

# Inland Revenue

## Information Release

### Submissions received on the Policy Framework for Debt to Government

September 2023

#### Availability

This information release will be made available on Inland Revenue's tax policy website at <https://taxpolicy.ird.govt.nz/publications/2023/2023-ir-debt-to-govt-submissions>

#### Documents in this information release

Submission number	Submitter
1	<a href="#">Citizens' Advice Bureaux New Zealand</a>
2	<a href="#">Family Finances Service Trust</a>
3	<a href="#">Financial Services Federation</a>
4	<a href="#">National Building Financial Capability Charitable Trust (FinCap)</a>
5	<a href="#">The Methodist Alliance</a>
6	<a href="#">National Collective of Independent Women's Refuges Inc</a>
7	<a href="#">Ngapuhi Iwi Social Services</a>
8	<a href="#">The Salvation Army</a>
9	<a href="#">SuperGrans Charitable Trust</a>

#### Additional information

Targeted external consultation on the draft debt to government framework ran from 28 February to 6 April 2023.

#### Accessibility

Inland Revenue can provide an alternate MS Word doc or HTML version of this material if requested. Please cite this document's title, website address, or PDF file name when you email a request to [policy.webmaster@ird.govt.nz](mailto:policy.webmaster@ird.govt.nz)

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19 April 2023

## A proposed framework for debt to government

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### Introduction

1. Citizens Advice Bureaux New Zealand | Ngā Pou Whakawhirinaki o Aotearoa (CAB) welcomes the opportunity to contribute to the departmental consultation on the proposed framework for debt to government.
2. CAB is a nationwide, and locally based, community organisation that provides a free, confidential, and independent service of information, advice, and advocacy. We help people know and understand their rights and responsibilities, to take steps to act on these, and to connect with additional community services they may need. Our service is delivered from over 80 locations around Aotearoa by over 2,000 trained CAB volunteers.
3. In the past financial year, amidst the ongoing challenges presented by COVID-19, our CAB volunteers assisted with over 250,000 client interactions across the range of issues that affect people in their daily lives. Each time a person seeks help from our service, we record anonymised details of their enquiry into a national database. This gives us unique information about the issues affecting people in communities nationwide. When we see that policies or laws are not working well for people, we act as a voice for positive social change.
4. For this submission, we have chosen to focus mainly on debt to the Ministry of Social Development (MSD), though some of our observations and recommendations also apply to debt to other government agencies.

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### Principles for creating and managing debt

The principles of fairness, and of minimising hardship

5. Given that most benefits – even with recent increases – do not meet the basic cost of living<sup>1</sup>, by definition, individuals and households dependent on benefits as their main source of income are in hardship. We ask; is it fair for people in hardship who need further financial assistance for covering necessities e.g. bond, power, white ware etc. to

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<sup>1</sup> Fairer Future, [‘What are Liveable Incomes in 2022: Discussion Paper and Methodology’](#), 2022.

have to take out loans from MSD for these things? Clearly, this exacerbates people's financial distress. We believe that a principle within our social welfare system should be that assistance for people on benefits and low incomes for covering the costs of necessities should not place recipients into (or further into) debt.

6. We also believe that the principle of hardship should have the goal of helping to prevent - rather than minimise - hardship. This should be a goal of government and of our welfare system, and fundamental to the approach to debt to government for those on income support and low incomes.
7. We therefore recommend the following wording change for the hardship principle:

*Preventing hardship -*

*The creation of a debt in the first instance, as well as the terms of its repayment should not place people into hardship or exacerbate existing hardship. Agencies should administer financial assistance and debt in a way that is appropriate for the individual's circumstances as a whole. This means not seeking to recover grants for necessities which cannot be afforded out of the recipient's income, and considering whether taking on further debt for other costs will have a negative impact on that person or their dependants.*

The principle of behavioural responses

8. The context for this framework is that people on income support and low incomes are struggling because their income does not cover all basic expenses and so often their only option is to incur debt to allow them to cover these needs. Or people may find themselves in debt from overpayments due to the complexity of the system and their difficulty in understanding and navigating it, poor communication by the government agency on individuals' obligations, time delays in processing client information, and administrative errors. In our experience, the vast majority of people are not incurring debt to government "because they expect not to have to repay it" but because they had no choice of avoiding the debt. While we agree that the system should not lead people towards taking on unsustainable debt or running up debt inappropriately, our view is that applying the aim to "incentivise positive behaviours" within this principle is not necessary or appropriate for most debtors.
9. The key issue we see through our work with clients is not a need for incentivising certain financial behaviours of individuals and whānau, but rather addressing the government policy and practice which leads low income people into debt and financial distress in the first place - in particular, in relation to insufficient income support levels, the use of recoverable support (loans) - as opposed to non-recoverable grants - for necessary expenses that cannot be covered by existing income, and unfairly placing the costs of

system issues (such as those described above) onto individuals and whānau - who are least equipped to shoulder that burden.

10. To avoid the potential risks alluded to under this principle in terms of people running up debt inappropriately, we believe that the hardship principle in fact already addresses this in relation to the provision of financial assistance e.g. in requiring that the administration of debt is done “in a way that is appropriate for the individual’s circumstances as a whole, including whether taking on further debt will have a negative impact on that person or their dependants.”
11. Therefore, we ask that income support is not highlighted in this principle, the example of write-offs or policies relating to recoverable versus non-recoverable support is removed, and the principle is balanced by including the need to consider wellbeing.

### **Purpose-centred approach**

The types of debt owed to government

Intentional non-compliance -

12. While we understand that intentional non-compliance can occur, we also know that the proportion of debt to government which is incurred in an intentionally dishonest way is extremely low. We are concerned that there is an outsized focus on this issue in New Zealand politics (and therefore in the media and public discourse) - a focus we believe to be driven by political expediency and which plays into ignorance and prejudice. These attitudes should not be allowed to drive government policy, especially within this context where the majority of those affected are people living in hardship.
13. With regards to “non-compliance” what we most commonly see within our service is overpayments that have occurred when overly complex and poorly explained government processes and systems interact with changing circumstances eg changes in employment, accommodation, and child support, leading to the creation of hidden debts that are then clawed back much later. In our view, this is a key area where progress could be made by government ie through clearer and more coordinated cross-government processes and systems that avoid overpayments of benefits and tax. We see that there is far more to be gained by focusing on these matters than there is by focusing on individual behaviour for the purposes of addressing intentional non-compliance. We would therefore counsel that caution should be applied to implementation of the debt framework, to ensure that it does not reflect an outsized focus on intentional non-compliance.

Recommended arrangements for creating and managing debt

Other policy factors to consider -

Creation of debt

14. It is our view that additional financial assistance for people in hardship - those on income support and on low incomes that do not meet basic expenses - not take the form of recoverable grants (loans). The current system of recoverable grants for such expenditure is placing people who are already in hardship deeper into poverty and a cycle of debt from which it is difficult to escape. If there is no change to the approach to grants within the welfare system, (or to ensuring sufficient levels of income support in the first place), this will limit the effectiveness of other measures within this proposed framework as means for providing relief for people and helping them to move forward in life.
15. We therefore recommend as an addition to the policy factors listed in the proposed framework the inclusion of:

*Creation of debt -*

*What government financial assistance should take the form of recoverable versus non-recoverable grants? Is it appropriate for government to claw back grants for necessary expenditure from people on incomes that do not cover all basic costs?*

Communication to individuals and whānau

16. We see the impacts on families of the debt incurred from over payments for Income Support and Working for Families. Typically, the clients we see who have been overpaid did not realise this was happening nor do they understand why it has happened, and the notification comes as a shock. Most of these families are only just getting by and an unforeseen debt like this – which for many of these clients runs into the multiple thousands of dollars – brings with it the prospect of ongoing financial stress.
17. For example, we see clients on Working for Families Tax Credits who thought that Inland Revenue automatically knows when they have a change in income because they are paying tax on their income and IR has all of their wage and salary information. They have therefore not understood IR must be notified of a change in their family income. This means some families are overpaid for substantial periods of time, resulting in large debts when the overpayments are finally discovered.
18. Our experience with clients suggests that information about obligations to inform agencies when circumstances change is not always getting through and that (i) more could be done to ensure people are aware of and understand their obligations, including through multiple channels that include person-to-person and face-to-face

communication, and (ii) treatment of debt must include consideration of whether obligations have been communicated effectively. We note that para 4.20 in the proposed framework alludes to the communication problems that exist within current systems.

19. We therefore recommend as an addition to the policy factors listed in the proposed framework the inclusion of:

*Communication -*

*How well are agencies communicating with individuals and whānau about their obligations to notify agencies of changes in their circumstances which may impact their entitlements? Are agencies taking a proactive, multi-channel, plain language approach to communication to ensure people are aware of and understand their obligations?*

Recommended treatments

Recommended treatments for overpayments of government support -

20. We agree that a lower threshold for write-offs is appropriate, especially where repayments will undermine income adequacy. We agree that write-off should be the default response if over-payment is due to administrative error - but would add it should also be the default response if (i) recipients' obligations were not communicated sufficiently to ensure their awareness and understanding of their obligations ie not communicated proactively and directly to the recipient, in a timely way, via multiple channels using plain language, or (ii) the individual receives income support or is on a low income that does not cover basic expenses.
21. For overpayments that are not written off, we agree that interest should not be charged, ability to pay is the key consideration for the timespan of the repayment, and penalties should not generally be applied.

Recommended treatment for loans or repayments for services provided or funded by the Crown -

22. We refer to points made previously in this paper regarding the appropriateness of providing additional financial assistance as recoverable grants (loans) for people on income support or on low incomes that do not cover basic expenses. These are people who are in hardship. It is our view that it is not ethical for additional financial assistance that is compensating for lack of adequate main income to be made in the form of recoverable grants (loans).
23. For other additional financial assistance, we agree that charging interest is inappropriate

for lower income households, and we believe that timespan for repayment should be extended or deferred if to do otherwise would cause or exacerbate hardship, that write-offs are appropriate in cases of hardship, and we agree that where hardship exists it may be appropriate to write off penalties.

### **Person-centred approach**

#### Assessing hardship

24. In terms of establishing methods for assessing financial circumstances and ability to meet repayments, the work of the Fairer Future collaboration will be of use here.<sup>2</sup> In 2022, Fairer Future released its analysis of income support rates against the cost of living, using the [Beneficiary Household Living Cost Price Index](#). The data showed that, even after increases to income support in April 2022, 12 of the 13 households modelled would receive less income than they needed to cover their basic costs.<sup>3</sup> If even low repayments of debt are factored in, none of the 13 households would be able to meet their costs.<sup>4</sup> For some households, the average weekly deficit was in excess of \$300.<sup>5</sup>
25. We expect that with the inflationary and cost of living increases that have occurred since that time - even factoring in the further increases that have been made to state financial assistance over the period - the deficits are likely to be greater (and to continue to grow). The data suggests to us that it should be taken as read that if a household's main source of income is income support, the household is in hardship.

### **Other measures**

#### Wiping debt to the Ministry of Social Development

26. The questions this consultation addresses highlight the unfairness and inequities of the welfare system - the way that debt is created and treated within this system by the state, and the impacts on people's lives of the debts people are currently carrying. It is our position that the debt framework should be implemented hand-in-hand with the wiping of debt owed to MSD. This would reduce hardship, provide some justice for the many whose debts have arisen from inadequate support and system failings, and it would maximise the impact this framework can have.
27. Debt to the Ministry of Social Development is a particularly heavy burden for the population, with around 461,000 people - or almost 1 in 10 of the population - owing

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<sup>2</sup> [Fairer Future](#) is a network of community organisations advocating for liveable incomes for all, and CABNZ is a member of the network.

<sup>3</sup> Fairer Future, [Liveable incomes in 2022](#), 2022, p.1

<sup>4</sup> Ibid

<sup>5</sup> Fairer Future, [Liveable incomes in 2022](#), 2022, p.9

debt to MSD as of 2020, with an average debt per household of over \$3,500 (and these figures are likely to now be higher).<sup>6</sup> Behind these figures are real people whose lives and futures are being impacted negatively by the debt and who are feeling, as the Fairer Future 2023 report on debt observes, “the shame, the stress, the pain of not being able to provide for loved ones, the feeling of being weighed down.”<sup>7</sup>

28. As pointed to earlier in this paper, much of that debt has been unfairly placed on people, through overpayments that have occurred as a result of unclear communication from the government agency, delays in processing client updates when circumstances have changed, or administrative error, and through recoverable grants (loans) that are made as a result of people’s incomes being insufficient to cover basic costs. However, as the Fairer Future report on debt observes, apportioning responsibility for the creation of debt [particularly in relation to overpayments] is a complex exercise.<sup>8</sup> As the report recommends, “it would be administratively simpler, and beneficial for all involved, for the government to wipe all debt owed to MSD, acknowledging the hardship faced and enabling a fresh start for those dealing with overpayments or attempting to repay recoverable financial support.”<sup>9</sup> In terms of how this can be done, we point you to the Fairer Future debt report for further detail.<sup>10</sup>

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Thank you for the opportunity to respond to the proposed framework for debt to government. Please don’t hesitate to get in touch with any questions you may have in relation to our submission.

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<sup>6</sup> Cabinet Social Wellbeing Committee, ‘Reducing the Impact of Debt to Government for People in Hardship’, 12 November 2021 (proactively released by DPMC), at Appendix 2.

<sup>7</sup> Fairer Future collaboration, ‘[Lifting the Weight: A Fairer Future Report on Experiences of Debt Owed to the Ministry of Social Development](#)’, 2023, p.25.

<sup>8</sup> Ibid, p.27.

<sup>9</sup> Ibid

<sup>10</sup> Fairer Future collaboration, ‘[Lifting the Weight: A Fairer Future Report on Experiences of Debt Owed to the Ministry of Social Development](#)’, 2023.





**Family Finances Service Trust – Upper Hutt**

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6 April 2023

Submitted via: [debttogovernment@IR.govt.nz](mailto:debttogovernment@IR.govt.nz)

A proposed framework for debt to government  
 Inland Revenue, Te Tari Taake  
 Wellington

RE: Letter of Support for FinCap's Submission responding to A proposed framework for debt to government

We support the FinCap submission in response to the proposed framework for debt to government. We support this because the whānau we work with regularly face challenges with inconsistent process for the creation and collection of debt to government; they are often already in financial hardship; and the lending processes often sit outside what is deemed responsible lending under the CCCFA. We see huge cost to our clients, both monetary and emotional from debt to government where there is power imbalance, no ability to communicate / negotiate a debt and sometimes a lack of understanding from the operators about what the debt is for.

A particular example from our service is where a prisoner was considering Bankruptcy, but we needed to find out what their MSD debt was (how much and what type). The information provided by their local W&I branch advised the debt was over \$70 000 but could not verify if it would be included in Bankruptcy. Upon checking with a contact through the Insolvency & Trustee Service (ITS) we were able to establish that the debt was just over \$13 000, and all included in Bankruptcy. This raises alarm bells at the level of understanding of the internal reporting tools, but also a concern that prisoners must pay old government debt after serving a lengthy sentence.

Other concerns are when dealing with IRD – there is no real way for Financial Mentors / Budget Advisors to assist clients. A recent client has submitted an appeal against her outstanding income tax (she had incorrectly declared income that was actually her own money coming from an investment in South Africa) with our assistance, and including me becoming an agent, yet she still received an overdue payment reminder while she was in hospital post knee surgery. With other creditors we would be contacting the Commerce Commission to complain about the length of time to respond and the harassment while under review.

Finally, being under financial hardship costs our community. When parents are spending their money paying W&I back for essentials, it means their children miss out on other opportunities. Most people are trying to do their best, and when we operate under a punitive model, there seems little point in trying. Just like when you only punish a child, they are unlikely to excel, we need to find a carrot approach to resolve government debt for our people.

Ngā mihi

Heather Lange  
 Manager and Financial Mentor / Budget Advisor



## FINANCIAL SERVICES FEDERATION

6 April 2023

Debt to Government consultation  
Inland Revenue Department

By email: [debttoenvironment@ird.govt.nz](mailto:debttoenvironment@ird.govt.nz)

The Financial Services Federation (FSF) is grateful to the Inland Revenue Department (IRD) for providing us with the opportunity to reply to the consultation paper: A proposed framework for debt to government. We note that the consultation paper was released in February, however, we have only become aware of its existence since 3 April and consultation closes on 6 April.

This consequently allows a very tight timeframe for developing our response to the consultation and, as a result, less opportunity to obtain feedback from our members than would be ideal for a matter as important as this one.

We also note that the consultation paper requests feedback from agencies and community groups. Given that the consultation paper seems to refer to “agencies” as being those government agencies that provide debt, and community groups are presumably those who assist individuals to manage their debt and their relationship with creditors, it appears to the FSF that an important sector whose perspective on the consultation might be pertinent and of interest to officials, has been omitted.

By way of background, the FSF is the industry body representing responsible and ethical non-bank lenders operating in New Zealand and these include providers of finance to consumers and businesses, fleet and asset leasing providers, and credit-related insurance providers. We have over 90 members and affiliates providing these products to more than 1.7 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society, and business is attached as Appendix B.

You will see from Appendix A that the FSF also has among its membership a number of debt collection agencies, some of whom are already contracted to government agencies from time to time to assist them in recovering debt.

Prior to answering the questions posed in the consultation paper, the FSF would like to start by saying that our members take their obligations to responsibly provide access to credit to consumers very seriously. As you will be aware the legislation that governs the way in which

consumer credit is provided in New Zealand – the Credit Contracts and Consumer Finance Act 2003 (CCCFA) – underwent a significant overhaul which resulted in substantial changes to the Act itself, new regulations governing such areas as the way in which assessment of loan suitability and affordability is carried out, and an updated Responsible Lending Code to give guidance to lenders as to how they meet their added responsibilities under this legislation – all of which came into force with effect from 1 December 2021.

The amended legislation also provides for very significant penalties to be applied to the senior managers and directors of lenders who are found to be in breach of their obligations under the CCCFA. These cannot be insured against or indemnified in any way and this is further strong incentive – apart from the need to ensure that consumers are not provided with unaffordable debt (which, apart from being unethical, is unsustainable from a business perspective) or debt which might place the borrower into substantial hardship – for lenders to ensure that they make the best possible decisions with respect to approving or declining loan applications.

The regulations specifying the way in which lenders are required to assess that the loan will be affordable to the borrower without them suffering substantial hardship are particularly prescriptive and onerous on the lender. Lenders will therefore do everything they can to understand the borrower's individual situation including the consideration of all existing debt commitments the borrower already has. Lenders will complete credit checks through one or other of the three credit reporting agencies operating in New Zealand: Equifax, Illion and Centrix – all of whom are also Affiliate members of the FSF.

However, these credit checks cannot provide a complete picture of the indebtedness of all borrowers because debt to government is not reported to the credit reporting agencies. Therefore, lenders are not able to take into account all the debt a large number of borrowers might already have if debt to government is not proactively disclosed.

The FSF therefore strongly believes that debt to government should be being reported to a credit reporting agency in order that all lenders (including the banks) can make fully informed decisions as to the affordability of a loan to a particular borrower as they are in possession of the full facts of individual borrowers' indebtedness.

This would alleviate the possibility of lenders providing credit to borrowers when not in possession of the full facts relating to their indebtedness that, if approved, could place the borrower in a position of substantial hardship.

Further, the FSF applauds government for considering appropriate ethical principles for the responsible collection of debt to government, the framework suggested in the paper is not sufficiently specific or clear as to exactly it is proposed that the framework will work in practice. A lot of work is required to correctly match data and categorise a debtor as to whether they have the ability to repay debt, or not, or whether they are just not willing to repay it. Time and experience in the science of debt collection is required to determine what category a debtor falls into and consequently how the individual debtor needs to be treated.

To this point, the FSF is surprised that the principles for managing debt do not create an explicit expectation that debt owed to the Crown is paid. There should be a clear expectation for those that can meet their commitments to government do so. The consultation paper includes appropriate detail on how those who cannot pay their debt should be treated under hardship, but is light on detail as to the expectations of those who can pay their debt but do not actually do so.

The FSF notes that there is an overall lack of detail in the consultation paper with respect to how the framework is actually proposed to work. For example it does not specify that the granting and taking on of debt should be a contractual arrangement between the government and the debtor. It would seem to the FSF that this should be made clear and that contractual terms should be applied consistently across all types of government debt.

The FSF will now turn our attention to the matters raised in the consultation paper itself.

The FSF notes at para 1.8 of the consultation paper that one of the suggestions of the Tax Working Group was to establish 'a single centralised Crown debt collection agency' as a possible solution to the lack of clarity or inconsistency from the perspective of an individual with debts to multiple agencies. The FSF can certainly see benefits to such individuals in a consistent approach being applied with respect to debt across multiple government agencies, but the FSF questions whether in fact the government should be in the business of debt collection at all.

It would seem to the FSF that the government should be in the business of providing services to New Zealanders and therefore serious consideration should be given to outsourcing the debt collection activities of all government agencies to specialist debt collection agencies who could have a picture of all the debt to government of each individual and apply a consistent approach to the collection of such debt. This would ensure the implementation of the framework proposed in the summary of proposals in paras 1.11 and 1.12.

The FSF strongly advocates to government that the outsourcing of debt collection activities with respect to government debt be seriously considered to achieve consistency in the handling of debt to government. This approach would save the government from having to replicate the expertise and systems that already exist in the private sector but which does not currently exist within government agencies. Specialist debt collection agencies have trained staff; systems and technology; the ability to recognise, understand and manage situations where debtors may be in hardship; expertise in drawing up contracts to ensure appropriate disclosure to debtors; and many other areas of expertise that does not naturally sit within government agencies at present.

With respect to the questions posed in the consultation paper, the FSF offers the following answers.

- **Do you have any comments on the principles as outlined?**

The FSF believes that the principles outlined in para 2.3 of the consultation paper seem reasonable but agrees with the assertion that they may sometimes conflict and might need to be traded off against one another.

However, the FSF is concerned that the principle of minimising hardship may not be achievable. Whilst we would agree that, as far as possible, the creation of a debt in the first instance as well as the terms of its repayment should not place people into hardship or exacerbate existing hardship, is certainly a laudable principle, it could practically be very hard to achieve with respect to debt to government. As an example, debt provided by the Ministry of Social Development (MSD) by way of emergency support would only be provided in circumstances where the individual was already in financial hardship and therefore it could be said that, from the outset, it would exacerbate existing hardship.

Given that, in such circumstances and others that are similar, it would be impossible to avoid hardship, it might be better in the FSF's view to delete the principle with respect to minimising hardship. A better way to include such a principle could be to require government agencies to have regard to minimising hardship wherever possible.

The FSF agrees with the remaining principles as outlined in the consultation paper but refers to the comments made above with respect to the fact that the FSF does not believe that government agencies should have as part of their core business the business of debt collection and that this should be outsourced to agencies who are experts in the field. This would ensure that the principles of public value and transparency in particular are achievable.

- **Do you agree with the concept of principles?**

The FSF agrees with the concept of principles as representing overarching values that apply generally to all categories of debt.

- **Have we described the principles accurately in your view? If not, how would you reframe them?**

Please refer to the answer provided to the first question above.

- **Do you have any comments on the different kinds of debt, their different purposes, and different treatments?**

The FSF questions why MSD debt provided through Work and Income NZ (WINZ) in the form of recoverable assistance or benefit advances is not included in the categories of debt that can be owed to government. Without having access to relevant figures, it would be safe to assume that the amount owed by way of such assistance or advance is significant. It would be particularly helpful to lenders to be able to access information about the level of a person's indebtedness under this type of debt in the same way as lenders are able to do with outstanding penalties or infringement information through the Ministry of Justice (MoJ).

As mentioned previously, this could be achieved by way of a requirement that government debt be reported to the three credit reporting agencies in the same way as other consumer

debt is currently. This would allow all lenders access to the full picture of a person's indebtedness at the time of applying for further credit and lead to more informed lending decisions and consequently less potential harm to consumers, particularly those in more vulnerable circumstances.

- **Are the right categories identified?**

Please see the answer to the previous question.

- **Are there other policy factors that should be considered?**

The FSF commends the work by officials in considering the recommended treatments for each category of debt in para 3.2 of the consultation paper, however, believes that there should be clear guidance as to the adding of costs to the debts, when default listings should occur, when and what legal action should be taken for each category of debt, what further support should be provided to debtors, when additional rights the government may have are to be utilised etc.

The government has extra powers afforded in some legislation that are not afforded to the private sector, for example. These include a right to an attachment order without a Court judgment, tax offsets and travel restrictions as examples. Those rights should also be considered within the policy factors for each debt category, particularly when considering the action to be taken in the case of debtors who can pay but who will not.

- **Do you have any feedback on the recommended treatments?**

Again, the FSF believes that the recommended treatments for each type of debt have been well considered by officials (notwithstanding the fact that the FSF also believes that MSD recoverable assistance or benefit advances should be included as a debt class of its own as previously stated).

However, the FSF has one question with respect to when or if interest should continue to be charged in the event that the individual is in hardship or is unable to meet the agreed repayment schedule. Compounding interest can lead to a person already in hardship being put in a worse position that becomes very hard for the individual to get out of and consideration should be given to at what point the government would be comfortable with ceasing the charging of interest on a compounding basis for each class of debt outlined in the consultation paper.

The CCCFA requires that lenders cannot continue to charge interest and fees once recovery action has been commenced to avoid the compounding of interest and it seems to the FSF that consideration should be given to applying similar boundaries here to avoid worsening an existing hardship situation.

- **Is it easy for debtors to understand what they owe, and to who?**

The FSF agrees with the 'person-centred' approach proposed in the consultation paper that places the individual and their whanau at the centre of decision-making when debts are created or collected. This would obviously require that debtors clearly understand what they owe and to whom.

The consultation paper does not touch on the disclosure requirements with respect to the key information that should be provided to debtors when they incur government debt and suggests that officials look to the disclosure requirements of the CCCFA as a model for the way in which disclosure of important information such as how much is owed, to whom, the applicable rate of interest, term of the loan, repayment amount etc, should be made.

Further, the FSF reiterates our earlier point that we believe that debt to government should be reported via credit reporting agencies. This would appear to be exactly in line with a 'person-centred' approach which places the individual and their whanau at the centre of decision-making. This is because without understanding the debtor's entire financial position, no-one (including government) can make an informed decision relating to an individual's financial position.

The FSF believes that both the government and private sector lenders should have access to information about a person's full indebtedness in order to make the best possible lending decisions. Not doing so can lead to debtors obtaining credit they are unable to manage impacting their ability to repay and placing them in hardship from the outset.

The FSF understands that government quite rightly could have some privacy concerns with respect to reporting government debt via a credit reporting agency but one way to appease these would be for total crown debt to be reported in a single figure (or even two consolidated figures – government debt being paid and government debt not being paid).

A further consideration with respect to the reporting of government debt to credit reporting agencies is that the Credit Reporting Privacy Code overseen and enforced by the Office of the Privacy Commission governs the way in which credit reporting agencies operate in New Zealand. It allows for both the reporting of negative credit information about a person (arrears, defaults, judgments, etc.) and the reporting of positive credit information about a person's repayment history etc. Positive credit reporting (or comprehensive credit reporting) information can significantly enhance a person's credit score if they are meeting their commitments to creditors and therefore a person's positive repayment record with respect to government debt should allow them to take advantage of this.

- **Are minimum debt repayment amounts typically set at manageable levels?**

Given the proposed 'person-centric' approach, it would be hoped that debt repayment levels would be set at manageable levels taking into consideration the individual's circumstances including their existing fixed expenses and commitments including rent, food, power, phone, other existing debt commitments etc.

Again, the FSF refers officials to the requirements of the CCCFA with respect to the assessment of affordability as a means to ensure that debt repayment amounts are set at manageable levels for the individual concerned.

- **How easy is it for debtors to negotiate for hardship relief?**

In the FSF's experience, it is often not an easy process for debtors to negotiate for hardship relief on their own behalf. There are often feelings of shame with respect to the debt itself or the need to request hardship relief. There may be a lack of awareness that a hardship

process exists, or it may be that some people choose to ignore their debt until it becomes unmanageable.

In any event, the process to apply for hardship relief should be made as easy as possible. Again, the FSF stresses the need for people experienced in managing debt and assessing hardship requests to be involved in this process or even to run the process on behalf of government. Once again, the FSF submits that this is not core government expertise and reiterates the view that the framework should be being managed by specialist debt collection agencies whose staff are trained and expert in recognising signs of hardship and sensitively managing it on an individual basis.

Outsourcing agreements could include an appropriate remuneration structure that incentivises the identification of hardship and adherence to the principles of the framework with the ability for the government to change the debt collection contractor if this is not found to be the case.

The FSF sees the Tax Working Group's suggestion outlined in para 1.8 of the consultation paper to establish 'a single centralised Crown debt collection agency' as being the next best possible way to ensure a consistent and empathetic approach to people with debt to government if the suggestion that recovery of government debt be outsourced to specialist debt collection agencies is not taken up.

The FSF believes that an All of Government approach to debt collection should be the goal to ensure consistency of approach towards debtors. This does require specialist advice and continuously improved tools to get it right. To ensure that debt collection methods remain socially responsible, the government needs to consider processes and tools such as robotic process automation, machine learning, artificial intelligence, psychology and data security and frankly, the FSF does not believe the government is an expert in these fields, so it is imperative that government takes advice from experts skilled in the use of such technologies.

The FSF notes under para 4.4(d) the fact that consideration should be given to when it might be appropriate to refer debtors to financial capability support services or other services that might support households in hardship or at risk of hardship. The FSF has had a Memorandum of Understanding in place with FinCap, the national umbrella group for financial mentors in New Zealand and the lead agency for the MoneyTalks support service, for a number of years.

Through this MoU, and now as a requirement in the CCCFA, FSF members have proactively referred their customers to the support provided by FinCap mentors and the MoneyTalks helpline service whenever a borrower is exhibiting signs of repayment difficulties. The earlier in the process the referral is made the better the outcome for both borrower and lender and the FSF fully supports the provision of such support for individuals with debt to government.

The FSF believes that either outsourcing the recovery of debt to government to suitably trained and experienced agencies or setting up a single centralised Crown debt collection agency staffed with people who have expertise and experience in the sensitive handling of



people with problem debt together with an existing close working relationship with the FinCap financial mentor network and the MoneyTalks helpline is the best way to ensure the goal of a 'person-centred' approach is achieved.

The FSF sees a real risk that the time it would take for government to internally develop the systems and capability and resources required to manage debt to government will cause short to medium term deterioration in the outcomes for those people the framework is designed to help.

- **What kinds of supports are most effective for people with persistent debt?**

The key to ensuring that people are not put in a position where they have persistent debt that can rapidly become unmanageable would be to apply a CCCFA lens to the affordability of the debt in the first place. This should take into consideration all existing financial commitments and outgoings including existing debt that will not be repaid by the provision of government debt or advances.

Apart from the CCCFA providing a framework for the way in which debt affordability assessments should be carried out, it also seems to the FSF that in the interests of meeting the underlying principle of fairness for the overall debt to government programme, the Crown's approach to providing debt should meet the same obligations as are imposed on the public sector.

The FSF also believes that in the spirit of fairness, private sector lenders should be given access to information about the government debt a person is liable for through a credit check with a credit reporting agency so that they also have a full picture of a prospective borrower's full indebtedness in order to be able to make a more informed lending decision.

Once a loan has been provided, however, it is not uncommon for a person's circumstances to change due to relationship breakdown, loss of work or hours or work, illness, homelessness or a number of other factors. This is why there needs to be a robust hardship process for the management of government debt that is run by people experienced in managing these customer relationships and a process in place for people with persistent debt to be able to access appropriate financial mentoring assistance as previously mentioned.

- **What changes would you like to see to the way that the government manages debts, particularly debt owed by low-income households?**

The FSF considers that this is dependent on the type of debt owed and the circumstances of the individual debtor. Arguably people accessing debt through MSD's recoverable assistance or benefit advances are more likely to be people from low-income households who access this type of assistance often as a last resort because they are ineligible to access credit from other sources, particularly since the tightening up of the CCCFA regime in December 2021. Serious consideration needs to be given to how or even if these debts are likely to be repaid when they are being applied for and a very sympathetic approach needs to be applied to people in this situation.

Different circumstances and processes might apply for people with government debt in other scenarios who may not be people from low-income households such as those who

have government debt by way of fines or penalties or tax arrears for example. Certainly the FSF believes that, if people have the ability to repay debt, the government should vigorously ensure that they meet their commitments.

- **Should there be non-monetary options for paying down fines or debt? How could this work? What potential benefits or risks do you see with this idea?**

The FSF notes that para 4.19 of the consultation paper suggests that non-financial penalties could be applied where an agency has the discretion to do so but it is not clear as to what these non-financial penalties might look like. It is therefore difficult to consider non-monetary options when none have been provided.

The FSF promotes a responsible and sympathetic approach to the management of debt particularly when a borrower is experiencing hardship or vulnerability. However, the FSF cautions that there are always people who try to exploit this sympathetic approach to avoid the repayment of debt they owe and could reasonably be expected to repay. There is a high level of skill built from years of experience in judging circumstances where the borrower is genuine and others where the person is trying to avoid their responsibilities. This is why the FSF is particularly keen to see that any government debt recovery operation is run by people with the necessary skills and experience to make such judgement calls.

**Impact of the framework on affected population groups:**

The FSF understands that some population groups are significantly impacted by debt including the groups outlined in para 5.1 of the consultation paper. The FSF also agrees that any framework for the recovery of debt to government should be appropriately sensitive to the way in which it interacts with these diverse population groups.

**Next steps:**

The FSF notes once again that we have come to this consultation very late in the piece and apologises for the somewhat rushed submission that has resulted from this. The very tight timeframe has allowed us to have very limited consultation with our members although we have targeted specific groups of the membership for feedback such as debt collection agencies and credit reporting agencies who we believe would be most interested in being part of this consultation process.

The FSF believes that more work needs to be done on the detail of the framework and how it will actually work in practice before it is adopted by Cabinet as a policy tool. The FSF would be interested in providing further assistance by being part of that development work.

Thank you again for the opportunity for the FSF to submit on this consultation. Please do not hesitate to contact me if I can provide any further information or input.



Lyn McMorran  
EXECUTIVE DIRECTOR



Appendix A

**FSF Membership List as at March 2023**

Non-Bank Deposit Takers, Specialist Housing Lenders, Leasing Providers	Vehicle Lenders	Finance Companies/ Diversified Lenders	Finance Companies/ Diversified Lenders, Insurance Premium Funders	Credit-related Insurance Providers/ Affiliate Members	Affiliate Members <u>incl</u> Credit Reporting, Debt Collection Agencies
<p><b>XCEDA (B)</b></p> <p>Finance Direct Limited ➤ Lending Crowd</p> <p>Gold Band Finance ➤ Loan Co</p> <p>Mutual Credit Finance</p> <p><u>Credit Unions/Building Societies</u></p> <p>First Credit Union</p> <p>Nelson Building Society</p> <p>Police and Families Credit Union</p> <p><u>Specialist Housing Lenders</u></p> <p><u>Basecorp Finance Limited</u></p> <p>Liberty Financial Limited</p> <p>Pepper NZ Limited</p> <p>Resimac NZ Limited</p> <p><u>Leasing Providers</u></p> <p>Custom Fleet</p> <p>Euro Rate Leasing Limited</p> <p>Fleet Partners NZ Ltd</p> <p>ORIX New Zealand</p> <p>SG Fleet</p>	<p>AA Finance Limited</p> <p>Auto Finance Direct Limited</p> <p>BMW Financial Services ➤ Mini ➤ <u>Alpha</u> Financial Services</p> <p>Community Financial Services</p> <p>Go Car Finance Ltd</p> <p>Honda Financial Services</p> <p>Kubota New Zealand Ltd</p> <p>Mercedes-Benz Financial</p> <p>Motor Trade Finance</p> <p>Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance</p> <p>Onyx Finance Limited</p> <p>Scania Finance NZ Limited</p> <p>Toyota Finance NZ ➤ Mazda Finance</p> <p>Yamaha Motor Finance</p>	<p>Avanti Finance ➤ Branded Financial</p> <p>Basalt Group</p> <p>Blackbird Finance</p> <p>Caterpillar Financial Services NZ Ltd</p> <p>Centracorp Finance 2000</p> <p>Finance Now ➤ The Warehouse Financial Services ➤ SBS Insurance</p> <p>Future Finance</p> <p>Geneva Finance</p> <p>Harmony</p> <p>Humm Group</p> <p>Instant Finance ➤ Fair City ➤ My Finance</p> <p>John Deere Financial</p> <p>Latitude Financial</p> <p>Lifestyle Money NZ Ltd</p> <p>Limelight Group</p> <p>Mainland Finance Limited</p> <p>Metro Finance</p>	<p>Nectar NZ Limited</p> <p>NZ Finance Ltd</p> <p>Personal Loan Corporation</p> <p>Pioneer Finance</p> <p>Prospa NZ Ltd</p> <p>Smith's City Finance Ltd</p> <p>Speirs Finance Group(L &amp;F) ➤ Speirs Finance ➤ Speirs Corporate &amp; Leasing ➤ Yoogo Fleet</p> <p>Turners Automotive Group ➤ Autosure ➤ East Coast Credit ➤ Oxford Finance</p> <p>UDC Finance Limited</p> <p><u>Insurance Premium Funders</u></p> <p><u>Elantis Premium Funding NZ Ltd</u></p> <p>Financial Synergy Limited</p> <p>Hunter Premium Funding</p> <p><u>IQumulate Premium Funding</u></p> <p>Rothbury Instalment Services</p>	<p><u>Credit-related Insurance Providers</u></p> <p>Protecta Insurance</p> <p>Provident Insurance Corporation Ltd</p> <p><u>Affiliate Members</u></p> <p>Buddle Findlay</p> <p>Chapman Tripp</p> <p><u>Credisense Ltd</u></p> <p>Credit Sense Pty Ltd</p> <p>Experian</p> <p><u>Experieco Limited</u></p> <p>EY</p> <p>FinTech NZ</p> <p>Finzsoft</p> <p>Happy Prime Consultancy Limited</p> <p><u>Landscape Ltd</u></p> <p><u>Loansmart Ltd</u></p> <p>KPMG</p> <p>LexisNexis</p> <p>Motor Trade Association</p> <p>PWC</p> <p>Simpson Western</p>	<p><u>Credit Reporting, Debt Collection Agencies,</u></p> <p>Baycorp (NZ)</p> <p>Centrix</p> <p>Credit Corp</p> <p>Debt Managers</p> <p>Debtworks (NZ) Limited</p> <p>Equifax (prev Veda)</p> <p>Gravity Credit Management Limited</p> <p>IDCARE Ltd</p> <p>Illion (prev Dun &amp; Bradstreet (NZ) Limited</p> <p>Quadrant Group (NZ) Limited</p> <p>Total 90 members</p>



FINANCIAL SERVICES FEDERATION (FSF)

## THE NON-BANK FINANCE INDUSTRY SECTOR - 2022



# 48%



of personal consumer loans are financed by the **non-bank sector** represented by FSF members.

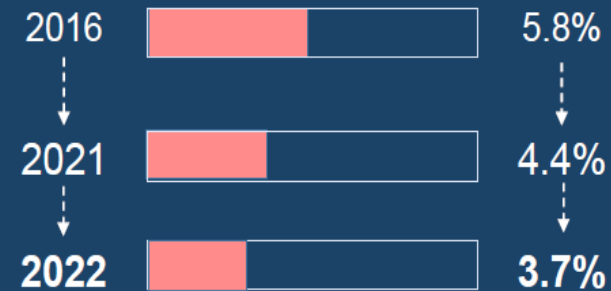
*Setting industry standards for responsible lending, promoting compliance and consumer awareness.*

### Percent of Loan Requests Approved

## 46%



### Percent of Loan Book in Arrears



# KEY FACTS: THE NON-BANK FINANCE INDUSTRY SECTOR

## FSF Members (as at 28 Feb 2022)

Number of Members	57
Number of Employees	3,561
Applications Processed	1,085,739
Loan Requests Approved	495,434
Percent of Loan Book in Arrears	3.7%

## Bank Sector (as at 28 Feb 2022)

Value of Mortgage Loans	\$329B
Value of Consumer Loans	\$7.6B
Value of Business Loans	\$118B

## Non-Bank Sector Share (as at 28 Feb 2022)

% of Total Mortgage Loans	0.4%
% of Total Consumer Loans	47.7%
% of Total Business Loans	5.9%

## Insurance Credit Related (as at 28 Feb 2022)

Number of Employees	237
Number of Policies	311,409
Gross Claims (annual)	\$27.2M
Days to Approved Claim	20 days

## Consumer Loans (as at 28 Feb 2022)

Total Value of Loans	\$8.1B
Number of Customers	1,699,683
Number of Loans	1,584,984
Monthly Instalments:	\$330M

### Average Value of Loan:

Mortgage	\$171,932
Vehicle Loan	\$12,393
Unsecured	\$2,467
Other Security	\$5,754
Lease Finance	\$2,804

### Average Monthly Instalment:

Mortgage	\$257
Vehicle Loan	\$463
Unsecured	\$144
Other Security	\$302
Lease Finance	\$241

## Business Loans (as at 28 Feb 2022)

Total Value of Loans	\$7.3B
Number of Customers	136,830
Number of Loans	264,827
Monthly Instalments:	\$590M

### Average Value of Loan:

Mortgage	\$443,784
Vehicle Loan	\$28,869
Unsecured	\$7,443
Other Security	\$32,374
Lease Finance	\$24,921

### Average Monthly Instalment:

Mortgage	\$2,281
Vehicle Loan	\$1,064
Unsecured	\$799
Other Security	\$11,044
Lease Finance	\$939

5 April 2023

Submitted via: [debttogovernment@ird.govt.nz](mailto:debttogovernment@ird.govt.nz)

A proposed framework for debt to government  
Inland Revenue, Te Tari Taake  
Wellington

**RE: A proposed framework for debt to government**

No child should have to go without essentials because government departments are creating and collecting debt that was always going to be unaffordable. Debt to government is creating distrust and harm for whānau that are trying to engage with the systems that are meant to support them.

FinCap welcomes this work on the proposed framework for debt to government (**Proposed Framework**). Issues with debt to government are regularly raised by financial mentors. Inconsistencies and errors within the current system need urgent attention as they are currently causing, and have caused for decades, harm to whānau across Aotearoa.

We strongly recommend that clear policy and legislative changes be urgently implemented in line with this framework to address the issues that are causing the most harm. Future work that complies with this framework must prevent money continuously being taken from the pockets of whānau, especially during this time of added cost-of-living pressure.

**About FinCap**

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 190 local, free financial mentoring services across Aotearoa. These services support more than 70,000 people in financial hardship annually. We lead the sector in the training and development of financial mentors, the collection and analysis of client data and encourage collaboration between services. We advocate on issues affecting whānau to influence system-level change to reduce the causes of financial hardship.

**General comments**

Debt to government is causing harm to many whānau across Aotearoa. According to several reports and Insight Briefs by the Social Wellbeing Agency (SWA) debt to government is impacting women<sup>1</sup>, Māori<sup>2</sup>, and children especially. Of the people that owe debt to government 62% are parents or share an address with a child. This debt to government work is therefore clearly crucial for addressing child poverty.<sup>3</sup>

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<sup>1</sup> See <https://swa.govt.nz/assets/The-persistence-of-debt-to-government-research-report.pdf>

<sup>2</sup> See <https://www.dpmc.govt.nz/sites/default/files/2022-02/proactive-release-reducing-impact-of-debt-to-government-3feb22.pdf>

<sup>3</sup> See <https://swa.govt.nz/assets/Children-and-debt-Insights-report.pdf>

The amount of debt that whānau have to government departments is exacerbating harm. According to one of the reports by the SWA the median debt to the Ministry of Social Development (MSD) is around \$1,000 per person.<sup>4</sup> Although the majority of debts owed to government are less than \$5,000, we have heard from financial mentors that some of their clients have debt to MSD of up to \$80,000.

We have been able to gain insights about debt to government through Client Voices, the financial mentor data base. Those that are presenting to financial mentors are almost always already in, or facing, potential hardship and are seeking support. The below figures are based on cases closed between 1 January and 31 December 2022.

	All	Clearly noting debt to government	Clearly noting debt to MSD	Clearly noting debt to MOJ	Clearly noting debt to Kainga Ora
Number of client cases in sample	18,119	6,878	5,334	2,211	286
Percentage cases with last budget in deficit	52.39%	55.4%	56.06%	57.09%	63.74%
Number of cases that have started an insolvency procedure	228	135	70	47	4

From this data we can see that people with debt to government were more likely to close with a deficit budget. We can also see that a significant proportion of whānau working with financial mentors and going through insolvency have debt to government where insolvency indicates that paying debt would cause substantial hardship.

Children in Aotearoa need to be able to thrive, play, learn and explore, and the wellbeing of their whānau is often the key determinant of this. Through the insights of financial mentors, Client Voices data and research, FinCap has found debt to government to be a key barrier to the wellbeing of children and the prosperity of whānau in Aotearoa.

## **Chapter 2 - Principles for creating and managing debt:**

Q1. Do you have any comments on the principles as outlined?

Q2. Do you agree with the concept of principles? If so, are these the correct principles? What have we omitted?

Q3. Have we described the principles accurately in your view? If not, how would you reframe them?

### ***Responses to the proposed principles***

We support the principle of fairness, and later sections of this submission highlight current issues that show why a focus on fairness is needed. We strongly recommend that the principle of fairness should include obligations to treat debt from legacy policy with fairness and in line with changes that are made to the treatment of current debt.

<sup>4</sup> See <https://swa.govt.nz/assets/Publications/reports/Understanding-debt-and-debtors-to-government.pdf>

For example, the 70a sanction that punished parents for not naming the other parent of their child caused immense harm.<sup>5</sup> When this policy changed, there were wait times for refunds and harm remained for many. Hardship compounds due to debt caused as a consequence of the sanctions, and refunds are not always sufficient to cover issues caused by compounding hardship. This harm can stay with whānau for years and cause ongoing challenges and barriers. It is crucial that changes to harmful policies include appropriate support and robust processes for providing swift refunds for all those that were impacted.

We strongly support the inclusion of minimising hardship as a principle in the Proposed Framework. However, we strongly recommend that it is adjusted to specifically define hardship in line with capabilities for assessing affordability. Hardship should be seen as a situation where whānau are unable to meet non-discretionary expenses. We recommend the below definition for non-discretionary expenses:

Expenses that the borrower does not have complete agency to cease without significant detriment, meaning the expense interacts with:

- a) Rules, whether contractual, social, cultural, or moral obligations
- b) The physical or mental health, and wellbeing of the borrower
- c) The wellbeing of that borrower's whānau, dependents and pets
- d) Social and cultural connectedness.

We also recommend that the principle of minimising hardship should be the dominant principle, in combination with fairness, when there is a possible trade-off. The principle of minimising hardship should outweigh other considerations, such as behavioural responses, when considering the outcome for whānau.

We recommend that the principle of behavioural responses be readdressed to promote higher trust. This principle should always be the lesser considered principle compared to minimising hardship. Our recommendations throughout this submission about implementing affordability assessments provide a practical method for prioritising the principle of minimising hardship.

We strongly support the mention in the principle of public value that write-off options provide efficient relief. We recommend that there be further emphasis on the harm caused to whānau by chasing debt in this principle. Debt can create unnecessary stress for whānau, especially when it is debt that was always going to be unaffordable to repay. These factors should be core considerations in this principle.

Transparency is a crucial principle and should be implemented to lower the barriers to understanding the creation and collection of debt. We also recommend that this principle directs government departments to consider power imbalances and to implement processes for ensuring that whānau have informed consent wherever a debt is created. This recommendation aligns strongly too, with the principle of fairness.

We recommend that the principles be enforced consistently and with robust requirements and processes across all government departments in their daily operations. There should be a specific regular public report on alignment and re-alignment once the framework is implemented. These principles and the responding approaches and actions should be universal across all departments.

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<sup>5</sup> See <https://www.rnz.co.nz/national/programmes/checkpoint/audio/2018802991/woman-sanctioned-by-msd-over-fear-of-naming-child-s-father-owed-thousands>



### Chapter 3 – purpose-centred approach

Q4. Do you have any comments on the different kinds of debt, their different purposes, and different treatments?

Q5. Are the right categories identified?

We support the categories of debt for consideration and appreciate that this Proposed Framework is focused on central government. However, financial mentors often also report concerns with the rigid way in which many councils create and collect debt and how this can compound the hardship the whānau they work with are already facing. We therefore recommend that it is considered as an additional category or type of debt.

We recommend that the Proposed Framework should apply more widely to local government and include requirements for universal hardship policies at councils. Whānau that are having payment difficulty should be able to have a breathing space. Hardship policies outline expectations on councils to consider applications on grounds of hardship, to make changes to payment timeframes or amounts to suit a whānau are having payment difficulty. Fees should also be waived where there's no net benefit in pursuing them. We have heard that debt collection by councils is often far from best practice, and the Proposed Framework should cover councils as well as central government.

Libraries have led the way and ceased with giving out fines<sup>6</sup>, and councils have in place a rates rebate scheme for those on low incomes.<sup>7</sup> If the rates rebate scheme can be implemented for homeowners, then there should be support across councils that provides relief for all, whether homeowners or renters.

We respond in more detail below, under questions 6 and 7 in particular, to the specific consideration and treatments of different categories of debt to government.

**Recommendation:** Apply the Proposed Framework to councils and ensure that there are better practice hardship policies at all councils.

Q6. Are there other policy factors that should be considered?

We support the policy factors that have been considered. However, we also make the below recommendations to strengthen the Proposed Framework and promote further consistency across government departments and their treatment of debt. The sections below under this question address consistency across all government departments.

This proposed framework is a great step towards addressing consistency and we support that compliance with this framework will direct any decisions on issues of debt to government. However, we recommend that this framework sets concrete and consistent expectations across departments that the creation and collection of debt must be focused on wellbeing. The recommendations that we make below are focused on achieving this consistently.

#### ***One core entity***

We understand from the Proposed Framework document that the previously recommended approach of one core Crown debt collection agency is not being considered further. However, we recommend that consideration of some form of core operations entity be made. There are many issues with the sharing of information and privacy across departments. However, these are key

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<sup>6</sup> See <https://www.horowhenua.govt.nz/News-Events/News/Horowhenua-libraries-to-remove-overdue-fines>

<sup>7</sup> See <https://www.govt.nz/browse/housing-and-property/getting-help-with-housing/getting-a-rates-rebate/what-is-a-rates-rebate/>

considerations for financial mentors and the whānau they work with. The lack of transparency is causing higher repayment rates than is affordable, overpayment debt and the need for repeat disclosure which can be re-traumatising and harmful.

We recommend that IR be considered a central point for ensuring that people's information is correct consistently. There should also be a flagging process for changes to circumstances as well as updating affordability assessments and ensuring that the combined debt between departments is not exceeding the client's affordability threshold. The recommendations given throughout this submission could apply to either one collection entity, or else to all departments to process consistently in a manner as if they are one entity.

**Recommendation:** Consider IR as a central point for core operations of debt to government.

### ***Protected income***

Currently, those on benefits are receiving very low incomes that do not meet the costs of living.<sup>8</sup> Debt to government being taken from benefits significantly increases hardship. We strongly recommend that a protected income approach be established and that debt repayments to government are not taken from benefits or equally low incomes.

This recommendation is in-line with calls made by Child Poverty Action Group to cease the collection of debts from beneficiaries in order to prevent further exacerbation of child poverty in Aotearoa. Additionally, the incomes of those on equally low incomes should also be protected. For those that have debt to government but are receiving higher incomes, repayments should not exceed 4% of their budgeted surplus and affordability assessments for repayments should be completed for each and every case (discussed further below). The protected income approach also aligns with our recommendations relating to attachment orders, which can be found under question 7.

**Recommendation:** Implement a protected income approach so that debt repayments to government are not taken from beneficiaries or those on equally low incomes.

### ***Waiving unaffordable debt***

Long-term problem debt becomes an unnecessary and harmful burden for whānau. It creates stress and a feeling of little control over the financial capability of a whānau. Research by the Social Wellbeing Agency shows that those that do not become debt free within two years have a greater than 65 percent chance of remaining in debt for at least the next three years.<sup>9</sup> We recommend that debt held for over two years with little likelihood of prompt repayment is written off. The two-year timeframe that we are recommending could be used as a structured timeline for readdressing the ability of the debtor to repay their debt. This approach would be a backstop to the protected income approach (recommended above under this same question), for those that have changes in circumstances and move above the protected income threshold.

Robust affordability assessments throughout the process would help to prevent issues with behavioural responses where people might be disincentivised to repay their loans. Affordability assessments should be completed at the start of any debt being created, as well as continuously throughout the life of a debt. If at two years there is little likelihood of prompt repayment and the debt is only causing harm to a whānau that has no ability to repay, it should be written-off. We comment further on affordability assessments below.

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<sup>8</sup> See <https://fairerfuture.org.nz/liveable-incomes-2022>

<sup>9</sup> See <https://www.taxpolicy.IR.govt.nz/publications/2022/>

There are legislative changes needed to ensure that all government departments have consistent and fair capabilities to waive debt or fees where there is risk of hardship. Currently, IR has legislative powers to write-off penalties and interest related to tax debt.<sup>10</sup> MSD has very limited powers for writing off debt. This inconsistency should be addressed so that all government departments have the power to write off principal debt, fees, and penalties where there is the prospect or reality of hardship.

**Recommendation:** Waive debt that is held for two years with little prospect of prompt repayment.

### ***Affordability assessments***

This section responds to Chapter 4 of the Proposed Framework as well as to this question 6. FinCap welcomes the comments particularly in 4.14, that hardship should be the basis for relief. We therefore provide this section to support this and recommend an approach for assessing affordability. We support the focus on hardship throughout the Proposed Framework and the efforts in ensuring that there are robust processes for assessing and responding to hardship, to promote financial wellbeing.

We recommend that affordability assessments be consistently implemented for all repayments of debt to government departments, in-line with the Responsible Lending Code.<sup>11</sup> It's important that we clarify that affordability assessments should not ever prevent whānau from accessing essentials (see our recommendation below under question 7). However, it should mean that any repayments whānau have to make now, and in the future, do not push them into hardship.

Affordability assessments need to thoroughly consider the real life expenses that are necessary for whānau to live their lives without hardship. We therefore recommend the following definition of discretionary expenses when assessing for affordability:

Expenses that the borrower does not have complete agency to cease without significant detriment, meaning the expense that interacts with:

- a) Rules, whether contractual, social, cultural, or moral obligations
- b) The physical or mental health, and wellbeing of the borrower
- c) The wellbeing of that borrowers whānau, dependents and pets
- d) Social and cultural connectedness.

Affordability assessments should be a key practice across all government departments to ensure that repayments are affordable, and to create a threshold for waiving debt. Affordability assessments should be implemented for all debt categories, whether it's for repayments for loans, overpayment debt, fines, or debt occurring from non-compliance. They should also be applied to all repayments, whether these are being made by beneficiaries or those on wages or salary incomes.

Under question 9 of this submission, we address the issues that are occurring with repayment amounts being set at unaffordable levels. Current practice for assessing affordability and lowering repayment amounts appears to be inconsistent, which leaves room for unfair consequences to arise. Stable processes for assessing affordability across all departments for all repayments will increase fairness and ensure that even when other errors may have occurred whānau will always be making repayments that are affordable. For some, affordability assessments will show that they cannot

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<sup>10</sup> See footnote 12, page 14 <https://swa.govt.nz/assets/Publications/reports/Understanding-debt-and-debtors-to-government.pdf>

<sup>11</sup> See <https://www.mbie.govt.nz/assets/responsible-lending-code.pdf>

make any repayment. For these situations, we refer to our above recommendation of the protected income approach and our recommendation about waiving unaffordable debt.

**Recommendation:** Implement affordability assessments across all government departments for all repayments.

### ***Priority phone lines***

In conjunction with commitment 3 of New Zealand's Fourth National Action Plan to establish a multi-channelled approach to accessing public services and support, we recommend that direct phone lines for financial mentors to MSD and IR are established.

A direct phone line for financial mentors is of net benefit as financial mentoring sessions are Government funded. Rather than spending up to several hours waiting on hold, the financial mentor and whānau they are working with could use the session more effectively and reach support directly.

Financial mentors have repeatedly mentioned that the extensive wait time on the phone to Inland Revenue (IR) and Work and Income (W&I) is disruptive to the support they are providing to whānau. Self-service phone line options have become available for accessing certain IR tools. However, the self-service options are limited and do not provide access to important tools, such as the ability to change income details. W&I have a similar self-service option; however, this offers fewer options for clients calling for support. This highlights the inconsistencies between government departments which are often used simultaneously by whānau accessing welfare support.

Furthermore, although the self-service system may be beneficial to many, it should not be solely relied upon to fill the communication gap. Financial mentors have mentioned that whānau often want to speak to a 'real' person on the phone. This preference is more probable when a whānau has had negative experiences in the past, such as having to pay back overpayment debt to government due to a misunderstanding of complex expectations and rules.<sup>12</sup> There should also be the option for anyone to request an outbound call. The onus should be on the government department to call them back and talk them through any issue.

A direct phone line to MSD and IR for financial mentors would help to ease these challenges for whānau and financial mentors. This would create a more efficient and effective system, that allows financial mentors to help solve issues that are time pressured and ensure that the wellbeing of the whānau they work with is not jeopardised. This also enables whānau agency, as they can be on the phone together with the financial mentor.

An additional issue with the access to services over the phone, is the application of fees when paying a late payment fee via the phone with IR. This fee seems counterproductive considering the likelihood that these payments are already unaffordable if they have already been paid late.

**Recommendation:** Implement a priority phone line for financial mentors to MSD/W&I and IR.

### ***Case manager training***

Case managers at all government departments and agencies make a huge difference in the outcomes for whānau. Currently, there are massive inconsistencies across case managers and their knowledge, care, and ability to support whānau. Financial mentors have raised that some case managers have difficulty understanding the standard budget that financial mentors complete with

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<sup>12</sup> See <http://www.weag.govt.nz/assets/documents/WEAG-report/aed960c3ce/WEAG-Report.pdf>

their mutual clients. This is a particular issue when together they are assessing the client's level of hardship and ability to repay.

As mentioned at point 4.21 of the Proposed Framework, agencies should consider what other support might be available to whānau. It is important the case managers understand the role of financial mentors so that they can refer on appropriately. It should be compulsory that case managers complete training on the Building Financial Capability (BFC) strategy and on the ground supports to strengthen understanding and create consistency. If all case managers understand what financial mentors do, how to work with them for better outcomes and what the impacts of hardship are for whānau then the work of both will together achieve better outcomes.

**Recommendation:** improve training for case managers so that there's consistency across the country and for all whānau seeking support.

### ***Sustainable funding***

Financial mentors across Aotearoa are supporting whānau with the challenges tied to the increasing cost of living. Over this same period, financial mentoring services have begun to feel the same pressure of the cost-of-living increase as other sectors, particularly in terms of office space, utilities and wages. Additional to these direct cost pressures, services are reporting a general decline in available volunteer resources as the sector ages and as volunteers have to decrease their unpaid hours. Where possible these volunteer hours will be filled by paid staff.

The sector is delivering clear and measurable financial benefits to whānau and communities - particularly the most vulnerable in Aotearoa. Many of these benefits will be mitigating cost in other sectors of the Government's social spend, and all of these benefits are improving the quality of life of whānau in the face of intense cost of living pressure.

Given the measurable benefits provided by financial mentoring services, the increased financial pressures being faced by an increasing number of whānau, it is clear that the additional funding requested represents extremely high value spend.

Financial mentors provide crucial support to whānau in navigating their benefit entitlements and overcoming barriers for their clients when engaging with government departments. At 4.4d of the Proposed Framework there is consideration of agencies including "an assessment of whether or not debtors are receiving their full and correct entitlements from government agencies." Financial mentors are currently filling this gap and supporting whānau to check they are receiving all that they are eligible for. Although this should be a given step at all agencies, where there are hiccups, financial mentors are best placed to help.

The Proposed Framework is a huge step in the right direction, but there will always be 'hiccups' in systems that need addressing. As highlighted throughout this submission, financial mentors have specialist expertise and can limit and prevent harm caused by debt to government. Financial mentors are key in addressing debt to government issues and should have sustainable funding in order to continue their important work.

**Recommendation:** Increase funding to reach all 190 financial mentoring services to meet the growing demand. For current levels of service, the recommended total per annum is \$51.6m, and total over a four-year period of \$206.4m.

## Q7. Do you have any feedback on the recommended treatments?

### Overpayment of government support

#### *Response to the Proposed Framework*

Issues with overpayment debt are constantly raised by financial mentors. Many financial mentors have mentioned that their clients try hard not to incur overpayment debt and are updating their details regularly, however, they still end up with overpayment debt. This is especially difficult for those working on casual contracts where their work hours can change drastically each week.

We generally support the recommended treatment of overpayment debt. We agree that there should be no interest or penalties applied to this category of debt. However, we recommend that the timeframe and write-off threshold treatments be re-written to more clearly require consideration of these options where hardship is a potential.

#### *Grace periods and abatement rates*

A grace period is the additional time given to a person to notify departments about changes in circumstances without incurring fees or debt. Time-limited grace periods across the social security system to smooth the times where changes occur would provide a breathing space for whānau.

The Welfare Expert Advisory Group in 2019 recommended improvements to the relationship rules system. An element of this recommendation was the establishment of grace periods for discussing the nature of their relationship with MSD to limit the stress of changes in income. This is an example of how the grace period concept can support whānau by giving more time to changes without adding the likelihood of debt being created.

In 2021 grace periods were introduced to be applied to the Family Tax Credit for the In-Work Tax Credit where they continue to receive the payments for up to two weeks when taking an unpaid break from work.<sup>13</sup> This is another example of where the grace period concept has been implemented to support whānau during especially stressful times.

We recommend the implementation of a four-week grace period across all entitlement when there are changes in circumstances, such as income. This is often where overpayment debt is created and through giving a grace period, whānau would have more time to organise and adapt to their changing circumstances without the pressure of possible debt. Financial mentors have also noted that the grace period would be useful for those that are receiving fortnightly income to limit the additional confusion that often occurs.

Grace periods can be easily implemented across government departments. When a person notifies the government department that their circumstances have changed, they can identify when these changes began and how many weeks have passed. It would be straightforward to ensure that they are within the four-week timeframe. This would be simplified further if the approach of creating a core entity is followed. This way the core entity would be a one stop shop for reporting relevant information and having it flagged across all departments.

We also recommend that debt collection should be paused while a client is waiting for an appointment. Where there are long wait times to get an appointment, and whānau are trying to sort difficult issues with any department, then debt collection should be paused. This aligns with the principles of minimising hardship as well as fairness. Collecting debts create additional stress

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<sup>13</sup> See <https://www.taxpolicy.IR.govt.nz/news/2020/2020-05-29-work-tax-credit-grace-period>

emotionally and financially to whānau, especially when they are simultaneously trying to determine a solution to an issue that may be connected to hardship in the first place.

Alongside the implementation of grace periods abatement thresholds should be raised at the same rate as minimum wage.<sup>14</sup> The Labour Party's 2020 manifesto committed to progressively increasing the abatement threshold in line with minimum wage increases.<sup>15</sup> This is an important commitment that should be continued.

**Recommendation:** Implement four-week grace periods across all benefits to prevent overpayment debt.

### ***Information sharing and privacy***

While grace periods will support the limitation of overpayment debt being created and lessen stress, it does not address the entire issue. Information sharing across government departments is also crucial. With the review of child support in 2022, changes to the Approved Information Sharing Agreement<sup>16</sup> were consulted on, with the objective of IR and MSD sharing up to date information.

This approach should be repeated across government departments to ensure that it is clear how much is being deducted already by other departments from a client's income. This will help to ensure that the combined amount from departments is meeting affordability assessment requirements and does not breach their protected income.

Excerpt of a financial mentor's email:

*Also, the departments need to talk to each other. I have a client who did a DRO, including substantial W&I debt. They continue to lend to her!*

Alongside this recommendation, we note that financial mentors are regularly encountering barriers to supporting their clients because IR will not accept their privacy waivers. Instead, financial mentors are at times having to complete forms that place them in an unideal situation to continue supporting their clients. We recommend that IR accepts the privacy waivers of financial mentors or works closely with financial mentors to find a suitable alternative that makes the communications clear and efficient.

**Recommendation:** Improve information sharing between and within government departments. This issue of information sharing would also be improved with our recommendation of IR as the core entity.

### ***Government department caused debt***

MSD is under duty to take all reasonably practicable steps to recover sums that are specified as debts due to the Crown (overpayments or penalties). However, W&I cannot recover a debt that was caused by a mistake on its part, and wasn't contributed to by the client, and where the client received the payment in good faith and changed their position, it would be unfair to recover it.<sup>17</sup>

<sup>14</sup> See <https://www.msd.govt.nz/documents/about-msd-and-our-work/>

<sup>15</sup> See <https://www.taxpolicy.IR.govt.nz/publications/2021/2021>

<sup>16</sup> See <https://www.privacy.org.nz/privacy-act-2020/information-sharing/approved-information-sharing-agreements/>

<sup>17</sup> See <https://communitylaw.org.nz/community-law-manual/chapter-23-dealing-with-work-and-income/trouble-with-work-and-income-penalties-investigations-and-overpayments/overpayments-when-youre-paid-too-much-by-mistake/>

Financial mentors have raised that the processes for identifying and waiving debt that is caused by a department's error are inconsistent. Financial mentors often go through the review of decision process with the whānau they work with to get overpayment debts waived where it's the fault of the department. However, outcomes regularly differ. In addition, financial mentors find that many whānau are reluctant to go to review of decision because of fear of repercussions whether real or perceived. This highlights the presence of power imbalances and issues of unfairness.

All government departments should be proactively identifying and waiving debt that they have caused, instead of the burden being placed on whānau and financial mentors to overturn debt that was not legally recoverable in the first place. This should be the case where debt has been partially caused by government departments too, especially considering the principle of fairness as well as the power imbalance issues previously discussed.

Debt caused wholly or in part by government departments is completely unfair and there are still many whānau repaying these debts. This needs urgent and immediate attention and reversal. Debts that are caused wholly or in part by government departments need to be identified, waived or reimbursed if they have already been repaid. These are not legally recoverable debts and so should never be repaid.

Where the systems of government departments are unable to effectively identify debts that have been caused by its error, they should waive and reimburse all overpayment debts in order to fulfil the principle of fairness, as well as minimising hardship.

**Recommendation:** Proactively waive and reimburse any debt that is caused wholly or in part by government departments.

#### **Debt occurring from loans or repayments for services**

##### ***Response to the Proposed Framework (question 7 continued)***

There should never be penalties or interest applied to loans or repayments for services. These are essential expenses that whānau need for their wellbeing and should never have additional costs applied to these. We recommend that the language used here is stronger, and in line with our previous recommendation that hardship should be the dominant principle. We recommend that where the word 'may' be used it is replaced with 'will.'

##### ***Consistent non-recoverable grants for essentials***

In the Proposed Framework, section 3.12 notes that "government should consider whether it is appropriate for certain forms of assistance to be repayable at all." No whānau should be pushed into unaffordable debt in order to obtain the most basic essentials. The Department of Prime Minister and Cabinet's work looking at children's wellbeing in the first 1000 days highlights the importance of all children having the essentials so that they can have the best start possible. Therefore, non-recoverable grants should be available for essentials. At the same time, affordability assessments to determine the recoverability of additional supports should be implemented.

Currently benefit advances can be accessed as interest-free loans taken out by beneficiaries to pay for essential or emergency costs such as bonds/rent, car repairs, or school costs. These should be available through non-recoverable grants at W&I. Loans for whānau to afford essentials such as school costs should not be creating debt spirals and taking from the next week's food budget.

To implement a clear and consistent process for non-recoverable grants for essentials, there needs to be an understanding of 'essential expenses' that supports financial wellbeing, rather than the



bare minimum requirements for survival. For example, the ministerial direction for redirections defines essential costs in relation to a person, as electricity, gas, and water. Meanwhile, on the W&I website living expenses include food, accommodation costs and school costs.<sup>18</sup> Although these resources serve very different purposes, it emphasizes how the understandings and definitions of essential costs or expenses is unclear for whānau trying to get access to essentials.

We recommend that essential expenses are defined in line with the definition given under questions 1-3 and under question 6, 'affordability assessments', for defining discretionary expenses. We also recommend that the DEP-17 questions in the Stats NZ 'Measuring child poverty: material hardship' should be used as guidance for what are considered essential expenses. For example, the Stats NZ questions highlight that there are more considerations to a child's wellbeing than just whether they have food, but whether that food has nutritional value. It also references whether the whānau can afford to purchase gifts for birthdays and Christmas. This is an important expense that contributes to the social wellbeing and inclusion of a whānau and can at times be underrated as an essential expense.

Essential expenses should be clearly listed consistently across government websites and communications. The availability of these essentials through non-recoverable grants should also be made obvious. There will likely be considerations necessary for the number of times that certain items can be accessed through non-recoverable grants. Affordability assessments would be a helpful tool for assessing eligibility for non-recoverable grants, and for repeat access.

**Recommendation:** Make all essential expenses available through non-recoverable grants. Use the affordability assessment approach to determine when support for expenses outside of the definition are recoverable or not.

### ***Quality of essential services***

It seems that often the easiest and cheapest options for essential services and products are provided for whānau when they request support. Financial mentors have noted that time is wasted through faulty products that do not suit the purpose for whānau. For example, financial mentors have mentioned that it's common for clients to receive support for repeat fixes to cars, but a longer-term approach for that client might mean a new car rather than repeatedly fixing a broken one. For many, public transport is not a reliable option, especially for those with children or those in smaller towns. It is therefore important to understand that a car is the most practical transportation option for many, and there should be suitable support available.

These needs will clearly differ between clients, but all staff should be well trained to identify suitable solutions for whānau rather than band aids that will only extend hardship. Here is a case study that exemplifies the challenges for whānau when items are not up to standard and become more of a challenge rather than being helpful.

#### *Case study:*

A client was granted a fridge-freezer through work and income through the Fisher and Paykel whiteware relationship in March 2021. On April 2<sup>nd</sup> the fridge-freezer started playing up. A technician visited and said that a part was required but will not be available until June. The client was not sure whether it was an electrical fault or not. If it was an electrical fault, it may have been harmful to their family and possibly cause a fire.

<sup>18</sup> See <https://www.workandincome.govt.nz/eligibility/living-expenses/index.html>

The client is now paying off a faulty fridge-freezer to W&I. This appliance should have been replaced as it was less than 30 days old. The financial mentor sent an email to the regional W&I contact but also spent 38 minutes on hold and then was hung up on by Fisher and Paykel. The client was told not to contact W&I but has still not had any success with Fisher and Paykel.

It is important that the circumstances and needs of each whānau are carefully assessed, and the appropriate and most helpful services and products are provided. As shown in the above case study, faulty products create additional stress. All whānau should have options for items and services that suit them best.

We also note that recent draft recommendations from the Energy Hardship panel propose several strategies related to MSD and government support.<sup>19</sup> One proposal is that MSD programmes for purchasing energy-related household appliances offer energy efficient choices. Another recommendation is to establish clear and direct lines of communications between MSD and customers in energy hardship. Additionally, they propose that extra Government financial support is provided to those in energy hardship and better targeting of the Winter Energy Payment (WEP).

We recognise here too that benefits and income should be increased in the first place, so that whānau can afford these essential expenses. Increasing benefits would save time and stress and would pair well with the below recommendation about a savings scheme approach to strengthen financial capability. We comment further on benefit increases under question 11.

**Recommendation:** Ensure that products quality is up to standard and train all staff to assess the needs of each whānau appropriately so that whānau have a choice in options.

**Recommendation:** Implement the proposed strategies of the Energy Hardship Panel to provide energy efficient choices through W&I.

### ***Savings***

As a back-drop, we recommend that MSD creates a savings system rather than debt system for whānau. This would both support building financial capability and follow a strengths-based rather than deficit-based approach. This would sit alongside work to make essentials available through grants, so that any additional items or where any limits are met for repeat access whānau could use savings that have been built on their accounts.

Alongside this, the Community Services card should also be used to support whānau with the essentials. The income threshold for eligibility for the cards should be lifted and indexed if not already. The services that are available through these cards should be increased to meet the needs of whānau.

**Recommendation:** Create a savings scheme approach instead of a deficit-based approach to accessing support from government departments.

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<sup>19</sup> See <https://www.mbie.govt.nz/assets/energy-hardship-the-challenges-and-a-way-forward-energy-hardship-expert-panel-discussion-paper.pdf>

## Private debt administered by a government department

### **Attachment orders**

To our understanding of the definition provided, attachment orders would fall into the category of Government-administered debt between private parties. Attachment orders tell an employer or W&I to take money directly from a debtors benefit or wages to repay a creditor.<sup>20</sup> Financial mentors regularly see situations where Attachment Orders from the courts are causing hardship through taking up to 40 per cent of a person's benefit wages.

There has also been evidence to show that lenders have targeted women and beneficiaries using attachment orders.<sup>21</sup> This particular case study is a quote from a lender, stating that they find "going for women is best because they are more likely to be beneficiaries." This is referring to attaching. This appalling behaviour demonstrates that attachment orders are being used as punitive tools that can be taken advantage of by irresponsible and oppressive lenders.

FinCap has identified private creditors who appear to be exploiting the attachment order system. These businesses are all receiving over a million dollars in payments each year despite the original debts often dating back to questionable lending over a decade ago. The current system results in MSD having no option but to pay creditors whose conduct has been questionable through court ordered redirections.

We strongly recommend the implementation of a judgement proof debtor policy for private debt.<sup>22</sup> In the state of Victoria in Australia the Judgement Debt Recovery Act was implemented in 1984.<sup>23</sup> This Act stipulates that instalment orders cannot be applied to incomes that are derived solely from a pension or benefit. For this to be replicated in Aotearoa, the District Court Act 2016 needs amending to protect W&I incomes and prevent continued hardship. Section 157 (4) should be deleted, and section 155 should be amended with the addition of the following signal to relevant requirements in other legislation: "(5) This section is subject to s 417 of the Social Security Act 2018."

We also recommend that this category be separated further so that child support and attachment orders are considered and treated separately. Attachment orders are an outdated punitive debt collection tool, while child support is a necessary support for children and whānau in single parent households.

**Recommendation:** Implement a Judgement Proof Debtor policy to protect benefit incomes from attachment orders.

## Chapter 4 – person-centred approach

### Q8. Is it easy for debtors to understand what they owe, and to who?

The 'cheap as' data approach which allows access to MSD online and website services for free is a step towards increasing access and understanding.<sup>24</sup> From feedback from financial mentors the websites and online services, for example MyIR and MyMSD are useful tools once they know how to navigate them. However, they are not very user friendly or clear, and take time to understand. Mentors have noted that whānau can find it difficult to see clearly how much debt they are in and what this is for when using these services.

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<sup>20</sup> See <https://www.justice.govt.nz/fines/about-civil-debt/collect->

<sup>21</sup> See <https://www.nzpif.org.nz/news/view/53815>

<sup>22</sup> See [Judgement Proof Debtor Policy](#)

<sup>23</sup> See [http://www5.austlii.edu.au/au/legis/vic/consol\\_act/jdra1984237/](http://www5.austlii.edu.au/au/legis/vic/consol_act/jdra1984237/)

<sup>24</sup> See [Work and Income cheap as data](#)

There are also issues with the language that is used, which is often inconsistent, confusing, and technical at times. We welcome the recognition of this at 4.20 of the Proposed Framework. For many, the language that is used by government departments that are placing them into debt is unclear. Plain language should be used across all government departments as a step towards increasing true accessibility.

It is often not obvious that support from MSD is a loan, rather than a grant. This means that whānau are not able to give informed consent at these times. This again highlights the need for more process for assessing affordability and ensuring that non-recoverable grants are given for essentials, and that debt be wiped.

Lenders in Aotearoa must act in line with the responsible lending principles in the Credit Contracts and Consumer Finance Act (CCCFA). One requirement is that lenders must help whānau to understand what is being signed before it is signed while applying for lending. This same requirement should be implemented at all government departments when they are creating any kind of debt.

Under the CCCFA, lender's behaviour must be fair and oppressive behaviour is illegal. One example of oppressive behaviour is pressuring people to sign contracts with no time to consider or get advice. Although loans given by government departments can differ to those that are provided through consumer credit contracts, the same principles and requirements should apply. There are still processes here and informing people properly about what they are signing and why they are in debt is crucial.

This also connects to the principle of transparency and highlights the importance of making processes clear and using plain language. This is important both on the online access as well as in-person or on the phone. Staff at W&I need to have correct and up to date knowledge and consistent processes in place to ensure that potential confusion is avoided at each step.

**Recommendation:** Ensure that plain language is used consistently across government departments and in particular where there is the potential for debt being created.

#### Q9. Are minimum debt repayment amounts typically set at manageable levels?

We have heard repeatedly from financial mentors that repayment amounts are set at unaffordable levels, without any proper process for assessing affordability. Financial mentors have also raised issues with inconsistency between case managers and their ability or willingness to lower repayment rates to an affordable level.

#### *Case study:*

A client is in Work and Income had an income from W&I of \$521. They were living in W&I accredited accommodation and charged \$420 a week for rent, for a single room, and then their internet was \$45 a week, electricity \$21. Their repayments to W&I were automatically set at \$30.50 as well as a \$5 weekly repayment to MOJ. There was no affordability assessment and until the financial mentor was able to step-in, the client was in an impossible situation with a budget in deficit.

Through insights from Client Voices we can see that the median weekly repayment rate per case for all debts is \$68.95. There's a jump for median repayments per case when government debt repayments are included. The median weekly repayment per case including debt to government is \$92.51. Broken down by department, where a debt is owed to MSD the median weekly repayment is \$85.95. The same for MOJ is \$109.86 and \$169.24 for Kāinga Ora. At the same time, 55.23% of

clients with debt to MSD are earning income from a government entitlement. This shows that many are repaying large amounts of debt each week, while many are also on benefits.

Previous guidance for MSD includes a recommended maximum recovery rate for current clients. This recommended maximum rate is \$40 a week, unless it is volunteered by a client to pay more.<sup>25</sup> The Ministry's policy also stipulates that repayment rates need to be realistic and not cause hardship.

Considering that these requirements and recommendations are in place already, and that the insights from financial mentors show that recovery rates are not being set in line with these, there needs to be stronger requirements and enforcement of policies for ensuring affordable recovery rates at Ministry's.

Comments from a financial mentor:

*"The repayments are one of the first things I look at when doing a budget. One of my clients was paying \$45 a week while on a benefit. Government departments need to discuss with clients about repayment affordability first, instead of automatically deducting from their income, sometimes being the cause of financial hardship".*

Comments from a financial mentor:

*"My thoughts are for MSD debt only; I think they should not put clients into substantial debt. Some people owe several thousand dollars e.g 20 K or more; there should be a cap of, say, 10K Also repayments should be capped at a certain level e.g. \$20 weekly max. with typical repayments of, say, \$5 or \$10 weekly. The total debt owed to MSD is currently enormous and increasing continually; the government should write off all the debts and then start a new more conservative system."*

**Recommendation:** We reiterate the recommendations above. Firstly, that affordability assessments be implemented for all repayments. We also repeat the recommendation that debt be waived after two years where there is little likelihood of prompt repayment, and that a protected income approach be implemented for those on benefits or low income.

#### Q10. How easy is it for debtors to negotiate for hardship relief?

Financial mentors are often able to support their clients with negotiating hardship relief. However, there are barriers because of power imbalances that mean for many clients they have had trouble going through this process before they began seeing a financial mentor. There are also issues with past negative experiences causing harm to whānau and preventing them from seeking engagement with W&I even when they are in hardship.

We also recommend here that debt collection should be paused while a client is waiting for an appointment. A financial mentor mentioned that their client waited five weeks for an appointment to work out issues with their rent payments, during this time their debt grew rapidly.

**Recommendation:** pause debt collection while a client is waiting for an appointment.

#### Q11. What kinds of supports are most effective for people with persistent debt?

An important factor here is that for many incomes are too low to afford essentials, let alone repayments for debts. We again point to the importance of children having essentials, especially

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<sup>25</sup> [Controllor and Auditor-General - Part 3: How MSD manages debt](#)

during the first 1000 days. All benefits should also be raised so that all whānau can afford the essentials. We also support the recommendation made by Child Poverty Action Group for the extension of the In-Work Tax Credit (IWTC) to all children in low-income households, regardless of the paid work status of their parent(s) or caregiver(s).<sup>26</sup>

Please refer to above recommendations under questions 4-7 about access, overpayment, non-recoverable grants, and consistency.

**Q12. What changes would you like to see to the way that the government manages debts, particularly debt owed by low-income households?**

Please refer to above recommendations under questions 4-7 about access, overpayment, non-recoverable grants, and consistency.

**Q13. Should there be non-monetary options for paying down fines or debt? How could this work? What potential benefits or risks do you see with this idea?**

We have no comments to make here.

### Chapter 5 – Impact of the framework on affected population groups

**Q14. Do you agree that the framework should require culturally appropriate communications with debtors? What would this look like for Māori, Pasifika and other affected groups?**

Yes, we encourage further targeted consultation if not already under way with Māori and Pasifika experts.

**Q15. Are extended families and larger households affected differently by government debt? How could this be addressed in the framework?**

Whānau with more children are more affected by government debt. An Official Information Act (OIA) request about debt to government in Taitoko, Levin found that whānau there with five children have a greater debt burden compared to whānau without children or with less children. The graph below shows these insights for in Levin.

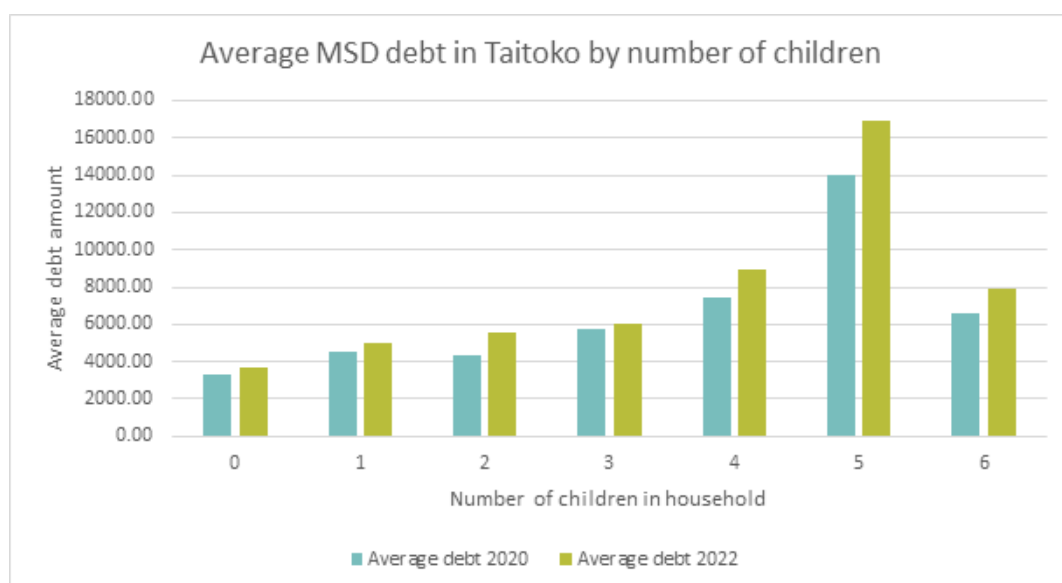


Figure 1 - MSD debt Taitoko by number of children

<sup>26</sup> See <https://www.cpag.org.nz/statistics/working-for-families>

We refer here to the recommendation that was made above, that debt held for over two years be waived where there is little prospect of prompt repayment. This would provide relief regardless of the makeup of the whānau as it is a proportionate response to affordability.

**Q16. Should the framework reference a specific role for whānau, hapū or iwi or other community groups in the resolution of problem debt? What would this look like?**

Please refer to our response under question 14.

**Q17. What issues are of most concern to the group that you represent?**

Please refer to the recommendations made under questions 4-7 about access, overpayment, non-recoverable grants, and consistency.

**Q18. Are they addressed by the proposed framework?**

It is important that the recommendations made under questions 4-7 about access, overpayment, non-recoverable grants, and consistency are implemented to address the most pressing issues with debt to government.

**Q19. Do you have comments on the ways to improve the accessibility of communications about debt for different population groups (for example, young people or disabled people?)**

Sustainable funding for all financial mentors in Aotearoa is necessary as a backstop for improving access to key information about debt to government. We also refer here to our recommendations under question 8.

**Q20. What improvements would you suggest?**

Please refer to our response under question 19.

## **Chapter 6 – Next steps**

**Q21. Do you have any comments on the proposed implementation of the framework, as outlined in Chapter One at 1.13 – 1.15 above?**

Issues with debt to government are urgent and causing harm to whānau in Aotearoa. The key recommendations given in this submission should be implemented at the earliest possible stage to limit continued harm.

There needs to be robust review of policies and processes at all departments immediately once this framework is in place. We refer here again to the recommendation made under questions 1-3 that there be specific regular public report on alignment and re-alignment once the framework is implemented.

**Q22. Do you have any other feedback not covered by previous questions which you would like to provide?**

### ***Social housing***

Several financial mentors and a social housing worker have raised serious concern over current processes for clients living in public (social) housing. Below is a case study that highlights the issue and how unfair this is for many clients as a way of debt being created.

#### ***Case study:***

A client had to complete their tenancy review with MSD and give information about their situation and housing needs. As part of this process the client had to provide 52 weeks of income details, in order for MSD to assess the correct amount to charge.

However, this client had language and mental health barriers to filling out the required



paperwork. Due to these barriers, the client could not fill out the paperwork within the determined timeframe. When they missed the deadline, they began to be charged market rate rent, rather than the typical 25% of income rate for social housing. This meant that their rent went from \$78 to \$450 a week.

The client found the process and paperwork difficult to understand but did manage to complete the paperwork and they found that the circumstances were the same and the rent price went back to 25%. The client ended up with \$5500 of debt during the time that the paperwork was overdue. This debt was not waived despite it being evident by the time that it was completed that the client qualified for social housing.

Financial mentors noted that for the clients in this situation, there are often language or mental health barriers to them filling out the paperwork. This is an unfair issue that should not be occurring. Where paperwork is not filled out in time, the whānau should be worked with to determine a solution rather than being pushed into debt. Charging market rate only causes harm and creates debt that will likely be unaffordable.

**Recommendation:** Ensure that full market rate is never charged for social housing, and refund all those that have had a debt created because of this issue.

### ***Family violence policies***

Aotearoa is ranked as the worst developed country in the OECD for family violence.<sup>27</sup> Recent research shows that women who are exposed to intimate partner violence (IPV) have an increased likelihood of reporting adverse health outcomes.<sup>28</sup> Financial mentors have raised issues with debt to government and family violence.

### ***Case study:***

A client was in a domestic violence situation and their abuser was using their money. The client applied for sole parent support because they wanted to be separated from their partner. However, the partner remained at the client's address, despite this being unwanted. MSD created a debt with the client for seeking the "wrong" benefit type because the partner was still living in their home. This highlights the need for more secure systems to identify and support those experiencing family violence.

It is crucial that essential service providers and government departments have robust family violence policies in place to help prevent and support after family violence. These policies should be included in the debt to government Proposed Framework, to create consistency across government departments to avoid creating and collecting debt in a harmful way where family violence occurs.<sup>29</sup>

The Proposed framework should require all government departments implement clear and consistent policies that ensure they:

- Are informed about the complexities and signs of family violence and seek advice to tailor their approach to best support their customers.
- Avoid requiring evidence of family violence, so that responses are timely and prioritise the safety of the survivor-victim.

<sup>27</sup> See <https://goodshepherd.org.nz/economic-harm/>

<sup>28</sup> See <https://jamanetwork.com/journals>

<sup>29</sup> Genesis Energy forgives debts of women abused by partners through their "fresh start" program. See more here <https://www.stuff.co.nz/business/money/>



- Avoid repeat disclosure of circumstances. This can be traumatising and potentially creates a barrier to further support being sought. Some examples of solutions for this are referral arrangements and a dedicated phone line to flag the situation.
- Implement systems for smooth referrals to expert support services.
- Safely separate debt between the perpetrator and victim-survivor and implement processes for waiving debt for people affected by family violence.
- Have effective processes for safety and protection of victim-survivors information. Ensure that information is kept confidential between account holders when it is requested.

We recommend that the above policies, or similar, are implemented at all government departments so that family violence is consistently identified and addressed. Affordability assessments would be a helpful tool to provide the time and chance to probe into the financial situation of a whānau and instances of economic harm or family violence may be more visible through this process.<sup>30</sup> We refer again to the recommendation to implement affordability assessments across all government departments for all repayments.

**Recommendation:** Implement family violence policies across all government departments.

### ***Debt to government and insolvency***

We are pleased to see the focus on clarifying categories of debt types to government departments. As well as the clarity for treatment of each category of debt, there are carry on benefits for insolvency processes. There have been issues raised by financial mentors where confused categories of debt create difficulty for clear insolvency procedures. While fraudulent debt is excluded from insolvency, overpayment debt is not listed as excluded. Financial mentors have raised cases where fraud debt is not correctly separated from overpayment debt, leading to overpayment debt not being wiped through insolvency procedures.<sup>31</sup>

Fraudulent debt is defined as being incurred by fraud, for example if a person claimed a benefit from W&I that they knew they were not entitled to.<sup>32 33</sup> In the Proposed Framework the treatment of debt due to intentional non-compliance is severe. We recommend that in-line with the principle of minimising hardship, and with our recommendation of minimising hardship being the dominant principle, there should be options for write-offs and extending timeframes. Affordability assessments should also be implemented for repayments on these debts, in-line with our recommendation that they are applied to all repayments.

We have heard repeatedly from financial mentors of the harm that is caused to whānau through generations with fraud debt sticking, and no way to remove it when it's unaffordable. Under questions 1-3 we recommended a higher trust approach be implemented. Many whānau have experienced harm from debt to government departments, and a warmer approach to support wellbeing would minimise hardship, harm, and stress for many whānau.

**Recommendation:** In order to fulfil the principle of minimising hardship, as well as our recommendation for a higher trust model, implement options for waiving fraud debt where there is hardship.

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<sup>30</sup> See <https://www.informa.com.au/insight/financial-abuse-enablement-an-insidious-side-effect->

<sup>31</sup> See <https://www.insolvency.govt.nz/personal-debt/personal-insolvency-options/bankruptcy/>

<sup>32</sup> See <https://www.insolvency.govt.nz/support/glossary/#fraudulent-debt>

<sup>33</sup> Fraud debt must be proven and evidenced by MSD that a debt is a fraud debt and not overpayment or an error.

***Debt collection practices***

Debt collection agencies used by government departments should be included under widespread regulation of debt collection. Research from Victoria University shows that inconsistencies exist between government departments and their use of Debt Collection Agencies (DCA's). Affordability assessments are again an important tool for avoiding engagement with a DCA, as well as wider regulation to the entire debt collection industry which is overdue in Aotearoa.

**Recommendation:** Create consistency as to when external debt collection agencies are engaged if at all and what standards they must meet.

Ngā mihi,

A handwritten signature in black ink, appearing to read 'Moana Andrew', with a long horizontal line extending to the left.

*pp:* Moana Andrew  
**Kaihautu - Deputy CEO**



# Feedback on the Proposed Framework for Debt to Government 6 April 2023

**This submission is from:**

The Methodist Alliance  
P O Box 5416  
Papanui  
Christchurch 8542

## 1. Ko wai tātou | Who we are

The Methodist Alliance is a formal alliance of Methodist Missions, parishes and community based social services and trusts, including cooperating ventures. This grouping constitutes a major provider of a range of services for tamariki/children, rangatahi/young people, and their families/whānau.

The Methodist Alliance brings together a number of large and medium social service providers such as Lifewise in Auckland, Methodist City Action in Hamilton, Palmerston North Methodist Social Services, Wesley Community Action in Wellington, Christchurch Methodist Mission, Methodist Mission Southern in Dunedin, as well as local community services provided by individual parishes. It includes new social service organisations, such as Siaola Vahefonua Tongan Methodist Mission; Puna'Oa - the Samoan Methodist Mission that operates within the Samoan Synod of the Methodist Church; and Te Taha Māori.

Ka whakahōnore mātou i tō mātou whakahoatanga Tiriti – we honour our Tiriti partnership. Te Tiriti o Waitangi is the covenant establishing our nation on the basis of a power-sharing relationship. It is the foundation for social, economic and political equality in Aotearoa New Zealand.

The Methodist Alliance is grounded in our commitment to Te Tiriti o Waitangi and the bi-cultural journey of the Methodist Church of New Zealand - Te Hāhi Weteriana o Aotearoa, where Te Taha Māori and Tauīwi work in partnership. We claim the right bestowed by Article Four of Te Tiriti o Waitangi:

“E mea ana te Kawana ko ngā whakapono katoa o Ingarangi, o ngā Weteriana, o Roma, me te ritenga Māori hoki e tiakina ngatahitia e ia.”

“The Governor says the several faiths of England, of the Wesleyans, of Rome, and also the Māori custom shall alike be protected by him.”

The Methodist Alliance and our member organisations work collaboratively to achieve our vision of a just and inclusive society in which all people flourish, through our commitment to our faith and Te Tiriti o Waitangi.

## 2. Tirohanga Whānau | Overview

2.1 We commend the work on a proposed framework to manage and prevent debt owed to government. The overarching goal of the proposed framework aligns with the Methodist Alliance's vision for a just society in which all people flourish.

2.2 We note that there are many hidden benefits that would result from a fairer and consistent approach to debt. Sylvie said:

“Writing off debt would make a huge difference, emotionally and psychologically, and to your wellbeing. And we need less shame. My son has lived with the shame of his mum living on a benefit. I don’t socialise in person – living like this affects every part of your life. I just feel like I don’t have any power, including over my rent.”<sup>1</sup>

“Wiping debt to MSD would have made a huge difference for everyone on the benefit, and I think about how if those in power covered everyone’s basics, we’d be an awesome country. We could do the things we really want to do - live, laugh and love!”<sup>2</sup>

- 2.3 We acknowledge that every day of every week, staff in government agencies, just like staff in our member agencies, work with some of the most vulnerable and challenged individuals and whānau in our communities, and they do this because they care.

### **3. Tautoko mo te pire | Support for the Proposed Framework**

- 3.1. The Methodist Alliance supports the following parts of the proposed framework for preventing and managing debt to government:

- 3.2. We support the overarching goal to:

“reduce hardship for families and individuals and aims to achieve a fairer and more consistent approach to debt. This will contribute to the Government’s priority of improving child wellbeing through the reduction of child poverty.”<sup>3</sup>

- 3.3. We agree with the summary of the issue being:

“...debt can also become a problem when servicing it becomes an unaffordable or persistent burden. This problem debt can have a significant impact on individuals and whānau in hardship, contributing to financial hardship, stress, poor physical and mental health, stigma, and social exclusion.”<sup>4</sup>

- 3.4. We also agree there is a lack of cohesion and consistency to the way debt to government is administered.<sup>5</sup>

- 3.5. We agree that highly targeted support payments creates more opportunity for debts to arise than universal payments.<sup>6</sup>

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<sup>1</sup> Fairer Futures, “Lifting the Weight Report” 2023, p6. Please note names have been changed to protect identity.

<sup>2</sup> Fairer Futures, “Lifting the Weight Report” 2023, p17. Please note names have been changed to protect identity.

<sup>3</sup> 1.4 in the IRD Consultation Document, February 2023

<sup>4</sup> 1.6 in the IRD Consultation Document, February 2023

<sup>5</sup> 1.7 in the IRD Consultation Document, February 2023

<sup>6</sup> 3.8 in the IRD Consultation Document, February 2023

3.6. We support the recommended default write-off of debt that is an overpayment of government support arising from an administrative error. In these circumstances the debt has arisen due to the failure of the government agency to act on information provided, or another administrative error, and is no fault of the individual. Therefore the individual should not be held accountable for this error, as any “overpayment” was beyond their control. We agree that in these circumstances:

“many recipients will have limited ability to make repayments at the time the debt arises or in the future.”<sup>7</sup>

3.7. We agree that penalties should not be applied to overpayments of government support.<sup>8</sup>

3.8. We support the person-centred approach to debt prevention and management. Placing individuals and whānau at the centre of decision-making when debt is both created and/or collected will ensure a holistic view and reduce risk of hardship or exacerbating hardship.<sup>9</sup>

3.9. We support the person-centred approach that includes a comprehensive hardship assessment.<sup>10</sup> We note that if a single centralised Crown debt agency was established there would not be the need for information sharing agreements with other agencies.

3.10. We agree that consideration should be given to referring people to financial capability support services,<sup>11</sup> however Methodist organisations that provide strengths based financial support and mentoring services report that a common issue for many individuals and whānau they see is insufficient income to meet their needs. Most often people in receipt of a benefit are very good at stretching their very limited income to meet their needs as far as it can.

“The money Igor owes MSD stems from several things. A few fines, loans to help him get by, loans for surprise bills, and then there’s the loans he’s taken out for dental work.

With no interest and no new debt, it will take him around 390 weeks or seven and a half years to be debt free.

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<sup>7</sup> 3.7 in the IRD Consultation Document, February 2023

<sup>8</sup> 3.8 in the IRD Consultation Document, February 2023

<sup>9</sup> 4.1 - 4.3 in the IRD Consultation Document, February 2023

<sup>10</sup> 4.4 c) in the IRD Consultation Document, February 2023

<sup>11</sup> 4.4 d), 4.21, & 4.22 in the IRD Consultation Document, February 2023

Igor says that he doesn't mind paying the money back. What bothers him is that whenever benefits go up, he gets less in the hand. "My benefit went up, my rent went up, and the amount I had to repay went up. I wasn't even much better off. I can never win," he says.

He says he doesn't live day to day, dollar to dollar anymore, but the money he receives is barely enough."<sup>12</sup>

- 3.11. We support the person-centred approach that includes "an assessment of whether or not debtors are receiving their full and correct entitlements from government agencies."<sup>13</sup> In our experience, people are not always aware of what supports they are eligible for and many struggle to negotiate the complexity of the support system. This complexity often leads to people not receiving all the help they need and that could make a significant difference in their lives.
- 3.12. We agree with the range of factors the assessment should consider as set out in 4.6 of the consultation document and have suggested some refinements in our recommendations.
- 3.13. We agree that any loan should not create or exacerbate hardship<sup>14</sup> and that alternatives such as non-recoverable grants be considered.<sup>15</sup>

#### **4. Taunakitanga | Recommendations**

- 4.1. The Methodist Alliance supports the Tax Working Group's recommendation to establish a single centralised Crown debt agency with consistent rules for treatment of debtors. We concur with the Tax Working Group that this would achieve economies of scale and more equitable outcomes across all Crown debtors. We believe that this would provide a holistic view that is needed when considering debt owed to government.
- 4.2. We note that the Welfare Expert Advisory Group (WEAG) also recommended a cross-government approach to managing debt to government agencies.<sup>16</sup>
- 4.3. By rejecting the WEAG and Tax Advisory Group recommendations to establish a single cross-government debt collection agency, the proposed framework risks perpetuating the current siloed and agency-centric approach, rather than a holistic person-centred approach. Even small repayments from multiple agencies often

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<sup>12</sup> Fairer Futures, "Lifting the Weight Report" 2023, p13. Please note names have been changed to protect identity.

<sup>13</sup> Ibid

<sup>14</sup> 4.9 in the IRD Consultation Document, February 2023

<sup>15</sup> 4.10 in the IRD Consultation Document, February 2023

<sup>16</sup> Welfare Expert Advisory Group Report, "Whakamana Tāngata, Restoring the Dignity to Social Security in New Zealand," February 2019, Recommendation 16, p22

add up to an unsustainable repayment regime for people living in material hardship. Unless a robust mechanism is established that considers total debt owed to all departments as a single liability it will not be possible to develop a fair and sustainable repayment process. This is because experience shows us that individual departmental drivers always trump joined up cross-government agreements.

- 4.4. We **recommend** that a single centralised Crown debt agency is established to have a holistic view of debt and to apply consistent treatment of debt.
- 4.5. A single centralised Crown debt agency would prevent inconsistencies that would probably arise if individual agencies were tasked with establishing methods to assess someone's financial circumstances, their ability to meet repayment, and clear guidance around what constitutes hardship, as suggested in 4.8 of the consultation document.
- 4.6. We agree with the concept of the principles however, the right for the individual to be heard is missing. This is an essential principle of natural justice. We strongly **recommend** that the principles are expanded to include the debtor's right to provide their view on the debt owed, how it arose, what they can afford to repay, and what they believe is fair in all their surrounding circumstances.
- 4.7. In addition, we **recommend** including a principle specifically relating to Te Tiriti o Waitangi as Māori comprise 44% of those with debt to all three agencies.<sup>17</sup>
- 4.8. We note that the types of debt defined in the document is limited to that owed to central government and does not include debt owed to local government. It is not uncommon for people to owe debt to central, and local government, as well as many other agencies.<sup>18</sup> We **recommend** that a wider view of debt is taken when considering the ability of the individual to repay debt to ensure their income is sufficient to meet their needs and does not create further hardship.
- 4.9. Different government agencies have different legislative powers to forgive debt, or to take all practical steps to recover debt.<sup>19</sup> Payments under the Social Security Act 1964 are debts due to the Crown.<sup>20</sup> We **recommend** a more consistent approach to debt across government agencies.

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<sup>17</sup> Chapter 5 of the IRD Consultation Document, February 2023, p19

<sup>18</sup> This includes payday loans, third tier lenders, mortgage, personal loans, etc.

<sup>19</sup> MSD has limited powers to forgive debt and has a legislative duty under the Social Security Act 1964 to take all practical steps to recover debt and has only limited exceptions to forgive debt set out in s86(9A) and 9(B), and S132G.

<sup>20</sup> S85A Social Security Act 1964



- 4.10. Further consideration needs to be given to how debt is formed. It is not fair or reasonable for an individual to incur debt if the government agency has failed to act when notified within time about a change in circumstances. We **recommend** that the first line of inquiry should be how the debt was formed.
- 4.11. We **recommend** that when “debt” arises due to an “overpayment of Government Support” which is wholly or in part the result of a government agency failing to act, or an administrative error, this debt should always be written off.
- 4.12. Working for Families, and other targeted support payments are very complex and difficult to understand and navigate, and we **recommend** there is further consideration of universal payments to simplify the welfare system and promote transparency and clarity for both people accessing support and those administering them.
- 4.13. We **recommend** and support the person-centred approach to debt prevention and management.
- 4.14. We **recommend** a grace period is provided for debt to be repaid before interest is incurred.
- 4.15. People are often eligible for additional support, but don’t receive this for a variety of reasons including trying to navigate the complexity of social support systems. We **recommend** that a reporting system is established to provide feedback to departments where debt has been incurred, so remedial action can be taken to address and close the gaps between eligibility and the support people actually receive.
- 4.16. We **recommend** this reporting includes the number of incidents where it is found that people were not in receipt of their full entitlement, and the quantum of the difference between what the person received and their full entitlement.
- 4.17. We **recommend** Work & Income includes a procedural step where staff confirm in writing that the person is receiving all the supports they are entitled to. This would provide reciprocity, as the recipients of support have to confirm that all the information they have provided to Work & Income is true and correct. It would also build up trust and confidence in the process of accessing social support services.
- 4.18. We understand that Work & Income look at the gross amount when assessing income. We **recommend** that this is changed to considering the net amount, as

this is the actual amount of money in the hand that people in receipt of a benefit have as income.

- 4.19. We **recommend** that the assessment of hardship<sup>21</sup> should include the whānau in the assessment. In particular, this is necessary when there are tamariki and rangatahi in the whānau, to ensure the government's goals to reduce child poverty are met.
- 4.20. Where dependent tamariki are present in the whānau, we strongly **recommend** the needs of the tamariki are taken into account. Often tamariki will not attend school if they do not have the correct uniform, books etc. This is often viewed as truancy, when in reality it is a poverty issue. While it is possible to get funding from Work and Income for school costs, this is a debt that needs to be repaid. The assumption is that there is an adequate income to repay debt, when often the income derived from social security support is not enough to live on and cover all the needs of the whānau.
- 4.21. We **recommend** the assessment of financial hardship should also include consideration of whether the person's income is secure or "casual" - where the income varies week to week. Insufficient and insecure income is a cause of high stress and a frequent cause of hardship and debt. This is especially so in relation to the benefit abatement system. If a person receives income that is higher than normal, and their benefit is abated, there are often delays in their benefit being restored to the normal level, which may result in the person and their whānau in situation where they do not have enough income to cover rent, power and kai, and also can create a new debt.
- 4.22. We **recommend** investment in kaupapa Māori and Pasifika financial wellbeing services to ensure culturally safe and supportive services for whānau and fono that promotes independence, and resilience. We further **recommend** that government agencies work in close partnership with kaupapa Māori and other culturally specific services, to reduce barriers to accessing support for those most in need, and to address the primary drivers of debt.
- 4.23. Kathleen Tuai-Taufo'ou, CEO of Siaola, Vahefonua Tonga Methodist Mission, summarises the financial wellbeing service this Pasifika organisation provides as:
- ["Siaola offers Pacific families a strength-based, holistic financial wellbeing service \(GREI\) that results in debt elimination and wealth creation through home ownership. Through debt consolidation to banks, employment services to increase income in the household and services to support the children's](#)

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<sup>21</sup> 4.5 in the IRD Consultation Document, February 2023

education, we not only see the decrease in debt to government, but we empower the whole family to live successful thriving lives. These alternative models of care allow for government clients to be referred to financial wellbeing services that suit each client's need."

- 4.24. We **recommend** a direct phone line for financial wellbeing mentors to access the single centralised Crown debt agency.
- 4.25. We seek further clarification of what "competing policy considerations that must take priority over this principle"<sup>22</sup> might be that would override the effect the repayment rate would have on the ability of the person to support themselves and any dependents.
- 4.26. We **recommend** that debt related communications are written in plain **language** - rather than plain English, as these communications will need to be available in a variety of languages to ensure understanding by the debtors. Having information provided in the appropriate language is part of a person-centred approach and would ensure people have a better understanding of how the debt was caused, the repayment obligations, and their rights.
- 4.27. It may be useful to collect statistics which provide clarity on the numbers of individuals that owe debt to government for whom English is a second language. This would give clarity to the need for information in other languages.
- 4.28. The ability to repay debt assumes that the individual is receiving a liveable income. People in receipt of welfare support find that the level of financial support is insufficient to meet their needs. We **recommend** that core benefit levels are increased to the standard of liveable incomes and to overhaul relationship rules.

"The rules on relationships in the welfare system need to be updated. You should be allowed to co-parent, or live with whānau, without being treated as being in a relationship in the nature of marriage.

The processes are too slow and there is no accountability for decisions that can drive already vulnerable people into deeper suffering and hardship.

...

Transforming our welfare system would be just a start towards addressing these broader problems."<sup>23</sup>

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<sup>22</sup> 4.13 second bullet point in the IRD Consultation Document, February 2023

<sup>23</sup> Fairer Futures, "Lifting the Weight Report" 2023, p20

- 4.29. We **recommend** non-monetary repayment options to repay debt and fines could include the option for people to work within accredited community development and/or iwi organisations to 'work off' their debt. This would provide a supported work experience environment that would have potential benefits not only for the individual, but also their local community. These benefits include increased social connectedness and cohesion, skill development and valuable work in local communities. It would also help people to clear debts in ways that would be mana enhancing and be seen to be fair for all citizens. There are non-government agencies that have existing programmes that would be suitable for this type of arrangement.
- 4.30. We **recommend** the inclusion of the Fonofale Pasifika wellbeing framework as Pasifika communities are disproportionately represented in lower socio-economic groups and the latest child poverty statistics show an increase in the percentage of Pasifika children living in a household with a low income, and 25.6% living in households in material hardship.<sup>24</sup>
- 4.31. We understand the percentage of disabled children living in a household with a low income has increased.<sup>25</sup> In addition, the percentage of children living in a disabled household with a low income has also increased and is significantly higher than children in non-disabled households.<sup>26</sup> A number of families/whānau are unable to arrange safe, accessible and affordable childcare. In addition, families/whānau are continuing to care for family members when it is beyond their resources. We **recommend** further consultation with the disability sector to ensure that any debt framework does not further disadvantage those living with a disability and those caring for those with a disability.
- 4.32. We **recommend** strong links between this high level framework and policies and procedures for Crown agencies to follow. This would ensure that the principles are embedded into practice.

### 3. Whakarāpopototanga | Summary

The Methodist Alliance supports the intention of the proposed framework to manage and prevent debt owed to Government. We commend the Government for consulting with social services and to ensure that valuable input is available to refine the proposed framework to address inequalities created by the current policies and practices.

We are willing to meet to further discuss this, if you consider this would be of assistance.

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<sup>24</sup> <https://www.stats.govt.nz/information-releases/child-poverty-statistics-year-ended-june-2022/>

<sup>25</sup> Ibid

<sup>26</sup> Ibid



Carol Barron

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## NCIWR's submission on the draft framework for debt to government.

### 1. Introduction

The National Collective of Independent Women's Refuges (NCIWR) is a non-governmental organisation that had been delivering services to women, children, and whānau affected by family violence in Aotearoa for 50 years. In 2021/22, our network of 42 affiliated refuges supported 52,000 referrals, and 59,000 safe nights in safe houses. Children made up 50% of clients who accessed safehouses across the country.

NCIWR were unable to attend the SSPA and IRD consultation meeting on the draft framework. As such we appreciate the opportunity to submit in writing to Cabinet's Social Wellbeing Committee, especially given the draft framework's focus on "how agencies might collectively take into account an individual's personal circumstances".

The population group that we represent are victims of family violence, specifically women and children, who are the primary groups subjected to and impacted by family violence. In Aotearoa, one in three women who have ever partnered with a man report experiencing family violence.<sup>1</sup> The rates of violence are significantly more pronounced for wāhine Māori<sup>2</sup> (as outlined further in this submission).

For many women (especially mothers), state debt and financial hardship are both consequences of family violence and a debilitating barrier to future safety prospects. As is underlined throughout this submission, family violence frequently involves some form of economic abuse, and financial stability is inextricably linked to risk or safety from family violence. Economic abuse (sometimes called financial abuse) is one of the most common means through which perpetrators of intimate partner violence assume control and exercise power over their victims.<sup>3</sup> The omission of family violence, and of economic abuse specifically, from the draft framework is concerning and we urge the committee to urgently address this oversight.

### 2. Overview of submission

The submission begins with defining economic abuse and its relationship to coercive control and giving an indication of the prevalence and scale of economic abuse in the lives of family violence victims. It then explains why economic abuse perpetrated as part of family violence should be considered as a standalone issue (and grounds for exemption and/or additional support) in relation to hardship.

Next, it provides a case study that highlights how one IRD debtor experienced first economic abuse and then organisational collusion with her perpetrator, which reinforced her hardship. The submission then responds to each section of the draft framework and the consultation questions and relates these to victims of family violence, and identifies the importance of proposed changes using an IRD response

<sup>1</sup> Fanslow, J. L., & Robinson, E. (2011). Sticks, Stones, or Words? Counting the prevalence of different types of intimate partner violence reported by New Zealand women. *Journal of Aggression, Maltreatment & Trauma*, 20(7), 741–759. <https://doi.org/10.1080/10926771.2011.608221>

<sup>2</sup> Family Violence Death Review Committee. (2017). *Fifth Report Data: January 2009 to December 2015*. Wellington: Family Violence Death Review Committee

<sup>3</sup> Milne, S., Maury, S., Gulliver, P., & Eccleton, N. (2018). *Economic abuse in New Zealand: towards an understanding and response*. Good Shepherd: Australia, New Zealand.

to an OIA request naming the present lack of any family violence policy. It then concludes with a list of recommendations relating to the overall draft framework.

### 3. NCIWR's position

NCIWR is a central part of New Zealand's national strategy to eliminate family violence. We are the only national specialist service for family violence victims, contribute to the advancement of research, knowledge, and practice in the family violence field, and give expert input into the development and design of policy and legislation to equip organisations to fulfil their unique roles in responding to and combating family violence.

Every organisation has a vital role in eliminating family violence in all of its forms. Our overarching response to the draft framework is that this role in ending family violence needs to be embedded into the framework, since family violence is a financial issue, a hardship issue, and a debt issue, and opportunities to combat violence are not maximised within the current draft.

### 4. Defining economic abuse

Economic abuse is a pervasive issue in Aotearoa, yet its manifestations and impacts are not well understood, and largely unaddressed.<sup>4</sup> Economic abuse is classified as a subtype of family violence under *The Family Violence Act 2018*. It is rarely a standalone strategy of violence, but rather is one manifestation of a family violence perpetrator's broader pattern of coercive and controlling behaviour.

Analyses of family violence homicides show coercive control is one of the principal predictors of lethality. Examples of coercive control include a perpetrator controlling, forcing, or manipulating a victim's access to money or finances, the services they can access, and their access to work or study. Perpetrators often use third parties, systems, and services (such as welfare agencies) to control their victims,<sup>5</sup> such as by forestalling any financial or practical prospects for them outside of the relationship with that perpetrator.

Family violence is almost always predicated on the perpetrator's use of power to control and subordinate. This creates a power imbalance within relationships, that can lead to coerced financial decision-making.<sup>6</sup> When a perpetrator uses violence against their victim, and commands authority over that victim's household, the victim has few viable ways to prevent the perpetrator from misusing their financial resources.<sup>7</sup> Typically, once the perpetrator has forcibly assumed control over day-to-day household functioning, including the victim's finances, they exert this control in ways that reinforce women's entrapment in the family violence setting.<sup>8</sup>

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<sup>4</sup> Milne, S., Maury, S., Gulliver, P., & Eccleton, N. (2018). Economic abuse in New Zealand: towards an understanding and response. Good Shepherd: Australia, New Zealand.

<sup>5</sup> Family Safety Victoria. (2019). *Evaluation of perpetrator interventions final report*. <https://www.vic.gov.au/evaluation-perpetrator-interventions-final-report/appendix-indicator-framework>

<sup>6</sup> Milne, S., Maury, S., Gulliver, P., & Eccleton, N. (2018). Economic abuse in New Zealand: towards an understanding and response. Good Shepherd: Australia, New Zealand.

<sup>7</sup> Montesanti, S. R., & Thurston, W. E. (2015). Mapping the role of structural and interpersonal violence in the lives of women: implications for public health interventions and policy. *BMC Women's Health*, 15, 100.

<sup>8</sup> Jury, A., Thorburn, N., & Weatherall, R. (2017). "What's his is his and what's mine is his": Financial power and the economic abuse of women in Aotearoa. *Aotearoa New Zealand Social Work*, 29(2), 69-82.



## 5. Economic abuse research and data

In 2017, Women's Refuge carried out research into economic abuse in the context of family violence, using the experiences of 445 participants who had been subjected to economic abuse by a partner. The study highlighted themes in perpetrators' use of victims' income, benefits, assets, and employment as weapons to advance their systematic violence over those victims.<sup>9</sup> Themes included:

- Binding victims to the relationship by forcing them to take out loans or incur debt;
- Forcing victims to be accountable for fraudulent behaviour that could be reported if they attempted to separate;
- Forcibly taking victims' money;
- Engineering a division of financial duties to create inequitable spending power for themselves while positioning household bills, rent, and financial accountability with victims; and
- Sabotaging victims' employment or employment prospects.

These research findings are corroborated by NCIWR's 2023 client data on economic abuse. In an effort to understand how abuse played out in the lives of our clients, Women's Refuge recently implemented a new and mandatory risk assessment, completed with all clients at the beginning of their engagement. It includes the range of (often invisible) risks to the viability of women's, and their children's, lives, and futures, including economic abuse.

The new risk assessment has now been conducted with over 500 Refuge clients. The 'First 500' showcases how economic abuse features prominently in many women's experiences of family violence.

<b>Risk assessment question</b>	<b>Percentage who answered 'Yes'</b>
Have they* forced or pressured you to take out debt or get money in ways you weren't comfortable with?	39.37%
Have they* ever threatened to tell people about your income/benefits to make you do what they want?	19.2%
Have they* excluded you from decisions about shared or household money?	52.2%
Have they* stopped you from having your own money?	45.0%

\* Primary perpetrator

This coercive control also restricts how victims can engage with any services,<sup>10</sup> limiting the extent to which the destructive impacts of economic abuse can be addressed through specialist support. The damage to a victim's reputation and credibility as a result of economic abuse is long-lasting; it impacts multiple facets of their lives, increases the stigmatisation they experience, restricts their freedom and

<sup>9</sup> Jury, A., Thorburn, N., & Weatherall, R. (2017). Women's experiences of economic abuse in Aotearoa New Zealand. NCIWR: New Zealand.

<sup>10</sup> Herbert, R. and D. Mackenzie (2014) *The Way Forward: an integrated system for intimate partner violence and child abuse and neglect in New Zealand*, Wellington: The Impact Collective, [http://www.theimpactcollective.co.nz/thewayforward\\_210714.pdf](http://www.theimpactcollective.co.nz/thewayforward_210714.pdf)



their ability to participate normally in everyday life, and reinforces financial hardship, often precluding their capacity to fully recover or to provide for their children.<sup>11</sup>

Research participants in the 2017 research explained the ongoing costs of economic abuse – long after their relationships with perpetrators had ended. The below quotes highlight how the perception of ‘poor financial decision making’ and ‘poor financial behaviour’ are (stigmatising) myths that perpetuate cycles of financial hardship for victims of violence:

*“It changed my life dramatically. From work, credit history, tenancy... Before I had a perfect record no debt, after I had no job, nowhere to live and nearly 20,000 in debt!” - Victim*

*“The impact of financial abuse is massive... There is little legal comeback and scant protection. Legal action is costly and takes months. If you do it yourself it’s time consuming and while you are struggling to retrain, work and look after the kids it’s difficult to manage... Financial abuse is ongoing, insidious and destroys your life. Physical abuse is horrendous, but you can remove yourself and get a degree of protection.” - Victim*

The implied ‘fault’ is typically perceived to sit with the victim – as do the consequences and expectations for repayment. Yet they have little to no control over the choices of their perpetrators. Economic abuse has a cumulative impact on victims’ financial, personal, social, and material resources, and these penalties extend beyond the relationship itself and are perpetually reinforcing of the entrapment in abusive relationships. Understanding victims’ experiences of economic abuse, and its impacts over time is therefore pivotal to understanding their contexts of hardship.<sup>12</sup>

Applying these research and practice insights relating to economic abuse to the draft framework gives the context to why it is so imperative that the framework itself and organisational policies and processes that enact it are all family violence-informed – without explicit pathways and redress for victims, the ‘neutral’ stance of agencies inadvertently collude with perpetrators’ efforts to keep victims immobilised and disadvantaged through financial means.

## 6. Family violence as a standalone issue of hardship

As family violence specialists, NCIWR firmly believes that economic abuse in the context of family violence needs to be prioritised as a standalone issue in relation to debt and the assessment of hardship. It is encouraging to see the draft framework’s focus on a fair and consistent approach to hardship, and the open discussion about treating particular forms of debt differently.

We understand that serious hardship can arise from numerous and often intersecting causes. We acknowledge that some people may feel concerned that singling out family violence creates precedent to individualise assessment for other contributing factors. However, government has frequently reiterated the need for ‘cross-sector’ and ‘whole-of-government’ approaches to ending family violence – and the efficacy of these approaches is undermined when some of the most basic tenets of safety and recovery (i.e. alleviation of economic hardship) are made inaccessible by unresponsive policy. The

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<sup>11</sup> Jury, A., Thorburn, N., & Weatherall, R. (2017). Women’s experiences of economic abuse in Aotearoa New Zealand. NCIWR: New Zealand.

<sup>12</sup> Steinmann, K. and Jones, S., *Ohio Intimate Partner Violence Collaborative: Final Evaluation Report of the Safe and Together Training Program*, Columbus, National Center for Adoption Law and Policy, 2014.

ethical imperative to combat family violence through the implementation of family violence-informed policies and processes differs significantly from organisational responsibility for alleviating hardship; for instance:

- No other cause of hardship jeopardises an individual's immediate and ongoing safety (including by risking both their lives and the viability of their lives) in the way that the perpetration of family violence does;
- Economic abuse and the use of controlling behaviours is strongly linked to IPV homicide, physical violence, sexual violence, trauma, and other injury, in addition to the unseen but immense social and material consequences;<sup>13</sup>
- Family violence fosters a multiplicity of hardships for children and is a core driver of child poverty. The 'one in three' women who are victimised by FV are almost always the primary caregivers of children. They are almost always those children's main source of safety and protection<sup>14</sup>, and are almost always the ones providing the day-to-day care and provision for children, even when severely financially restricted;<sup>15</sup>
- Economic abuse is often subtle, insidious, and invisible to anyone but the victim. It is not reported frequently, and not often defined as such by people who do not have access to services that can identify and name those behaviours;<sup>16</sup> and
- Economic abuse reinforces power imbalance between the victim and perpetrator that gives rise to coerced financial decision-making. As such, victims' presumed 'decisions' or 'choices' that lead to debt or financial hardship need to be viewed with a family violence-informed analysis; in the context of family violence, such choices are rarely made freely and are almost always coerced by the person with greater power.

It is already evidenced that "debt to government is a stress factor affecting many families and whānau". Family violence is a compounding factor (and driver) for both stress and hardship, and both are heightened when debt to government arises through force or coercion by someone using violence. We therefore recommend that the definition of hardship include hardship caused by economic abuse in the context of family violence.

## 7. Case study

NCIWR were recently made aware of a case of economic abuse where our client (Sarah<sup>17</sup>) had over \$25,000 of debt outstanding to IRD. Her situation was as follows:

Sarah's relationship was characterised by extreme physical and sexual violence perpetrated by her partner. The Police were aware of his history of violence against Sarah, as Sarah had sought legal protection multiple times.

As is the case with most instances of economic abuse, Sarah's partner withheld access to the shared household income. She was forced to beg for hours to be given enough money to buy food

<sup>13</sup> Family Safety Victoria. (2019). *Evaluation of perpetrator interventions final report*. <https://www.vic.gov.au/evaluation-perpetrator-interventions-final-report/appendix-indicator-framework>

<sup>14</sup> Wilson, D. L., Smith, R., Tolmie, J., & De Haan, I. (2015). Becoming better helpers: Rethinking language to move beyond simplistic responses to women experiencing intimate partner violence. *Policy Quarterly*, 11(1), 25–31. <https://doi.org/10.26686/pq.v11i1.4529>

<sup>15</sup> Mandel, D. (2009). Batters and the lives of their children. In E, Stark, & E, Buzawa. (Eds.), *Violence against women in families and relationships* (pp 67-93). ABC-CLIO.

<sup>16</sup> Family Violence Death Review Committee. (2017). *Fifth Report Data: January 2009 to December 2015*. Wellington: Family Violence Death Review Committee

<sup>17</sup> Pseudonym used.

for her children, while he enjoyed the disposable income for himself. He prevented her from disclosing their relationship status to Work and Income. He also forced her to fraudulently collect Family Tax Credits and other benefits and expressly prohibited her from cancelling these. He continually threatened to report her if she did not do exactly what he wanted at all times.

Eventually, with help, Sarah was able to separate from her violent partner. A Woman's Refuge advocate worked with Sarah for six months on the economic abuse component of her perpetrator's violence. She knew that Sarah did not make the choice to receive more than she was entitled to. It was clear that Sarah did not have control over the money, spend the money herself, or benefit in any way from the accrual of the money. It was equally clear that Sarah made the 'choice' to comply with her perpetrator out of fear for her safety and the safety of her children.

Unfortunately for Sarah, because there was no simple pathway for her debt to be recognised as economic abuse, she was told multiple times that she would have to pay this debt. Her employer was then notified of her large debt, which compounded the issue for Sarah, and revictimised her. She felt she was losing everything, felt ashamed and out of place at work, and lost even more control over the practical aspects of her life. She was then forced to out herself as a victim of family violence to explain the debt, and had her working integrity and reputation questioned.

After trying for six months to clear Sarah's name from this debt, including by providing evidence of Sarah's abuse, and communicating back and forth with case managers, her advocate reached out to us to write an expert report for the IRD setting out the evidence, nature, and consequences of the family violence. It was only then that Sarah received an exemption from repayment obligations or punitive follow up action.

As this case study highlights,

- Debt accrued through economic abuse is not a voluntary 'choice', it is accrued as a consequence or force or coercion by perpetrators of violence;
- Economic abuse leads to significant safety concerns for victims;
- Debt can become a weapon of coercion, used by perpetrators to exploit and harm victims;
- Family violence is a crime, as stated in the Family Violence Act 2018. Victims of this criminal offending must not be held liable for debt incurred as part of this offending;
- Agencies are ethically obligated to address internal frameworks that reinforce family violence victimisation, and should uphold the government's commitment to creating safety for victims;
- Agencies must make explicit their understanding of family violence as a pattern of coercion that often weaponises victims' and their financial contexts;
- Agency policies and practices must not discriminate against victims;
- Agency policies and practices must support a victim's return to financial viability;
- The specialist sector contributes their expertise to support family violence-informed policies and practices, and this can be instrumentalised to ensure the safety of draft frameworks and policy;
- Well-intentioned policy and practice can ultimately cause harm when there is no consultation with the specialist sector; and
- It is essential that all agencies and services take the opportunity to effectively contribute to the solution toward the elimination of family violence.

## 8. Response to the draft framework

1. The guiding principles are appropriate and can accommodate a family violence lens.
2. For the *'purpose-centred approach'*, our recommendations involve understanding economic abuse in the context of family violence in order to support a shift from 'client as problem', or 'poor behaviour/poor decision-making as problem' toward 'agency as solution'.
3. For the *'person-centred approach'*, our recommendations involve understanding economic abuse in the context of family violence in order to proactively screen for economic abuse, and to make economic abuse explicit in the assessment of hardship.
4. Our key recommendation is the collaboration with the specialist sector to apply a family violence informed lens to all policy and practice surrounding debt to government, in order to understand and identify economic abuse, and make safety informed decisions for debtors.

### 8.1 The types of debt owed to government

The categories of *'types of debts owed to government'* that may apply to the victims of economic abuse include:

- 3.1 b) Overpayments of Government Support
- 3.1 g) Intentional non-compliance.

In family violence relationships, one person uses fear and intimidation to control or exercise power over the other. Economic abuse is an issue whereby the behaviours and choices of a person external to the debtor may determine the debt. The emphasis within these categories of debt is on individual behaviour and currently does not account for the behaviour of an abusive person. Having awareness of the influence of economic abuse on debt and hardship means recognising that categories a) and g) may not be individual problems with an individually focused solution. These categories fail to allow for any interpretation of debt that is not a character, behavioural, or decision-making fault of the individual.

We recommend the provision for family violence be included in the category definitions, or the creation of a new category which encompasses debt that is coerced (including in ways that are invisible or difficult to quantify) by someone external.

### 8.2 Recommended arrangements for creating and managing debt

The four categories for creating and managing debt cover appropriate policy factors. A fifth policy factor to consider is 'risk': it relates to the risk to an individual versus the risk to an agency. Risk appears to be a central theme in the *'recommended treatments'* but is not a standalone policy. As above, the risk to an individual client experiencing economic abuse is often critical and immediate. Risk to an agency includes both the costs to collect or write-off debt, and the risk of colluding with perpetrators to create financial precarity for victims.

The framing of the supporting questions (3.2) for each category appears to start from the assumption that there is or has been poor behaviour or poor decision-making. We recommend the inclusion of questions that cover agency preparation to consider all forms of hardship. These may sit alongside the

current 'What is the appropriate rate, repayment, extension, suspension etc?', and 'How ready are we to write off the debt?'

As an example, consider 'How have we satisfied our investigation into all client context?', 'Have we considered all forms of client risk/safety?', 'How have we determined/measured the needs of the client in their entirety?', 'How is all hardship considered in the decision to write off debt?', 'How are we supporting clients toward financially viable futures?', and 'Have we considered the long-lasting impact of economic abuse on victims?'

These questions support a shift from 'client as problem', or 'poor behaviour/poor decision-making as problem' toward 'agency as solution'. This minimises the risk that agencies may unintentionally collude with perpetrators to initiate, maintain, or reinforce a victim's situation of hardship.

### 8.3 Recommended treatment for overpayments of government support

#### 8.3.a) Ideal treatment of debt arising from Overpayments of Government Support

We appreciate the framing of 3.7:

*"This type of debt is unintended. It typically results from inaccurate or late information about eligibility or assessment, or delays in processing this information (this is different from instances of intentional non-compliance). Many recipients will have limited ability to make repayments at the time the debt arises or in the future."*

We appreciate that family violence (and economic abuse specifically) could be interpreted within this scope as it is, by its nature, non-voluntary. However, unless this is specifically included, or unless agencies have family violence informed policies and practices, economic abuse will remain hidden, and clients' safety will remain compromised – because family violence is not included as context to victims' experiences unless policy directs that it is considered.

Similar myths of origin as referenced above are discernible in section 3.8:

*"A lower threshold for write-off may be appropriate, especially where repayment may undermine income adequacy. This needs to be balanced against the behavioural incentives to provide timely and accurate information to the government. If the overpayment is due to administrative error, write-off should be the default response."*

Again, consideration needs to be given to the assumption of 'poor behaviour/poor decision-making as problem'. Policies need to reflect an understanding that power dynamics within violent relationships do not allow for 'timely and accurate information to the government'. Often this information cannot be given freely, or without violent repercussions.

#### 8.3.b) Ideal treatment of debt arising from intentional non-compliance 3.22

Applying the concept of 'intentional non-compliance' to victims of family violence and economic abuse is unsafe. Many of the previously explained key messages apply to this category:

- Intention, behaviour, and decision-making of victims of economic abuse are all externally influenced; for instance, by fear and the need to protect themselves and their children from financial hardship, reputation sabotage, injury, or death.

- For victims of economic abuse *'intentional non-compliance'* is not an individually driven behaviour.

We invite the committee to consider the following questions.

1. How does the assumption that non-compliance is driven only by *"deceitful exploitation of systems"* and therefore *"punishable"*, and only written off *"in cases where collection would be impossible (for example the debtor is deceased)"* (3.22, pp13) further stigmatise debtors who are victims of abuse and reinforce their hardship?
2. Are there rigorous agency policies and procedures to assess for context, abuse, and hardship?
3. If so, is this done routinely, confidently, and safely?

#### 8.4 Person-centred approach

A *'person-centred approach'* can certainly support the groups that NCIWR represent. The intent behind 4.4 c): *"Make decisions about debt relief in the context of a comprehensive hardship assessment"* is promising.

However, for the *'person-centred'* approach to be realised to its full potential, the onus needs to be removed from the debtor and sit with the agency instead. For example, each question posed on page 18, (we understand these questions are only to guide feedback) can be reframed slightly: *'Is it easy for debtors to understand what they owe, and to who?'* can become: *'How have we supported debtors to understand what they owe, and to who?'* Small changes in the intention of the draft framework can help support all debtors, especially those facing economic abuse and multiplicity of hardship. Victims already carry an untenable workload in maintaining whatever safety is possible for them. Initiatives only help if they remove this burden rather than add to it.

We suggest the inclusion of a further recommendation to agencies. For example, *'implement policy that removes barriers and proactively supports a client's return to financial viability'*: this can be applied to victims of economic abuse, and more generally as well.

Again, for the purposes of supporting victims of economic abuse, the questions on page 18 *'How easy is it for debtors to negotiate for hardship relief?'* can be reframed to *'How are agencies being proactive so that debtors do not have to negotiate for hardship relief themselves?'* It is through this reframing that the person-centred approach can make sense of a debtor's context.

For example, often victims of violence are so enmeshed in the cycle of violence, and surviving relentless abuse, that they do not have the capacity to negotiate themselves, or with reference to our case study above (see section 7), are still unable to make headway in the negotiation process, even with the support of an advocate.

#### 8.4 a) Assessing Hardship

We recommend the inclusion of a family violence-informed understanding into the assessment of hardship. The draft framework specifically highlights that *"hardship operates on a continuum of severity, with more serious hardship being of greater concern"*. As stated above, family violence is the only cause of hardship that jeopardises clients' lives because of the behaviours and choices of another person. It therefore needs explicit acknowledgement as a category and cause of hardship.



In addition, the hardship assessment should seek an understanding of who controls the household finances in situations of economic abuse, as the understanding of economic abuse needs to precede the inclusive analysis of it to an individual debtor's context. We therefore recommend proactive, safe, family violence screening to be included in hardship assessment. This should be developed and implemented in collaboration with the specialist family violence sector, and must be fit for purpose for women and children who experience abuse, disabled people abused by those who care for them, immigrant victims of abuse, and victims of elder abuse.

Every agency must use the power they have to treat economic abuse in the context of family violence as a financial issue, a hardship issue, and a debt issue.

#### *8.4 b) Taking hardship into account in decision-making*

In the case study above, it took over six months for a victim of economic abuse to be heard, and for her evidence of economic abuse to be understood. She was required to disclose extremely detailed personal information about physical and sexual violence which was then stored on her file for multiple people to see.

If evidence of economic abuse is to be provided there needs to be a set evidential threshold. *The Domestic Violence Victims' Protection Act 2018* (DVVPA) sets out an evidence threshold for family violence: evidence can be provided by the victim, or in short form by a family violence specialist organisation, amongst other forms.<sup>18</sup> This threshold reduces the risk of retraumatising victims or putting their safety at further risk. We recommend utilising a similar threshold. Similarly, once evidence is provided, it needs to be given priority to avoid delays that cause additional risk to victims.

#### *8.4 c) Supporting debtors in hardship*

Given the prevalence of family violence in Aotearoa, it is a safe assumption that many debtors are victims of family violence. This influences how safe they are to receive communication, especially digitally. Research highlights that victims often have their phones and other digital devices monitored by a perpetrator.<sup>19</sup> It is important to consider how this may impact the debtor and their perceived behaviour and decision-making. The specialist sector provides training and can support agencies and staff to create safe policies and practices for communicating with victims.<sup>20</sup>

Simple screening questions and prompts can traverse agency engagement with a client/debtor, such as:

- 'What is your preferred way to communicate?'
- 'We want to know which form of communication is safest and most comfortable for everyone we work with?'
- 'Sometimes people tell us that there is someone in their home who is making them feel unsafe, does this apply to you?'

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<sup>18</sup> Employment New Zealand. (2023). Proof of family violence. <https://www.employment.govt.nz/leave-and-holidays/family-violence-leave/proof-family-violence/>

<sup>19</sup> Thorburn, N., & Jury, A. (2019). Relentless not romantic: intimate partner stalking Aotearoa New Zealand. <https://womensrefuge.org.nz/wp-content/uploads/2019/11/Intimate-Partner-Stalking-.pdf>

<sup>20</sup> DV Free. (2023). *Guidelines for a DV Free workplace*. <http://www.dvfree.org.nz>

- 'Sometimes people tell us that there is someone in their home who is trying to control what they do or say, does this apply to you?'
- 'Sometimes people tell us that there is someone who has access to their phone who is trying to control what they do or say, does this apply to you?'

### 8.5 Impact of the framework on affected population groups

As stated above, family violence impacts one in three women. Wāhine Māori, however, are more than twice as likely to be a victim of a violent interpersonal offence by an intimate partner<sup>21</sup>, and are three times as likely to be killed by a partner<sup>22</sup>. Wāhine Māori are also almost twice as likely to experience one or more coercive and controlling behaviours from a current partner<sup>23</sup>. 41% of referrals to Women's Refuge were for Māori (women and children), with tamariki Māori comprising 39% of all tamariki<sup>24</sup>. Family violence increases stigmatisation for Māori and systems need to be extra vigilant to not further their vulnerability through unsafe policy and practice.

Specialist input should be sought from the disability sector as disabled people, or 'adults at risk', experience higher reported family violence than non-disabled people. They also face multiple extra systemic barriers to support, and if policy does not consider their specific needs they face exclusion and are not afforded protection by the system.<sup>25</sup>

## 9. Response to Official Information Act request regarding family violence policy

In 2021, we made an OIA request to IRD to understand how IRD were making explicit family violence within their policies and practice. The information received from IRD (as below) states that there is no current policy on family violence:

*"Inland Revenue has no specific policy on family violence. The ground for writing off debt and the remission of interest and penalties is provided for in the Tax Administration Act as "serious hardship". Serious hardship can arise from an open-ended category of causes, which is why there is no specific family violence category. The instruction in the table below however deals specifically with family violence."*

However, the only instruction for practice around family violence was:

*"Procedure for managing client debt/overpayment if family violence is identified or suspected.*

*The procedure for dealing with serious hardship is set out in Standard Practice Statement 18/04.*

<sup>21</sup> Te Puni Kōkiri. (2017). *Understanding family violence: Māori in Aotearoa New Zealand*. <https://www.tpk.govt.nz/en/o-matou-mohiotanga/health/maori-family-violence-infographic>.

<sup>22</sup> Family Violence Death Review Committee. 2017. *Fifth Report Data: January 2009 to December 2015*. Wellington: Family Violence Death Review Committee

<sup>23</sup> Te Puni Kōkiri. (2017). *Understanding family violence: Māori in Aotearoa New Zealand*. <https://www.tpk.govt.nz/en/o-matou-mohiotanga/health/maori-family-violence-infographic>.

<sup>24</sup> NCIWR. (2022). *Annual report*. <https://womensrefuge.org.nz/wp-content/uploads/2022/11/Annual-Report-2022-High-Res-1.pdf>

<sup>25</sup> Fanslow, J. L., Malihi, Z. A., Hashemi, L., Gulliver, P.J., & McIntosh, J D. (2021).

Lifetime Prevalence of Intimate Partner Violence and Disability: Results from a Population-Based Study in New Zealand, *American Journal of Preventive Medicine*, (61)3. <https://doi.org/10.1016/j.amepre.2021.02.022>.



*Take note: We must ensure that taking this action will not result in an extreme (or violent) reaction from the ex-partner. For example, if there was a history of domestic violence in the relationship.”*

There is no family violence informed policy, practice, or any direction to screen for family violence, even though there was acknowledgement that family violence was an issue that debtors face:

*“Inland Revenue’s Families people (who manage both Working for Families and Child Support) understand that our customers come from different backgrounds, and that family violence may very well be part of these”.*

Without a mechanism that builds capacity of services and staff to apply a family violence analysis to a situation of serious hardship, no family violence understanding – or safe response – can be reasonably expected. Our concern was corroborated by the OIA response, which stated: *“There is no specific training for staff communicating with the victims of family violence”,* and *“There are no specific avenues of support provided by IRD for taxpayers experiencing family violence.”*

We then queried whether IRD had any plans to address the gap in workforce capability in terms of a family violence-informed response to taxpayer hardship and noted that the cited values of empathy and rapport-building do not equate to an adequate family violence-informed pathway. IRD replied that it: *“does not consider that there is a gap in workforce capability as regards a family violence-informed response to taxpayer hardship”.*

They then included a list of steps they took when they suspected family violence. None appeared to be likely to be safe or helpful to victims, and IRD acknowledged the fallibility of these, commenting that *“these solutions raise their own issues as they may cause additional tension within an abusive relationship, which is something we are cautious to avoid.”*

Understanding victims’ experiences of economic abuse, and its impacts over time, is pivotal to understanding their contexts of hardship. If there is no process through which to include family violence information, it is not possible to obtain a true picture of hardship. The inadequacy of responses to family violence are further exemplified by the below excerpt of the OIA request.

*“It is hard to identify situations of family violence unless customers advise us of them. Both the Privacy Act 2020 and the Tax Administration Act 1994 control the gathering of information for proper purposes, and common courtesy, limit the extent to which Inland Revenue staff can be pro-active in inquiring into situations of family violence. We cannot, for example, assume that financial hardship arises from family violence. To suggest or inquire into such possibilities may cause offence if it is not the case, and may also exacerbate any violence if, as we are aware is sometimes true, the victim is monitored by the offending partner in her contact with Inland Revenue.”*

The lack of a family violence framework that considers economic abuse and its far reaching, and ongoing impacts is of utmost concern.

There are many examples of family violence policy and practice (including mandatory screening and workforce training to recognise and respond to family violence) being adopted in New Zealand. The health sector in Aotearoa has implemented mandatory screening. Many banks have worked with the

family violence specialist sector to take proactive steps to recognise economic abuse and its impacts in order to protect their clients from financial hardship, ongoing financial instability, and the severe consequences of coercive control. Doing so can support the agency, its staff, and its clients.

For all the reasons set out throughout this submission, we urge, at a minimum, IRD's inclusion of:

- Family violence informed policy to guide practice;
- Safe screening that is informed by family violence specialists;
- An understanding that economic abuse contributes to victims' debt and hardship; and
- Processes to proactively write-off debt for victims of economic abuse when victimisation is evidenced (with the same threshold for evidence as set out in the DVVPA).

## 10. Recommendations

- We recommend building awareness of economic abuse and its impacts, and its links to context, hardship, and debt.
- We recommend building awareness of myths that perpetuate cycles of financial hardship for victims of violence, including what choices, or decisions a victim has, and what behaviours they display.
- We recommend treating economic abuse in the context of family violence as a financial issue, a hardship issue, and a debt issue.
- We recommend collaborating with the specialist sector to apply a family violence-informed lens to all policy and practice surrounding debt to government, in order to understand and identify economic abuse, and make safety informed decisions for debtors.
- We recommend that the definition of hardship include hardship caused by economic abuse in the context of family violence.
- We recommend the inclusion of questions that cover agency preparation to consider all forms of hardship.
- We recommend the inclusion of a family violence-informed understanding into the assessment of hardship.
- We recommend that proactive, safe, family violence screening be included in hardship assessment.
- We recommend purpose-centred and person-centred approaches that shift the onus from client to agency;
- We recommend following other agency leaders to implement family violence-informed cross agency policy (e.g. banks)
- We recommend that the provision for family violence be included in the category definitions 'types of debt owed to government', or the creation of a new category which encompasses debt that is forced by someone external.
- We recommend the inclusion of 'risk' as a policy factor for 'creating and managing debt'.
- We recommend that a mandatorily recognised evidential threshold be established for family violence evidence, along with a policy guiding the expedient processing of it.

In order to properly understand, and hence better respond to, economic abuse, there needs to be greater organisational awareness and community awareness of the issue. There also needs to be an



integrated response that involves government, social service agencies, academia, communities, and businesses.

We are happy to provide any further information, and we thank you for considering our submission.



22 May 2023

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**SUBMISSION TO INLAND REVENUE ON THE PROPOSED FRAMEWORK FOR DEBT TO  
GOVERNMENT**

*“Kia tū tika ai te whare tapu o Ngāpuhi”*  
The sacred house of Ngāpuhi stands firm

**KO WAI MATOU?**  
WHO ARE WE?

1. Ngāpuhi remain the largest iwi in Aotearoa New Zealand. In 2018, more than 165,000 people identified with Te Whare O Ngāpuhi (about 18% of the total Māori population) and 21.2% were living in the Northland region.<sup>1</sup> The Ngāpuhi Rūnanga Group is a collective of four organisations who represent the interests and aspirations of the Ngāpuhi population. Te Rūnanga-Ā-Iwi-Ō-Ngāpuhi is the parent organisation of the Group that includes Ngāpuhi Iwi Social Services, Te Hau Ora O Ngāpuhi and the Ngāpuhi Asset Holding Company. As a collective, we provide a range of support,



advisory services and events to help progress our iwi, hapū, marae and whānau towards a vision where the sacred house of Ngāpuhi stands strong.

2. Ngāpuhi Iwi Social Services (NISS) are a social services provider based in Kaikohe. Our kaimahi support tamariki and whānau with a range of services including work with youth development, mentoring and offending; Ngāpuhi mokopuna in State care, social work in schools, whānau violence supports and others. NISS was established in 1986 to provide maatua whāngai services and was approved as an iwi social service in 1996. NISS has been a registered subsidiary of Te Rūnanga-Ā-Iwi-O-Ngāpuhi since 2006.
3. Te Whare Awhina o Ngāti Tautahi, established in 2015, are a marae-based service and hapū-led organisation dedicated to the drive and aspirations of our Hapū Ora (whānau clusters). Within the realms of Hapū Ora is our 'Ngāti Tautahi mo Ngāti Tautahi' holistic approach. Te Whare Awhina o Ngāti Tautahi seek to positively influence, empower and enhance the lives of our people. We believe we have an inherent responsibility to provide for whānau who whakapapa to our hapū and live within our Rohe Pōtae (territories).

## **NGĀ AWANGAWANGA NEI MĀTOU HINENGARO**

### **THE WEIGHT OF OUR WORRIES**

Many of our kaimahi work alongside whānau who suffer from the burden of intergenerational, persistent and unaffordable levels of debt. This contextual section will provide statistical data combined with the voices of our kaimahi and their experiences with whānau that we work with.

#### *Poverty*

- (a) Out of over 50,000 people living in poverty in the Northland region, about 46% live in the Far North District, which includes Kaikohe, Opononi and Kaitāia.<sup>ii</sup> In general, tamariki Māori experience material hardship rates more than double those of non-Māori children; they also face a higher risk of remaining in poverty for extended periods.<sup>iii</sup>

- (b) One in four children aged 0 to 14 years in Northland has two or more risk factors.<sup>iv</sup> In the Far North District, this increases to almost one in three children (30%).<sup>v</sup>
- (c) One in four young people aged 15 to 19 years in Northland is in a target risk population.<sup>vi</sup> In the Far North District, one in five young people aged 20-24 is in a target risk population – more than twice the national average.<sup>vii</sup>
- (d) Housing remains a substantial issue for whānau. Only 34% of Māori in the Northland region own a home, compared with 56% of the total population.<sup>viii</sup>
- (e) It is well established that higher than average rates of family harm is associated with poverty.<sup>ix</sup> In 2022, NISS reported that high risk family harm is increasing in the mid-north. Material hardship, paired with homelessness and debt are pressures that overwhelm whānau.<sup>x</sup>

#### *Debt and financial literacy*

- (a) The initial response to debt for whānau is how to face the challenge of meeting everyday expenses because of a low income. Whānau are cutting back on food so that rent and other costs are being paid to prevent power being cut off, eviction or re-possession of a vehicle.
- (b) Dealing with financial and familial pressures in the present is considered more pressing than planning for financial emergencies in the future, or increasing a payment to reduce an existing debt. Whānau have debts that they are either unable to pay back or are finding very hard to pay back to whānau, a number of loan agencies, community agencies, government agencies and local government.
- (c) Undertaking collective cultural obligations and activities such as organising and attending tangihanga can also be areas of great financial burden on whānau Māori. Families often travel great distances and at great expense to attend tangi that can take three days. Travel, food, marae koha and extended time off work to attend and support tangihanga are not planned for and arise as an emergency for whānau who have no disposable income or savings. Money therefore might be obtained from family members, fringe lenders, churches, or the superannuation of the deceased.

- (d) The Financial Resilience Index is a major tracking survey of New Zealanders' views on five key financial resilience indicators: financial confidence, financial literacy, financial preparedness, job security and wellbeing. Financial resilience is defined as “one’s ability to withstand life events that impact your income or assets. It is the longer-term approach to one’s relationship with money. If an unexpected expense were to arise, having the financial means to deal with it means you are financially resilient.”<sup>xi</sup>
- (e) Whānau who seek support from NISS are not financially resilient, and already in debt. They have little or no understanding of other ways to approach their existing relationship with money or finance in the areas needed to build financial resilience, or deal with an emergency financial event. This impacts on the household or the whānau member’s finances when the need cannot be met because of the lack of disposable income or no savings to cover the unforeseen event.

#### *Barriers to accessing services*

- (a) There is no public transport available in rural areas. Many whānau vehicles are unwarranted, unregistered and unsafe. Whānau have to travel 30 to 40 kilometers to get to a health clinic, hospital, a Work and Income (WINZ) office, the bank, shopping centres, petrol stations, the local budgeter, or to access a financial course recommended by WINZ or NISS.
- (b) The mid-north has no local food provider for whānau emergency support. The mid-north Budgeting Service receives donations to assist with food parcels for their registered clients only. Te Hau Ora o Ngāpuhi in Kaikohe provides emergency food for self-isolation/quarantine services as its priority. NISS is then making decisions based on MSD contract obligations to refer whānau to an outside food provider (based in Kerikeri or Kawakawa) and provide whānau with petrol vouchers to collect the food. Sometimes, the decision to provide food vouchers to shop in Kaikohe is the better option because the whānau vehicles are unwarranted and unregistered and will only add to fines debt.
- (c) Kaikohe only has one budgeting service that operates on donations provided to assist whānau who are registered or likely to be registered with them. The programmes that



are available and offered by MSD require whānau to be able to easily access those services however these are limited within the area.

- (d) In rural areas, and some remote isolated areas in the mid-north, whānau have returned to their whānau land (whenua Māori) because the cost of living is unaffordable. Many whānau are living off the grid with no phone lines, no internet, no rapid numbers and no postal deliveries. Some of our kaumatua and kuia are living in basic 'off the grid' conditions where they are in make-shift shelters, living in vehicles or living small houses on whānau land. They use generators and solar power in an attempt to reduce day-to-day charges (power, phone, internet costs).
- (e) Whānau are less likely to have any form of insurance. In some cases, whānau members are having to use another whānau member's bank account because they fail to pass the key identity and address requirements needed to open a bank account.

### *Housing*

- (a) The 2020 social housing repairs project involving 10 homes in Waimā is still not completed. The whānau living in these homes are mainly elderly on superannuation, and living with their tamariki and mokopuna. These kaumatua and kuia survive on their own financial resilience and are dealing with aging health needs. Their home repairs have not been signed off, and for some, their repairs have not started. They have suffered with more damage from recent severe weather events, are uninsured and trying to minimise debt in their own way by going without some of the basic day-to-day needs to cut costs.
- (b) Some whānau find themselves in emergency accommodation that takes almost two thirds of their income. This is the same for those entering addictions programmes or emergency accommodation. Whānau members who rely on the income of a partner being displaced in-to one of those scenarios are left without that contribution to the household income, this impacts their tamariki and the whole whānau.
- (c) Whānau are returning to their lands, but rating, regulations and restrictions to build, utilities and housing infrastructure development is costly. Many whānau choose to



live off the grid as a cost saver to allow them to live within their WINZ household entitlements.

- (d) Due to overwhelming regulation, land ownership and the economic barriers utilising land resources for housing and; rates arrears feature lower in the whānau emergency payment priority. Rates become a financial debt.

## TE AROTAKENGA

### A CRITIQUE OF THE PROPOSED FRAMEWORK

This section will note some key critiques of the proposed framework we received from the voices of our kaimahi in our collective Ngāpuhi Rūnanga Group. We acknowledge that our version of the proposed framework (February 2023) will be outdated by the time this is received, but believe the following points are unique and helpful insights nonetheless.

- 1. He Whakaputanga o te Rangatiratanga o Nu Tireni (the Declaration of Independence of the United Tribes of New Zealand, 1835) and the principles of te Tiriti o Waitangi (1840) are missing.**
  - (a) Prior to colonisation, Ngāpuhi was a thriving political, economic and socially cohesive civilisation. Tauwi (non-Māori) were welcomed because our tūpuna recognised that they could benefit from their knowledge, and that tauwi could benefit from living here. He Whakaputanga was a declaration of mana (the appropriate Māori word for sovereignty) and independence. However, He Whakaputanga me te Tiriti were not recognised by the courts at that time. For over 180 years, many Ngāpuhi have fought against the imposed colonial system.
  - (b) He Whakaputanga takes priority for our Ngāpuhi Rūnanga Group. We see He Whakaputanga as the primary living document that continues to represent Ngāpuhi's mana and independence. In 2014, the Waitangi Tribunal concluded that the rangatira who signed He Whakaputanga declared that rangatiratanga, kingitanga, and mana in relation to their territories rested only with them on behalf of their hapū, and that no one else but them could make law within their territories, nor exercise any function of government except under their authority.<sup>xii</sup>

- (c) As part of the Tribunal's inquiry into Te Paparahi o Te Raki, they also found that the rangatira who signed te Tiriti in the Bay of Islands and Hokianga in 1840 never ceded their sovereignty to the Crown, nor did they cede their authority to make and enforce law over their people and territories. Instead, they agreed to a relationship where they and the governor would be equals responsible for their own spheres of influence.<sup>xiii</sup> Crown counsel made submissions which agreed that rangatira did not cede their mana through Te Tiriti.<sup>xiv</sup>
- (d) Stage two of Te Paparahi o Te Raki, released in December 2022, found that the Crown overstepped its authority to govern for Northern Māori throughout the 19th century, which led to an erosion of rangatiratanga that is widely felt today. The Tribunal recommended that the Crown enter discussions with Māori on the constitutional makeup of the country, to give effect to "Treaty rights" in the country's constitutional processes and institutions, acknowledging that the conversations would be challenging.<sup>xv</sup>
- (e) While we support the goal of the framework to inform Government agencies about wiping or reducing whānau and/or individuals' debt to Government, we expect that Crown obligations to iwi as treaty partners would ensure that Ngāpuhi Iwi participate fully in the development of this framework policy settings to reduce poverty, inequities and disparities for Ngāpuhi to achieve a reasonable standard of living. The Ngāpuhi rūnanga group also has the authority and ability to write and inform policies for the betterment of mahi of our whānau, hapū and iwi.

## **2. The person-centred approach to the proposed framework**

- (a) The proposed framework is founded by a Eurocentric worldview and based on western social structures despite acknowledging that Māori will be heavily impacted by the framework.
- (b) There is a limited understanding of Māori social and cultural structures, and collective responsibilities. Throughout the document, the framework views 'debtors', including 'Māori debtors', as individuals, persons and as households. A whānau-centred approach that takes into account Māori collective responsibilities within the extended whānau system should be explored. As discussed on page three, there are many



examples where Māori use their income collectively to support whānau with emergencies, food, tangi and transportation costs, to name a few.

### **3. Engagement with Iwi and Māori rōpū**

- (a) Engagement with Iwi in this context is about forming relationships and building knowledge about the framework with each other. Whānau, hapū, iwi and hāpori (communities), along with internal reference groups, should be actively involved in building a framework that they will promote or become impacted by.
- (b) It is noted from the list of consultation groups, that there was limited participation with external Iwi and Māori groups. Therefore, the engagement approach needs to focus on strengthening relationships and engaging in a meaningful manner by privileging te ao Māori (Māori worldviews), implementing Māori-engagement approaches (such as meeting kanohi ki te kanohi or through hui ā-kaupapa) and prioritising Māori.

## **HE ARA HOU**

### **A PATHWAY FORWARD**

- 1. We agree that all overlapping, persistent and disproportionately high whānau (individual and family) debt to government should be written off.
- 2. If government and finance agencies create the debt, we agree that they should be part of an investment in a solution to provide access to financial resilience workshops to prevent debt levels from getting out of control.
- 3. We believe that this can be addressed in a number of ways:
  - (a) An incentives and monitoring trial. The purpose of the trial is to build financial literacy and resilience. This may occur over a period of 24 months and involve writing off a percentage of debt per month if a certain milestone has been achieved. This may also involve setting up a whānau fund that whānau members need to invest in at regular intervals. We think that the participants should be at a

level of debt that isn't too extreme so that success can be easier to see and measure.

- (b) Funding for hapū and iwi-led financial education programmes or wānanga, leading to likely increased participation and success.
  - (c) Providing whānau access to an online budgeting service (for example, ClearDebt, Total Money Management) that is transparent and simple to use. This may occur as part of a financial literacy programme or for those whānau who would want to use it.
4. While we agree that debt write-off should be a consideration when applying the proposed framework, we do not believe that the framework goes far enough to ensure that debt is prevented. We agree with all other feedback that was provided regarding improvements at policy and operational levels, including but not limited to:
- a) Introduce a standard four-week grace period to provide change of circumstance information for all benefits
  - b) Simplify the benefit system by increasing the use of universal benefits and/or consolidate means-tested benefits into a single package or "living benefit" (we discussed an example where sole parent support was not extended to include or recognise a whāngai situation, which turned the sole parent away from seeking assistance)
  - c) Make all hardship assistance non-recoverable
  - d) Implement a common format across departments for the information required for hardship assessments to prevent whānau from having to go through multiple processes to get relief from the burden of debt
  - e) Avoid requiring evidence of family violence, so that responses are timely and prioritise the safety of the survivor



5. Ngāpuhi Iwi are considering a position statement on this issue.
6. It is our right to lead the development of policy settings to reduce poverty, inequities and disparities for Ngāpuhi to achieve rangatiratanga and a high standard of living.

**DATED: 22 MAY 2023**

**DR MOANA ERUERA**  
**Te Tumu Whakarae (CEO)**  
**Ngāpuhi Iwi Social Services**

**MANE TAHERE**  
**Te Whare Awhina O Ngāti Tautahi**



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<sup>i</sup> Statistics New Zealand, “Iwi affiliation (estimated count)”.

<sup>ii</sup> Foundation North, 2018, p. 3.

<sup>iii</sup> Te Apārangi - Royal Society, 2021, p. 26.

<sup>iv</sup> Tamariki are identified as being at risk through the use of four risk indicators identified from linked data. The more of these risk indicators tamariki have, the more likely they are to have poor outcomes in later life. The risk indicators are; having an Oranga Tamariki finding of abuse or neglect, being mostly supported by benefits since birth, having a parent with a prison or community sentence and having a mother with no formal qualifications. See: <https://www.treasury.govt.nz/publications/ap/insights-understanding-needs-children-and-youth-risk-ap-17-02-html#section-8>.

<sup>v</sup> Foundation North, 2018, p. 11.

<sup>vi</sup> More information regarding how the Treasury measures these target populations can be found here: <https://www.treasury.govt.nz/publications/ap/insights-understanding-needs-children-and-youth-risk-ap-17-02-html#section-8>.

<sup>vii</sup> Foundation North, 2018, p. 11.

<sup>viii</sup> Te Rūnanga-Ā-Iwi-Ō-Ngāpuhi, 2022, p. 83.

<sup>ix</sup> Child Poverty Action Group, 2013, p. 17.

<sup>x</sup> Te Rūnanga-Ā-Iwi-Ō-Ngāpuhi, 2022, p. 83.

<sup>xi</sup> Financial Services Council NZ, “Financial Resilience Index”.

<sup>xii</sup> Waitangi Tribunal, 2014, p. 214.

<sup>xiii</sup> Waitangi Tribunal, 2014, p. xxii

<sup>xiv</sup> Waitangi Tribunal, 2014, p. 483.

<sup>xv</sup> Waitangi Tribunal, 2022, p. xxxiv.

**Consultation: A proposed framework for debt to government  
Inland Revenue Department (IRD)**

**The Salvation Army New Zealand Fiji Tonga and Samoa Territory Submission – 06 April 2023**

**Summary:**

1. Our overall sense of the IRD's proposed framework is that it is an uninspiring framework that is not prescriptive or clear enough to address current major debt to government issues. Consequently, The Salvation Army believes that this approach does not give people (and those organisations supporting them) who owe debts to government enough clarity and effective pathways to address this debt.
2. This submission/response will firstly look at the idea of a new single crown debt collection entity that was proposed by the Tax Working Group (TWG). Following that, we give feedback on some aspects of the IRD's proposed framework. We support submissions from FinCap as the peak body for the BFC sector, and other key actors in this space, who are offering detailed and practical solutions to the questions posed by IRD in the consultation document.

**Background of The Salvation Army:**

3. The mission of The Salvation Army Te Ope Whakaora is to care for people, transform lives, and reform society by God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and forty years. It provides a wide range of practical social, community, and faith-based services, particularly for those facing various forms of hardship and vulnerability.
4. The Salvation Army employs almost 2,000 people in New Zealand, and the combined services support around 150,000 people annually. In the year to June 2022, these services included providing around 83,000 food parcels to families and individuals, providing some 2,300 people with short-or long-term housing, over 4,000 families and individuals supported with social work or counselling, around 6,600 people supported to deal with alcohol, drug, or gambling addictions, around 3,500 families and individuals helped with budgeting, court and prison chaplains helped 3,300 people.
5. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. It has also been informed by the work of our national network of financial mentors or budgeters throughout the country. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's Aotearoa New Zealand Fiji Tonga, and Samoa Territory.

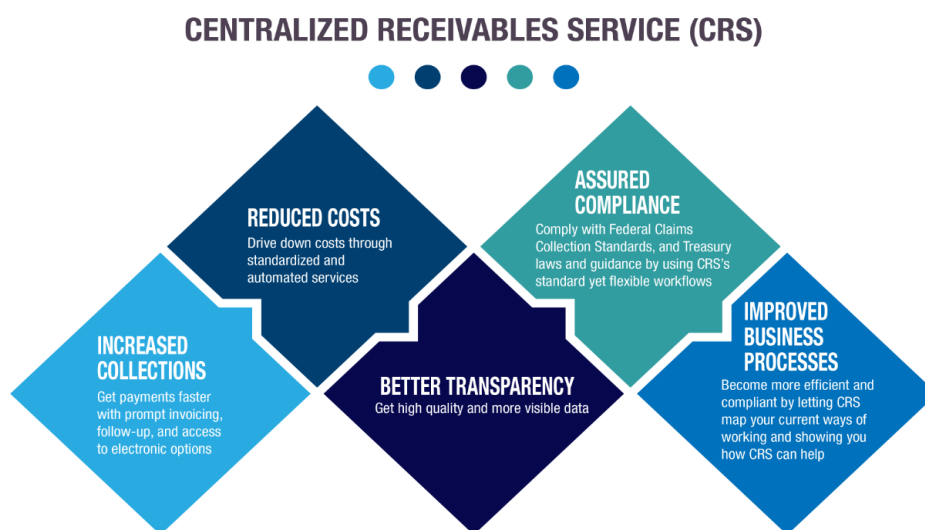


## Single centralised debt collection entity

6. We understand that a single, centralised government debt collection agency has been mooted at various points of this long process<sup>i</sup>. There are few details publicly available about what this entity could look like. Additionally, we were unable to find the original submission that proposed this innovative idea. But this idea had enough merit for the TWG to seriously consider and support this submitter's proposal for this single entity because of the increased efficiency and more equitable outcomes that could emerge from this focussed approach. This approach had also been suggested to and considered by the Welfare Experts Advisory Group, although they were in favour for a cross government approach to debt to government<sup>ii</sup>.
7. The Salvation Army is interested in understanding and gaining more information about (a) the details for this possible new single entity and (b) what the reasons were for the IRD to ignore previous advice and positions in the TWG about exploring this alternative method. We are keen to understand these issues because focussing on this proposed framework that is essentially built around information sharing and developing a consistent approach across government department, while holding some promise, will not necessarily achieve the clear, fair, prescriptive, and targeted outcomes that both government creditors and debtors desperately need moving forward.
8. While creating yet another level and body of central government bureaucracy is not ideal, especially in this age where the public service has had significant growth under this Labour government,<sup>iii</sup> and huge national and family financial and economic pressures, we still submit it is worthwhile to explore further what this idea could look like. This approach, coupled with cleaning up the mess around private debt collection, could be effective tools to help both private and public debt holders gain clarity on their debts, repay them, and have other avenues of redress if available.
9. While this still a theory, we believe there might be real benefit to a single centralised agency that collects and works around debts to government. These benefits could include:
  - a. Focussed and consistent approach.
  - b. Clarity to debtors (and those supporting them) about the single agency they can work with around their debt.
  - c. Freeing up staff and resources in IRD and other government departments heavily involved in these debt issues.
  - d. A single location where relevant community organisations like FinCap, local financial mentoring services and Maori organisations can connect with and help debtors navigate through this new entity. This also allows for (hopefully) greater and easier access for those working with these debtors and the agency where the debt(s) is owed.
  - e. Greater efficiencies and economies of scale could be achieved as a more streamlined system is developed.
  - f. Development of streamlined and clear legislation, policy and procedures around debt owed to the state.
  - g. A single entity could advocate more effectively to Ministers and to different departments about key debt issues.
10. There are some relevant examples from overseas jurisdictions that could inform a wider discussion of a single centralised entity for a New Zealand context.

- a. **USA** – The American federal government has the Centralized Receivables Service (CRS) programme which is the U.S. Department of the Treasury’s initiative to manage non-tax accounts receivable on behalf of federal agencies.<sup>iv</sup> The CRS is focused on managing pre-delinquent debt and debt in the early stages of delinquency before it is referred to Debt Management. As depicted in **Figure 1**, the CRS is forming a single, streamlined debt collection and debt management system across other federal government agencies.

**Figure 1: CRS operating model & principles (USA federal government)**



- b. **UK** – In the UK, particularly since Covid lockdowns, there has been growing concern about how public bodies were collecting and managing debts owed to them. This concern from community groups and other organisations led to the Debt Management Function (in the Cabinet Office) publishing a Call for Evidence on fairness in Government debt management in June 2020.<sup>v</sup> There has been lots of progress in this space, including proposals for a Debt Management Bill (for debt owed to government departments) and amendments to council tax and bailiff regulations related to public debt collection.<sup>vi</sup> The UK approach is similar to the proposed IRD framework here in New Zealand and has been focussed on working with government agencies and their specific debt collection service. However, some groups and researchers have in recent years explored what a single debt collection agency could look like.

**Responding to the proposed framework**

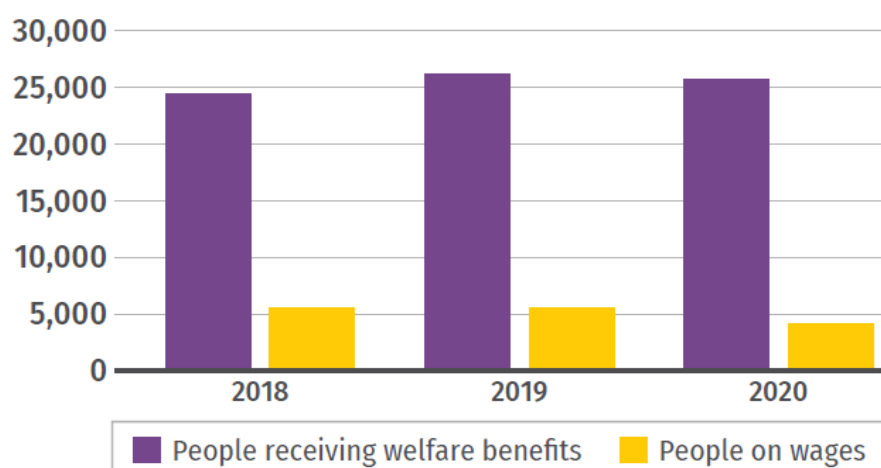
**11.** This following section will offer some general comments on the IRD proposed framework. While we do not believe this proposed framework is the best approach as outlined above, we will respond to some of the key questions or issues raised. We know there will be more opportunities to engage with this policy development process in the future which we are happy to do.

- a. **Principles** – We support the principles set out in the framework. We do question whether a ranking or prioritising system is needed to help clarify a situation where principles might be in conflict with each other. This also raises the question about

whether there should be an over-arching principle that takes precedence over others in this framework.

- b. Robust affordability or hardship assessments** – The Salvation Army contends strongly that robust and detailed affordability assessments are needed for all people owing debts to government. The community financial capability sector has advocated strongly for this around private debt and the CCCFA. We believe central to a framework (or a single crown debt collection agency) should be ensuring all debtors have an affordability assessment that governs the debt recovery, repayment, or forgiveness pathway they undertake. Assessing levels of private debt, culturally related spending, or the presence of any Buy Now Pay Later accounts are crucial in getting a complete picture of the debtor.
  
- c. Different kinds of debt** – Attachment orders around civil debt has been an area that we and many other organisations have advocated for in recent years. In our *Debt Collection and Repossession*<sup>vii</sup> report in 2019, we highlighted these orders and also the need for effective policy solutions like a judgement proof debtor policy. In 2021, we released another paper – *The Struggle is Real*<sup>viii</sup> – looking at financial hardship issues post-Covid. Again, we highlighted the plague of these orders. **Figure 1** shows that most attachment orders being made by Courts are on people with fixed and low incomes through government benefit payments. In 2020, only 14% of attachment orders were placed on people receiving wages, leaving a massive 86% of attachment orders being imposed on beneficiaries. This has been the pattern for attachment orders for the last three years. It is fair to assume that those receiving wages are likely to be in better positions to repay this civil debt compared with people receiving a benefit as their main source of income. In relation to debts to government, more work is needed to reduce this injustice around attachment orders around civil debt that has been created by government or judicial systems. This is why a judgement proof debtor policy (relating to all beneficiaries) is needed for New Zealand. The framework for this policy is alive and well in New Zealand with the passing of the District Court (Protection of Judgment Debtors with Disabilities) Act. Now we need to extend that protection (which will clearly minimise hardship for very vulnerable debtors) to all of those on a welfare benefit. This kind of approach for the relevant debtor/beneficiary could be identified earlier via the robust affordability assessments for all debtors.

**Figure 2: Attachment orders—people receiving benefits and wages—2018–2020.**



- d. **Ethical lending** – Although this is slightly peripheral to this framework, we strongly believe that the scaling up of ethical lending options like Nga Tangata Microfinance and Good Shepherd are vital to provide options of credit for people. A scaled-up ethical lending sector could help people avoid more predatory lenders (in terms of private debt creation), and also help debtors who borrow elsewhere to pay off government debt. This area requires further analysis and more data. But we have consistently advocated that a bigger ethical lending sector can provide real help and alternatives to debt creation (or accumulation) to government departments or private lenders.
- e. **Access for support people** – One area that our financial mentors struggle with is getting good, fast access to public servants regarding the debt to government for our clients. Again, the suggestion of a single centralised debt collection agency interested us for many reasons, including the potential to have a one-stop location for financial mentors, support workers and community navigators to engage with around the government debts of their client. Additionally, this could be the location for the affordability assessment. We submit that this affordability assessment should be done in conjunction with financial mentors who know the holistic situation of the client. Either way, good, timely and consistent access is needed with these various agencies (or a single agency) for our staff to effectively support these debtors.
- f. **Debt forgiveness and write offs** – We welcome this discussion in the proposed framework. Whether it is a cross government approach, or a single entity model discussed above, ensuring there are clearer guidelines relating to minimising hardship and forgiving or writing off debt is extremely helpful. We also support the ordered approach or framework within each category of government debt and when and how to consider if a write off is appropriate or not.

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- i <https://taxworkinggroup.govt.nz/resources/tax-working-group-publishes-interim-report.html>
- ii <https://www.weag.govt.nz/weag-report/whakamana-tangata/restoring-trust-with-people-using-the-welfare-system/recommendations-key-and-detailed/>
- iii <https://www.stuff.co.nz/national/politics/129817523/more-work-or-out-of-control-bureaucracy-labours-swelling-public-service>
- iv <https://www.fiscal.treasury.gov/crs/about.html>
- v <https://commonslibrary.parliament.uk/research-briefings/cbp-9007/>
- vi Ibid.
- vii <https://www.salvationarmy.org.nz/article/debt-collection-and-repossession-aotearoa>
- viii <https://www.salvationarmy.org.nz/article/the-struggle-is-real>

Date: 5<sup>th</sup> April 2023

Submitted via: [debttoenvironment@ird.govt.nz](mailto:debttoenvironment@ird.govt.nz)

## **RE: A proposed framework for debt to government**

### **About:**

Brian Klee, Volunteer Financial Mentor, SuperGrans Charitable Trust, Wellington. See attached our services

### **Responses to the Consultation Questions**

Q1. Do you have any comments on the principles as outlined?

Yes – all appropriate but I feel the explanation for Behavioural Responses could be expanded

Q2. Do you agree with the concept of principles? If so, are these the correct principles? What have we omitted?

Yes

Q3. Have we described the principles accurately in your view? If not, how would you reframe them?

See Q1 above re Behavioural issues

Q4. Do you have any comments on the different kinds of debt, their different purposes, and different treatments?

No

Q5. Are the right categories identified?

Yes, and perhaps defining “financial difficulty”, “hardship”, and “unintended debt”

Q6. Are there other policy factors that should be considered?

Age and culture are big issues when considering the handling of debt

Q7. Do you have any feedback on the recommended treatments?

No

Q8. Is it easy for debtors to understand what they owe, and to who?

Depends on their financial education and cultural background. Certainly the CCCFA has been a very important introduction to this problem. I am not that confident some IRD debt is clearly understood.

Q9. Are minimum debt repayment amounts typically set at manageable levels?

Yes, I think so

Q10. How easy is it for debtors to negotiate for hardship relief?

Not easy depending on Q8 above. Certainly some Financial Mentors have these skills and avenues to advocate on behalf of debtors which is a very big advantage

Q11. What kinds of supports are most effective for people with persistent debt?

Having the knowledge of what services are available, e.g. FinCap, etc. Unfortunately, I have found that Work & Income do not recommend the use of external services often enough. Handing out more and more Advances to someone without someone examining alternative solutions can just make their circumstances worse.

Q12. What changes would you like to see to the way that the government manages debts, particularly debt owed by low-income households?

Establishing a policy around referral to external advice.

Q13. Should there be non-monetary options for paying down fines or debt? How could this work? What potential benefits or risks do you see with this idea?

I don't know without examples being considered

Q14. Do you agree that the framework should require culturally appropriate communications with debtors? What would this look like for Māori, Pasifika and other affected groups?

Absolutely, through recognising the associated difficulties

Q15. Are extended families and larger households affected differently by government debt? How could this be addressed in the framework?

Perhaps. It can be an issue but my experience signals when I should include extended families, which leads me to think it is too difficult to address in the framework.

Q16. Should the framework reference a specific role for whānau, hapū or iwi or other community groups in the resolution of problem debt? What would this look like?

As above in Q15.

Q17. What issues are of most concern to the group that you represent?

- Poor basic financial literacy since the introduction of electronic systems and devices.
- Inadequate referral system by MSD for those with persistent debt problems
- Greed and arrogance of some money lenders; CCCFA has certainly helped
- Inflexibility by the large banks

Q18. Are they addressed by the proposed framework?

It will help to a degree – there will be no silver bullet though

Q19. Do you have comments on the ways to improve the accessibility of communications about debt for different population groups (for example, young people or disabled people?)

Teaching basic financial literacy within the schools from as early as primary school

Q20. What improvements would you suggest?

As in Q19

Q21. Do you have any comments on the proposed implementation of the framework, as outlined in Chapter One at 1.13 – 1.15 above?

No

Q22. Do you have any other feedback not covered by previous questions which you would like to provide?

This is my personal observations, but I also support the higher-level submission from FinCap