

Children in London: The extra cost ^[1]

Author: Hirsch, Donald

Source: Child Poverty Action Group

Format: Report

Publication Date: 5 Sep 2015

AVAILABILITY

PDF report ^[2]

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, compared with the minimum income standard for the UK as a whole, and also draws on the approach developed in the Cost of a Child studies for the Child Poverty Action Group. 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.

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.

The cost of child care

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-tuos have increased by 41 per cent since 2010, a faster increase than in other regions.

Figure 4.1 [see full PDF report] 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 preschool 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 [see full PDF report] 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 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.

Related link: High cost of childcare cancels out benefits of working longer hours [3]

Region: Europe [4]

Tags: affordability [5]

work-life balance [6]

Source URL (modified on 27 Jan 2022): <https://childcarecanada.org/documents/research-policy-practice/15/09/children-london-extra-cost>
Links

[1] <https://childcarecanada.org/documents/research-policy-practice/15/09/children-london-extra-cost> [2]

[https://cpag.org.uk/sites/default/files/CPAG_Children in London the extra costs_Sept 15.pdf](https://cpag.org.uk/sites/default/files/CPAG_Children%20in%20London%20the%20extra%20costs_Sept%2015.pdf) [3] <http://childcarecanada.org/documents/child-care-news/15/09/high-cost-childcare-cancels-out-benefits-working-longer-hours> [4] <https://childcarecanada.org/category/region/europe> [5]

<https://childcarecanada.org/category/tags/affordability> [6] <https://childcarecanada.org/category/tags/work-life-balance>