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**THE COSTS OF CHILDREN
BUDGET STANDARDS
ESTIMATES AND THE CHILD
SUPPORT SCHEME**

by Marilyn McHugh

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Tony Eardley
Editor

Abstract

In 1998, the Department of Social Security released a report on the development of indicative budget standards for Australia, by a group of researchers at the Social Policy Research Centre. This paper explains the methodology used in the research, including a discussion of the strengths and limitations of the budget standards approach, and illustrates these by presenting estimates of the costs of children.

A budget standard identifies the goods and services required to attain a given standard of living, and then prices them to arrive at the budget that corresponds to the standard. The research derives budgets for a broad range of Australian households at two separate standards: 'modest but adequate' and 'low cost'. The modest but adequate standard broadly corresponds to what is needed in contemporary Australia to allow full participation in Australian society, falling between the standards of decency and survival on the one hand and luxury on the other. The low cost standard is one which still allows a degree of social and economic participation consistent with community standards, but may require frugal and careful management of resources. Budgets have been developed at the two standards for a total of 46 different household types.

One advantage of the budget standards approach is that it allows estimates to be derived of the costs for additional household members, by comparing the estimates for *different* household types at the *same* standard of living. The paper explains how this is achieved in practice and illustrates the method by analysing the estimates of the costs of children produced from the research and comparing these estimates with the level of child support payments.

1 Introduction

This paper uses as background to the discussion on the costs of children a report prepared by the Budget Standards Unit (BSU) at the Social Policy Research Centre. The report, *Developing Indicative Budget Standards for Australia* (Saunders et al., 1998), is the outcome of a study commissioned by the former Department of Social Security (now the Department of Family and Community Services, FaCS). Part of the task in the development of budget standards for a number of typical Australian households is to produce estimates on the costs of children. This is not the first time in Australia that estimates of the costs of children have been developed using budget standards research. Earlier findings by Lovering (1984) on the costs of children have been used in many areas including social security, foster care, child support (also referred to as child maintenance) and compensation cases.

In the area of family law and social security, child support has become a central issue for government as the number of sole-parent families containing dependent children who have a natural parent living elsewhere has grown over the last two decades. The growth of sole-parent families through the eighties, their reliance on government support and the low level of maintenance paid by non-resident parents led to the introduction of a Child Support Scheme (CSS) in 1988. Prior to the introduction of the CSS, support for children was by way of parents reaching a private agreement or by a court order. Child maintenance payments at this time averaged around \$10 to \$30 per week and it is estimated that only one-third of parents who were ordered to pay child support actually did so (DFaCS, 1998).

The implementation of the CSS in 1988 reinforced the obligations of natural parents to provide for (as far as possible) the financial support of their children. In Australia, the current legal system surrounding the provision of financial support to children by non-resident parents has been operating for almost a decade. A useful way to categorise the system is by the three methods that are used to arrange financial support by those able to pay:

- private arrangements between the parents;
- court orders; and

- via the child support agency.¹

Child support is the term used to describe the payments. Stage 1 of the CSS applies to children of separated parents born before October 1989 and whose support is determined either by court orders or court registered agreements. Lovering's estimates of the costs of children were a consideration in determining the amount to be paid by the non-resident parent in these orders and agreements.² In Stage 2, children who were born, or whose parents separated, after October 1989 receive child support determined usually by administrative assessment according to the Child Support Formula, under the Child Support (Assessment) Act. Parents have the right to make a 'departure application' or seek a variation of the determination by applying to the Child Support Agency (CSA) Departure Office.

The obligation to seek child support also applies to families outside the family law area. Resident parents of dependent children in either couple or sole-parent families who are eligible to receive Family Allowance are obliged to take reasonable action to obtain maintenance through the CSA if there is a non-resident parent. While there are some exceptions to the obligation to seek maintenance (e.g. in the case of fear of violence, where the identity of a child's father is unknown or where the resident parent is unable to locate the other parent) eligibility for payment depends on compliance with this rule. Court-based agreements and private agreements between parents can at any time be registered with the CSA if they are not inconsistent with what the formula would have provided. While the majority of clients of the CSA are Stage 2 clients, around 12 per cent are Stage 1 active cases.

According to the child support formula, liable parents have to pay a certain percentage of their taxable income for the support of a child after an allowance has been made for their own basic living expenses (and those of their current resident dependants). The quantum is intended to

1 Within the Child Support Agency (CSA), clients who are registered may be Private Collect cases with payment made directly between the parents or CSA Collect cases where collection is by the Agency.

2 Section 66D (2) of the Family Law Act allows the Court, in determining the needs of children, to have regard to any relevant findings in published material in relation to the maintenance of children.

be appropriate to the financial circumstances of the parents and the child and is also based on the taxable income (if any) of the resident parent.

Estimates in a report prepared for the Child Support Agency indicate that of the population of clients (609 000) who were eligible³ in 1997 to utilise their services around 448 000 did so (ABS, 1998, Appendix A: 39). Little is known about the circumstances of the 161 000 eligible parents not accessing the scheme, or about the arrangements (if any) they have for obtaining support for their dependent children. A survey is currently being conducted by the CSA to find out more about the significant number of parents who do not use their assessment or collection services and are not registered with the Agency (private communique with the CSA, April 1999).

It is possible that the budget standards estimates of the costs of children could be useful in the context of determining levels of child support to be paid by non-resident parents, as well as in an examination of the relativities for different numbers of children implicit in the formula. These situations could arise where the amount of child support is being determined through either a judicial decision or court agreement; by way of a 'departure application' through the Child Support Departure Office; or where a private arrangement between separated parents is being negotiated. The estimates could also be useful for those 160 000 parents 'outside' the system who may choose to negotiate either by way of the statistical formula or on the basis of the 'real' estimates of costs of children as described in the BSU report. More generally, the estimates of the costs of children derived from budget standards research can provide a more realistic benchmark against which to compare the level of current child support payments paid under the formula. The aim of this paper is to describe the budget standards research and the estimates of the costs of children from budget standards and to make comparisons with child support payments.

3 The base population comprised three major groups: Group 1 - lone parents who were not widowed and who had a child under 18; Group 2 - two-parent families containing a stepchild to the male parent, under the age of 18; and Group 3 - two-parent families containing a stepchild to the female parent, under the age of 18.

The following section of the paper explains what budget standards are, describes the households and individuals for whom budgets were derived, the commodity groups covered by budget standards and the method used to derive the costs of children. Section 3 then discusses the child support formula and how the scheme is working. The paper concludes with a comparison of the BSU estimates of child costs and current levels of child support payments under the formula assessment.

2 A Budget Standard

A budget standard represents what is needed in a particular place at a particular point in time to achieve a specific standard of living. A budget standard also represents the price of a particular basket of goods and services, which corresponds to a specific standard of living. Each and every item included in the basket is described in terms of its features and quality - the lifetime assigned to it as well as its price – which is a not insignificant task. A budget standard reflects both normative and behavioural judgements. The normative judgements are made with regard to what people should have by way of an adequate diet, physical exercise and health care. Behavioural judgements are based on what people actually do - the food they eat, the clothes they wear and where they shop. Where appropriate, behavioural judgements are used to modify in some respects the normative judgements. In the BSU research, a wide range of data sources were consulted on ownership and use of goods and services of every description, as well as participation in various activities, in order to decide what should be included in the basket. Prevailing community standards, advice from experts in various fields and feedback from focus groups which examined the preliminary budgets were also considered in the formation of the standards.

By varying the items to be included in the basket, their quality, their expected lifetime and their price, budget standards can in principle be derived for different standards of living. This variation of items allows an estimate to be derived of both the range and quality of the items corresponding to a particular standard of living and the cost of achieving that standard. In the budget standards project, budgets were developed at *two standards of living*: ‘low cost’ and ‘modest but adequate’. The difference between the low cost and modest but adequate standards are

described below. The description of the standards provides an opportunity to grasp the magnitude and complexity of the research task and the challenge presented to the researchers to meet that task.

- **Low Cost Budget Standard**

The low cost budget standard is one which may require frugal and careful management of resources but would still allow social and economic participation consistent with community standards and enable the individual to fulfil community expectations in the workplace, at home and in the community. It describes a level below which it becomes increasingly difficult to maintain an acceptable living standard because of the increased risk of deprivation and disadvantage. In round terms, the low cost standard represents what is achievable at about one-half of the median standard in the community.

- **Modest but Adequate Budget Standard**

The modest but adequate standard is one which affords full opportunity to participate in contemporary Australian society and the basic options it offers. It is seen as lying between the standards of survival and decency and those of luxury, as these are commonly understood. It attempts to describe the situation of households whose living standards fall somewhere around the median standard of living experienced in the Australian community as a whole.

Budgets were developed at the two standards for 12 household types:

- single persons below and above the pension age;
- couple only households below and above the pension age;
- couples with one child of three different ages;
- couples with two, three and four children; and
- sole parent households with one and two children.

There were eight individuals within these households of specified age and sex:

- females aged 35 and 70;
- males aged 40 and 70;
- girls aged 3 and 6; and
- boys aged 10 and 14.

Incorporated into the budgets were variations in housing tenure (purchasers, private and public renters) and labour force status (employed, non-employed and retired). Altogether, budgets were developed for a total of 46 different household types and all households were assumed to work and live in Sydney. The costing of items was carried out at a number of leading Sydney retail stores that can also be found around Australia, such as Woolworths, Coles, Target, Freedom, etc. All the prices in the budgets are for February 1997.

There are strengths and limitations in a budget standards approach. One of the most important strengths is the *consideration of needs*. The great advantage of the budget standards approach in the context of assessing adequacy is that the approach takes as its starting point the identification of the consumption *needs* of individuals within households. These *needs* can be defined narrowly, such as the need for food, shelter and clothing, or, more broadly, to incorporate what is needed to participate actively in society, which includes the need to maintain good health, have access to transport, leisure activities, a range of personal items and household goods.

Another advantage is *transparency*, in that the methods used to identify the needs and translate them into budgets have to be considered meticulously and documented before the budgets can be drawn up. Because budget standards are developed from the 'bottom up' it is possible to see how they were constructed and costed. It is possible therefore for others in the community to form judgements concerning the appropriateness and cost of items in the budgets, and to debate the underlying assumptions and normative judgements made by the researchers.

For example, in the clothing and footwear budgets, where each individual has a specific set of items in their wardrobe, there is, for each and every item:

- the quantity of the item;
- the brand name;
- the fabric or material content;
- the cost;
- the lifetime allocated to the item;
- the store where the item was costed;
- the yearly price of the item/s;
- the weekly price of the item/s; and
- the insurance value.

A further advantage is the *flexibility* of a budget standard approach where budgets can be varied to reflect the changes in needs on which they are based. The judgements that inform the identified needs can be altered as well as the consumption levels required to meet those needs. Additionally, the prices at which the consumption items are costed can be updated to any other point in time.

An example of how this flexibility could operate is as follows. Having personal computers (PC) in the home is becoming very popular and more households are buying them. If over time, the data on ownership rates of home computers show an increase which warrants inclusion in a certain household type at a particular living standard then consideration would be given to including a PC in the appropriate household. In the BSU standards only the households with a 14-year-old boy at the modest but adequate standard is allocated a computer, printer and software; reference to how this decision was made is referred to later in the paper.

The fourth strength of a budget standard lies in its *simplicity*. In the report the methods used in deriving the standards are explained at great length and in terms that most people can comprehend. If budget standards are to play a role in improving the adequacy of Australian income support payments they need to be understood and accepted by the community at large.

There are, however, some limitations to the approach taken in developing the budgets and they need to be considered. One limitation is in the perception of *scientific objectivity* in the identification and costing of basic needs. Some commentators have been critical of the fact that the normative judgements of the 'experts' who construct the budgets may

come to be seen as arbitrary and having more authority than is warranted. What actually constitutes a *minimum decent standard of living* in Australia is a debatable issue and there is no broad community consensus on what should be included in such a budget. If the budgets are to be seen to be meeting the needs of specific groups of households it is important that consideration is given to the opinions of others, especially those to whom the standards apply and organisations who may need to use them. The BSU welcomes any response to the findings of the report.

A second important criticism is that the development of a budget standard involves an element of *circularity*. When behavioural data are used to assist the development of a budget standard, the standard must be linked to some degree to current patterns of behaviour, which are themselves constrained by the resources available to different households. This undermines the ability of a budget standard to provide an independent benchmark for assessing income adequacy. Take the example of the home computer where a decision had to be made on whom if anyone was to be allocated a PC in the budgets: behavioural data indicated that for all homes, over 50 per cent of computer ownership was in households where the parents were in older age groups (40 and over), had teenage children and had household incomes over \$30 000. These results, which fit with one of the rules guiding budget standards methodology explained below, meant that only households with a teenager at the modest but adequate standard were allocated a PC, printer and software.

A third weakness in developing budget standards is the difficulty of ensuring that the *standard of living is being held constant* across the different budget areas and between different household types as the standard is developed. For example, can goods and services in one budget be said to be meeting the same standard of living as the items in another budget? Are aged pensioner couples at the same or similar standard of living compared with the couple with two children?

The BSU response to these criticisms is that the underlying values and assumptions are made explicit in the report by the development of a set of statistical spreadsheets which allows the construction of the standards to be replicated with computer software. Thus the assumptions and methods can be varied and the sensitivity of the results can be assessed.

A series of simple ‘rules of thumb’ were used in developing what is to be in the budgets. One example is an ownership rule whereby only those items (or activities or services) owned (or undertaken or utilised) by at least 50 per cent of the population were included in the modest but adequate budgets. A corresponding 75 per cent rule was used to identify ‘necessities’ (goods, activities and services) for inclusion in the low cost budgets. In the computer example above, because ownership of home computers did not meet the 75 per cent rule, no household in the low cost budget was allocated a computer. Other methods were also used to differentiate between the two standards - for example, some items in the low cost standard were of lesser quality or cheaper price and for low cost budgets the lifetimes of some items were extended.

There are nine main commodity areas in budget standards: housing, energy, food, clothing and footwear, household goods and services, health, transport, leisure and personal care. Some commodity areas are individually based such as in the food, clothing and footwear, health and personal care budgets. Other budget areas are dominated by shared costs such as in housing, energy and transport while the remaining budgets of household goods and services and leisure include a combination of shared and individual items.

Table 1 shows a selection of the estimated low cost and modest but adequate budget standards for a number of household types: a single woman, couples with and without children, single-parent and aged households, all by labour force status and housing tenure. At the low cost standard most adults are either unemployed or not in the labour force (the aged are assumed to be retired). Budgets were estimated for adults of working age in these particular employment categories as they were of most relevance to the FaCS in assessing the adequacy of current pension and benefit levels. In contrast, at the modest but adequate standard, all working age adults are assumed to be in full-time work.

There are several points to note in Table 1 in relation to the estimates for the various household types. At the *low cost* standard the aged single female and the aged couple have lower costs than their younger counterparts, as their housing tenure is in public rental compared to private rental for the younger single and couple households. The quieter

Table 1: Low Cost Budget Standards (\$ per week, February 1997)

Household Type, Labour Force Status ^(a)	Household budget ^(b) (\$)
Single female (U), age 35	294.00
Couple, male (U) 40 and female (U) 35	381.60
Couple (U/N), girl 3	458.16
Couple (U/N), girl 6	475.50
Couple (U/N), boy 14	500.10
Couple (U/N), girl 6 and boy 14	602.10
Couple (U/N), girls 3 and 6, boy 14	659.30
Couple (U/N), girl 3 and 6, boys 10 and 14	731.80
Single female (N), girl 6	371.80
Single female (N), girl 6 and boy 10	485.70
Aged single female, (R) age 70 (public renter)	193.00
Aged couple (R/R), both 70 (public renter)	297.60

Notes: a) U = Unemployed; N = Not in the labour force; U/N = Male unemployed, female not in the labour force; R = Retired.

b) All figures are rounded to the nearest ten cents.

Modest But Adequate Budget Standard for Private Renter Households (\$ per week, February 1997)

Household Type, Labour Force Status ^(a)	Household budget ^(b) (\$)
Single female (F), age 35	383.40
Couple, male (F) 40 and female (F) 35	513.80
Couple (F/N), girl 3	677.65
Couple (F/N), girl 6	653.17
Couple (F/N), boy 14	669.25
Couple (F/N), girl 6 and boy 14	817.40
Couple (F/N), girls 3 and 6, boy 14	977.50
Couple (F/N), girl 3 and 6, boys 10 and 14	1082.70
Single female (F), girl 6	519.80
Single female (F), girl 6 and boy 10	690.90
Aged single female, (R) age 70 (home owner)	280.10
Aged couple (R/R), both 70 (home owner)	387.60

Notes: a) F = Working full time; N = Not in the labour force; F/N = Male working full time, female not in the labour force; R = Retired.

b) All figures are rounded to the nearest ten cents.

lifestyle of the aged households compared to younger households also means lower costs in the clothing and footwear and leisure budgets. The difference in costs between the single female (aged 35) and the couple (male aged 40/female aged 35) household is only around one-third, supporting the old adage that 'two can live as cheaply as one'. This difference largely reflects the fact that both households are allocated a one-bedroom unit so their housing costs are the same and couples are assumed to share many of the same items of furniture and furnishings which are allocated to a single female.

At the *modest but adequate* standard, the aged, who are assumed to be homeowners with low housing costs, have lower overall costs than for similar younger households in rented tenure. Another feature of interest is the case of sole parents. At both standards in sole parent households, the costs for a single female aged 35 with a girl aged 6 are similar to the costs for the younger couple household. The similarity in costs between two adults and a single parent with a young child is a reflection of the sharing of a number of commodities between couples (such as bedroom, furniture and furnishings) which is not an option for sole parent households.⁴ For a sole parent with two children, a girl aged 6 and a boy aged 10, costs increase substantially, as an extra bedroom is required for the second child (see Saunders et al., 1998, Chapters 12 and 14.7 for a more detailed discussion on the costs of sole parenthood).

As mentioned earlier in the paper, work on the costs of children using the budget standards approach is not new in Australia. In 1984 Kerry Lovering at the Australian Institute of Family Studies (AIFS) produced a Working Paper on *The Costs of Children in Australia*. These costs have been updated regularly by AIFS, using the Consumer Price Index (CPI) to adjust the costs to reflect the current situation. As mentioned earlier, Lovering's figures have been used widely by different organisations and institutions to assist in decisions on awarding costs for children in a number of situations, including the setting of foster care payments (see McHugh, 1999, forthcoming). Table 2 shows the basic commodity

4 A sole parent is required to rent a two bedroom unit, whereas the couple only requires a one bedroom unit (Saunders et al., 1998: 601).

Table 2: Commodity Groups Covered in Lovering's 1983 Costs of Children

Included	Not Included, but Included by BSU
Food	Costs of housing (rents or rates)
Clothing and footwear	Transport
Household provisions (cleaning materials and toiletries)	Children's furniture items
Heat electricity, gas	Child care
Schooling expenditures (not uniforms)	School fees or uniforms
Entertainment	Medical or dental expenses
Pocket money	
Toys and presents	
Holidays (middle-income children only)	Holidays (low-income children only)

Source: Lovering, 1984.

groups covered by Lovering's methodology and also indicates the commodities not included in the estimates of the costs of a child.

It is important to note that Lovering's figures do *not* include the substantial costs of housing, transport, school fees or uniforms, child care, holidays (except for children at the middle-income level), medical or dental expenses. The BSU budget standards approach includes all of the commodities in Table 2 except for pocket money and gifts. In the BSU approach it was assumed that 'gifts in equal gifts out' and no allocation was made for pocket money for a child of any age. It is now 15 years since the Lovering estimates were derived and as with any development of the budget standards or basket of goods approach it is time to revisit the methods and assumptions which underlie them.

What can be said at this point in time is that when the BSU applied Lovering's methodology and used only Lovering's items (costed using BSU February 1997 prices) to determine the costs of children, the results of Lovering's costs and ours were close enough to indicate that the 'basket of goods' or budget standards approach is capable of producing robust estimates of the costs of meeting the most basic needs of children.

In the BSU budget standards methodology a simple *deductive method* of subtracting one budget standard from another was used to estimate the costs of children. By deducting the budget standard of a couple with no children from that of a couple with a child, estimates of a child's cost are

calculated (see also Chalmers, 1998). Although budgets were derived for households with one, two, three and four children, not all possible combinations of household size and ages of children were covered. In the case of a one child household, estimates can be provided for three children; 3-year-old and 6-year-old girls and a 14-year-old boy.

Table 3 illustrates some of the complexity in estimating the costs of children. It is noticeable that in Panel A, at the low cost standard, the cost of a child rises as the child's age increases, reflecting higher housing, food and household goods and services required when older children are added to the couple household. In comparison, at the modest but adequate standard, younger children have higher costs than the teenage boy owing to the allocation of formal child care for younger children when parents are assumed to be working full time.

Table 3: Estimates of the Weekly Cost of Children for Households Renting Privately (\$ per week, February, 1997)

Panel A	Cost of One Child ^(a)	
	Low cost	Modest but adequate
Girl, Age 3 ^(b)	77	164
Girl, Age 6 ^(b)	94	139
Boy, Age 14 ^(b)	118	155

Panel B	Incremental Child Costs ^(c)				
		Low Cost		Modest but adequate	
Couple plus:		Combined		Combined	
Boy 14 ^(b)	118	-	155	-	-
Boy 14, and Girl 6 ^(d)	102	220 ^(e)	148	303 ^(e)	
Boy14, Girl 6, and Girl 3 ^(d)	57	277 ^(f)	160	463 ^(f)	
Boy14, Girl 6, Girl 3 and Boy 10 ^(d)	72	349 ^(g)	105	568 ^(g)	
Total	349		568		

Notes: a) Additional expenditure compared to a couple;
b) two bedroom unit;
c) additional expenditure;
d) 3 bedroom unit;
e) costs of boy 14 + girl 6;
f) costs of boy 14, girls 6 and 3;
g) costs of all four children.

Panel B indicates that as the number of children in a household increases, the costs rise though in larger families there are some economies of scale as the third (girl aged 3) and fourth child (boy aged 10) are assumed to share existing bedrooms with their siblings. These estimates clearly show the significance of age and sex of children in larger households.

The value of the *deductive method* is that it is easy and simple to carry out and gives a reasonable estimate of the costs of children of various ages. Its major drawback lies in the fact that the lifestyle of a couple with a child can be quite different to that of couple only households, reflecting the different modes of behaviour. The differences between them reflect not only the additional cost of a child but also any cost due to a change in the style of living itself.

A more comprehensive approach to estimating the costs of children would be to apply the *normative method*. This method involves unpacking each budget area, noting the individual goods allocated, such as in the clothing and footwear and food budgets and assigning them to a child's costs and where items are shared determining what proportion is the child's share. For some items which are shared a judgement can be made as to whether to include a part of them as a child's cost or not.

While this is a time consuming and laborious task (I speak from experience) it does analyse the budgets in a more sophisticated way and, it can be argued, provides a more accurate cost.

Work on this *normative approach* is currently being undertaken at the Centre and the BSU plans to release its findings later in 1999 (Saunders and McHugh, forthcoming). These estimates will be for children in couple and sole-parent households as well as the costs of children in larger households. For one-child households, costs will also be estimated for a 10-year-old boy for both couple and sole-parent households.

3 The Child Support Formula and Child Support Scheme

The aim of the child support scheme was to put into place arrangements which would be workable, acceptable and fair to all parties.

Consideration was given to a number of factors in determining the formula percentage (Table 4) for child support.

Table 4: Child Support Formula: Percentage of Assessable Income Payable by Non-resident Parent

1 child	2 children	3 children	4 children	5 children
18%	27%	32%	34%	36%

Source: Department of Social Security, 1988

The main factors were:

- research from both the United States and Australia on equivalence data on the proportion of income spent on children in a two-parent family;
- the additional costs of rearing a child where parents do not live together;
- the indirect costs of children to a resident parent;
- the access costs incurred by a non-resident parent;
- the retention of appropriate incentives to paid employment for both parents; and
- the views of the community on what would be considered a fair level of child support (DSS, 1988).

Over-riding all these factors was the objective of ensuring that non-resident parents share in the cost of supporting their children according to their capacity to pay, so limiting government income support expenditure while still ensuring children's needs are met (DSS, 1988).

For the departments involved in the implementation of the scheme - the Child Support Agency, the Department of Family and Community Services and the Attorney General's Department – it has undoubtedly been an effective mechanism both for collecting higher amounts of child support than previously and for increasing the number of parents participating in formal arrangements. In 1996-97, there was a total of \$991.5 million in child support transfers from an active caseload of 448 000 clients. These active cases in the CCS account for a total of 621 662

children. Whereas the collection rate⁵ between 1988-1991 was 65 per cent of all liabilities, by 1997 the collection rate had increased to 81 per cent (Child Support Scheme, 1998).

Of all cases, over half (55 per cent) are those with one child, nearly one-third (31 per cent) have two children and around 13 per cent have three (10 per cent), four (two per cent) or five (0.5 per cent) children. The average weekly child support liability varies depending on whether the case is in Stage 1 or Stage 2 of the Scheme. For Stage 1, the weekly average liability is \$54.00 and for Stage 2, \$95.00⁶ (Child Support Scheme, 1998). It is worth noting that the lower payments in Stage 1 may be reflecting longstanding agreements and court orders for child maintenance which have not been updated to reflect current costs of children.

Within Stage 2 there are several important distinctions to be made between those parents paying as either CSA Collect or Private Collect. Payers' median child support incomes (on which child support is calculated) are significantly higher under Private Collect arrangements (\$22 500 per year) than under CSA Collect (\$15 300 per year). In stark contrast are payees'⁷ median child support incomes of around \$8000 per year for both groups. Despite liability to pay child support, many parents who are payers have incomes under the threshold⁸ of \$260 per week and therefore have a nil liability. Over a third of CSA Collect payers are registered as having a nil liability compared to nearly one-quarter of Private Collect (Child Support Scheme, 1998).

Before comparing the BSU estimates of the costs of children with child support payments, it is important to exercise a degree of caution in commenting on any perceived differences in the amounts. Depending on the particular circumstances of the separating parents, support for

5 The collection rate represents liable amounts of child support actually collected.

6 The available data on average liability do not distinguish between sole-parent and couple families.

7 Around 93 per cent of all payees are female.

8 Currently, where liability under the formula is less than \$260.00 per year payers are not required to pay child support (DFaCS, 1998).

children can be provided by way of regular cash payments (child support), in-kind payments (medical bills, insurance, school fees etc.) or the transfer of capital (lump sum payment, marital home, business assets etc.).

It is not evident from the CSA data on rates of child support considered in this paper whether any of the CSA client case load have had an adjustment to their formula assessment based on in-kind maintenance payments or capitalised maintenance. It is also not obvious to what degree parents' shared care arrangements for their children are a consideration in the assessment of child support. A more serious concern however, in comparing budget standards estimates of the cost of children to child support payments is the degree to which the respective contribution of resident parent to the costs of the child can be measured in dollar terms.

Under the formula assessment, the resident parent's income is not taken into account. The reason income is not taken into account is that family law recognises the day-to-day care of a child by the resident parent as a significant economic contribution to the direct costs of a child. The law also recognises that a major component of support for the child lies in the indirect costs of caring for children that are met by the resident parent. Indirect costs arise from the resident parent's inability to participate in the labour market to the extent they may wish when children require care, plus a concomitant loss of skills and career path, which can affect their prospects in employment after child-rearing is complete. Finally, in regard to the resident parent's contribution to the support of the child, there is an assumption that the resident parent is already sharing their income to meet the costs of a child's individual need for clothing, food, etc. as well as for other goods and services such as housing, transport, furnishings etc., which are higher due to the presence of a child (DSS, 1988). In recognition of these various costs to resident parents, their income is not considered in determining the amount of child support to be paid by the non-resident parent except in the rare case of a resident parent with earnings above the level of average weekly earnings.⁹

9 A high proportion of CSA payees are low-income parents in receipt of Family Allowance.

Under the formula assessment there is no simple way of measuring the respective contributions of both parents to the costs of a child, nor what proportion of a child's costs the child support component is supposed to cover. Given that the annual median taxable income of resident parents¹⁰ is around \$9000¹¹ (\$173 per week) (Child Support Scheme, 1988: 19-20, Table 4.9) it is highly unlikely that such an amount is meeting the costs of the resident parents themselves, let alone the costs of a child in sole-parent households (see Table 1 for estimated budgets for a sole parent and one child).

In relation to the BSU estimates, it should be understood that the budget standards are specific to Sydney and as a consequence the housing costs are probably quite high in relation to other parts of Australia (see Saunders, 1998). The budgets are also very specific in relation to the age and sex of the children and as explained in the section on larger households, a child's age and sex are important variables in determining costs. Despite these cautionary aspects it is still useful to test the BSU estimates on the costs of children against the child support payments.

4 Comparing BSU Estimates of the Costs of Children with Child Support Payments

The average weekly liability for children in Stage 2 of the CSS by the number of children for whom child support is payable are of particular interest in the light of the BSU estimates of the costs of children (Table 5). Given that Private Collect payers tend to have higher median incomes than to the CSA Collect payers, it is not surprising that their child

10 Around 93 per cent of all payees are female.

11 This income amount does not include rent assistance for eligible sole parents in receipt of sole parent pension, (now Parenting Payment) in private rental accommodation nor family payment. These forms of assistance are not insubstantial in their contribution to sole parent income. However, family payment is subject to the maintenance income test which for families with one child has a free area of \$18.00 per week (for each additional child the free area increases by a further \$6.00 per week, rates applying January - March 1997) and then a deduction of 50 cents in the dollar for child support amounts above the free area.

Table 5: Average Weekly Liabilities for Stage 2 Cases by Selected Eligible Children: June 1997

Number of Children ^(a)	CSA Collect	Private Collect	CSA Collect	Private Collect
	Number	Number	(\$) ^(b)	(\$)
1	75459	65264	58	69
2	43558	43651	95	123
3	13624	14278	114	150
4	3045	3327	114	155

Note: a) Table excludes information on families with 5, 6 and 7 children.

b) All amounts rounded to the nearest dollar.

Source: Child Support Scheme, 1998, Table 5.4.

support payments are also higher. However, even when considering only the higher Private Collect payments in light of the BSU estimates (Table 6) there are considerable differences in the amounts.

Table 6: Comparison of BSU Estimates (Feb 1997) of the Costs of Children and Payments Made under Stage 2 of the Child Support Scheme: June 1997 (\$ per week)^(a)

No. of Children	BSU Estimates		Stage 2	Stage 2
	Low cost (\$)	Modest but adequate (\$)	CSA Collect (\$)	Private Collect (\$)
1				
(G3)	77	164	58	69
(G6)	94	139	58	69
(B14)	118	155	58	69
2	220	303	95	123
3	277	463	114	150
4	349	568	114	155

Note: a) All amounts rounded to the nearest dollar.

Table excludes information on families with 5, 6 and 7 children.

Source: Child Support Scheme, 1998, Table 5.4

Given the range of quite low incomes of both child support payees and payers to which the formula is applied, it seems more appropriate to compare the amounts of child support paid to the BSU estimates of the

costs of children at the low cost standard. It is noticeable from the figures in Table 6 that the child support amounts paid under Stage 2 of the Scheme are quite low compared with the BSU estimates, especially as the number of children in the household increases.

It is possible that the current formula percentages for additional children (nine per cent for the second, five per cent for the third and two per cent for the fifth child) are not reflecting the real increases in the costs of additional children. It is also apparent that the statutory formula gives no recognition of the age of the child, which suggests parents with older children would do less well under the formula than those with younger children.

5 Conclusion

This paper has described how the Budget Standards Unit in the Social Policy Research Centre developed budget standards and the methods used to estimate the costs of children. Some of the strengths and weaknesses of budget standards methodology have been canvassed. Examples have been given of the ways that estimates of children's costs contribute to setting benchmarks of children's needs in a variety of situations. The estimates of children's costs derived from budget standards research were compared with the average level of child support payments.

The discussion in the paper acknowledges the complexity of assessing whether the costs of children are being met through the interaction of property settlements, child support awards and income support arrangements and the need for caution when comparing BSU estimates and child support payments. There is more work to be done in this area of support for children especially in relation to the interaction of child support payments and other income support arrangements for sole parent families. This will be the focus of future work for the BSU.

However, after taking the caveats mentioned above into consideration, it does appear important to consider the level of child support payments in the context of the costs of children. Both the Family Court and the Department of Family and Community Services regard payments made under the Child Support Scheme as the preferred method, where possible,

of providing the main financial support for children especially in sole parent families. This paper suggests that while many objectives of the scheme are being met, the question remains as to whether average levels of child support as determined by the current formula assessment are adequate to meet the costs of children.

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