

**CHILD  
POVERTY  
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GROUP**



**Trust for London**

Tackling poverty and inequality

# **THE COST OF A CHILD IN LONDON**

**June 2021**



# The Cost of a Child in London

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## About the author

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## About Child Poverty Action Group

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high-profile legal work to establish and protect families' rights. [cpag.org.uk](https://cpag.org.uk)

## Acknowledgements

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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 cost less to bring up in London when it comes to transport and there is not a significant difference for many other costs.
- Housing costs in London can hugely increase living costs associated with having children. However, these vary greatly, and depend particularly on whether families can access social housing. A single person renting privately can face additional costs of over £100 a week to accommodate a child, compared to £20 outside London.
- State support for housing costs has become less adequate with the erosion of local housing allowance (LHA) levels relative to rents. This has to some extent been rectified during the pandemic, but these improved entitlements are limited by the benefit cap, which now hits almost all London families in private accommodation at the permitted LHA level.
- Childcare costs are on average over 10% higher in Outer London and over 30% higher in Inner London than in Britain as a whole. In Inner London, childcare costs over 50% more than in parts of the country where childcare costs are lowest. However, this understates the difference in the cost to families, since families receiving universal credit (UC) get 85 per cent of childcare costs covered, up to a cash limit. As the cost of full-time childcare in London generally exceeds this limit, the proportion that families have to pay is much higher than elsewhere. This makes the cost to the family over twice as high as outside London for children too young to benefit from the early childhood (30 hours) entitlement.
- Families in London do not need cars, and children currently travel free on London buses and on tubes if they are under 12. This means that, unlike in other parts of the country, having a young child does not generally bring additional transport costs. However, overall transport costs can nevertheless be higher than elsewhere for couple families in London, since the minimum cost of public transport used by adults is much higher than in the rest of the UK. For a lone parent, on the other hand, the cost of just one adult travelcard is not enough to offset the cost of a car outside London, so travel costs in London are generally lower. It is important to retain London travel concessions for children and young people, which have recently been under threat.

## 1. Introduction

Bringing up a child is not cheap. Across the UK, it is estimated that it costs about £150,000 to cover the minimum cost of a child between birth and the age of 18.<sup>1</sup> In London, parents face even greater costs. In particular, childcare costs are on average over a quarter higher than in Britain as a whole,<sup>2</sup> and housing is far more expensive than the equivalent elsewhere, whether purchasing a home, renting privately or even paying a social rent.

Not all children's costs are higher, however. Bus travel is free for all under-18s and tube travel free for under-12s. London's museums and parks provide many free leisure opportunities 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 differences in children's costs in various categories. This analysis builds on new research on a 'Minimum Income Standard for London',<sup>3</sup> compared to the minimum income standard (MIS) for the UK as a whole,<sup>4</sup> and also draws on the approach developed in the cost of a child studies for Child Poverty Action Group (CPAG).<sup>5</sup> All these studies use as a benchmark the minimum cost of maintaining an acceptable living standard, based on what groups of members of the public say is essential in the MIS research.

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<sup>1</sup> D Hirsch, *The cost of a child in 2020*, CPAG, 2020

<sup>2</sup> Coram Family and Childcare, *Childcare Survey 2020*, 2020, p12, two-year-old nursery place, average of inner and outer London

<sup>3</sup> M Padley, A Davis and C Shepherd, *A Minimum Income Standard for London in 2020*, Trust for London, 2021

<sup>4</sup> A Davis, D Hirsch, M Padley and C Shepherd, *A Minimum Income Standard for the UK in 2020*, Joseph Rowntree Foundation, 2020

<sup>5</sup> See note 1

**Box 1: The minimum income standard, London, and the cost of a child**

The minimum income standard (MIS) 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 for the UK 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. A parallel set of studies, funded by Trust for London, researches variations to the UK results for inner and outer London.

The MIS method 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 MIS 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 [lboro.ac.uk/research/crsp/mis/](http://lboro.ac.uk/research/crsp/mis/)

Drawing on the results of the MIS, the cost of a child studies carried out by CRSP for CPAG work out additional minimum household costs that result from having children. This is not a direct calculation of what children consume individually, but a comparison of how much is added to overall household costs each time a child of a given age is added. Some of these costs are individual to a child (eg, the cost of their clothing) and some are concerned with changes in family living costs (eg, the need to have a car if you have children, and the need to have a bigger one if your family grows above a certain size). The method is set out in the original cost of a child report.<sup>6</sup>

Comparing the cost of a child in London and in other urban areas of the UK 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 the MIS London research specify more for eating out than do parents, reflecting the reality that lifestyles change when you 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, the present 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.

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<sup>6</sup> D Hirsch, L Sutton and J Beckhelling, [The cost of a child in the twenty-first century](#), CPAG, 2012

Section 2 of this report starts by giving an overview of cost differences. The subsequent three sections look at areas where they are most significant – housing, childcare and transport – and at how these interact with policies that might better address the needs of Londoners. Section 6 draws conclusions.

## 2. Patterns of children’s costs in London compared to the rest of the UK

A pint of milk or a tube of toothpaste bought at a national chain store 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, for a range of items making up a significant portion of household spending, there are stark differences.

Table 1 compares overall weekly costs for a family with two children in London and outside London. For the moment, housing is left out of the picture (for reasons explained below). It shows that overall, family costs are well over £100 a week higher for a couple with two children in London than outside. While most of this is due to higher childcare costs, a substantial difference remains even after these have been excluded, particularly in outer London, where the cost of a travelcard is greater because it has to cover more zones. For lone-parent families (not shown here), overall travel costs are lower, as only one adult travelcard is needed, and in many cases this makes total budgets excluding childcare similar in London than in urban areas in the rest of the country.

**Table 1: Minimum weekly costs for couple with two children, inside and outside London, excluding housing, 2020**

	UK outside London	Inner London	Outer London
Food	£112.39	£112.39	£112.39
Alcohol	£10.39	£10.39	£10.39
Clothing	£44.72	£44.89	£45.01
Water rates	£10.72	£6.78	£6.78
Council tax	£27.96	£26.56	£26.56
Household insurances	£1.56	£1.40	£1.85
Fuel	£18.79	£22.67	£22.67
Other housing costs	£1.92	£1.92	£1.92
Household goods	£26.60	£27.01	£27.01
Household services	£10.64	£12.36	£12.36
Childcare	£219.42	£308.04	£315.17
Personal goods and services	£41.10	£48.25	£46.56
Motoring	£65.41	£0.00	£0.00
Other travel costs	£30.90	£106.93	£131.88
<i>Total travel</i>	£96.31	£106.93	£131.88
Social and cultural participation	£96.58	£113.89	£111.58
<b>Total</b>	<b>£719.11</b>	<b>£843.48</b>	<b>£872.14</b>
<b>Total excluding childcare</b>	<b>£499.69</b>	<b>£535.44</b>	<b>£556.96</b>

Table 2 looks more specifically at the additional cost of children, by expressing budgets as the difference between a couple with two children and a couple without children: how much extra cost children are bringing. This 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 the two-child example given, full-time childcare costs just over £200 a week outside London but over £300 a week in London.
- In the case of transport, children bring an additional cost outside London, but little or none in London (actually in some cases there is a net 'saving', see transport section below).
- While children bring significant costs in terms of social participation, in inner London they are shown here as bringing no additional costs. This is because, as in other areas, the added cost of things like children's activities and birthday presents have been offset against a saving on adult activities outside the home, the cost of which parents judge to be lower, as a minimum, than before they had children. This has a particularly strong effect in inner London, where the budget specified for such activities is higher than in other urban areas of the UK.

**Table 2: Additional weekly cost of two children, couple family, excluding housing, 2020**

	UK outside London	Inner London	Outer London
Food	£28.97	£22.59	£23.60
Alcohol	-£1.72	-£9.18	-£0.12
Clothing	£26.52	£26.69	£26.80
Water rates	£4.74	£1.18	£1.18
Council tax	£5.93	£2.75	£2.75
Household insurances	-£0.31	£0.12	£0.39
Fuel	£2.46	£5.10	£5.10
Other housing costs	£0.46	£0.46	£0.46
Household goods	£14.82	£14.34	£15.15
Household services	£0.53	£2.26	£2.26
Childcare	£219.42	£308.04	£315.17
Personal goods and services	£10.20	£5.85	£14.81
Motoring	£65.41	£0.00	£0.00
Other travel costs	-£51.65	-£13.95	£1.62
Total travel	£13.77	-£13.95	£1.62
Social and cultural participation	£22.24	-£0.72	£38.76
<b>Total</b>	<b>£348.02</b>	<b>£365.51</b>	<b>£447.94</b>
<b>Total excluding childcare</b>	<b>£128.60</b>	<b>£57.47</b>	<b>£132.76</b>

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

### 3. 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 (social housing), than before children. This makes it hard to separate out the housing cost associated with providing for an individual child from the general cost of a home to a family.

The 'minimum cost' assumption used in the MIS research is that a family with children will require more space (in a house in urban areas of the UK outside London, or a flat in London), but also that they may be able to access social housing, which is not a realistic possibility for those without children. As a consequence, a straightforward comparison of 'minimum' housing costs assumes a private rent in a one-bedroom flat for a single person or a couple without children, and a social rent on a larger property for a family with children. As a result of lower rents in social housing, this model suggests that households with children have lower housing costs than those without, and this difference is large in London, where private rents are particularly high. However, in reality this will only apply in the event that social housing becomes available with the birth of a child, something that no family, whether in London or the rest of the UK, 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 each additional child. Nowhere does this issue of housing sector carry more importance than in London, where rental costs are higher than elsewhere in all sectors, but by a much greater amount for those renting privately.

Figure 1 illustrates these differences. The calculations use criteria for the minimum acceptable size of property for different household types agreed in London and in urban areas of the UK outside London by MIS groups, applying standardised assumptions about the actual cost of property (based on average rents in social housing and on lower-quartile rents in private housing). The graphs show what would happen to rents, firstly on arrival of the first child, whether or not this triggers a housing sector change; and secondly on arrival of the second child, assuming the family then stays in the same sector. For the first child, there are different results for lone parents and couples. This is because it is assumed that a single person without children would be living in a studio and a couple would be living in a flat in London, and that in urban UK outside London a 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.

Figure 1 shows very clearly that the housing cost associated with 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.

This is especially true for those who have to continue renting privately after they have children: their increased rent dwarfs other costs. For example, for a single person who lives in a studio flat then has a child and moves into a suitably sized privately-rented flat, rent will rise by over £100 a week. In contrast, it would fall by £92 in inner London or £42 in outer London if they were able to move into social housing.

Figure 1a: Additional rental cost on arrival of first child, 2020



Sources: Valuation Office Agency, MIS data

Figure 1b: Additional rental cost on arrival of second child, 2020



The equivalent figures for a couple having their first child are around £50 more rent if they stay in the private sector compared to up to £170 less if they can move into social housing.

These differences also exist outside London but are much smaller. Here the additional rent needed by a single person renting privately to accommodate each of the first two children is just £20, a fraction of the London difference. This is based on the East Midlands, which is used in MIS to represent a low-cost region outside London.

It is also worth noting that social rents in London, while providing a large saving compared to London's private rents, are nevertheless a lot higher on average than in the rest of the UK. It costs twice as much to rent a property with an additional bedroom in the social sector in London than elsewhere – about £13 a week. Despite being a lot lower than the additional cost of private housing, this extra cost is significant for low-income families.

### 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 makes rents affordable for low-income families is particularly pertinent in London. Recent trends in the benefits system have important effects on whether worse-off 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.

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 they are living in a home with rent higher than they are eligible to get support for. The second is because housing support brings total benefits above the maximum permitted by the benefit cap.

The benefit 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' 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 outside London. In the two-child example used in MIS research, groups of members of the public say that they do not think that a boy aged seven 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 ten, 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 to £13 in the UK outside London, based on average social rents.

In the private sector, the LHA rate is the maximum rent eligible for support for a given family. This is based both on household size and local market rents.

The LHA is governed by similar household size rules to the social sector. However, the cost of being in 'too large' a home to be supported in London will be much greater for private tenants, due to higher overall rent levels.

For example, if a family rents a three-bedroom property so that each of two children can have their own bedroom, but the system will only pay for one, then they will have to find the difference. Based on a lower quartile rent, this difference is £69 a week in inner London and £47 in outer London (the same as the rent difference between a one- and two-child family as shown in Figure 1b above, which assumes that the second child does require that additional (third) bedroom). For many families, this will in effect mean that children will have to share bedrooms.

However, in the private sector, even a family keeping to the occupancy rules is highly likely not to find a property within the LHA maximum. This maximum was originally set to allow access to the cheapest 30 per cent of the rental market but has recently been uprated more slowly than London rents have increased, and was frozen from 2016 to 2019. In 2020, there was a temporary re-linking to the 30th percentile of private rents, and the decision about whether to extend this will have a profound impact. This is because between April 2013 and April 2019, the LHA rose only by 2 per cent, while rents in London rose by 12 per cent, according to the ONS index of private rental prices. Table 3 shows the huge difference that this has made: the restored market-based (30th percentile) LHA rents in 2020 are on average £34 a week or 13 per cent higher than the ones that would otherwise have been applied, according to the original plan to apply uprating for inflation from 2019. Thus for London families in private rented accommodation, this pandemic-related policy makes a considerably bigger difference than the temporary £20 a week increase in UC, announced at the same time.

Table 3: LHA rates in London (weekly), 2020

	Original plan (uprated from 2019)	Actual (restored to 30 <sup>th</sup> percentile for the pandemic)	Difference (£)	Difference (%)
Inner East London	£326.19	£365.92	£39.73	12%
Inner North London	£326.19	£365.92	£39.73	12%
Inner South East London	£286.23	£310.68	£24.45	9%
Inner South West London	£326.19	£356.71	£30.52	9%
Inner West London	£316.69	£339.45	£22.76	7%
Outer East London	£247.70	£299.18	£51.48	21%
Outer North East London	£207.82	£264.66	£56.84	27%
Outer North London	£267.47	£299.18	£31.71	12%
Outer South East London	£213.74	£253.15	£39.41	18%
Outer South London	£234.01	£253.15	£19.14	8%
Outer South West London	£285.37	£304.93	£19.56	7%
<b>Unweighted average difference</b>			<b>£34.12</b>	<b>13%</b>

Source: Valuation Office Agency

The important policy decision for 2021, about whether to retain the higher LHA rates introduced during the pandemic, is different in its nature from the decision about whether to retain the £20 increase in UC. In the case of LHA, there are three options: return to the previous rates, retain the link with market rents or retain the new rates but without a commitment to keep them in line with rents as they change. A report by the Office For Budget Responsibility, published in November 2020, suggested that this third option is being planned, with a freezing of the LHA at the higher rates.<sup>7</sup> On the one hand this reverses the effects of the decoupling of the rates from market rents over the past few years, resetting them as if that policy had not existed, but it also reintroduces the policy for future uprating, recreating the problem of rent shortfalls that for now have been remedied.

### *Rents and the benefit cap*

Higher rents in London also make it more likely that London tenants will hit the benefit cap, and thus cause housing benefit or UC to be curtailed. The cap is higher in London, at £23,000 a year, than in the rest of the country, where it is £20,000. Yet for a private tenant, the additional level of the London cap, £3,000 a year, or £58 a week, is likely to be less than the additional amount paid in rent as a result of living in London. For example, the LHA rate for a two-bedroom house is £160 a week higher on average in London than in the rest of the country. Thus, other things being equal, benefits before the cap are likely to be far more than £58 a week higher for a private tenant in London than their equivalent elsewhere, making them much more likely to hit the cap. This is not true however for a tenant in social housing, where the average rent difference is £45 a week for a two-bedroom home, and £53 for a three-bedroom, meaning that among social tenants, the effect of the cap is slightly more modest on average in London (since in this sector Londoners' additional housing benefits to cover higher rents amount to slightly less than the additional amount at which their benefits are capped).

Table 4 illustrates the effect of the benefit cap on six different family types in private and in social housing in London and outside London. It shows that, for a family that is not working or earning less than £617 a month: For Londoners who rent privately with rents at the current LHA limit, UC is reduced by the cap even for the smallest families. This is because eligible rents have risen to a very high level, even for a two-bedroom home in outer London, for which the average LHA rate is £278 a week – let alone for a three-bedroom home in inner London, for which it is £432. Even in the former case, when the basic benefit entitlement of a lone parent with just one child, £180, is added on, the total of £458 comes to £16 above the limit, and this much is deducted from benefits through the cap. This does not mean that every family renting privately will be capped, since some may find housing with rents below the limit, but families have found this very difficult, making it increasingly likely that London families are capped.

- The amount exceeding the cap can be huge, even for average-sized families. For example, due to the cap, a couple with two children with an average LHA rent in inner London would have benefits reduced by £280 a week as a result of the cap – ie, receive £280 less than what they need to cover their rent on top of their basic UC entitlement. This effectively makes it impossible to cover the rent at that level without other resources such as help from family, since basic benefit entitlements are only £290 a week, meaning that if they were used to help pay the rent, the family would have only £10 a week left to cover their living costs.
- For private tenants, the impact of the cap is much greater in London than elsewhere. Outside London, it is still possible to have rent fully covered without hitting the cap for families with just one child. Other families who are renting privately face severe reductions in living standards through the cap across the country, but the effect is most extreme in London. For example, a couple with two children outside London loses 'only' £82 of the £290 of basic benefits, rather than losing £280 in inner London, as referred to above.

<sup>7</sup> Office for Budget Responsibility, *Economic and Fiscal Outlook: November 2020*, 2020, p179

- For social tenants, the picture is different: as referred to above, the additional amount that they pay in rent in London is on average slightly less than the additional amount allowed for in the cap. More importantly, social rents are far lower than private rents, and both inside and outside London only make families subject to the benefit cap if they have three or more children, in the examples shown. However, this could change very soon: a couple with two children in London with a social rent has benefits only £7 a week, or less than two per cent, below the cap. Inflation uprating of benefits and/or a continuation of recent increases in social rents could mean such families hit the cap very soon, although this will also depend on whether the pandemic-related increases in benefit rates are sustained.

Table 4: The effect of the benefit cap on UC entitlements, 2020/21

	Lone parent, 1 child aged 4	Lone parent, 2 children aged 7 and 12 (boy and girl)	Lone parent, 3 children aged 4, 7 and 12	Couple, 1 child aged 7	Couple, 2 children aged 7 and 12 (boy and girl)	Couple, 3 children aged 4, 7 and 12
Basic UC and child benefit entitlement	£180.22	£248.49	£316.76	£222.67	£290.94	£359.21
<b>LONDON</b>						
UC including <i>average LHA rent, inner London</i> (weekly cap = £442)	£530.99	£680.95	£749.22	£573.44	£723.40	£791.67
Reduction in benefits due to cap	£88.99	£238.95	£307.22	£131.44	£281.40	£349.67
UC including <i>average LHA rent, outer London</i> (weekly cap = £442)	£458.03	£583.83	£652.10	£500.48	£626.28	£694.55
Reduction in benefits due to cap	£16.03	£141.83	£210.10	£58.48	£184.28	£252.55

UC including <i>average social rent, London</i> (weekly cap = £442)	£311.04	£392.35	£460.62	£353.49	£434.80	£503.07
Reduction in benefits due to cap	£0.00	£0.00	£18.62	£0.00	£0.00	£61.07
<b>ENGLAND OUTSIDE LONDON</b>						
UC including <i>average LHA rent, outside London</i> (weekly cap = £385)	£326.42	£424.38	£492.65	£368.87	£466.83	£535.10
Reduction in benefits due to cap	£0.00	£39.38	£107.65	£0.00	£81.83	£150.10
UC including <i>average social rent, outside London</i> (weekly cap - £385)	£265.75	£339.53	£407.80	£308.20	£381.98	£450.25
Reduction in benefits due to cap	£0.00	£0.00	£22.80	£0.00	£0.00	£65.25

Sources: Valuation Office Agency, MIS database, author's calculations

Overall, then, for the great majority of London families who are in privately-rented accommodation, benefit entitlements are being heavily restrained by the benefit cap regardless of what happens to LHA limits or general benefit levels. The effects go well beyond the numbers who are actually capped, since the impossibility of paying London's high rents under these conditions will cause many others to live in overcrowded homes, to live with extended family, to move away from London or to become homeless. For those able to access more affordable rents through social housing, the problem is less acute, and so far has affected mainly larger families. But this will change quickly under current policies, particularly if they continue to set a flat-rate cap, not uprated with inflation like other benefits since the end of the benefit freeze.

## 4. The cost of childcare

Childcare costs have risen sharply in London in recent years, and are much higher than elsewhere in the country. For example, according to Coram Family and Childcare, the cost of a full-time nursery place for a two-year-old in London is around £64 a week higher in outer London and £98 in inner than the British average.<sup>8</sup> This is a substantial burden for London's working parents, and potentially makes it unaffordable for a parent to work.

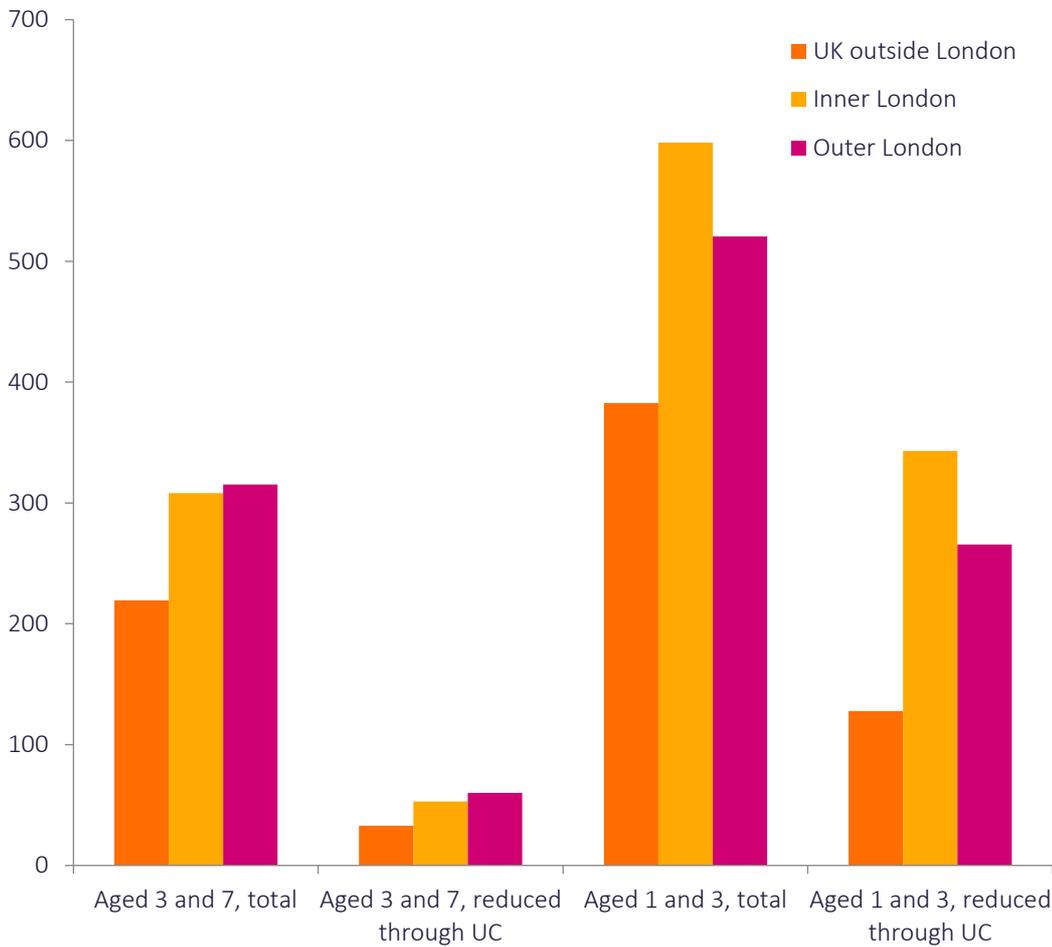
Figure 3 compares the cost of childcare for two young children of different ages in London and other parts of the country. It shows that childcare can cost around 50 per cent per more in London than in one of the cheaper areas

<sup>8</sup> Coram Family and Childcare, *Childcare Survey 2020*, 2020, p12

of the country (the outside London figures in this case are for the central part of England – an area comprising the Midlands and the Eastern region).

The figure also takes account of the fact that low-income families get up to 85 per cent of childcare costs covered by UC. However, an increasingly important limit to this is that the total applicable fees to which this is applied has been capped at the same level since 2005, even though childcare costs have more than doubled in that time. The cap is set at £175 a week for one child and £300 for two or more, which is now far less than the average cost of full-time childcare in London. This explains why Figure 3 shows that the additional net cost of childcare in London to families on UC can in some cases be well over double that in other parts of the country, increasing this cost from under £128 in the UK outside London to over £340 a week in inner London for a family with two pre-school children. This is because in both cases the fees are above the limit, so the same maximum subsidy of £255 a week (85 per cent of £300) is payable in both cases, and the additional London-based cost must be borne by the household. It is clearly unrealistic to expect that a family on modest earnings could afford to pay anything like these amounts for childcare, meaning that London parents who have to pay for childcare are unlikely to be able to work full time, other than those with a non-working partner.

Figure 2: Weekly childcare costs for two young children whose parents work full time, 2020



Source: [www.minimumincome.org.uk](http://www.minimumincome.org.uk)

Nevertheless, for those working part time who therefore have a lower childcare requirement, the 85 per cent subsidy in UC can still potentially make work pay, provided that the ceiling on childcare support is not reached. It is therefore worth comparing part-time childcare costs to the limits set for such support. We can note from the childcare survey cited above that:

- A block of 25 hours a week of childcare costs approximately £170 in inner London and £150 in outer London. This is about enough to sustain half of a full-time job (taking account of the fact that childcare hours need to be longer than working hours, due to additional time needed to drop off a child and get to work).
- This means that for a family with one child, requiring that amount of childcare, the £175 limit on support will not quite be reached in the average case, but it will be reached in many cases where fees are slightly above average. For two children requiring such part-time childcare, for whom the combined limit is £300, we can expect that it will usually be reached in inner London, and in about half of cases in outer London.

- Where at least one child is aged three or four, the 15-hour subsidy will help keep costs down to below the limit. (Families who work part time are entitled to a subsidy equivalent to 15 hours a week of childcare for children of these ages.)
- Where the limit is not reached, an hour of childcare, which costs approximately £6 in London, will cost only 90p to a family on UC, preventing them from being worse off from working additional hours (see Box 2).

#### **Box 2: Working additional hours: family on UC paying for childcare**

Childcare in London costs approximately £6 an hour.

The minimum wage pays £8.72 an hour. This sounds like enough to cover an additional hour of childcare, and have a bit left over.

However, where a parent in a family on UC works an additional hour on this wage, the change in family income, before childcare costs, will be much less than £8.72. Additional earnings trigger reductions in UC, with the family losing 63p for each extra £1 earned. On this basis the hourly minimum wage will raise income by no more than £3.23 an hour. Also, for someone working at least 21 hours a week on this wage, national insurance contributions will be payable, reducing net income to £2.84 for each hour worked. And if working at least 28 hours, income tax will also be payable, reducing it to £2.19.

None of these amounts are anywhere near enough to cover the £6 for an additional hour of childcare.

However, if the £6 extra childcare cost incurred qualifies for 85 per cent support in UC, the cost to the family falls to 90p. In this case, disposable income after childcare costs will increase by between £1.30 and £2.30 as a result of working that extra hour: a very modest gain, but at least not a reduction. But where childcare costs reach the maximum eligible for support in UC, the family will have to pay the full £6 for each additional hour, and be considerably worse off as a result.

In summary, then, the UC system provides enough support to keep childcare affordable and make work pay in London up to about half of a full-time job, or more in some cases where a three- or four-year-old (and in some cases a two-year-old) gets some 'free' hours under the early years entitlement. However, in particular for families with children under three, the high cost of childcare in London increasingly restricts how many hours they can work. If the limit on the UC childcare subsidy continues to be frozen, while childcare costs continue to rise, a growing number of even part-time jobs will not make work pay for London families with young children.

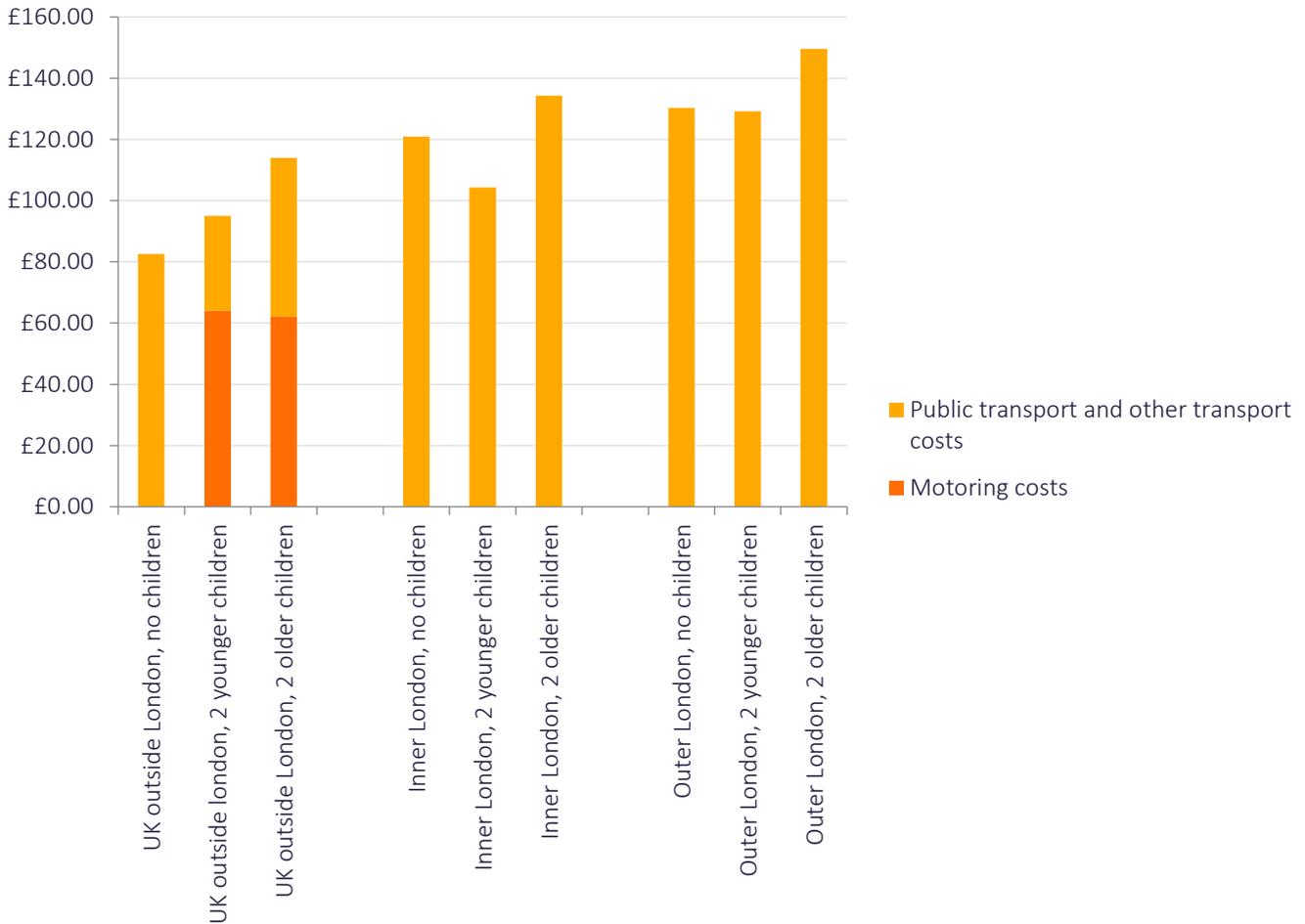
## 5. Transport costs

Minimum family transport costs differ greatly in London from other parts of the UK. Parents in urban areas outside London where the MIS 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 don't. London parents agree that a car is not generally required. Public transport in London is considerably more expensive than other parts of the UK, particularly when contrasting the cost of a travelcard including the tube, 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 18, and in outer London (but not inner London), the MIS research groups said 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 adults outside London, but the additional cost of travel when children arrive is far less. Indeed, while in the UK 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 their child and is expected to spend less on themselves. This is attributed to a lower specification for a minimum amount of travel by taxi 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 3 shows the consequences of these patterns for overall travel costs. It shows that in the UK outside London, a couple needs to spend £12 a week more with two children than without children, when the children are young, and £31 when they are older (of secondary school age). In inner London, on the other hand, a couple with two young children actually require £17 less than before they had children, 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 to outside London, as mentioned above. In outer London, travel costs with and without young children are similar. However, where children are older and their travel is no longer free, this situation changes. For families with two children at secondary school, overall travel costs are £12 a week higher in inner London and £19 in outer London than for a couple without children – still much lower than the £31 travel cost associated with having older children in urban areas outside London.

Figure 3: Transport costs for a couple without children compared to two children, inside and outside London, 2015 (Compares younger children aged 2 and 4 with older ones of secondary school age)



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 3 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 in the UK outside London and ran a modest second-hand car. This difference is particularly pronounced for residents of outer London, who need to travel further and hence purchase more expensive travelcards. Reducing public transport costs remains an important part of the agenda for the London government in making life more affordable in the city.

Given these high overall costs, it is also important to maintain travel concessions for children, which came under threat in 2020, when the Westminster government proposed abolishing them in light of pandemic-related financial strains. Even though central government went ahead with the cut in funding, the Mayor has provided resources to retain the concessions. Had the change been passed on by the Mayor, it would have removed free

bus travel for secondary school children. This would have added the cost of a bus pass to the travel budget of outer London teenagers (in inner London, it is already assumed that they will have a travel pass to cover the tube, which is not free to that age group). Given the already high living costs that Londoners face, this would have put their budgets under yet more pressure.

## 6. Conclusion

Living in London brings some extensive additional costs to families, particularly the high cost of housing and childcare. Transport is also expensive, but more because of the cost of travelcards for adults, rather than the additional cost of children. In all three of these areas, this report has shown the importance of public subsidy in helping families to negotiate the high cost of bringing up a child in London, but in all three, this help has been undermined or is under threat.

For both housing and childcare, rules limiting the absolute level of help across the country have greater impact on London families as a result of much higher costs. Housing support is ultimately limited for out-of-work families by the benefit cap: any family with children who rents private accommodation in London at permitted rent levels will now fall foul of the cap. While the cap is higher in London than elsewhere, this does not come anywhere near offsetting the higher cost of renting in London.

In the case of childcare, the cash limit on support through UC has a similarly punitive effect on Londoners with high costs, since the limit is the same throughout the country. This locks London families out of access to paid childcare, and potentially limits their working options, particularly working more than a limited number of part-time hours, if they cannot access unpaid childcare arrangements such as through extended family.

For both childcare and the benefit cap, these policies become ever more punitive as costs continue to rise, since the levels of the limits continue to be frozen in cash terms. The childcare limit has not changed in 15 years. The benefit cap is eight per cent lower in cash terms than it was when it was first introduced in 2013.

While it is good news for London families that the 2020 proposal to end concessionary fares for children was reversed, this episode shows again the importance of public subsidies to helping London families cope with high costs. The deteriorating support for covering housing and childcare costs in London shows that at present there is no systematic public effort to do so. This points to the need for a far more joined up effort, across levels of government and agencies, to address these high London costs.