‘Just barely surviving’

The cost of raising a family in 2023

June 2023

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EXECUTIVE SUMMARY

Bringing up children can be hard – but it also should be joyful, and should not be defined by money worries. For many families we work with, the constant stress and worry about stretched incomes is eclipsing the joy. Low wages and Universal Credit rates do not cover the costs involved in raising a family. 40% of Universal Credit households are living in poverty, and child poverty levels have remained static for more than a decade, with more than one in four kids growing up in poverty. The cost-of-living crisis is making many children's circumstances even more difficult, and this is just the latest crisis in over a decade of hardship for children. Our social security system is not working for parents or children. Coupled with low-wage, insecure work, this means many families are left without a clear route out of poverty.

"I'm so worried about my kids growing up – how will I provide for them if we are still in this situation? Right now I can distract him, it will be horrible to balance the situation, when you can't offer them what they want. Everyone wants to be a good parent, if we say no, it's just because we can't do it. It's hard for us to say no to something they are desperate for, but we say no because we can't do it." – Nadia, parent of two

Many families we work with have told us that they are not able to afford the essentials, let alone additional costs like toys, books, and trips that allow children to go up and thrive. We wanted to see how universal this experience was for families on low incomes, so commissioned the Institute for Public Policy Research (IPPR) to conduct some modelling based on families spending. We compared pre-pandemic spending among low-income families with children, to see how significant the shortfalls were. It is worth bearing in mind that incomes were already constrained in 2019: years of benefit cuts and freezes had already eroded benefits by this point, and disproportionately impacted families. The Joseph Rowntree Foundation reported that in 2019 people in poverty were on average £340 a year worse off than they would have been if benefits had not been frozen.

Key findings:

- Low-income families have seen significantly higher levels of inflation than those on higher incomes.
- A single parent with one child would on average need to spend an additional £3,100 in 2023/24 to get the same basket of goods and services than they would have bought in 2019/20. For a couple with three children, this rises to almost £5,600, or over £100 per week.

- When comparing the additional spending needed to increased incomes, all low-income families see a shortfall compared to their spending power in 2019. Families' shortfalls range from £200 to over £1,400 per year, and are especially large for families with three or more children.
- Larger families have been disproportionately affected by rising costs, which have not been matched by proportionate benefit increases because of the two-child limit, and the fact that cost of living payments do not vary by family size.
- When also considering housing costs, families' shortfalls increase dramatically. When looking at housing too, a large family renting privately on Universal Credit could be out of pocket by thousands of pounds per year. For an illustrative five-person family in Salford, we identified a shortfall of £2,400 per year – that's £200 per month that parents can no longer spend on what they need for the home and their children.

The UK government needs to do more to protect families from poverty and provide a level of support that matches families' circumstances. Children have not been adequately considered by successive governments, who have implemented policies which unfairly penalise children, like the two-child limit and the benefit cap. The last few years have seen two major national crises which have pushed families to the brink. Coupled with years of underfunding and cuts to social security levels, this means that parents are struggling to provide their children with the things they need for a happy, full childhood.

For too long, children have been an afterthought in policy design, and the government needs to do more to ensure children have the best start in life. We need to see a child poverty strategy, the abolition of the two-child limit and benefit cap, and housing reforms which have children and families' needs in mind.

"The way we are living is not really living, just barely surviving." – Bethan, parent of one

INTRODUCTION

The experience of raising a child can be hard, but we also hope it will be joyful – for parents and for their children. Parents should feel that they are able to provide their children with what they need for a full and happy life. But, for many families, this experience has been compromised by two major crises: the global Covid-19 pandemic and subsequent lockdowns, followed by the cost-of-living crisis. While there have been attempts to support families through this, including inflationary increases to Universal Credit and the current cost-of-living payments, families are still struggling to meet their basic needs.

Our recent Early Years Grant report, which looked at the circumstances of families who Save the Children supported through our grant scheme, showed that families on low incomes are unable to cope with rising prices, and that the current crisis is having knock-on effects on parents and children's health. Families do not feel they are getting the support they need. One recipient of our grant told us:

"If you compare what you're earning with what you're spending. I don't know how people keep going on to be honest. The wages stay the same, but everything else is going up… The people who set these universal credit rates, maybe they don't have kids." – Zohaib, parent of two

Another carer compared what it was like to raise children a decade ago to now:

"I brought up two older ones – even back then, I knew it was hard, but it feels different now – my older two got a lot more newer stuff because I could afford it back then, whereas now I don't think he's got any new clothes. The only thing he's got new is his school uniform." - Zoe, carer of four.

This experience – of prices rising, and the increase in wages and benefits simply not matching up to what parents needed to spend – was shared by parents we met across the country. We heard from families on the lowest incomes that they were at the brunt of this crisis, but we wanted to see how this was borne out in data. We wanted to investigate:

- Is this experience shared among all low-income parents?
- How big is families' spending shortfall now compared to pre-pandemic?
- What do parents need in order to enable them to give their children the quality of life they deserve?

We commissioned the Institute of Public Policy Research (IPPR) to conduct some modelling to help answer these questions. This report is made up of evidence from this modelling, as well as stories from parents we spoke to during focus groups, interviews, and online discussions between March and May 2023.[1]

The full technical briefing produced by IPPR is published separately .

WHICH FAMILIES' SPENDING ARE WE FOCUSING ON?

As an organisation focused on the sustainable reduction of child poverty, this report will look at families with children, and at the families most likely to be in poverty. This is the group we feel have been most neglected by policy makers over the last decade. The modelling focuses on households with children whose majority income is from social security. Over 90 per cent these families are among the poorest third of households, and around half contain an adult in some form of paid work. While not all Universal Credit households are in poverty, most children in poverty live in households which claim Universal Credit or legacy benefits.[2] Child poverty rates within Universal Credit households are 46%[3], much higher than the general poverty rate of 29%.[4]

Almost all of the families we spoke to in focus groups, interviews and online discussions were in receipt of Universal Credit or legacy benefits. Of those who were not, there were some whose immigration status made them ineligible, and some parents who earned above the earnings threshold, so no longer claimed, but had at previous points in their lives.

WHAT DO FAMILIES SPEND THEIR MONEY ON?

Other organisations have looked in detail at how families spend their money, and the costs that are involved in raising a child. The Child Poverty Action Group publish an annual 'Cost of a Child' report. In 2022, they found that it costs nearly £70,000 for a couple and over £110,000 for a single parent to cover even the 'basic costs' involved in bringing up a child.[5]

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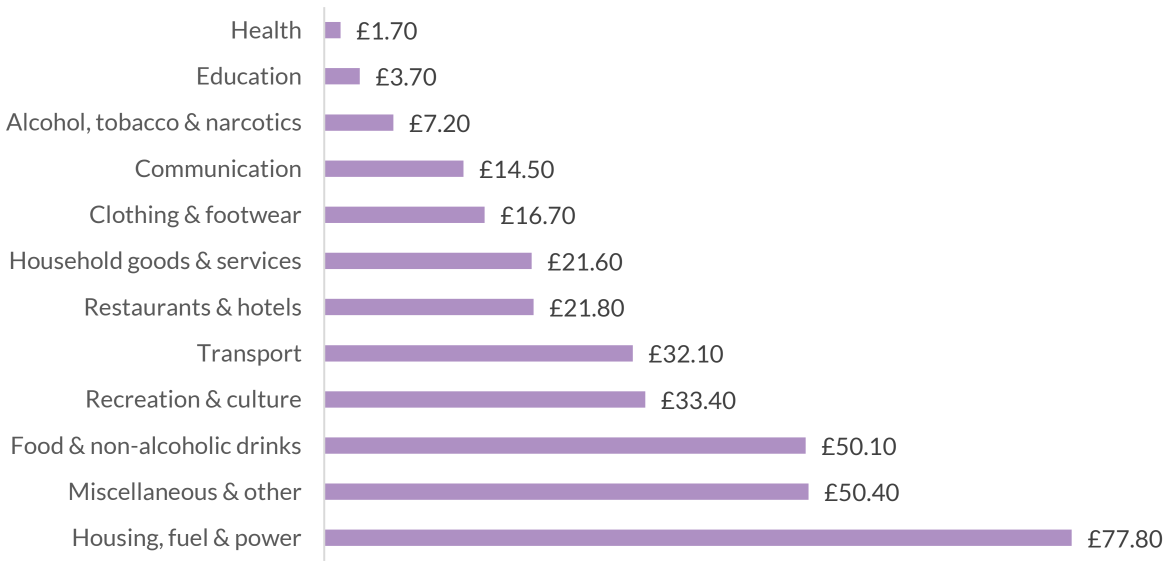
[1] All the parents' names have been changed in this report.
[2] All children in poverty would be eligible for Universal Credit by income bracket, but some parents choose not to claim, and some are ineligible due to, e.g., immigration status.
[3] https://statics.teams.cdn.office.net/evergreen-assets/safelinks/1/atp-safelinks.html
[4] Households Below Average Income, Statistics on the number and percentage of people living in low income households for financial years 1994/95 to 2021/22, Table 1.4b. Department for Work and Pensions, 2023
[5] https://cpag.org.uk/policy-and-campaigns/report/cost-child-2022

Raising children is expensive. Larger housing, and extra food and bills make up a meaningful portion of these costs. But there are also costs for their school uniform, days out, toys, learning supplies, and clothes and shoes to account for. Low-income families have to find a way to cover these costs. Though the child element of Universal Credit is intended to help parents cover these costs, we know it doesn't go far enough. CPAG's research found that for a family not in work, benefits covered less than half of what a family with two children required in 2022. Parents in work on lower incomes also fall short of these costs: a couple family who are both in work at the minimum wage fall short by £34 per week, while a lone parent working full time at the median wage still fell short by £108 per week.[6]

For families on low-incomes, a large proportion of their spending goes on housing and food.

Figure 1: Weekly spending in household with children in the bottom income quintile, 2019-20.



Source: Save the Children analysis of ONS Family spending in the UK: April 2019 to March 2020

The costs of food and bills have risen at a faster rate than most other goods. Table 1 shows the inflation rate applied to different categories of spending between 2019/20 and 2022/23.

[6] https://cpag.org.uk/policy-and-campaigns/report/cost-child-2022

Figure 2: Spending categorisation used in IPPR analysis, with associated inflationary increases between 2019 and 2022

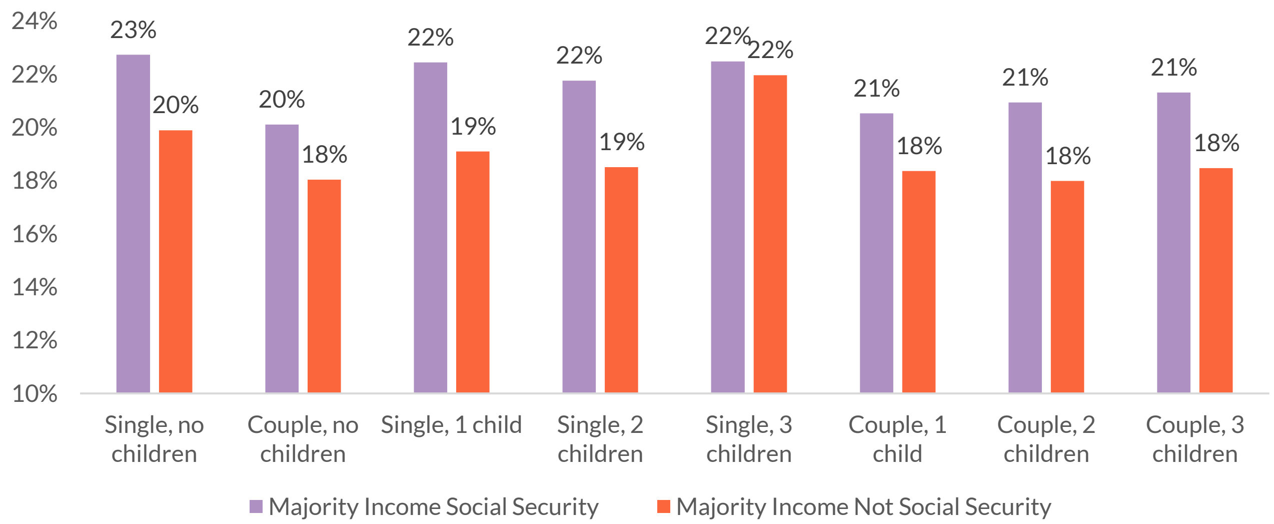
Categories of spending	Inflation rate between 2019/20 and 2022/23
Food	↑ 16%
Alcohol & Tobacco	↑ 11%
Clothing and Footwear	↑ 8%
Gas	↑ 109%
Electric	↑ 69%
Misc. household services	↑ 2%
Household maintenance	↑ 15%
Furniture, household equip. & maintenance	↑ 16%
Car fuel	↑ 37%
Air fares	↑ 38%
Other transport	↑ 16%
Communications	↑ 8%
Recreation & Culture	↑ 10%
Education	↑ 10%
Restaurants & Hotels	↑ 15%
Miscellaneous Goods & Services	↑ 7%

"If you go shopping it's nearly double compared to what it was before. You have to start thinking now 'wait, do I really need this', on things you could buy before. You can buy less for what you've earned than before. I'm having to cut back. I have to not buy branded products anymore." – Ada, parent of two

Low-income families have seen especially high rates of inflation, thanks to higher proportionate levels of spending on essentials like energy and food, which have seen the highest levels of inflation, and because lower-income households are less able to reduce or switch their spending as prices change, as budgets were already constrained. Analysis by the ONS has indicated that lower income households have faced higher rates of inflation because spending patterns for this group are different to those of higher income households.[7] Specifically, spending in lower income households tends to be more heavily skewed towards essential products such as food, which have seen sharper increases in price than other items. As low-income households spend a much higher proportion of their income on such essentials, when these costs rise families use up a greater proportion of their income.

IPPR's analysis of the Living Costs and Food survey confirms these findings: those with a majority income from social security face significantly increased cost pressures between 2019/20 and 2022/23.

Figure 3: Estimated spending pressure from 2019/20 – 2022/23 by household type and benefit claims status (excluding housing costs)



Single parent families faced especially high inflationary pressures. This result is largely explained by the fact single parent families allocate a higher proportion of spending on gas and electricity which have risen substantially despite the energy price cap. This is slightly offset by lower spending on petrol which has also increased substantially in price. If we calculate the cost pressures without factoring in changes to gas, electricity, and car fuel, then the calculations show that all low-income family types faced very similar levels of cost-pressures in percentage terms.

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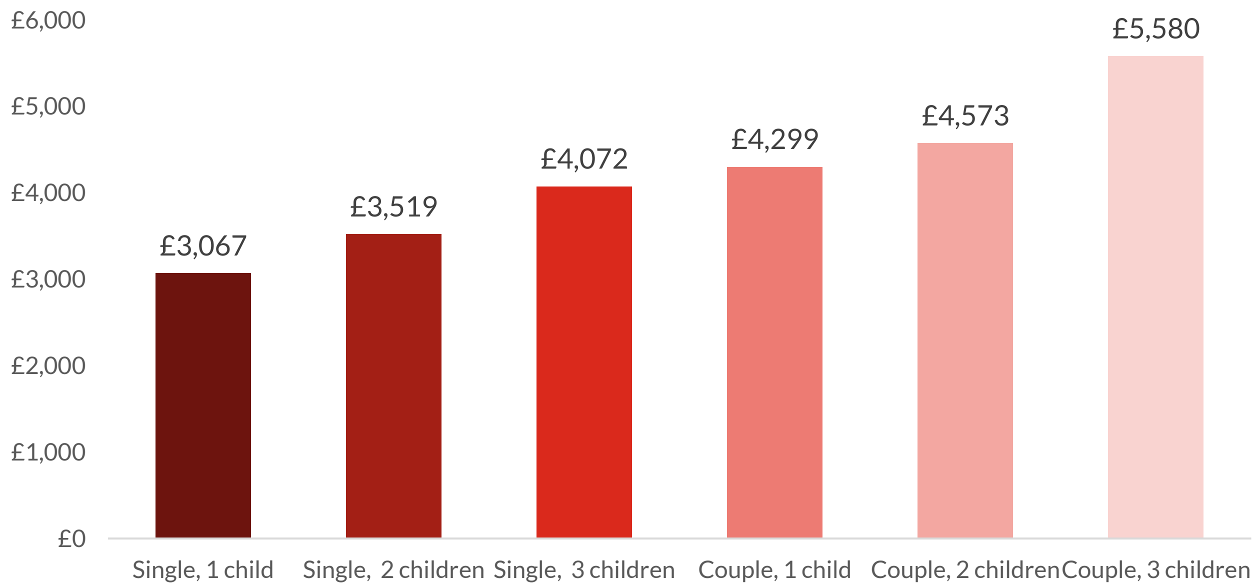
7 https://www.ons.gov.uk/economy/inflationandpriceindices/articles/cpihconsistentinflationrateestimatesforukhouseholdgroups20052017/novembertodecember2022

ARE PRICES INCREASING IN 2023/24?

Inflation is slowing down, but it's not stopping. As we do not have detailed data on how this will materialise across the different categories, the IPPR has assumed that spending pressures for all family types will increase by the average rate of CPI inflation for 2022/23 to 2023/4: 6.3%.[8] Applying this to different families' spending shows significant increases in costs into next year.

Figure 4: Estimated average cost pressures by family type: 2019/20 -2023/24 for families with majority income from social security (excluding housing costs)



Source: IPPR analysis of ONS 2021 2023a BoE 2023

A single parent with one child would on average need to spend an additional £3,000 in 2023/24 to get the same basket of goods and services than they would have bought in 2019/20. For a couple with three children, this rises to almost £5,400, over £100 per week.

"The biggest challenges are the rise in bills and food. You can't get your kids the things that they like... Feeding your kids used to be the happiest thing, cos they'd love it. But now they say there's no taste in it." – Lois, parent of four

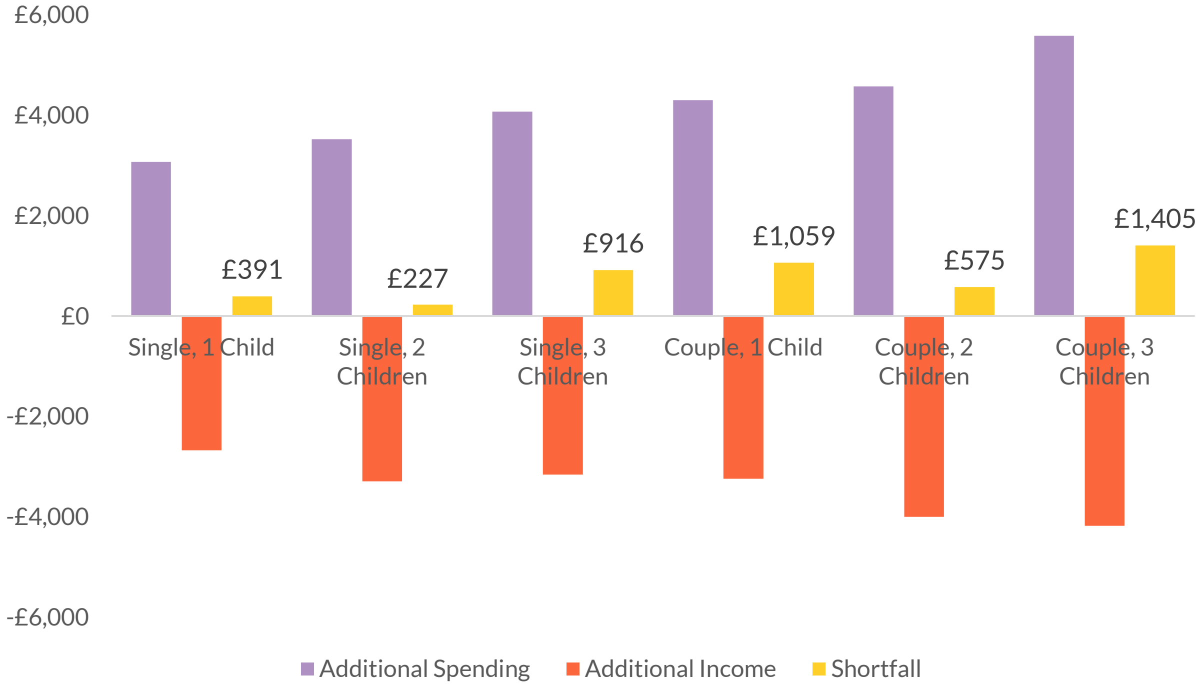
[8] This could be an under-estimate of the inflation experienced by low income households given we expect high food price inflation in 2023/24

HOW DO PRICE INCREASES STACK AGAINST INCOME GROWTH?

It is evident from IPPR's analysis that costs have gone up. But we also know that the UK government and businesses have intervened to increase incomes: the minimum wage has gone up by from £8.21 in 2019 to £10.42 in 2023, benefits increased by 3% in 2022 and 10% in 2023, and the government introduced cost of living payments, for 2023/24, these payments were £900 per household, plus an additional £150 for those claiming a disability benefit.

Parents have told us that, despite these increases, they still feel their budgets are more stretched than they were in 2019. We wanted to find out how true this is. IPPR estimated household income in 2019/20, and then modelled income in 2023/24, assuming actual and forecasted growth in weekly pay where applicable and applying benefit rules in 2023/24 including a reduced taper rate and higher work allowances. They also included the £900 cost of living payment scheduled in 2023/24, plus £150 for those claiming a disability benefit.

Figure 5: Estimate of average cash shortfalls between 2019/20 and 2023/24, excluding housing costs



These results show that – despite government interventions – families have less spending power now than they did in 2019/20. Families' shortfalls range from £227 to over £1,405 per year, and are especially large for families with three or more children.

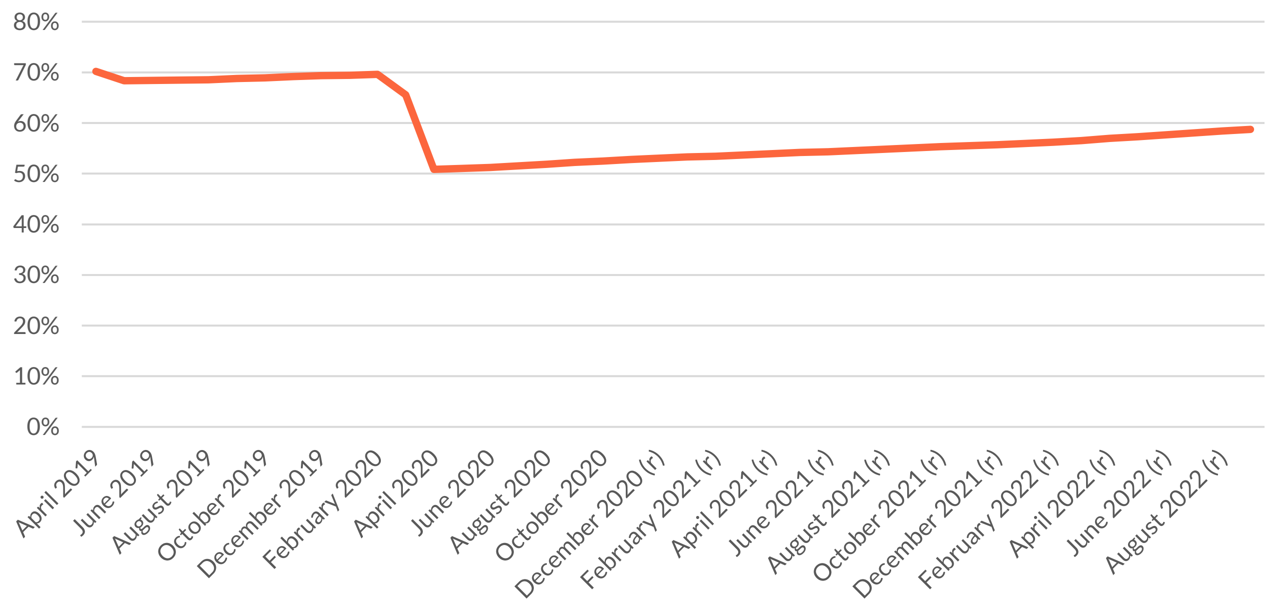
HOUSING COSTS

"I got a phone call from my landlord that they are increasing the rent. [That's] £900 I have to spend on rent… The government think throwing £300 at you a few times a year is going to help, but that's nothing when you've got a big family." – Lois, parent of four

There is no easy way to provide an average for what additional housing costs have been over this time period, as they vary according to tenure, size, and location. But what we do know is that housing prices have risen, while support has not increased at the same rate.

For those in the private rented sector, available data suggests that for most households on Universal Credit, rent exceeds Local Housing Allowances (LHA). The situation has been made worse over time as the government froze LHAs since restoring them in the pandemic. Figure 6 shows that in August 2022, almost 60% of households with children on universal credit did not have their rent covered by local housing allowance

Figure 6 : Households with children on universal credit where rent is not covered by Local Housing Allowances



Source: IPPR analysis of DWP 2023a

The size of these shortfalls will vary, but to give a sense of scale, a household which was just on the cusp of "affordable" in 2020/21 by newly increased Local Housing Allowances in Salford would face likely shortfalls between £500 and £1,000 per year by 2023/24 under reasonable assumptions.[9]

Figure 7: LHA shortfall in Salford, 2021/22 to 2023/24

	1 Bed	2 Bed	3 Bed	4 Bed
2020/21	£90.90	£110.47	£136.93	£184.11
2023/24	£100.44	£122.07	£151.31	£203.44
Annual Shortfall for those with rents under LHA	**£496**	**£603**	**£748**	**£1,005**

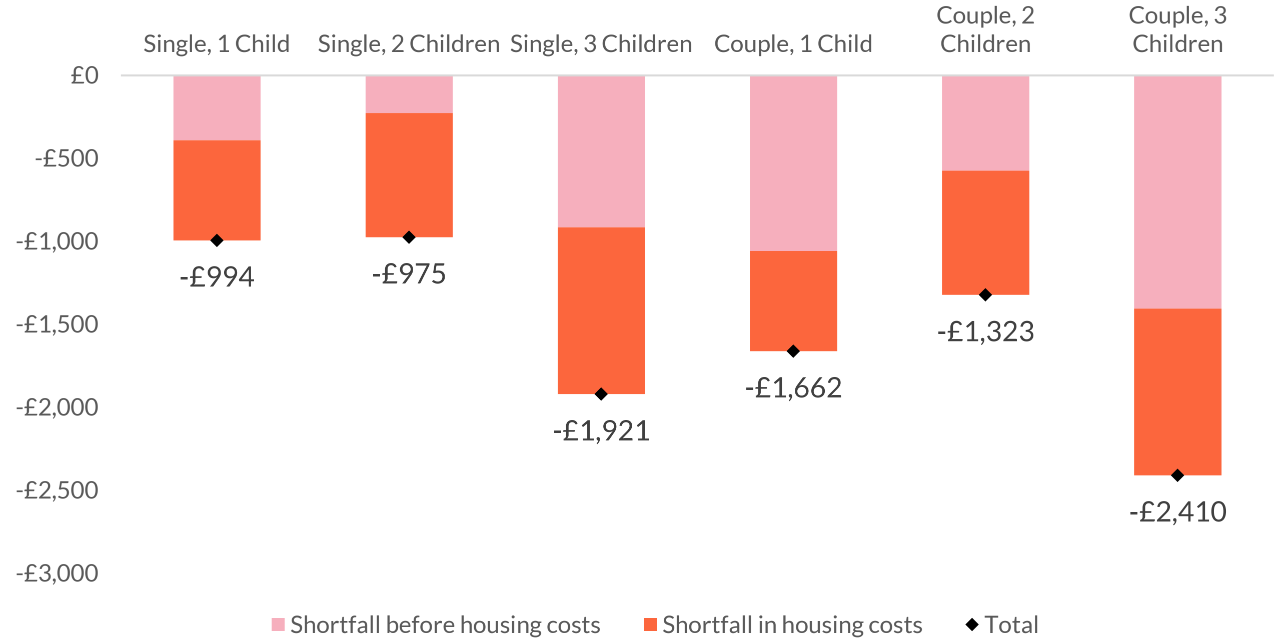
Source: IPPR analysis of ONS 2023b VOA 2020 Savills 2023. Based on the growth in the lower quartile of private rents in Salford between Oct19-Sep20 and Oct-21-Sep22, and then assuming 6.5 per cent growth into 2023 as forecasted by Savills

Some areas have seen more dramatic increases than those shown above. In Leicester, for example, rents have increased by over 10% at the lower end between 2020/21 and 2022/23. This increase, combined with expected inflation of 6.5 per cent in 2023/24 would lead to shortfalls ranging from £950 - £1,900 in housing costs alone.

If we continue to use the Salford example, and assume that a family has a bedroom per child, plus a bedroom for the parent(s), the shortfalls are even more significant, as seen in figure 8.

[9] Assuming they have experienced "typical" rent rises for the area between 2020/21 and 2022/23 at the lower quartile (4.1%) and forecasted rent inflation between 2022/23 and 2023/24 as forecasted by Savills (6.5%). The observed rent rise in Salford is close to the England average.

Figure 8: Total shortfalls for hypothetical families renting privately in Salford, where housing costs are over LHA, between 2019/20 and 2023/24



A single parent with one child, living in a two bedroom privately rented house in Salford, whose housing costs exceed LHA, faces a monthly shortfall of £83. For a couple with two children, this shortfall is £11 per month, while a couple with three children sees a shortfall of £201. This is money these low-income families simply do not have – parents are either having to go into debt, or drastically cut back on spending that was already constrained pre-pandemic.

"We are staying in a one-bedroom flat, we are so, so crowded. It's very small. The reason we stay there is we cannot afford a bigger house. This is cheaper. After you've paid council tax and utility bills and rent, there's nothing left." – Zohaib, parent of two

"UC is not enough. It's very difficult. Before it used to be ok, but the last three or four months have been a very hard time because of rising costs. £100 on electric, £100 on cooking gas, £100 on the kids. At the end of the month there's nothing... I am just crying and crying" – Sumaira, parent of two

LIFE IN 2019

Compared to 2019, we know that families shortfalls range from £200-£1,400 per year before housing costs, and that a large family renting privately on Universal Credit could be out of pocket by as much as £2,400 per year –£200 per month that parents can no longer spend on their kids.

We are comparing incomes now to pre-2019 because we wanted to examine the effects of the pandemic and the cost of living crisis. But in 2019, families' incomes were already significantly constrained. In 2022, the Joseph Rowntree Foundation found that in 8 of the last 10 years (2012-2022) main unemployment benefits (Universal Credit and legacy benefits) has lost value in real terms[10]. Between 2013-19, the choice was made to reduce benefits in real terms either through freezing their value or by increasing them by a lower rate than inflation[11].

The freeze on most working age benefits had pushed family budgets. For many families in poverty in 2019, there was already the beginnings of the crisis in the cost of living. JRF reported that in 2019, 3 years after the 2015 benefit freeze, people in poverty were on average £340 a year worse off than they would have been if support had not been eroded: around 2 months of average food shopping for a low-income family. [12]

Children were already suffering due to family budgets not being able to stretch far enough before the current price shocks. In 2018/19, 4.1 children were growing up in poverty. These numbers rose to 4.3 million in 2019/2020 and then back down to 3.9 in 2020/21, in no small part to the increase in household incomes of low-income families due to the temporary £20 per week uplift to Universal Credit during the pandemic.

CPAG's cost of a child report from 2019 found that 'the past decade had been unprecedentedly tough for families' as household costs have risen, while household incomes have stagnated[13]. The report points to the increasing impact of the two-child limit, benefit cap and expensive and complex system form government support with childcare[14]. Neither child benefit nor child tax credit had increased in cash terms since 2015[15]. According to CPAG, the overall benefit package for children fell 30% short of covering the cost of a lone parent bringing up one child[16].

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[10] https://www.jrf.org.uk/press/main-out-work-benefit-sees-its-biggest-drop-value-fifty-years
[11] https://www.jrf.org.uk/report/end-benefit-freeze-stop-people-being-swept-poverty
[12] https://www.jrf.org.uk/report/end-benefit-freeze-stop-people-being-swept-poverty
[13] https://cpag.org.uk/sites/default/files/files/policypost/CostofaChild2019_web.pdf
[14] Some action was taken at the Spring Statement to combat the complexity within the childcare system under Universal Credit. However, costs for parents remain incredibly high.
[15] https://cpag.org.uk/sites/default/files/files/policypost/CostofaChild2019_web.pdf
[16] https://cpag.org.uk/sites/default/files/files/policypost/CostofaChild2019_web.pdf

Conclusion

Families on low-incomes were struggling to get by in 2019, but things have gotten even worse since then. Although interventions from the UK government have helped, they have not gone far enough, have not been targeted enough at children, and parents are less able to afford the food, heating, toys, and trips that children need to grow up.

"When we go out shopping, my three year old will ask for a toy. But it's either 'I get you that toy or we eat lunch for a week... Even things like museums: they might be free, but rising costs means I can't afford the travel anymore. It's only a tenner for us to get there, but that's a tenner I don't have." – Bethan, parent of one

This year (2023/24) low-income families claiming UC or other benefits will struggle to buy the same bare minimum of goods and services they could afford pre-pandemic, despite increases to the minimum wage, UC levels, and the cost of living payments. These budget shortfalls range from £227 to well over £1,000 per year, even before housing costs. For those living in private rented housing, these shortfalls increase to £1000s of pounds per year. These shortfalls will be even more significant if the cost-of-living payments are not reintroduced in some form next year – that will be an additional £900 shortfall for all families.

That is money that these low-income families just do not have – these shortfalls mean more families moving into debt, more parents skipping meals to make sure they can feed their children, and more children missing out on things like clubs, toys, and days out that are crucial for their development. Parents do everything they can to protect their children from the effects of the cost of living crisis, but without government support this gets harder and harder to do.

We know that those on low incomes, who rely more on social security, have seen higher rates of inflation than those on higher incomes. Though the cost of living has affected everyone, it is hitting those least able to withstand it the hardest. Larger families have been hit particularly badly, and this has been exacerbated by the two-child limit and the fact that the cost of living payments have been paid on a flat-rate basis, with no extra support based on family size. A single adult household gets as much as a family of five. Children should be among those most protected from this crisis, not among those who feel its effects the hardest.

"I wonder if people who are deciding about these kind of things, would swap for a month, to do what we do." – *Elena, parent of three*

POLICY RECOMMENDATIONS

We need a system that ensures families have enough money to provide their children with the things they need to grow up healthy, happy, and safe.

We recommend that the UK government:

- **Implement a Child Poverty Strategy** that places children's needs at the heart of policy making across government, and considers action to bring down outgoings (housing, childcare etc) vs income (tackling inflexible, low paid work, benefits etc). For years, children have been too little considered in policy design, and this needs to change to ensure children get the best start in life.
- **Abolish the two-child limit.** There's never been a clearer case for removing the two-child limit. Children in larger families are twice as likely to be in poverty than those in smaller families.[17] It is also a policy that disproportionately impacts families from ethnic minority backgrounds.
    - The data in this report clearly shows that larger families are amongst those struggling the most. 1.3 million children are affected by the two-child limit, meaning their families did not have access to the support allowed to their elder siblings.[18]
    - Abolishing the two-child limit would cost around £2 billion for 2023/24[19], and would significantly reduce child poverty levels for larger families.
- **Scrap the benefit cap.** There are 250,000 children affected by the benefit cap. The cap, along with the two-child limit, has severed any link between income from benefits and need. To ensure families can continue to afford the things they need, the benefit cap must be scrapped.
    - Removing the cap would cost approximately £400 million per year[20] and especially support those more likely to be in deep poverty, including those in single-parent families, younger children, and children who live in a household where someone has a disability.
    - Removing the cap alongside the two-child limit would come to £2.6 billion in 2023/24.

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[17] DWP (2023) *Households below average income: for financial years ending 1995 to 2022* https://www.gov.uk/government/statistics/households-below-average-income-for-financial-years-ending-1995-to-2022 Table 4.5db
[18] DWP, Statxplore, Universal Credit and Child Tax Credit claimants, November 2022
[19] Calculated using IPPR's tax-benefit model for 2023/24
[20] Calculated using IPPR's tax-benefit model for 2023/24

- Ensure any future **cost of living payments vary by family size**. Rather than a flat rate, emergency payments should correspond to the number of adults and children in a household.
- **Combat the detrimental impact of the housing crisis** on children. As a first step, Local Housing Allowance (LHA) should be urgently increased and then unfrozen to reflect the market as it is in 2023/24. This is particularly important given significant rises in some areas and an expectation that rents will continue to increase substantially. At a minimum LHA should increase in those areas which have seen particularly high rent increases.
- The analysis highlights that the overall inflation rate may be inappropriate for determining benefit increases and that **other mechanisms should be considered to ensure benefit rates keep up with costs**, which will be explored in future IPPR research. Families are facing shortfalls of thousands of pounds per year when compared to 2019, which will not be addressed by annual increases in line with inflation alone. Increases to the child element or standard allowance will be necessary to make up these shortfalls. The social security system is not working for children and families at the moment and Save the Children will conduct further research on building a social security system that is fit for purpose.

Save the Children UK

Founded in the UK in 1919, Save the Children is now a global movement operating in over 100 countries, fighting to ensure that all children survive, learn, and are protected.