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Beyond Inflation: The Adequacy of Out-of-Home Care Allowances in Australia

Ou Yang | Ron Fisher | Karinna Saxby | Jongsay Yong | Yuting Zhang

Melbourne Institute of Applied Economic and Social Research, The University of Melbourne, Parkville, Australia

Correspondence: Ou Yang (ou.yang@unimelb.edu.au)

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ABSTRACT

Research Question: This study examines whether home-based (foster, kinship or relative) out-of-home care (OOHC) allowances in New South Wales, Australia, adequately reflect the contemporary costs of caring for children.

Research Findings: We find that real median expenditure among families with children increased by 23%–30% between 2006 and 2022, after adjusting for inflation and sociodemographic factors. These increases suggest that household spending needs have changed in ways not fully captured by CPI indexation. As a result, current OOHC allowance settings may understate the real costs faced by carers.

Policy Implications: The findings indicate that relying solely on CPI indexation may inadequately compensate carers and place pressure on the stability and sustainability of home-based OOHC placements. The study proposes two alternative adjustment approaches that better align allowances with observed expenditure trends and provide a practical evidence base for policy reform.

Methods Used: We use longitudinal household expenditure data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey and estimate changes in median household expenditure using quantile regression. The analysis is descriptive and policy-oriented, not causal.

JEL Classification: I38, J13, D12

1 | Introduction

Out-of-home care (OOHC) is a core child-protection response for children who cannot safely live with their birth families due to extenuating circumstances such as abuse, neglect, serious family breakdown or other extenuating circumstances. In Australia, as in comparable developed countries, OOHC is predominantly delivered through home-based care arrangements such as foster care and relative or kinship care (Venables et al. 2025; Australian Institute of Health and Welfare 2023). As of June 2023, 45,273 children in Australia were reported to be in OOHC, with 33.4% in foster care and 54.2% in relative or kinship care (Australian Institute of Health and Welfare 2023).

A central determinant of placement quality and stability is whether carers receive financial support that realistically covers the ordinary, day-to-day costs of raising a child, alongside the additional costs that OOHC frequently entails. International evidence indicates that children in OOHC are disproportionately likely to have histories of trauma and adversity and experience elevated rates of medical, behavioural, emotional and developmental difficulties (Steenbakkers et al. 2018; Oswald et al. 2010). These higher needs can raise direct costs, for example, in categories such as healthcare, specialised supports, transport and education-related expenses, as well as indirect costs such as increased supervision time and service coordination. When allowances fall short of costs, carers' capacity to provide stable, nurturing and developmentally supportive environments may be constrained.

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A persistent challenge for setting OOHC allowances is ensuring that they continue to reflect contemporary spending realities over time. In Australia, OOHC care allowances are set separately by each state and territory and are commonly updated using Consumer Price Index (CPI)-based indexation. However, CPI-only indexation of OOHC allowances may not reflect shifts in household expenditure patterns over time (McHugh 2011). CPI-only indexation may preserve purchasing power imperfectly if the expenditure weights that underpin allowance design (or the implicit 'basket of goods' it is intended to cover) drift away from contemporary spending realities.

In this study, we provide a data-driven reassessment of OOHC allowance¹ adequacy in the state of New South Wales (NSW), Australia, by testing whether CPI-indexed allowances have kept pace with changes in household expenditure patterns over time. We focus on NSW due to our access to historical records of the NSW allowance schedule, which is necessary to support the temporal structure of our empirical methodology. NSW is Australia's most populous state and the jurisdiction with the most children in OOHC (Australian Institute of Health and Welfare 2023). While the NSW OOHC allowance has been adjusted annually over time through CPI-indexation, the expenditure weights underpinning the allowance have not been comprehensively updated since 2002,² when they were based largely on McHugh (2002) costing framework.

We use the Household, Income and Labour Dynamics in Australia (HILDA) Survey to examine expenditure trends among households with children in NSW between 2006 and 2022. For these households, we quantify the degree to which shifts in budget allocation imply higher expenditures that are not captured by standard CPI-indexation. We find that changes in household budget allocation for families with children imply materially higher real expenditures (between 23% and 30%) than CPI-only indexation would suggest, highlighting that CPI-only updates to OOHC allowances are unlikely to maintain allowance adequacy over long time horizons.

The remainder of the paper is organised as follows. Section 2 reviews three landmark studies in the United Kingdom, Australia and the United States that estimated the cost of foster caring. Section 3 outlines the data and empirical methods of the paper. Section 4 presents the results and Section 6 discusses the policy implications and concludes.

2 | Related Literature

Despite the policy importance of OOHC allowance adequacy, the empirical evidence informing allowance design remains limited and dated. Existing studies are concentrated in a small number of foster care-only costing exercises that largely adopt a budget-standards framework: first defining a benchmark budget for an 'ordinary' child at a specified living standard, and then estimating the additional costs associated with foster care using structured interviews or focus groups with carers. This section reviews three influential studies from the United Kingdom, Australia and the United States that continue to shape contemporary allowance-setting debates.

In the United Kingdom, Oldfield (1997) assessed whether foster care allowances adequately covered the costs of caring for foster

children. The study constructed modest-but-adequate baseline budgets for non-foster children, informed by behavioural evidence, expert judgement and recommended standards, and spanning a wide range of expenditure categories. Foster-care-specific costs were then identified through structured interviews with 32 foster families in North Yorkshire. A key methodological feature was the proportional inclusion of costs that were common but not universal, allowing expected foster-care increments to reflect placement heterogeneity. Oldfield (1997) work was important for informing fostering allowances across the United Kingdom. It was explicitly cited in the development of England's national minimum fostering allowance, where evidence on the additional costs of foster care informed the uplift applied to baseline child costs (Department for Education and Skills 2006). Subsequent reviews note that this approach also influenced allowance-setting in other UK jurisdictions, including Wales and Northern Ireland (Scottish Government 2014). Oldfield's framework also continues to inform contemporary sector benchmarks: The Fostering Network's recommended allowance rates draw on both the Minimum Income Standard and Oldfield's estimates of the additional costs associated with foster care (The Fostering Network n.d.).

In Australia, McHugh (2002) provided the most comprehensive assessment of foster care costs, drawing on budget standards developed by Saunders (1998). Using focus groups with 159 foster carers across all Australian states, the study revised baseline child cost estimates to reflect foster-care-specific needs across age groups and expenditure categories. Estimated additional costs ranged from around 9% for younger children to nearly 50% for older adolescents. McHugh (2002) became a key reference point in Australian policy debates and directly informed the redesign of foster care payments in NSW in 2006, including the introduction of age-differentiated allowances and supplementary payments. More broadly, the study supported reforms that extended payment parity to kinship carers across jurisdictions.

In the United States, DePanfilis et al. (2007) developed Foster Care Minimum Adequate Rates for Children (MARC) for each state and compared these benchmarks with prevailing reimbursement rates. Unlike the UK and Australian studies, baseline child costs were estimated using nationally representative Consumer Expenditure Survey data rather than budget standards, with age-specific costs derived through multivariate regression and adjusted for inflation and state-level cost-of-living differences. Foster-care increments were incorporated through category-specific adjustments reflecting additional needs, drawing on carer-derived estimates from McHugh (2002). The resulting benchmarks indicated widespread underpayment, with average state reimbursement rates falling 29%–41% below estimated adequate costs. Subsequent updates of the MARC to 2016 cost of living adjustments confirmed that underpayment remained pervasive across the United States, with all but four states still reimbursing below estimated adequate maintenance costs (Ahn et al. 2018).

Taken together, these studies establish a clear empirical template: baseline child budgets plus an explicit foster-care increment, and have had demonstrable policy impact. However, they also share important limitations. Foster-care increments are largely derived from structured carer judgement, reflecting normative assessments of adequacy rather than revealed expenditure behaviour. Evidence bases are often small or geographically concentrated, and estimates

are time- and context-specific, anchored to historical consumption norms. Moreover, the focus is primarily on direct maintenance costs, with indirect and opportunity costs only partially captured. These limitations motivate the need for updated, more generalisable cost benchmarks and empirically robust designs that can be periodically recalibrated and better reflect the full resource burden and heterogeneity of foster care placements.

3 | Data and Empirical Methods

3.1 | Data

This study sources data from waves 2006–2022 of the HILDA survey (Watson and Wooden 2021). In our analysis, we focus on households in the state of NSW, Australia's most populous state, and benchmark our findings against historical fortnightly OOH allowance records for NSW provided to us by the NSW Independent Pricing and Regulatory Tribunal (IPART). The NSW household expenditure for the following expenditure categories was examined: grocery, rent, mortgage, transport, recreation, medical expenses, medication, energy, clothing and footwear, motor vehicle repairs and maintenance, housing (including water bills), furniture and appliances, phone and internet, private health insurance, education. To gain a more detailed understanding of the broader Health category, the sub-categories, medical expenses, medication and private health insurance, were individually studied.

The household annual expenditure information was surveyed for all expenditure categories in HILDA only from 2006 onwards. As a result, our analysis sample from HILDA consisted of a total of 42,816 observations from NSW from 2006 to 2022.

The annual category-specific CPI, for example, for grocery, for a particular year was derived by summarising all four quarterly CPIs from ABS on 'Food and non-alcoholic beverages' of the year, with the calculated 2022 annual category-specific CPI for grocery set as 100. Missing values of expenditure categories for a household's annual expenditures were imputed using the corresponding annual category-specific CPI based on the household's observed non-missing values in other years. For our analysis using HILDA, in addition to using expenditures measured in nominal dollars, we also analyse expenditures converted to 2022 dollars using the derived annual category-specific NSW CPIs.

The expenditure categories available in the HILDA survey are broadly consistent with those defined by McHugh (2002), for instance, medical, medication and private health insurance all belonging to the Health category. While private health insurance was not explicitly considered by McHugh (2002), where it is deemed appropriate and necessary to meet the pressing health needs of foster children, private health insurance coverage for these children should be considered.

3.2 | Empirical Methods

To estimate how household expenditure has evolved over time in ways relevant for assessing the adequacy of OOH allowances, we use quantile regression to model changes in median household expenditure across consumption categories and household types. Quantile regression is particularly appropriate in this

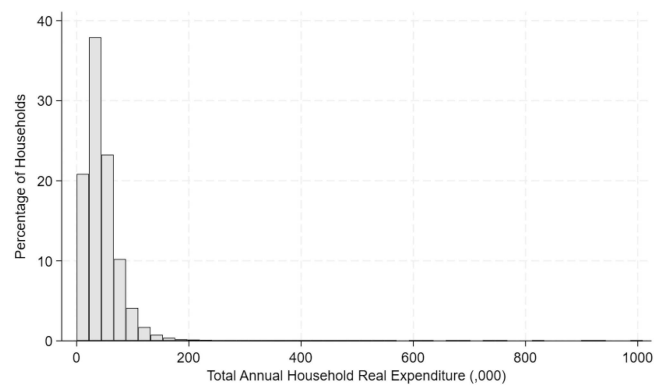


FIGURE 1 | Distribution of total annual household real expenditure (2022 AUD).

context given the highly skewed distribution of our outcome variables, such as the distribution of total annual household real expenditure presented in Figure 1, and foster care policy is primarily concerned with typical, ongoing cost pressures rather than averages driven by extreme observations. By modelling median expenditure, quantile regression provides a robust and policy-relevant measure of the costs that allowances must cover to support sustainable foster care placements.

In particular, let Y_{it} be the household i 's expenditure in year t , and $X_{it} \in \mathbb{R}^p$ a vector of covariates. For a quantile level $\tau \in (0,1)$, the conditional τ -quantile of Y_{it} given X_{it} is

$$Q_Y(\tau|X_{it}) = \inf\{y : F_{Y|X}(y|X_{it}) \geq \tau\},$$

where $F_{Y|X}(\cdot | X_{it})$ is the conditional distribution function of Y_{it} given X_{it} .

A commonly assumed model is linear in parameters:

$$Q_Y(\tau|X_{it}) = X_{it}^\top \beta(\tau),$$

where $\beta(\tau)$ is a vector of quantile-specific coefficients.

Define the check (or pinball) loss function for quantile τ :

$$\rho_\tau(u) = u(\tau - 1\{u < 0\}) = \begin{cases} \tau u, & u \geq 0, \\ (\tau - 1)u, & u < 0. \end{cases}$$

Given an i.i.d. sample (y_{it}, x_{it}) for $i = 1, \dots, N; t = 1, \dots, T$, the quantile regression estimator is

$$\hat{\beta}(\tau) = \operatorname{argmin}_{\beta} \frac{1}{NT} \sum \rho_\tau(y_{it} - x_{it}^\top \beta), \beta \in \mathbb{R}^p.$$

This convex minimisation problem can be solved by linear programming or dedicated algorithms.

Given the highly skewed distribution of our outcome variables (see Figure 1) quantile regression is employed to analyse the median of the logarithm of household expenditure from 2006 to 2022 for each consumption category in the HILDA survey, including grocery, rent, mortgage, transport, recreation, medical expenses, medication, energy, clothing and footwear, motor

vehicle repairs and maintenance, housing (including water bills), furniture and appliances, phone and internet, private health insurance, education, and the total household expenditure across all these categories. Given that the outcome variable is in logarithmic form, the estimated coefficients can be interpreted as the percentage change in the median annual household expenditure relative to the previous year.

For each year from 2006 to 2022, we generate predicted median total household expenditure per fortnight under alternative household composition scenarios, including a couple without children and a couple with (a) one child aged 0–4 years, (b) one child aged 5–13 years, (c) one child aged 14–15 years and (d) one child aged 16–17 years. For each scenario, predictions are obtained by setting household composition accordingly for all observations, holding all other covariates at their observed values, and averaging the resulting predicted expenditures. We then conduct heterogeneity analyses to examine variation in household expenditure by child age and household geographic remoteness.

The control variables X_{it} in the regression include:

- the age of the household head;
- dummy variables indicating household remoteness (major cities, regional areas, and remote areas);
- dummy variables representing deciles of household location's Socio-Economic Indexes for Areas (SEIFA) 2021 index, which measures household socioeconomic status at a small-area level;
- the number of children aged 0–4 years;

- the number of children aged 5–13 years;
- the number of children aged 14–15 years;
- the number of children aged 16–17 years;
- the number of adults aged 18 years and over.

These control variables are included to separate changes in expenditure associated with household composition from broader demographic and geographic differences in spending. Age of household head captures lifecycle-related differences in expenditure and housing circumstances; remoteness captures geographic variation in access, prices, and travel requirements; SEIFA captures area-level socioeconomic context; and child-age bands align with the structure of the NSW allowance schedule.

Table 1 presents the summary statistics of our control variables. For each variable above, to see how the effect of a variable changes over time, we also include in the regression the interactions of these variables with the survey year variable.

4 | Results

4.1 | Analysis of the Expenditure Measured in 2022 Dollars

In our analysis, we first estimated the quantile regression using real expenditures measured in 2022 dollars. Table 2 presents the predicted total expenditures per fortnight (calculated from the predicted annual total expenditures) for a couple household with and without children in 2006 to 2022. For households with

TABLE 1 | Summary statistics of covariates.

Variable	Mean	SD	Min	Max	N
No. of children aged 0–4	0.179	0.502	0	4	42,816
No. of children aged 5–13	0.292	0.691	0	6	42,816
No. of children aged 14–15	0.065	0.263	0	3	42,816
No. of children aged 16–17	0.067	0.264	0	3	42,816
No. of children aged 18 and older	1.893	0.829	0	8	42,816
Age of the household head	51.442	18.072	18	101	42,816
Remoteness					
Major cities	0.675	0.468	0	1	42,808
Regional areas	0.320	0.466	0	1	42,808
Remote areas	0.005	0.069	0	1	42,808
SEIFA index					
1st decile (most disadvantaged)	0.101	0.302	0	1	42,808
2nd decile	0.119	0.324	0	1	42,808
3rd decile	0.100	0.300	0	1	42,808
4th decile	0.086	0.280	0	1	42,808
5th decile	0.088	0.283	0	1	42,808
6th decile	0.075	0.264	0	1	42,808
7th decile	0.090	0.286	0	1	42,808
8th decile	0.090	0.286	0	1	42,808
9th decile	0.083	0.276	0	1	42,808
10th decile (least disadvantaged)	0.168	0.374	0	1	42,808

Abbreviation: SEIFA = Socio-Economic Indexes for Area, 2021.

TABLE 2 | Predicted total expenditure per fortnight measured in 2022 dollars: NSW Couple Household with and without Children in HILDA.

	No children	1 child aged 0–4	1 child aged 5–13	1 child aged 14–15	1 child aged 16–17
2006	\$1380.01	\$1556.09	\$1604.75	\$1673.12	\$1646.33
2007	\$1400.66	\$1576.58	\$1628.28	\$1700.84	\$1670.96
2008	\$1421.60	\$1597.34	\$1652.15	\$1729.03	\$1695.95
2009	\$1442.87	\$1618.37	\$1676.38	\$1757.68	\$1721.31
2010	\$1464.45	\$1639.69	\$1700.96	\$1786.80	\$1747.05
2011	\$1486.35	\$1661.28	\$1725.90	\$1816.41	\$1773.18
2012	\$1508.58	\$1683.16	\$1751.21	\$1846.51	\$1799.70
2013	\$1531.15	\$1705.32	\$1776.89	\$1877.11	\$1826.61
2014	\$1554.05	\$1727.78	\$1802.94	\$1908.21	\$1853.93
2015	\$1577.29	\$1750.53	\$1829.38	\$1939.83	\$1881.66
2016	\$1600.88	\$1773.59	\$1856.20	\$1971.97	\$1909.80
2017	\$1624.83	\$1796.94	\$1883.42	\$2004.65	\$1938.36
2018	\$1649.13	\$1820.61	\$1911.04	\$2037.87	\$1967.35
2019	\$1673.80	\$1844.58	\$1939.06	\$2071.63	\$1996.77
2020	\$1698.83	\$1868.87	\$1967.49	\$2105.96	\$2026.63
2021	\$1724.24	\$1893.48	\$1996.34	\$2140.86	\$2056.94
2022	\$1750.03	\$1918.42	\$2025.61	\$2176.33	\$2087.70

TABLE 3 | Budget allocation changes over time in HILDA.

	No children	1 child aged 0–4	1 child aged 5–13	1 child aged 14–15	1 child aged 16–17
2006	100.00	100.00	100.00	100.00	100.00
2007	101.50	101.32	101.47	101.66	101.50
2008	103.01	102.65	102.95	103.34	103.01
2009	104.55	104.00	104.46	105.05	104.55
2010	106.12	105.37	106.00	106.79	106.12
2011	107.71	106.76	107.55	108.56	107.70
2012	109.32	108.17	109.13	110.36	109.32
2013	110.95	109.59	110.73	112.19	110.95
2014	112.61	111.03	112.35	114.05	112.61
2015	114.30	112.50	114.00	115.94	114.29
2016	116.00	113.98	115.67	117.86	116.00
2017	117.74	115.48	117.37	119.82	117.74
2018	119.50	117.00	119.09	121.80	119.50
2019	121.29	118.54	120.83	123.82	121.29
2020	123.10	120.10	122.60	125.87	123.10
2021	124.94	121.68	124.40	127.96	124.94
2022	126.81	123.28	126.23	130.08	126.81

children, based on the regression estimates, predictions were made and presented in Table 2 for those with:

- 1 child aged 0–4 years;
- 1 child aged 5–13 years;
- 1 child aged 14–15 years;
- 1 child aged 16–17 years.

Table 3 presents an index derived from the predicted total real expenditures in Table 2. The index rescales the predicted real expenditures in each column of Table 2 by using the predicted expenditures in 2006 as the base year, so that all expenditures across all child age profiles in 2006 are set to 100. Since it is derived from real expenditures, this index reflects changes in household budget allocations over time, as captured by the HILDA survey data.

TABLE 4 | Predicted total expenditure per fortnight in nominal dollars: NSW Couple Household with and without children in HILDA.

	No children	1 child aged 0–4	1 child aged 5–13	1 child aged 14–15	1 child aged 16–17
2006	\$1003.03	\$1144.55	\$1180.08	\$1220.54	\$1206.67
2007	\$1039.20	\$1184.08	\$1221.32	\$1266.82	\$1250.56
2008	\$1076.67	\$1224.97	\$1263.99	\$1314.85	\$1296.04
2009	\$1115.50	\$1267.28	\$1308.16	\$1364.71	\$1343.18
2010	\$1155.72	\$1311.04	\$1353.87	\$1416.45	\$1392.03
2011	\$1197.40	\$1356.32	\$1401.17	\$1470.16	\$1442.65
2012	\$1240.58	\$1403.16	\$1450.13	\$1525.91	\$1495.12
2013	\$1285.31	\$1451.62	\$1500.80	\$1583.77	\$1549.50
2014	\$1331.66	\$1501.75	\$1553.25	\$1643.82	\$1605.86
2015	\$1379.68	\$1553.61	\$1607.52	\$1706.15	\$1664.26
2016	\$1429.43	\$1607.27	\$1663.69	\$1770.84	\$1724.79
2017	\$1480.98	\$1662.78	\$1721.82	\$1837.99	\$1787.52
2018	\$1534.38	\$1720.20	\$1781.99	\$1907.68	\$1852.53
2019	\$1589.71	\$1779.61	\$1844.25	\$1980.01	\$1919.91
2020	\$1647.04	\$1841.07	\$1908.69	\$2055.09	\$1989.73
2021	\$1706.43	\$1904.65	\$1975.39	\$2133.02	\$2062.10
2022	\$1767.97	\$1970.43	\$2044.41	\$2213.90	\$2137.10

The results suggest that, arising from changes in budget allocation over time between 2006 and 2022, the increases in total expenditure range from 23% for a household with 1 child aged 0–4 to 30% for a household with 1 child aged 14–15. It is worth emphasising that these increases were purely driven by budget allocation changes, and they could not be accounted for using CPI adjustments.

4.2 | Analysis of the Expenditure Without Adjusting for Inflation

We further estimated the quantile regression using actual (i.e., nominal) expenditures without adjusting for inflation and present in Table 4 total expenditures per fortnight (calculated from the predicted annual total expenditures) for a couple household with and without children in 2006–2022. Similarly, for households with children, the same age bands for the child are used as before. The results in Table 4 suggest that over the years, the predicted expenditure increases steadily for all household types, with households having older children generally having higher expenditures compared to those with younger children or no children.

Similarly, Table 5 presents an index derived from the predicted total nominal expenditures in Table 4. Since this index is based on changes in nominal expenditures, without having been adjusted for CPI, this index reflects changes arising from both household budget allocation decisions and the effects of inflation. Results in Table 5 suggest that the budget allocation index increases steadily over the years for household groups. The results also show that households with older children generally have higher budget allocation indices compared to those with younger children or no children, suggesting that the financial burden increases as children grow older.

4.3 | Variation in the Household Expenditure by Ages of Children and Household Geographic Locations

4.3.1 | Age Analysis

An analysis was conducted to understand if there are any spikes in costs across different ages (0–18). For this analysis, the quantile regression model was adjusted to, respectively, control for the number of children aged 1, 2, and so on, up to aged 17, and the regression was run respectively for 2019 and 2022, that is, before and after COVID–19. Figure 2 presents the plot of the predicted total expense (in nominal dollars) per fortnight for a couple household with a child across different ages in NSW.

Our results indicate that:

- In 2022, cost spikes happened in children aged 3 and 9 years.
- In 2019, cost spikes happened in children aged 3, 6, 14 and 16 years.
- Cost spikes were more apparent in 2022 than in 2019.

4.3.2 | Remoteness

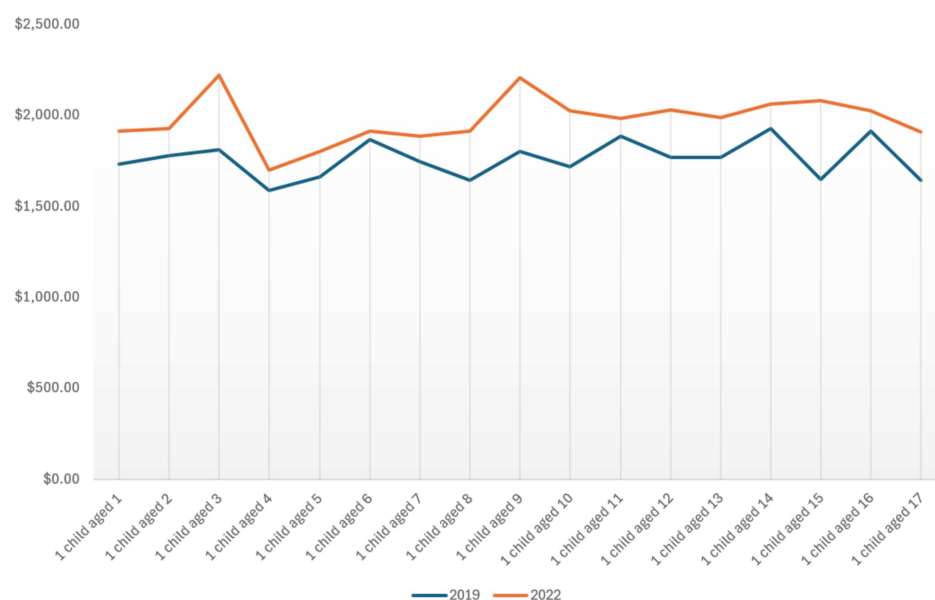
To examine whether expenditures varied by remoteness, we produced predicted expenditure per fortnight in nominal and 2022 dollars, respectively, for the following locations:³

- major cities
- regional area
- remote area

The trends in Figure 3 indicate that the predicted total fortnightly household expenditure in 2022 dollars increased over

TABLE 5 | Budget allocation and inflation changes over time in HILDA.

	No children	1 child aged 0–4	1 child aged 5–13	1 child aged 14–15	1 child aged 16–17
2006	100.00	100.00	100.00	100.00	100.00
2007	103.61	103.45	103.49	103.79	103.64
2008	107.34	107.03	107.11	107.73	107.41
2009	111.21	110.72	110.85	111.81	111.31
2010	115.22	114.55	114.73	116.05	115.36
2011	119.38	118.50	118.74	120.45	119.56
2012	123.68	122.59	122.88	125.02	123.90
2013	128.14	126.83	127.18	129.76	128.41
2014	132.76	131.21	131.62	134.68	133.08
2015	137.55	135.74	136.22	139.79	137.92
2016	142.51	140.43	140.98	145.09	142.94
2017	147.65	145.28	145.91	150.59	148.14
2018	152.98	150.29	151.01	156.30	153.52
2019	158.49	155.49	156.28	162.22	159.11
2020	164.21	160.86	161.74	168.38	164.89
2021	170.13	166.41	167.39	174.76	170.89
2022	176.26	172.16	173.24	181.39	177.11

**FIGURE 2** | Predicted total expenditure (in nominal dollars) per fortnight in HILDA: couple household with children.

the years across all locations and household compositions. The total expenditure is highest for households in major cities, followed by regional areas, and lowest in remote areas.

4.3.3 | Average Annual Percentage Change in Household Expenditure

Tables 6 and 7 present the average annual percentage change in household expenditure between 2006 and 2022, both in nominal dollars and in 2022 dollars (adjusted for inflation). In nominal dollars, the highest increases were seen for housing (around 5.3%–6.2% annually), rent (4.2%–4.5%), private health

insurance (3.5%–4.4%) and mortgage (3.1%–3.7%). Categories with lowest nominal increases included clothing, motor repairs and maintenance, transport, and furniture and appliances. However, after adjusting for inflation using 2022 dollars, most expenditure categories showed a decrease or lower increase. The highest increases (adjusted for inflation) were for mortgage (2.2%–2.6%), housing (1.5%–2.4%), phone (2.2%–3%) and clothing (0.5%–1.8%), while notable decreases were observed for medical expenses (–2.5% to –3.3%) and medication (–2.8% to –3.3%). The total expenditure increase (adjusted for inflation) ranged from 1.32% for households with one child aged 0–4 to 1.66% for those with one child aged 14–15.



FIGURE 3 | Predicted total expenditure (in 2022 dollars) per fortnight in HILDA: couple household with children in major cities, regional areas and remote areas.

TABLE 6 | Average annual percentage change in household expenditure in nominal dollars.

	No child (%)	1 child aged 0–4 (%)	1 child aged 5–13 (%)	1 child aged 14–15 (%)	1 child aged 16–17 (%)
Groceries	1.97	1.92	2.00	1.81	1.84
Rent	4.23	4.24	4.39	4.21	4.54
Mortgage	3.18	3.12	3.65	3.52	3.56
Transport	1.42	0.89	1.46	1.50	1.03
Recreation	2.08	1.82	2.16	2.07	2.18
Medical	1.47	1.92	1.34	1.14	1.83
Medication	1.43	1.18	1.55	1.12	1.46
Energy	3.37	3.37	3.60	3.64	3.72
Clothing	0.70	0.11	0.29	0.99	1.32
Motor repairs & maintenance	1.07	0.92	1.03	1.46	0.72
Housing	5.71	6.10	6.12	6.18	5.32
Furniture and appliances	1.42	2.47	1.04	0.13	0.33
Phone	1.71	1.61	1.17	1.58	1.24
Education	2.78	4.14	3.09	3.78	2.83
Private health insurance	4.10	4.37	4.02	3.88	3.46
Total expenditure	3.61	3.45	3.49	3.79	3.64

The real expenditure increase appears to be broadly distributed rather than concentrated in one category. In 2022-dollar terms, the categories with the strongest positive annual growth include mortgage, housing, phone/internet, clothing, recreation, and private health insurance. This pattern suggests that allowance erosion is not simply a clothing, food or transport problem that can be solved through one narrow category-specific uplift. Rather, it reflects broader shifts in household

spending patterns and supports an adjustment to the overall allowance benchmark.

Category-specific estimates should be interpreted cautiously. HILDA measures expenditure at the household level, so categories such as phone/internet and recreation may reflect shared household costs rather than the marginal cost of an individual child. A relatively flat age profile in these categories should not

TABLE 7 | Average annual percentage change in household expenditure in 2022 dollars.

	No child (%)	1 child aged 0–4 (%)	1 child aged 5–13 (%)	1 child aged 14–15 (%)	1 child aged 16–17 (%)
Groceries	−0.32	−0.42	−0.30	−0.40	−0.35
Rent	0.55	0.52	0.77	0.51	0.91
Mortgage	2.29	1.94	2.50	2.57	2.23
Transport	0.09	−0.46	0.11	0.17	−0.37
Recreation	1.43	1.11	1.51	1.44	1.57
Medical	−2.94	−2.52	−3.09	−3.31	−2.46
Medication	−2.91	−3.16	−2.78	−3.28	−2.94
Energy	−0.35	−0.34	−0.14	−0.15	−0.04
Clothing	1.15	0.51	0.71	1.35	1.76
Motor repairs & maintenance	−0.28	−0.39	−0.36	0.03	−0.61
Housing	2.00	2.33	2.36	2.34	1.47
Furniture and appliances	0.73	1.81	0.38	−0.58	−0.40
Phone	2.96	2.83	2.37	2.70	2.24
Education	−1.96	−0.68	−1.76	−0.99	−1.73
Private health insurance	1.89	1.99	1.86	2.06	1.05
Total expenditure	1.50	1.32	1.47	1.66	1.50

TABLE 8 | Historical actual allowance per fortnight in nominal dollars.

	1 child aged 0–4	1 child aged 5–13	1 child aged 14–15	1 child aged 16–17
2006	\$374.00	\$420.00	\$564.00	\$564.00
2015	\$455.00	\$513.00	\$688.00	\$459.00
2017	\$484.00	\$546.00	\$733.00	\$488.00
2018	\$494.00	\$557.00	\$748.00	\$498.00
2019	\$503.00	\$567.00	\$761.00	\$507.00
2021	\$512.00	\$577.00	\$774.00	\$516.00
2022	\$540.00	\$609.00	\$817.00	\$544.00
2023	\$564.00	\$636.00	\$854.00	\$568.00
2024	\$581.00	\$656.00	\$880.00	\$586.00

Note: Data for 2007–2014, 2016 and 2020 are not available.

be interpreted as evidence that adolescents have no additional digital-access or recreation needs. Rather, it reflects the limits of household-level expenditure data for allocating costs within families.

4.4 | Modelled Policy Options

Table 8 shows the historical fortnightly OOHC allowance amounts that were provided to carers of children in home-based foster, kinship or relative care arrangement in NSW. There potentially exist two approaches to adjusting the regular fortnightly care allowance to meet the carers' actual needs for quality care. Note that the initial startup costs incurred by carers are not considered in this discussion.

The adjustment approaches should be interpreted as per-child allowance benchmarks. They do not fully resolve the cost

structure of sibling placements. While NSW care allowances are paid for each child, sibling groups may involve both economies of scale and additional fixed costs, including bedroom requirements, transport coordination, larger household goods, and school or activity logistics. These circumstances support the case for retaining targeted supplementary payments alongside any updated standard allowance.

4.4.1 | Approach I

Given the allowance has been adjusted for CPI, notwithstanding some other modifications or adjustments over the years since the 2002 review, the allowance in 2022 can be considered equivalent to the 2006 allowance converted to 2022 dollars using the derived annual category-specific NSWs' CPIs. Thus, suppose an average couple household with a child in care, albeit having higher expenditure, makes similar budget allocation decisions and follows a comparable pattern to a similar couple

family with a child not in care, it would mean that the household would be worse off by 23%–30%, depending on the child's age band, than if the changes in budget allocation were accounted for. On this basis, it is valid to further adjust the 2022 allowance in Table 8 using the budget allocation index in 2022 shown in Table 3. This accommodates the effects of changing budget allocations from 2006 to 2022. After adjusting the 2022 allowance using the budget allocation index, the Sydney CPI can be employed to adjust the allowance for a finite period, for example, for the next 5 years, from 2023 to 2027, on the assumption that household budget allocations would remain relatively stable during the period. Table 9 presents the adjusted allowance in 2022. To illustrate the practice of predicting future years from 2022, the September quarter Sydney all-groups CPIs for 2002 to 2004 from the ABS were used to project the allowance for 2023 and 2024 for all child age groups.

4.4.2 | Approach II

Since the index numbers presented in Table 5 capture both budget allocation and inflation changes, the percentage changes in the index from 2006 to 2022 for a couple family with a child aged 0–4, 5–13 and 14–17 can be directly applied to the 2006 allowance for the corresponding age groups in Table 8 to derive the adjusted allowance for households with a child in these three age groups in 2022. Note that, for households with a child in the age group 16–17 in 2006, the same allowance rate was applied as the rate for households with a child aged 14–15. In 2012, a major modification was made to this age group with the introduction of the Teenage

TABLE 9 | HILDA adjusted allowance per fortnight in nominal dollars: Approach I.

	2022	2023	2024
1 child aged 0–4	\$665.74	\$703.01	\$723.72
1 child aged 5–13	\$768.72	\$811.76	\$835.67
1 child aged 14–15	\$1062.72	\$1122.22	\$1155.28
1 child aged 16–17	\$689.84	\$728.46	\$749.92

TABLE 10 | HILDA adjusted allowance per fortnight: Approach II.

	2022	2023	2024
1 child aged 0–4	\$644	\$680	\$700
1 child aged 5–13	\$728	\$768	\$791
1 child aged 14–15	\$1023	\$1080	\$1112
1 child aged 16–17	\$589	\$622	\$641

TABLE 11 | Comparison of actual and HILDA adjusted allowances per fortnight in 2022.

	Approach I			Approach II		
	Actual	Adjusted	Difference	Actual	Adjusted	Difference
1 child aged 0–4	\$540	\$666	\$126	\$540	\$644	\$104
1 child aged 5–13	\$609	\$769	\$160	\$609	\$728	\$119
1 child aged 14–15	\$817	\$1063	\$246	\$817	\$1023	\$206
1 child aged 16–17	\$544	\$690	\$146	\$544	\$589	\$45

Education Payment. The Teenage Education Payment is a means-tested subsidy based on the household income and other eligibility requirements. The earliest year after this modification for which the allowance data were available is 2015. Therefore, for households with a child aged 16–17, the percentage changes in the index from 2015 to 2022 were used to calculate the adjusted allowance. The allowances for 2023 and 2024 for households with children in all age bands were similarly projected as in Approach I. Compared to the adjusted allowance derived from Approach I, the adjusted allowance in Approach II is slightly more conservative (see Table 10).

4.4.3 | Comparison of Approaches

Table 11 outlines the two approaches relative to the actual 2022 allowance. Comparing the two approaches, the advantage of Approach II is that both budget allocation changes and inflation are estimated using the same HILDA-based expenditure basket. This provides greater internal consistency. However, Approach II depends on historical allowance data, which are incomplete, particularly for children aged 16–17 years. For this group, the adjustment must begin from 2015 rather than 2006, reflecting a policy change and data availability rather than a fully consistent historical baseline. This limits the transparency and comparability of the resulting estimate.

In practice, Approach I has the practical advantage of requiring only the current allowance schedule as its starting point. It applies the HILDA-derived budget allocation adjustment to correct for the accumulated divergence between CPI-indexed allowances and observed household expenditure patterns. Subsequent CPI indexation should therefore be interpreted as a short-term updating mechanism rather than as evidence that CPI-only indexation is adequate over the long term. The appeal of this approach lies in its transparency, administrative feasibility and ease of communication to government, carers and service providers. However, the findings of this study show that CPI-only indexation can become inadequate when used for extended periods without empirical recalibration.

For this reason, a hybrid framework may be preferable in practice. Such a framework could combine an empirically recalibrated allowance benchmark using HILDA or comparable expenditure data, short-term CPI indexation between reviews, and scheduled periodic reassessment of the benchmark. In periods of rapid or uneven inflation, more frequent recalibration or category-specific supplements may be warranted. A hybrid model could also retain targeted supplementary payments for circumstances not fully captured by a standard per-child allowance, including disability or complex needs, sibling placements,

establishment costs, high transport costs, regional or remote location, and adolescent education-related expenses.

5 | Discussion

This study provides an updated, data-driven analysis of the adequacy of OOHHC allowances for children in home-based foster, relative or kinship care in NSW, addressing the long-standing evidence gap since McHugh (2002) *Cost of Caring* study. Ensuring that carers receive financial support that accurately reflects the real costs of care is critical to the stability and quality of OOHHC placements, and consequently to the wellbeing and developmental outcomes of children in care.

Using quantile regression on representative survey data from 2006 to 2022, we found that real household expenditures for families with children rose by 23%–30% over this period, an increase driven by changes in budget allocation rather than inflation alone. This finding underscores that conventional CPI-based adjustments to OOHHC allowances are insufficient, as they fail to capture evolving expenditure patterns in Australian households. Without recognising these changes, carers risk being under-compensated by up to 30% compared with the true costs of providing quality care.

We also observed variation in household expenditure by geography and child age, with higher costs in major cities and cost spikes at ages 3 and 9 in 2022. These findings reinforce the need for differentiated and flexible allowance structures that respond to real-world cost pressures.

Two potential approaches were developed and recommended to adjust OOHHC allowances. Approach I, which updates the 2022 allowance using a HILDA-derived 'budget allocation index' before applying CPI for future years, seems to be a more practical and transparent method. This approach provides an empirically grounded baseline that can be updated periodically as new data become available.

Implementation matters for the effectiveness of any allowance reform. A higher and empirically recalibrated standard allowance may improve recruitment by reducing the financial risk of becoming a carer, and may improve retention by reducing the extent to which carers subsidise placements from their own resources. Long-term carers may particularly benefit because CPI-only indexation can gradually erode adequacy over time. New carers may require additional establishment payments because the early costs of a placement are often immediate and lumpy. Sibling groups also require careful treatment: while the allowance is paid per child, sibling placements may involve additional fixed costs and coordination demands that are not captured by a simple per-child benchmark. For this reason, an updated standard allowance should sit within a broader payment architecture that includes establishment payments, needs-based supplements and transparent reimbursement pathways.

Although our analysis is based on expenditure data from the general population, the framework proposed in this study offers a replicable, evidence-based and practical method for aligning OOHHC allowances with contemporary household spending patterns. We do note, however, that it would be ideal to have a dedicated, specialised

survey on OOHHC costs, administered annually to capture changing realities for carers, akin to an ongoing version of McHugh (2002) focus group methodology. This would, however, be costly to implement and unsustainable given the busy daily schedules of most carers. For this reason, our proposed approach leverages the existing HILDA survey, which contains information on household budget allocation, to update OOHHC allowances as a convenient and effective way to set a minimum bar/benchmark for carer allowance increases. Implementing our approach would strengthen the equity and long-term sustainability of the OOHHC system by ensuring carers are adequately resourced to provide safe, nurturing and developmentally supportive care.

A key limitation, however, is that HILDA represents general households with children rather than households caring for children in OOHHC. The analysis cannot observe child-level OOHHC characteristics such as trauma history, disability, special education needs, contact arrangements, juvenile justice involvement, placement history or number of previous placements. To the extent that children in OOHHC have higher and more complex needs than children in the general population, our estimates should be interpreted as a baseline for ordinary day-to-day expenditure rather than a complete measure of the cost of high-quality care.

Future research could apply the framework developed in this study to other CPI-indexed government payments, such as disability and carer-related benefits, to examine whether changes in household spending patterns similarly affect payment adequacy over time.

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Data Availability Statement

The data that support the findings of this study are available from Australian Data Archive. Restrictions apply to the availability of these data, which were used under license for this study. Data are available from <https://dataverse.ada.edu.au/> with the permission of Australian Data Archive.

Endnotes

¹In this paper, we focus on home-based out-of-home care (OOHC), specifically foster, relative and kinship care, which are the care arrangements eligible for the fortnightly allowance payment set by the Department of Communities and Justice in New South Wales.

²As of 1 January 2026, the NSW standard care allowance was increased by 20%, supported by \$143.9 million in additional funding in the 2025–2026 NSW Budget. The commissioned analysis on which this paper was based informed IPART's Final Report and the broader policy reform process.

³Major cities correspond to cities defined by ABS; regional areas correspond to inner and outer regional areas defined by ABS; remote areas correspond to remote and very remote areas defined by ABS.

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