

## **Submission to Parliamentary Inquiry into the Child Support Program**

My submission with respect to this inquiry is confined mainly to the “Committee’s particular interest in assessing the methodology for calculating payments” and in particular the costs of raising children component. I believe that issues around this not only reflect on the equity of the system but are inextricably linked to the levels of conflict that arise between parties.

The methodology has problems in terms of credibility, transparency and equity.

The household expenditure approach, which is used in the current formula, is based on the Household Expenditure Survey (HES). Unlike the Census of Population and Housing, nobody I know has ever heard of or been asked to complete the HES. This seems improbable given that the survey purports to reflect the situation in more than 6 million households in total and more than 3 million households of the cohort relevant to the issue of child support. The fact that payers are presented with “statistically proven” costs of raising children from a source on which there is such scant public presentation pays little regard to sensitivities involved and the need for greater explanation. It’s like asking a wide cross-section of the public to buy a product they cannot see or have never used.

There is also a big gap in explanation of the approach and accompanying simplistic example of how the costs of children are derived and conclusions of the varying percentages of derived incomes being spent on children. The example goes<sup>1</sup>:

“Consider two families, the first a Couple (A) with no children and a weekly expenditure of \$500 and the second a Couple (B) with one child and a weekly expenditure of \$600. If both spend 15 per cent of their total expenditure on food, then the difference in their expenditures can be said to equal the cost of the child in the second family—that is, \$100 per week. The estimate is generalised into two equations. The first estimates total household consumption expenditure, given information on parental incomes, the number (and ages) of the children and the number of adults. The second estimates household living standards, given information on household consumption expenditure, the number (and ages) of the children and the number of adults”.

The lay reader is greeted next by the average percentages of net spending (costs) as a proportion of income being spent by family type. I have been unable to find anywhere an example or public presentation of the data which demonstrates and gives any detail of the cohorts established for comparative purposes and what the group data looks like. What is the range of the percentages? What are the spending categories where differences are most marked and by how much?

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<sup>1</sup> Occasional Paper No. 18 Costs of children: research commissioned by the Ministerial Taskforce on Child Support by the Department of Social Services

An attempt to obtain a better understanding of translation of the data to the allocated percentage is thwarted by changed access to ABS Unit Record File data from the HES from “public” to “confidentialised”. The ABS has a price tag of nearly \$3,000 for access, which any private individual is unlikely to outlay. Approaches both to the Committee Secretariat and the Department of Social Services were unsuccessful in gaining access to more data. It appears ridiculous for the Inquiry to ask for public submissions where the data on which it is largely based cannot be accessed by the public without great cost. This does not allow any rigorous testing of the methodology.

The comparisons inherent in the household expenditure approach may be questioned in terms of behavioural change and the potential for spending bias. It takes no account of the different spending patterns of the compared households. For example, the spending by the adults in Couple A is likely to be less conservative than the adults in Couple B and hence the deductive process is affected.

There should also be concerns that bias affecting certain expenditures may influence the outcome. For example, given that private school education costs are much more common in high-income households, means that as a consequence these costs are largely reflected in compared higher-income households. The implication is that a higher-income payer who was never likely, or ever contemplating putting children through private school, is being “dragged- up” by the majority in terms of the dollar differences in implied spending on children in compared households. In effect this is imposing a philosophical dimension that the costs for higher-income payers should incorporate private education.

The approach to netting-out the costs of children also ignores the fact that current spending decisions also may be made on the basis of longer term or other considerations, like investment return. For example, a preference for purchase of a three bedroom home by a couple with only one child results in a net difference between Couple A and Couple B that would accommodate two children, yet the difference in cost (interest payments) is ascribed to a single child.

While examples show problems working in opposite directions (arguing “the spend” on children is actually/should be higher and lower), they cannot and should not be regarded as offsetting. They merely reflect practical problems with the methodology and may be avoided if a budget standards approach or variant was used.

Surely the proof is in the pudding of the methodology. I find people shocked by the amounts that higher-income payers are asked to pay. These amounts exceed materially the current costs of supporting children, for which the money is supposed to be used. There is nothing fundamentally wrong with “the continuity of expenditure principle” that argues children should not lose in economic terms as a result of separation, as long as this is reasonable and it relates to the “...living standard they (the parents) want the children to have<sup>2</sup>”. The current formula, through its method of determination of the cost of children, establishes exorbitant levels of support from higher-income non-resident parents that consist more of wants than needs and an emphasis on material excess that may have no correlation with parents’ view of what level of current consumption is in the best interests of their children. This is being determined by a view of “more money is better” and established by other parents’ spending patterns.

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<sup>2</sup> P112 Taskforce Report Reforming the Child Support Scheme 2005

Why should a non-resident parent be paying for an expensive overseas holiday rather than one at the Gold Coast or for top-end designer fashion when something less expensive would do for their child, or worse, for the lifestyle or superannuation of the resident parent? What, if any, validation work on the current methodology has been undertaken that correlates actual household expenditure, both in total and across categories from the HES, with the CSA decreed costs of children in respective households?

Below is a table that reflects costs in a particular household where child support is applicable. The first two columns represent costs categories used in the HES. The third column indicates the basis of a derived cost and the annual dollar amount for a (14 year old) child. The contention that “as a consequence of [maintaining child’s living standard] it is necessary for child support to have a component of “spousal support” built into it, as the ex-spouse’s living standard will be necessarily underpinned by ensuring a child’s living standard is maintained<sup>3</sup>” should not withstand the principle of unavoidable cost. This principle means that non-resident parents should not be asked to pick up any share of a cost that would be incurred by the resident parent in any case, for example fixed and standing costs for things like motor registration and insurance and supply costs for utilities.

The fourth column indicates the actual situation in the household where factors indicate that the costs incurred are actually less than amounts allowed for. The example omits values for clothing and footwear, holidays and an allowance for pocket money. The analysis indicates that the actual cost of the child borne by the resident parent excluding clothing and footwear, holidays and pocket money is materially less than \$14k per annum. According to the formula, the cost of the child is a whopping \$24,162 per annum and the non-resident parent liability \$20,419. Reasonably allowing a few thousand dollars for the omitted categories (including only the child’s share of holiday costs) would not come close to making up the difference of \$9k per annum. On top of this the resident parent is in receipt of more than \$4k per year in Family Tax Benefit.

The argument of entitlement - that the level of support is warranted even if it is not being spent on *a child’s current consumption* – would be more palatable if there was some way of quarantining the payment. I am pretty confident the behaviour of a resident parent is to treat support as a consolidated household income item rather than an amount to be hypothecated to spending on the child. My experience is that in higher income situations the payment, theoretically based on the current costs of raising children, is being used in part to support the lifestyle of the resident parent on ends that have nothing to do with the child. Higher-income non-resident parents would be more accepting of these excessive amounts if resident parents were more honest about actual expenditures and were prepared to direct any current surplus toward a child’s non-current needs. Savings could be directed to things like future tertiary education costs or the costs of a car held via advancement accounts accessible only by the child when they turned eighteen. However, an attitude of entitlement in the case of resident parents precludes this.

While the current methodology and formula may be regarded as efficient from the point of view of the CSA in terms of its administration, it does not promote efficiency or effectiveness. An economist would argue that it is neither if material support is diverted to ends for which not intended. The current methodology can also be seen to promote behaviour which is less than optimal as high-paying non-resident parents avoid opportunities to increase their income less they further subsidise

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<sup>3</sup> P112 Taskforce Report Reforming the Child Support Scheme 2005

the lifestyles of resident parents with no accompanying marginal benefit for their children. On the other hand the system provides an incentive for resident parents to opt to work fewer hours than they could. It would appear reasonable and equitable, unless there is some extenuating circumstance like disability, to expect a resident parent with children of secondary school age to aspire to full-time work especially if the non-resident parent is working full-time.

In summary I would request that:

- the basis of the calculations of the cost of children be made more transparent including the range of findings of the differences between the spending of the “no children” versus “with children” cases, which determine the net costs of children under the existing methodology;
- the costs of private schooling be removed from expenditure under the current methodology;
- the maximum level of child support be lowered and general levels of support paid by higher-income earners better reflect a reasoned level of spending on children;
- further evaluation of the budget (expenditure) standards approach and variations on it be undertaken for which there is likely to be greater public understanding and acceptance; and
- the issue of resident parents in receipt of high levels of support who opt to work part-time, when they could be working full-time in their current positions, be addressed.

Yours faithfully

Trevor Koops  
4 June 2014

Household Expenditure Survey Categories		Basis	Annual Marginal Cost	Comments with Respect to Actual Situation
Current Housing Costs	Rent	Difference between 2 and 3 bedroom house rental Nillumbik Shire	886	Actual rent of Resident Parent is around \$8k less per annum which would render an annual marginal cost of \$501
	Contents Insurance	Children's Possessions and Clothing assumed at 10% of contents premium	25	
Domestic Fuel & Power#	Electricity	@ 5700 Kwh per annum average per household 2.6 people excluding standing costs	689	Property believed not to include air-conditioner
	Gas	@ 52000 MJ per annum average per household 2.6 people excluding standing costs	350	
Food & Non-Alcoholic Beverages		@ the higher of "all households divided by average persons per household" or "couple with eldest child 14 years divided by couple plus average no. children per household adjusted by CPI	4,275	Child is small and not a big eater
Clothing & Footwear				
Household Furnishings & Equipment	Whitegoods	Refrigerator, Oven, Dryer, Washing Machine, Air Conditioner, Microwave Amortised over 10 years @ 20%	290	
	Mobile Phone	Apple on 24 months plan	516	
Household Services & Operation	Council Waste Charge	@ 50% of volume	179	
	Repairs	Two visits @ call out and 1 hour & materials @ 50%	175	
Medical Care & Health		Gap Payments on 4 visits to a GP, one dental procedure and difference between hospital and extras cover for <i>single parent</i> and <i>single parent with child</i>	1,148	No medical insurance believed to have been taken out for hospital cover for child
Transport		Nissan Patrol - RACQ running costs of 35.41 per km @ 15,000 km @ 60% for child purposes	3,187	Vehicle used nearly exclusively during weekdays during school days by resident parent for commute to work. Choice of vehicle determined by resident parent's hobby.
		Rail Fares- Entertainment & Excursions - MYKI - one per fortnight	158	
Recreation	TV, DVD etc.	LCD TV and DVD amortised over 10 years @ 50%	125	
	Home Computer & WIFI/Cable	Amortised over 5 years @ 50%	150	

Household Expenditure Survey Categories		Basis	Annual Marginal Cost	Comments with Respect to Actual Situation
	Holidays			
	Dance Lessons & Shoes, Costumes	4 terms and concert costs	1,360	Child does not engage in any hobbies
	Music Lessons	1 Private Lesson per Week @ 42 weeks & Instrument Depreciation	1,570	Child does not engage in any hobbies
	Tennis Lessons, Equipment, Membership/Competition Fees	1 Private Lesson per Week @ 42 weeks	2,170	Child does not engage in any hobbies
Personal Care		Based on 4th & highest quintile Household Expenditure Survey * 50% adjusted by CPI	910	
Miscellaneous	Education	Booklist - Year 9	400	
		Computing -PC with Software Amortised Over 3 Years	400	
		School Camp (1 week @ high level \$80 to \$90 per day)	450	
		Excursions	400	
		Voluntary Financial Contribution	200	Child attends public secondary school
	Pocket Money			
<b>TOTAL* less Clothing &amp; Footwear, Holidays and Pocket Money</b>			20,012	
<b>TOTAL less Recreation Hobbies, Clothing &amp; Footwear, Holidays and Pocket Money</b>			14,912	
<b>Cost of Children Advised by CSA - Non-resident parent with zero contact</b>			24,162	
<b>Non-Resident's Parent Liability Advised by CSA</b>			20,419	

Notes:

Resident Parent and one child

Resident parent chooses to work 4 days per week and is in receipt of part Family Tax Benefit (A) and full Family Tax Benefit (B) valued at \$4,200

Total\* reflects child involved in all three hobbies dance, music and tennis which in aggregate amount to more than \$5k