

Budget Sensitive

Office of the Minister for Child Poverty Reduction

Office of the Minister for Social Development and Employment

Office of the Minister of Justice

Office of the Minister of Revenue

Office of the Parliamentary Under-Secretary to the Minister of Revenue

Chair, Cabinet Social Wellbeing Committee

Debt to Government – Report back and next steps

Purpose

1. This paper provides an update on the Debt to Government work programme and seeks Cabinet approval for the next steps of the work programme. As part of this, we are seeking Cabinet’s endorsement of the s 9(2)(f)(iv)

Relation to Government Priorities

2. Reducing child poverty is critical to the Government’s priority of improving child wellbeing and laying the foundations for the future.
3. Addressing debt owed to government is an important part of addressing child poverty. Reducing household debt for low-income families increases the funds available to families, reduces the stress they experience, and increases opportunities. Reducing debt for people in hardship will help some of New Zealand’s most vulnerable children and help the Government make progress towards achieving its child poverty targets.

Executive Summary

4. Cabinet invited the Minister for Child Poverty Reduction, the Minister for Social Development and Employment, the Minister of Revenue, and the Minister of Justice to report back on the Debt to Government work programme by July 2022 to outline the outcome of Phase One work and the plan for Phase Two [SWC-21-MIN-0171].
5. Phase One primarily involved progressing the work that can be done within agencies and laying the foundations for future cross-agency work. The focus of Phase Two is broadly focused on s 9(2)(f)(iv)

s 9(2)(f)(iv)

6. The following work has been completed:

6.1 Budget 2022 introduced two initiatives as part of the Hardship Assistance Review:

6.1.1 The first permanently increased the income limits for Special Needs Grants, Recoverable Assistance payments, and Advance Payments of benefit. It also indexed the limits to average wage growth from 1 April 2023.

6.1.2 The second will increase the maximum Special Needs Grant for immediate and essential dental treatment from \$300 to \$1000 and continue to allow the limit to be exceeded in exceptional circumstances.

6.2 s 9(2)(f)(iv)

6.3 Budget 2022 approved funding to update key legal aid policy settings around eligibility, repayment, and legal aid lawyers' remuneration.

6.4 Initial data analysis was completed by the Social Wellbeing Agency (SWA) on persistent debt to government.

6.5 The final changes resulting from the Child Support Amendment Act 2021 were implemented in November 2021. IR has developed its plan for evaluating the recent child support changes, and preliminary findings will be available by December 2022.

7. s 9(2)(f)(iv)

8. Other initiatives that are currently in progress include:

8.1 s 9(2)(f)(iv)

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8.3 s 9(2)(f)(iv)

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9. We propose that in the short term the work programme going forward primarily consist of:

9.1 s 9(2)(f)(iv)

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10. We propose that officials would report to joint ministers in November 2022 on the progress of the work. In particular, officials would:

10.1 s 9(2)(f)(iv)

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Background

11. Following advice from the Welfare Expert Advisory Group (WEAG) and the Tax Working Group (TWG) to address individuals' debt owed to government, a cross-agency group of officials was convened in 2019 to consider a cross-government approach to prevent and manage debt as part of the welfare overhaul. Since then, work has progressed to highlight the importance of addressing this issue, and particularly for the wellbeing of low-income individuals and families.

12. Evidence shows that many people on lower incomes with debt have children. Approximately 566,600 low-income individuals owe \$3.5 billion of debt to the Ministry of Social Development (MSD), Inland Revenue (IR), and the Ministry of Justice (MoJ), and of these, over \$2.5 billion is owed to people in households with children. Individual debt can form and accrue for multiple reasons, and these can interact, creating a highly complex situation for both individuals and agencies to manage.
13. Income inadequacy is often the source of entrenched debt for individuals and their families. However, the management of these debts through a variety of differing policies and processes across government agencies can exacerbate the issue, making it difficult for people to understand why they are required to pay amounts or repay overpaid entitlements, or whether or not they are eligible to have a debt considered for write off.
14. While some types of debt can be an important mechanism for the enforcement of social obligations, such as child support or fines, the negative impacts of debt can include:
 - 14.1 A reduction in income adequacy for the debtors and their families as people with lower incomes may not have the ability to repay debt without being put into hardship.
 - 14.2 Psychological stress, especially when debt is persistent. High levels of debt can make people feel that improving their situation is impossible, which leads them to ignore the issue or disengage with agencies.
 - 14.3 Disincentives to work when repayments are based on income earned.
15. The Cabinet Social Wellbeing Committee (SWC) has agreed the Debt to Government work programme should have the dual focuses of:
 - 15.1 ensuring debt recovery is fair, effective, and avoids exacerbating hardship; and
 - 15.2 preventing debt from occurring so that it does not create future problems for those in hardship.
16. The work would also follow principles of improving coherence by improving consistency across the system where appropriate and focusing on fairness.
17. Alongside the Debt to Government work, the welfare overhaul also includes a focus on addressing income adequacy which may contribute to a reduced reliance on debt for low-income families.
18. In November 2021, the Minister for Child Poverty Reduction, Minister for Social Development and Employment, Minister of Revenue, and Minister of Justice (together, the joint Ministers) reported to SWC on the Debt to Government work programme on the planned phases of the work programme.
19. Phase One was primarily a foundational phase, consisting of work to understand and define the issues across agencies' approaches to debt

generation and recovery [SWC-21-SUB-0171]. Phase One focussed on changes agencies could implement independently. s 9(2)(f)(iv) [REDACTED].

20. This paper details the initiatives which have been completed, those which are still in progress, and plans for next steps of this work programme.

Progress to date

Work completed since 2021

21. A number of initiatives have been completed as part of the Phase One work programme:

Budget 2022 changes to hardship assistance

22. We have permanently increased income limits for Special Needs Grants, Recoverable Assistance Payments, and Advance Payments of Benefit from 1 July 2022 and these income limits will be indexed to average wage growth from 1 April 2023.
23. In December this year, we will increase the maximum dental treatment Special Needs Grant rate from \$300 to \$1000 in a 52-week period, which will reduce debt for future recipients (approximately 40,000 people per year).
24. s 9(2)(f)(iv) [REDACTED]

Budget 2022 changes to legal aid

25. In Budget 2022, the Government invested \$148.7 million to implement changes to the legal aid scheme to improve access to justice for people on low incomes. The package of changes is expected to increase access to government-funded legal aid and to reduce debt experienced by low-income New Zealanders.

Social Wellbeing Agency analysis of persistent debt

26. The Social Wellbeing Agency has completed a data analysis on persistent debt to government. This analysis indicates that more than half of the people who owe debt to government have owed debt for two or more years. A third have owed debt for five or more years. This means that a person who does not become debt-free within two years has a greater than 65 percent chance of remaining in debt for at least the next three years.
27. The Social Wellbeing Agency proposes to publish its full report when the SWC paper is published. Next steps for this work are covered in paragraph 36.

The Child Support Amendment Act 2021

- 28. The Child Support Amendment Act 2021 included several changes which are intended to help parents meet their child support obligations and prevent new debt by ensuring liable parents get their payments right from the start of their liability. The removal of incremental penalties is also expected to help parents engage with their core obligations. Final changes were implemented in November 2021, and IR has developed a plan to evaluate the impacts.

Work in progress

- 29. A number of initiatives have continued to progress.

Progress on an overarching debt framework

- 30. Cabinet directed officials to explore the development of a framework for how to approach clients with debt to repay and/or clients about to take on new debt, as part of work to improve the fairness and coherence of operational processes and policy [SWC-21-MIN-0171]. The Parliamentary Under-Secretary for Revenue has worked with officials to develop this framework.

- 31. s 9(2)(f)(iv) [Redacted]

- 31.1 s 9(2)(f)(iv) [Redacted]

- 31.2 s 9(2)(f)(iv) [Redacted]

- 32. The framework is intended to:

- 32.1 s 9(2)(f)(iv) [Redacted]

- 32.2 s 9(2)(f)(iv) [Redacted]

- 32.3 s 9(2)(f)(iv) [Redacted]

- 32.4 s 9(2)(f)(iv) [Redacted]

- 32.5 s 9(2)(f)(iv) [Redacted]

33. s 9(2)(f)(iv) [Redacted]

34. s 9(2)(f)(iv) [Redacted]

34.1 [Redacted]

34.2 [Redacted]

35. s 9(2)(f)(iv) [Redacted]

Court attachment orders

36. Attachment orders are the most common method of enforcing debts that have been ordered by the Courts. These debts arise through civil litigation, and the debt can only be enforced once there is a court order in favour of the creditor. If the debtor is receiving a benefit, MSD must comply with the attachment and deduct the debt owing according to the rate set by the order. The only exception is when existing deductions from a client's benefit mean that the attachment rate would breach the protected earnings rate, leading to the attachment being set at any residual amount. Currently about 80% of attachment orders are collected through deductions from benefits rather than creditors seeking to make deductions from wages¹.

37. Court Registry Officers cannot see existing deductions from an MSD client's benefit, so they have low visibility over what may be affordable and sustainable for the client. s 9(2)(f)(iv) [Redacted]

38. s 9(2)(f)(iv) [Redacted]

¹ Figures on application for civil enforcement provided by the Ministry in June 2021, under the OIA

s 9(2)(f)(iv) [Redacted]
[Redacted]

Options to address persistent debt

- 39. SWC requested a report back on options to address (e.g., prevent or write-off) persistent debt based on the findings of the SWA's analysis of the drivers of persistent debt. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]

Overpaid benefit debt

- 40. There are a range of circumstances that can lead to an overpayment of a benefit with one of the most common being a change in a person's income. In line with the objective of this work programme to reduce the creation of debt, MSD has s 9(2)(f)(iv) [Redacted]
[Redacted]
- 41. Improvements in the information sharing process between MSD and IR in May 2022 increased the ability for MSD to process income changes earlier in the month. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]
- 42. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted] MSD is continuing to look for other opportunities that will support progress towards long-term changes.

Overpayments of Working for Families tax credits

- 43. The Parliamentary Under-Secretary for Revenue has worked with officials s 9(2)(f)(iv) [Redacted]
[Redacted]
- 44. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]
- 44.1 s 9(2)(f)(iv) [Redacted]
[Redacted]

s 9(2)(f)(iv) [Redacted]

44.2 s 9(2)(f)(iv) [Redacted]

45. s 9(2)(f)(iv) [Redacted]

Hardship assistance

46. s 9(2)(f)(iv) [Redacted]

46.1 s 9(2)(f)(iv) [Redacted]

46.2 [Redacted]

46.3 [Redacted]

47. Cost categories have not been properly updated over time, and there are now common needs that do not have corresponding cost categories. This has created an increasing reliance on the discretionary 'other' category to meet clients' needs. Some essential costs that are often covered on a discretionary basis include cell phones, petrol and medical costs. s 9(2)(f)(iv) [Redacted]

48. s 9(2)(f)(iv) [Redacted]

49. s 9(2)(f)(iv) [Redacted]

Integration of housing and rent-related debt owed to Kāinga Ora

50. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]

50.1 s 9(2)(f)(iv) [Redacted]
50.2 [Redacted]
50.3 [Redacted]
50.4 [Redacted]
50.5 [Redacted]

51. s 9(2)(f)(iv) [Redacted]
[Redacted]
[Redacted]
[Redacted]
[Redacted]

52. s 9(2)(f)(iv) [Redacted]
[Redacted]

52.1 s 9(2)(f)(iv) [Redacted]
52.2 [Redacted]
52.3 [Redacted]
52.4 [Redacted]

Common debtors pilot evaluation and insights

- 53. The common debtors pilot was a joint initiative between MSD and IR to assist people with debt to both agencies (child support and benefit debt). It ran from April 2021 to March 2022 and an evaluation of the pilot was completed on 30 June 2022. The purpose of the pilot was to make it simpler and easier for these common debtors to repay their debt obligations in a sustainable manner, and ensure they were receiving the income supports they were entitled to or eligible for.
- 54. The pilot operated using a three-way call service with the debtor and staff from both agencies. Results from the pilot were mixed. There was difficulty in getting debtors to engage with the pilot; of the 2,128 individuals contacted to take part in the pilot, only 235 completed the service. Furthermore, of those who completed the service, 153 entered into repayment arrangements, and fewer than 40% of these had sustained their repayments three months after the pilot was finished. The evaluation showed that the individuals who participated and completed the pilot found the experience to be positive, as staff were able to consider the participants' circumstances and built an ongoing relationship during the pilot. However, the pilot was resource-intensive given the outcome.
- 55. A key insight from this experience is that repayment of debt can be fundamentally difficult for some individuals, despite attempts to provide personalised support.
- 56. Results from the pilot indicate the value of increased inter-agency information sharing on debt and debtors, and of training staff about entitlements from other agencies. s 9(2)(f)(iv)
[REDACTED]

Our plan going forward

- 57. As evidenced by the number of initiatives and work currently underway, the Debt to Government work programme is substantial, and with good reason. The issues are complex to understand, and solutions will take time to fully consider. Some of the solutions could involve policy, operational, and legislative change as well as fiscal costs. For that reason, we are seeking SWC to agree s 9(2)(f)(iv) [REDACTED]
- 58. Because the underlying policy and operational settings relating both to debt creation and management are complex, the development of cross-agency options is anticipated to now occur over a longer timeframe. Creating meaningful and long-term change for individuals and families who are in debt will require further understanding of complex issues such as hardship, sustainability of repayment, and collaboration and info-sharing between departments. s 9(2)(f)(iv) [REDACTED]

s 9(2)(f)(iv)

Finalising a framework for debt to government

59. We propose that s 9(2)(f)(iv)

59.1 s 9(2)(f)(iv)

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60. s 9(2)(f)(iv)

61. s 9(2)(f)(iv)

s 9(2)(f)(iv)

62. s 9(2)(f)(iv)

62.1 s 9(2)(f)(iv)

62.2

62.3 s 9(2)(f)(iv) [Redacted]

63. s 9(2)(f)(iv) [Redacted]

63.1 s 9(2)(f)(iv) [Redacted]

63.2 [Redacted]

64. s 9(2)(f)(iv) [Redacted]

s 9(2)(f)(iv) [Redacted]

65. s 9(2)(f)(iv) [Redacted]

66. [Redacted]

67. [Redacted]

68. [Redacted]

68.1 s 9(2)(f)(iv) [Redacted]

68.2 [Redacted]

69. s 9(2)(f)(iv) [Redacted]

69.1 s 9(2)(f)(iv) [Redacted]

69.2 s 9(2)(f)(iv) [Redacted]

70. s 9(2)(f)(iv) [Redacted]

71. s 9(2)(f)(iv) [Redacted]

Options for longer-term changes

72. s 9(2)(f)(iv) [Redacted]

73. s 9(2)(f)(iv) [Redacted]

73.1 s 9(2)(f)(iv) [Redacted]

73.2 [Redacted]

74. s 9(2)(f)(iv) [REDACTED]

Next steps

75. To summarise, we recommend that s 9(2)(f)(iv) [REDACTED]

- 75.1 s 9(2)(f)(iv) [REDACTED]
- 75.2 [REDACTED]
- 75.3 [REDACTED]

76. s 9(2)(f)(iv) [REDACTED]

Financial Implications

77. This paper has no financial implications. However, further work will have financial implications, depending on the options chosen.

Legislative Implications

78. This paper has no legislative implications. Further work may have legislative implications, depending on the options chosen.

Regulatory Impact Assessment

79. A RIS is not required as specific policy proposals are not being made at this stage.

Population Implications

Population group	How the Debt to Government work may affect this group
Māori	<p>The debt to government work will have positive impacts on Māori individuals and whānau. Among those with debt to government, Māori are disproportionately likely to be on a low income or in receipt of a benefit (22 percent of all Māori working-age adults are on a main benefit).</p> <p>Māori individuals are overrepresented in almost all categories of debt to MSD, MoJ, and IR, and are overrepresented in people with debt to multiple agencies (Māori comprise 44 percent of those with debt to all three agencies).</p>

Children	The debt to government work underway includes assessing the generation of several types of debt that may be held by a family unit that has children (WFF overpayments, MSD overpayments and recoverable assistance, legal aid). Reducing the creation of debt to government and the role that this debt may have in exacerbating hardship will therefore have a positive effect on children.
Seniors	The debt to government work will have a positive impact on seniors. Where debt is persistent, seniors who are on a fixed income (i.e., pensioners) may find old debts are reinstated or able to be collected at a stage of their life where they may not have the income to meet their costs. 11 percent of people with debt to government are aged over 65.
Disabled people	The debt to government work is likely to benefit disabled people. While government data for disabled people is poor, we know they are more likely to be in hardship than non-disabled people. Incomes for disabled people are on average lower than those for non-disabled people, and disabled people, including people with health conditions, and carers of disabled people make up approximately 53 percent of all people in receipt of a main benefit. 65 percent of people receiving a supported living payment benefit (one of the benefit types most likely to capture disability) have debt to government. Disaggregated child poverty statistics also identify that disabled children and children living in households where someone is disabled comprise more than half of all children in material hardship.
Pacific peoples	The debt to government work will have positive impacts on Pacific people. Pacific people are overrepresented in all categories of debt to MSD, MoJ, and IR, and are overrepresented in people with debt to multiple agencies (Pacific people comprise 13 percent of those with debt to all three agencies). Among those with debt to government, Pacific people are disproportionately likely to be on a low income or in receipt of a benefit.
Women	Women are overrepresented in several categories of debt to MSD (including recoverable assistance and overpayments), MoJ (legal aid), and IR (WFF overpayments), and in some areas of debt across multiple agencies. Women make up 68 percent of those receiving a main benefit.
Rural populations	The debt to government work will have slightly more of an impact to people who live in urban populations than rural populations. This is because the distribution of people with debt to government across urban and rural areas is broadly similar to the distribution of the New Zealand population and people with debt to MSD or MoJ are slightly more likely to live in an urban area than the general population.
Ethnic communities	The results from the debt to government analysis show that about 18% of the NZ population is in this group, but less than 13% of any debt category are in this group. Hence debt to government does not appear to affect ethnic communities to the same extent as other ethnic groups.

Consultation

80. This paper has been prepared in consultation with the Social Wellbeing Agency, Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development and Kāinga Ora – Homes and Communities.

81. The Social Wellbeing Board agencies (the Department of the Prime Minister and Cabinet, MoJ, Oranga Tamariki, the Ministry of Health, New Zealand Police, IR, Te Puni Kōkiri, MSD, and the Ministry of Education) have been consulted.
82. The Treasury and the Ministry of Business, Innovation and Employment have been informed.
83. s 9(2)(f)(iv) [REDACTED]
84. s 9(2)(f)(iv) [REDACTED]
85. s 9(2)(f)(iv) [REDACTED]

Proactive Release

86. This Cabinet paper will be released within 30 business days of decisions being confirmed by Cabinet, subject to any necessary redactions.

Recommendations

The Minister for Child Poverty Reduction, the Minister for Social Development and Employment, the Minister of Revenue, and the Minister of Justice recommend that the Committee:

1. **Notes** that in November 2021, Cabinet invited the Minister for Child Poverty Reduction, the Minister for Social Development and Employment, the Minister of Revenue, and the Minister of Justice to report back on the Debt to Government work programme by July 2022, including details of progress to date and the work plan going forward.
2. **Notes** that the following work has been completed:
 - 2.1 s 9(2)(f)(iv) [REDACTED]
 - 2.2 Budget 2022 changes to legal aid
 - 2.3 SWA analysis of persistent debt
 - 2.4 Changes to Child Support via the Child Support Amendment Act 2021
 - 2.5 An evaluation of the IR/MSD common debtors pilot
 - 2.6 Improvements in the information sharing process between MSD and IR to reduce overpaid benefit debt.
3. **Notes** that the following work continues to be progressed:

3.1 s 9(2)(f)(iv) [Redacted]

3.2 [Redacted]

3.3 [Redacted]

3.4 [Redacted]

3.5 [Redacted]

3.6 [Redacted]

3.7 [Redacted]

4. **Notes** s 9(2)(f)(iv) [Redacted]

5. **Notes** s 9(2)(f)(iv) [Redacted]

6. **Invites** s 9(2)(f)(iv) [Redacted]

7. **Endorses** s 9(2)(f)(iv) [Redacted]

8. **Agrees** s 9(2)(f)(iv) [Redacted]

9. **Notes** s 9(2)(f)(iv) [Redacted]

10. **Agrees** s 9(2)(f)(iv) [Redacted]

10.1 s 9(2)(f)(iv) [Redacted]

10.2 [Redacted]

10.3 [Redacted]

10.4 [Redacted]

11. **Invites** s 9(2)(f)(iv)

Authorised for lodgement

Rt Hon Jacinda Ardern
Minister for Child Poverty Reduction

Hon Carmel Sepuloni
Minister for Social Development and Employment

Hon Kiritapu Allan
Minister of Justice

Hon David Parker
Minister of Revenue

Dr Deborah Russell
Parliamentary Under-Secretary to the Minister of Revenue