part of the agenda for London's government in making life more affordable in the city.

Figure 5.1
Transport costs for a couple without children and with two children, inside and outside London, 2015



SIX CONCLUSION

This report has shown that the cost of bringing up a child in London differs only in limited respects to the cost elsewhere in the country, but that the effect of these differences is very large.

In particular, the additional cost of rented housing when a child arrives can be anything up to £150 a week, although this is highly dependent on the area of London and the sector in which the home is rented. Childcare costs can add a similar amount per child for those working full time with young children. These costs can be prohibitive, making it impossible for some families to live and work in London. The fact that transport costs are lowered for children by free travel brings much smaller economies in an overall family budget, and these 'savings' do not prevent the overall travel costs for a family, including that incurred by parents, from being higher in London than elsewhere.

Public policy has a big role to play in tackling these costs. A system whereby families on low incomes are helped to afford high housing costs, where these cannot be avoided, is breaking down, as a range of reforms to housing benefit have required many families to contribute substantial amounts themselves to help meet higher housing costs. The lowering of the benefit cap in particular will make it virtually impossible for most London families without work to afford any form of privately rented housing, or for larger ones to afford social housing. For those in work, universal credit potentially extends housing assistance to families on a wider range of incomes. But, at the same time, many families receiving this assistance are facing cuts in entitlement relative to their rents.

An important message from groups of parents participating in the minimum income standard research in London was that, for many families, it is considered essential to work full time in order to make ends meet there. However, for families with young children, the high cost of childcare can prevent full-time work from improving family income. The better rate of support for childcare being introduced under universal credit does not allow London families to gain from working more than part time, because once they require about 30 hours of childcare they are above the current limit for such support. Increasing this limit could therefore play a key role in helping some London families to earn more to cover high costs.

Without such measures to make housing and childcare more affordable in London, it is hard to see how the city can continue to be a place where families on modest incomes can live at an acceptable level. One alternative future is one in which the capital becomes a home for people without children and for wealthier families, rather than the mixed community that it has been in the past. Another possibility is that families do stay in London, but live in increasingly overcrowded conditions with disposable incomes that leave them desperately short of being able to buy what they need. In practice, London may see a mix of these equally unappealing scenarios.

