



## **Proactive Release**

The following documents been proactively released by the Department of the Prime Minister and Cabinet (DPMC), on behalf of Rt Hon Jacinda Ardern, Minister for Child Poverty Reduction:

### **[Proactive Release] Reducing impact of debt to government**

The following documents have been included in this release:

***Title of paper: Reducing the Impact of Debt to Government for People in Hardship***

***Title of minute: Reducing the Impact of Debt to Government for People in Hardship (SWC-21-MIN-0171 refers)***

***Title of minute: Report of the Cabinet Social Wellbeing Committee: Period Ended 12 November 2021 (CAB-21-MIN-0473 refers)***

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant section of the Act that would apply has been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

### **Key to redaction code:**

- section 9(2)(f)(iv), to maintain the confidentiality of advice tendered by or to Ministers and officials

Office of the Minister for Child Poverty Reduction

Cabinet Social Wellbeing Committee

## **REDUCING THE IMPACT OF DEBT TO GOVERNMENT FOR PEOPLE IN HARDSHIP**

### **Proposal**

- 1 This paper provides an update on the debt to government work and seeks Cabinet endorsement of the short- and long-term work programme. This includes a report back to Social Wellbeing Committee in July 2022 by Joint Ministers (Child Poverty Reduction, Social Development and Employment, Justice, and Revenue) on the outcomes from the first phase of work, and on the plan for advancing the programme further.

### **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. Child poverty is a long-term enduring issue that is affecting New Zealand children now and continues to impact them into the future. We are committed to continuing our bold ambitions to more than halve child poverty within ten years, and our goal of making New Zealand the best place in the world for children and young people. The debt to government work is an important part of addressing child poverty by reducing household costs and improving child wellbeing.

### **Executive summary**

- 3 Debt can be a standard feature of financial life and plays an important role in smoothing household expenditure. However, debt can also become a problem when servicing it becomes either unaffordable, or a heavy burden. In this paper, we call this 'problem debt.' 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.
- 4 People may end up indebted to government for a variety of reasons, including through accessing legal aid, being paid more than legislated amounts (for example due to error or, on rare occasions, fraud), or through recoverable hardship assistance. Appendix One provides information on the debt held by different agencies, which is subject to different rules.
- 5 We know that debt to government can become problem debt for some individuals and whānau, including some of the 566,600 low income individuals who owe \$3.5 billion of debt to government to the Ministry of Social Development (MSD), Inland Revenue (IR) and the Ministry of Justice (MoJ). This was highlighted by the Welfare Expert Advisory Group, the Tax Working Group, and community organisations.

6 Work is underway to reduce the impact of problem government debt for people in hardship. Two principles underpin this work programme: to improve coherence by improving consistency across the system where appropriate, and to focus on fairness.

7 This work has dual focuses of:

7.1 ensuring debt **recovery** is fair, effective, and avoids exacerbating hardship, and

7.2 **preventing** debt from occurring so that it does not create future problems for those in hardship.

8 Both goals are important. Improving the fairness and effectiveness of debt recovery helps people who owe current, or will owe future, debt to government. However, preventing the creation of problem debt is most effective for long-term change.

9 This work has been split into two phases. The first phase of work, which is underway **Section 9(2)(f)(iv)** spans a range of work streams, including:

9.1 changes to improve fairness, coherence and consistency in operational processes and policy

9.2 improvements to the attachment order process

9.3 the common debtors pilot

9.4 work to understand and address persistent debt

9.5 focus areas to reduce overpayment debt

9.6 changes to hardship assistance, **Section 9(2)(f)(iv)**

9.7 **s9(2)(f)(iv)**

10 The Ministers of Child Poverty Reduction, Social Development and Employment, Justice, and Revenue will report back to the Social Wellbeing Committee by July 2022 on the outcomes of the Phase One work listed above, with recommendations for the specific actions that will be implemented as a result of this work.

11 The July 2022 report will also propose a plan for Phase Two of the work programme, which will focus on longer-term, comprehensive changes. This report will provide greater detail on the recommended scope of, and approach to, this work, which includes:

11.1 options for changes to improve fairness, coherence and consistency in operational processes, policy, and legislation where appropriate, and

11.2 operational, policy, and legislative changes to reduce overpayment debt, **s9(2)(f)(iv)**, to reduce future problem debt.

## Background

- 12 Debt can be a standard feature of financial life. Taking on safe debt can enable individuals and families to access opportunities and improve their circumstances. Some debt to government is due to the important function of providing access to credit at low cost, in place of high-interest private lenders.
- 13 However, debt to government can also become a problem, particularly for low-income individuals and households. In these instances, debt to government can contribute to financial hardship, stress, poor physical and mental health, stigma, and social exclusion, as highlighted by the Welfare Expert Advisory Group, the Tax Working Group, and other community organisations. In this paper we call this ‘problem debt.’
- 14 Evidence shows that many people who experience problem debt have children. Over 402,000 people in households with children collectively owe over \$2.5 billion in debt to IR, MoJ and/or MSD. Reducing debt for people in hardship will therefore help some of New Zealand’s most vulnerable children, and help the government make progress towards achieving its ambitious child poverty targets, and in particular, its material hardship target.
- 15 Individuals and whānau with problem debt are more likely to experience income inadequacy and poor health, and to engage in risky behaviour or violence. This comes at a cost to government, through spending on health, welfare and justice services, as well as the cost of debt recovery.
- 16 Debt to government is only part of the debt that individuals and whānau face, particularly for those with problem debt. The sources of debt creation across government and community are manifold. Cross-agency work on debt to government sits alongside wider government work to address consumer debt problems, including through reforms to reduce irresponsible lending and misleading debt collection practices, and support for building financial capability (BFC) and specialist debt solution services, which are underpinned by the National Strategy for Financial Capability. s9(2)(f)(iv)

### *Government debtors are often low income, Māori, and female*

- 17 It is not possible to quantify the overall level of problem debt using the data currently held by government. However, available data gives us a sense of the scale of the debt to government, and the characteristics of those who hold it, which can be a useful proxy for identifying problem debt. Data<sup>1</sup> shows that:
- 17.1 \$3.5 billion is owed to government by over 566,600 low income individuals, many of whom rely on government benefits as their main or sole form of income.
- 17.2 MoJ has the highest proportion of Māori debtors of the three agencies. MSD debt is more likely to be held by females and those under 35, and 80% of those who owe Working for Families (WfF) debt are women.

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<sup>1</sup> Figures taken from the IDI in September 2020. Low income is defined as less than the current living wage of \$22.10 per hour.

- 17.3 45,000 individuals owe debt to MSD, IR, and MoJ, with an average debt of \$17,600 per person. These people are more likely to be male, Māori and aged 20 to 44. Recent IR and MSD analysis found 57% of people with common debt to both agencies have no ability to make debt payments to either agency.
- 18 A detailed picture of those with debt to government is provided in Appendix Two. This has informed the focus of the work-programme: debt recovery and prevention for people who are in, or close to, hardship, and have problem debt to government.
- 19 This work has the potential to substantially improve the lives of thousands of low-income individuals and whānau, including children in poverty. This will benefit New Zealand society as a whole, and have lasting impacts across generations.

*Government debt is complex and wide ranging*

- 20 The sources of, and reasons for debt to government, are manifold. Individuals and whānau can end up indebted to the government as a result of: receiving recoverable hardship assistance to meet essential needs; student loans; legal aid; being paid more than legislated amounts (for example due to error or, on rare occasions, fraud) which generates repayment obligations; failure to pay obligations such as income tax; interest; establishment and penalty fees; and private debt, fines or reparations which are referred to MoJ.
- 21 The debt held by different agencies has different purposes, and is subject to different legislative rules, as described in Appendix One. The different approaches to debt collection across agencies are often perceived to be unfair, as was highlighted by the Welfare Expert Advisory Group and the Tax Working Group.
- 22 As a result, the policy and operational responses for both debt recovery and prevention are broad. Addressing these issues will have funding, policy, legislative and business transformation implications. It is therefore important to be clear about where to focus to have the greatest impact for those in hardship or at risk of hardship.

**Focus of the debt to government work programme**

- 23 Work is underway to reduce the impact of problem government debt to people in hardship. Two principles underpin this work programme: to improve coherence by improving consistency across the system where appropriate; and to focus on fairness.
- 24 This work has a dual focus of:
- 24.1 ensuring debt **recovery** is fair, effective, and avoids exacerbating hardship, and
  - 24.2 **preventing** debt from occurring so that it does not create future problems for those in hardship.
- 25 Both goals are important. Improving debt recovery helps people who have debt to government now, as well as those who will have debt in the future, to reduce the persistence of people staying in debt. However, preventing the creation of problem debt is most effective for long-term change.

26 The largest sources of debt to government for people in hardship are to MSD, IR and MoJ. The initial phase of work is therefore focussed on debt to these three agencies, s9(2)(f)(iv)

27 Since 2019, Joint Ministers and Cabinet (as part of the Welfare Overhaul) have made decisions on the parameters of the debt to government work programme. The goals, areas of focus and work-streams are summarised in Table One below.

27.1 Thus far, Phase One has primarily been a foundational phase, understanding and defining the problem, and working across agencies' policy and operational teams to identify the different approaches to debt generation and recovery. As outlined in this paper, work in a number of initial specific areas is now underway.

27.2 Phase Two (three to five years) will focus on seeking alignment (where appropriate) of approaches to interest, penalty rates, and write-off, and improving recovery approaches for individuals with debts to multiple agencies. Some areas of the longer-term work programme will depend on decisions made as part of Phase One. s9(2)(f)(iv)

28 The Ministers of Child Poverty Reduction, Social Development and Employment, Justice, and Revenue will report back to the Social Wellbeing Committee by July 2022 on both phases of the work. That report will:

28.1 update Ministers on the outcomes of Phase One, including for each of the specific areas set out in paragraphs 32 to 57 below, and the specific actions that will be implemented as a result of this work, s9(2)(f)(iv)

28.2 set out the plan for Phase Two, which will build off any analysis and insights generated through the first phase, and set out the approach to longer-term, more comprehensive changes, including any likely funding and legislative implications.

29 The next section outlines work underway in more detail as part of Phase One Section 9(2)(f)(iv)

29.1 Section 9(2)(f)(iv)

29.2 Section 9(2)(f)(iv)

29.3 Section 9(2)(f)(iv)

29.4 Section 9(2)(f)(iv)

30 These initiatives align with the objectives of the work programme in this paper, and have potential to make a difference to deprivation levels for individual families.

*Table One: Debt to government goals, areas of focus and work programme*

Goals	Areas of focus	Phase One Work underway	Phase Two Future work
Ensure debt recovery is fair, effective, and avoids exacerbating hardship	Address existing debt with new approaches to debt relief	Work to understand the drivers of persistent debt (Social Wellbeing Agency)	s9(2)(f)(iv)
			s9(2)(f)(iv)
	Explore aligning existing approaches, where appropriate, to relief and recovery when a person is facing (or may face) hardship	Cross-agency policy work to improve fairness and consistency	s9(2)(f)(iv)
	Improve information exchange between agencies to support better debt recovery and visibility of common debtors	Improve the attachment order process to improve outcomes (MoJ)	Common debtors' pilot (IR and MSD)
Prevent debt from occurring by reducing the generation of debt to government	Reduce overpayments	Explore drivers of overpayment debt to determine changes that would have the most significant impact on levels of debt (MSD)	s9(2)(f)(iv)
		Working for Families review (MSD lead)	Further work will depend on the outcomes of the various Phase One reviews
	Reduce the creation of debt for people in hardship	Review hardship assistance, Section 9(2)(f)(iv)	
		Review of legal aid: Section 9(2)(f)(iv)	
Reduce other sources of debt	Child Support Amendment Act (IR)	Review of legal aid: s9(2)(f)(iv)	

**Phase one: fair, effective debt recovery that does not exacerbate hardship**

*Cross-agency policy work to improve fairness and consistency*

31 Previous government reviews have shown that the different approaches to debt collection across agencies are often perceived to be unfair. Workshops with operational staff have identified potential areas where it may be appropriate to improve consistency and fairness across the creation, recovery, and write-off of debt to government. Some of these are addressed in other work, described below, such as Section 9(2)(f)(iv) [redacted] whilst other areas, such as debt recovery processes across different agencies, will require more extensive policy analysis by the cross-agency policy working group.

32 Officials are currently undertaking a stocktake of current operational processes and policies, as the basis for a comparison and assessment of settings across agencies. Following this, officials will be preparing options for Cabinet to consider as part of the July report back on how to improve fairness, coherence and consistency, including:

- 32.1 s9(2)(f)(iv) [redacted]
- 32.2 s9(2)(f)(iv) [redacted]
- 32.3 s9(2)(f)(iv) [redacted]
- 32.4 s9(2)(f)(iv) [redacted]
- 32.5 s9(2)(f)(iv) [redacted]
- 32.6 s9(2)(f)(iv) [redacted]

33 I also wish to ensure that, overall, the way we manage and recover debt from clients across agencies is coherent, underpinned by consistent principles, and does not exacerbate hardship. While there are often policies in place that allow discretion to be used on debt repayments, I consider that there is scope to better ensure it is applied consistently both within and across agencies while putting the wellbeing of people in hardship at the centre of decision making.

34 s9(2)(f)(iv) [redacted]

*Improving the attachment order process*

35 Fines and reparations make up the majority of MoJ debt (\$523 million as at February 2021), which can be collected via attachment orders (automatic deductions from debtors wages, salary or benefit to pay off a court ordered debt). These attachments orders can also be applied to civil debts, but with significantly less information available about the debtors' ability to pay.



36 s9(2)(f)(iv) [Redacted]

*Common debtors pilot*

37 As of June 2021, there were 83,909 customers with debt to both IR and MSD, with a combined common debt of \$1.194 billion. The common debtors pilot is trialling a new service to support those with debt to both IR (child support debt) and MSD. Its focus is on strengthening customer relationships, and creating a more collaborative and supportive environment where staff have a better understanding of clients' situations before debt collection discussions begin.

38 Due to the COVID-19 resurgence, the pilot was put on hold between 18 August and 8 September. On 9 September, the team commenced rescheduling appointments for customers outside of Auckland. The Pilot will be extended until March 2022 and a comprehensive evaluation will be carried out in May/June 2022.

39 Early findings from the pilot have been positive. They show that the three-way phone calls, where clients can speak to both MSD and IR at the same time, have helped establish cases where clients were eligible for assistance from MSD but had not applied for it. Eligible customers with child support penalty debt have also received write offs to reduce their debt.

40 The results of the evaluation will be included in the July report back. s9(2)(f)(iv) [Redacted]

*Persistent debt*

41 Some individuals and whānau are never able to get out of debt. Christians Against Poverty research shows that most clients struggle for years with debt, with 40% being in debt for more than five years.<sup>2</sup> Not all problem debt is persistent debt, however persistent debt is a significant burden.

42 In recent months, the Social Wellbeing Agency (SWA) has undertaken initial IDI analysis to investigate persistent debt, to help inform any policy solutions to address it. This has yielded important insights into the scale and nature of the problem – for example, more than two thirds of people with debt to MSD and a third of people with debt to IR had at least one debt that lasted more than three years.

<sup>2</sup> Below Zero: Living with Unmanageable Debt in Aotearoa. Christians Against Poverty. 2020.

43 The next stage of the work will be to analyse the data further with a view to developing policy responses on how best to address it – s9(2)(f)(iv)

**Phase one: a preventative focus to reduce the creation of government debt**

*Work on understanding, and options to reduce, overpayment debt*

44 Over \$1 billion is owed to MSD due to overpayments and fraud. Overpayments can occur when people’s circumstances change, and MSD do not receive this information in time to update payments accordingly. Achieving an ‘ideal state’ where MSD can use pay-day income data from IR, so that clients do not need to declare wages (PAYE), would require strong partnership with IR and significant changes to MSD’s policies, legislation and IT systems. s9(2)(f)(iv)

45 However, there are incremental changes that can be introduced to reduce debt as MSD works towards the longer-term ‘ideal state’. s9(2)(f)(iv)

*Working for Families (WfF) Review*

46 Around 40,000 people, 80% of whom are women, owe debt to IR due to Working for Families overpayments. While reducing debt is not the primary focus of the WfF review, phase two of the review includes a dedicated workstream on potential administrative and operational improvements. This is focused on changes that would improve accuracy, reduce debt and improve client experience, and s9(2)(f)(iv)

47 s9(2)(f)(iv)

*MSD review of hardship assistance*

48 MSD have seen an increasing reliance on hardship assistance, with over \$600 million owed to MSD for recoverable assistance. The average amount of recoverable assistance is \$1,981 per person, and 64% is owed by households with children.

49 MSD provides case management services to support high users of hardship assistance. Currently, MSD staff can refer clients to services such as Building Financial Capability (BFC) to help them manage their debt, and recent operational changes have been made to ensure that staff have an enhanced awareness of services their clients can access.

50 Section 9(2)(f)(iv)

[Redacted]

51 s9(2)(f)(iv)

[Redacted]

*Legal aid* Section 9(2)(f)(iv)

52 52,500 individuals owe legal aid debt to MoJ totalling \$178 million. A Cabinet directed review [CBC-15-MIN-0004] conducted by MoJ in 2018 found that fewer people can now access legal aid than when the current settings were introduced, contributing to increasing debts upon what are now relatively lower income earners.

53 Section 9(2)(f)(iv)

[Redacted]

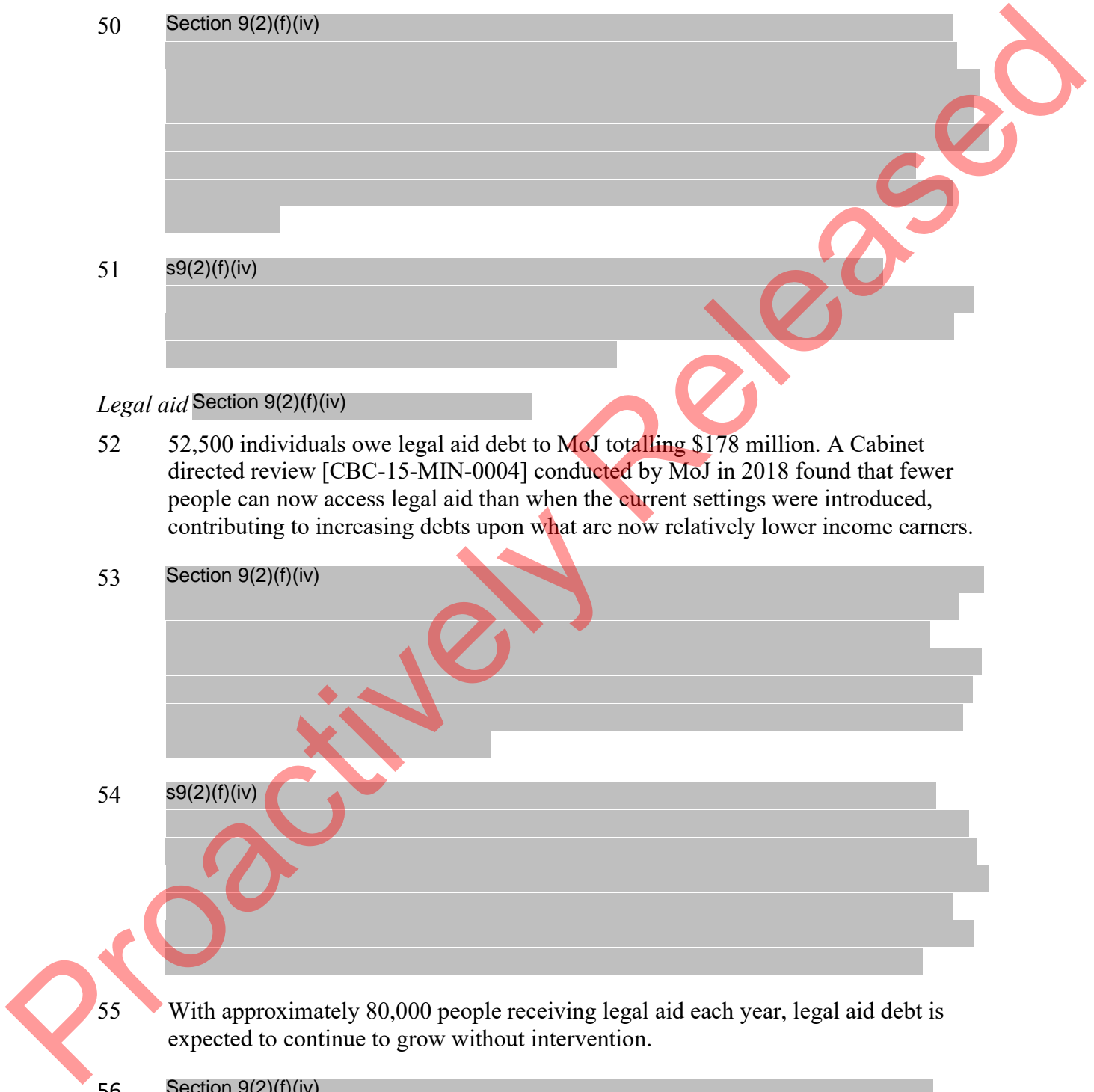
54 s9(2)(f)(iv)

[Redacted]

55 With approximately 80,000 people receiving legal aid each year, legal aid debt is expected to continue to grow without intervention.

56 Section 9(2)(f)(iv)

[Redacted]



*Child Support Amendment Act 2021*

57 From April 2021, child support incremental penalties are no longer applied, and write-off rules were simplified. These changes are aimed at slowing the growth of current debt and encouraging parents to engage with the scheme. IR will shift child support to its new platform later this year to allow the implementation of further amendments including the:

57.1 introduction of the grace period and compulsory deductions

57.2 repeal of the minimum \$5 penalty rule, and

57.3 moving of the second stage of the late payment penalty to the 28th day after the due date.

58 While the primary intention of these legislative changes was to help parents meet their child support obligations while shifting the child support system to the new platform, they are also expected to prevent new debt and reduce the growth of existing child support debt. IR will continue to monitor the impact of these changes, although it is likely it will take several years as the changes take effect. An initial update on the implementation will be provided in the July 2022 report back.

**Phase two: longer-term, more comprehensive changes across both prevention and recovery**

59 A second phase of longer-term policy work will emerge from the current Phase One work programme. Many changes will require a long timeframe and significant funding to develop and implement. This work will be the subject of a report back BY Ministers of Child Poverty Reduction, Social Development and Employment, Justice and Revenue to the Social Wellbeing Committee by July 2022.

*Improve fairness, coherence and consistency in operational processes, policy, and legislation*

60 Some of the longer-term work will build on the Phase One work to improve fairness, coherence and consistency, as identified in paragraph 28. s9(2)(f)(iv)

[Redacted]

61 s9(2)(f)(iv) [Redacted]

*Operational, policy, and legislative changes to reduce overpayment debt, s9(2)(f)(iv) [Redacted], to reduce future problem debt*

62 s9(2)(f)(iv) [Redacted]

63 s9(2)(f)(iv) [Redacted]

64 s9(2)(f)(iv) [Redacted]

**Financial Implications**

65 This paper does not have any financial implications. s9(2)(f)(iv) [Redacted]

**Legislative Implications**

66 This paper does not have any legislative implications. Progressing aspects of the debt to government work programme may have significant legislative implications, which will be clarified when decisions from Ministers or Cabinet is sought.

**Impact Analysis**

**Regulatory Impact Statement**

67 A Regulatory Impact Statement (RIS) is not required at this time. Should changes to legislation be sought in future, a RIS will be prepared as required.

**Climate Implications of Policy Assessment**

68 A Climate Implications of Policy Assessment (CIPA) is not required.

**Population Implications**

69 The table below provides an overview of the impacts that proposals in the debt to government work programme are expected to have on a range of population groups

*Table Two: Expected impact of the debt to government programme on different groups*

Population group	How the proposal may affect this group
Māori	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 per cent of all Māori working-age adults are on a main benefit). 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 55 per cent of those with debt to all

	three agencies). Māori are also overrepresented among clients with private debt engaged with Building Financial Capability (BFC) services (39 per cent of BFC clients are Māori).
Pacific peoples	The debt to government 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 16 per cent 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.
Disabled people	The debt to government 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% of all people in receipt of a main benefit. 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.
Children	The debt to government work underway includes assessing the generation of several types of debt that relate to a family unit (child support, Working for Families 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.
Women	Women are overrepresented in several categories of debt to MSD (including recoverable assistance and overpayments), MoJ (legal aid), and IR (Working for Families overpayments), and in some areas of debt across multiple agencies. 68% of those receiving a main benefit are female.

## Human Rights

70 This paper does not have any human rights implications.

## Consultation

71 The following agencies were consulted on this paper: Ministry of Justice, Ministry of Social Development, Inland Revenue Department, Social Wellbeing Agency, Ministry for Business, Innovation and Employment, Treasury, Office for Disability Issues, Te Puni Kōkiri, Te Arawhiti, Ministry for Pacific Peoples, Ministry for Ethnic Communities, Ministry for Women, Oranga Tamariki, Public Services Commission, Ministry of Education.

## Proactive Release

72 This Cabinet paper will be proactively released, subject to redactions as appropriate, within 30 business days of being considered by Cabinet. The Social Wellbeing Agency will also publish the analysis included in this paper at the same time.

## Recommendations

The Minister for Child Poverty Reduction recommends that the Committee:

1. **note** that as at September 2020, over 566,600 low income individuals owe \$3.5 billion of debt to government (Ministry of Social Development, Ministry of Justice, and Inland Revenue), which is exacerbating hardship for some individuals and whānau
2. **note** that work is underway to reduce the impact of problem government debt for people in hardship, with a particular focus on:
  - 2.1 ensuring debt **recovery** is fair, effective, and avoids exacerbating hardship, and
  - 2.2 **preventing** debt from occurring so that it does not create future problems for those in hardship
3. **note** that reducing debt for people in hardship will help some of New Zealand's most vulnerable children, and contribute towards reducing child poverty and in particular, reducing rates of material hardship
4. s9(2)(f)(iv) [REDACTED]
5. **endorse** the two principles that underpin this work programme, which are to:
  - 5.1 improve coherence by improving consistency across the system where appropriate, and
  - 5.2 focus on fairness
6. **endorse** the areas of work currently underway as part of Phase One which are:
  - 6.1 the fairness, coherence and consistency of operational processes and policy
  - 6.2 improvements to the attachment order process
  - 6.3 the common debtors pilot
  - 6.4 work to understand and address persistent debt
  - 6.5 focus areas to reduce overpayment debt
  - 6.6 operational changes through the Working for Families Review
  - 6.7 changes to hardship assistance
  - 6.8 s9(2)(f)(iv) [REDACTED]
  - 6.9 changes to reduce debt created through child support

7. s9(2)(f)(iv) [redacted]  
[redacted]  
[redacted]  
[redacted]
8. Section 9(2)(f)(iv) [redacted]  
[redacted]
9. s9(2)(f)(iv) [redacted]  
[redacted]
10. **endorse** the longer-term Phase Two work programme, including
- 10.1 longer term options for changes to improve fairness, coherence and consistency in operational processes, policy, and legislation, and
- 10.2 longer-term operational, policy, and legislative changes to reduce overpayment debt, s9(2)(f)(iv) [redacted]  
[redacted]
11. **direct** the Ministers of Child Poverty Reduction, Social Development and Employment, Justice, and Revenue, to report back to the Social Wellbeing Committee by July 2022 on:
- 11.1 the outcome of the Phase One work set out in this paper, including options and recommended actions for Ministers to consider, s9(2)(f)(iv) [redacted]  
[redacted]
- 11.2 the plan for Phase Two, which will set out the approach to making the longer-term, more comprehensive changes outlined in recommendation 6 above, and any likely funding or legislative implications
12. **agree** that the July 2022 report back will include outcomes to date and options for Cabinet to consider to improve debt recovery on the following:
- 12.1 changes to improve the fairness, coherence and consistency in operational processes and policy, s9(2)(f)(iv) [redacted]  
[redacted]
- 12.2 changes to improve the use of attachment orders, s9(2)(f)(iv) [redacted]  
[redacted]
- 12.3 changes to operational processes arising from the findings from the evaluation of the common debtors pilot
- 12.4 options to address Section 9(2)(f)(iv) [redacted] persistent debt, based on the findings of the Social Wellbeing Agency's analysis of the drivers of persistent debt



13. **agree** that July 2022 report back will also include outcomes to date and options for Cabinet to consider to prevent problem debt from occurring in the following areas:
- 13.1 changes to systems and processes to reduce overpayments by the Ministry of Social Development
  - 13.2 options to improve the delivery of Working for Families payments
  - 13.3 potential improvements to hardship assistance, Section 9(2)(f)(iv)  
[Redacted]
  - 13.4 Section 9(2)(f)(iv)  
[Redacted]
  - 13.5 changes to help parents meet their child support obligations and reduce debt

Authorised for lodgement

Rt Hon Jacinda Ardern

Minister for Child Poverty Reduction

Prime Minister

Proactively Released

## Appendix 1: Treatment of debt by agencies at different stages of the debt cycle

The debt held by different agencies often has different causes and is subject to different legislative rules, as summarised below. The different approaches to debt collection across agencies are sometimes perceived to be unfair, as was highlighted by the Welfare Expert Advisory Group and the Tax Working Group.

	MSD	IRD	MoJ
<b>Creation</b>	Obligations to pay are determined by policy settings, such as what assistance is recoverable or non-recoverable, and income thresholds determining the amount of legal aid a person is eligible for. There are no cross-agency principles for when to recover costs.		
<b>Interest, penalties, Set-up costs</b>	<ul style="list-style-type: none"><li>No penalties or extra fees.</li></ul>	<ul style="list-style-type: none"><li>Interest of 7% on income tax debt</li><li>Penalties for other debt when obligations are not met</li><li>Child support incremental penalties recently removed</li></ul>	<ul style="list-style-type: none"><li>Interest of 5% on legal aid debt.</li><li>No interest on other debt.</li><li>No penalties, but legal aid and attachment orders have set-up fees</li></ul>
<b>Recovery</b>	<ul style="list-style-type: none"><li>Legislative duty to take all reasonably practicable steps to recover a debt, subject to limited exceptions</li><li>Discretion within this duty as to rate and method of recovery, and can temporarily defer recovery in particular circumstances, including undue hardship</li></ul>	<ul style="list-style-type: none"><li>Must consider the cost of recovery and whether it would place a person into serious hardship when recovering debt.</li></ul>	<ul style="list-style-type: none"><li>Maximum collection rate of 40% of income, which is higher than MSD's maximum of \$40 per week for beneficiaries</li></ul>
<b>Write-off</b>	<ul style="list-style-type: none"><li>Very limited ability to write-off some debt</li><li>For non-current clients (most of whom are former clients that cannot be tracked down), can write off debt at a value of \$50 or less after 70 days of non-payment and no new debt being added</li></ul>	<ul style="list-style-type: none"><li>Able to write off core debt, penalty debt, and interest in some circumstances</li><li>Able to write off some types of debts where payment may place the taxpayer in hardship, and has legislated small balance write offs for taxpayers who meet certain criteria</li><li>Some write offs are compulsory and others are discretionary – most debt written off is interest and penalties</li><li>Takes into account whether overpayments were received in good faith, and can write off debt in this case</li></ul>	<ul style="list-style-type: none"><li>Able to write off legal aid debt (but not private debt), due to serious hardship, inequity, or cost of enforcement</li></ul>

## Appendix 2: Initial analysis of debt to government data

### Overview

The Social Wellbeing Agency conducted Integrated Data Infrastructure (IDI) analysis of MSD, IR and MOJ debtors. This debt totals over \$4.75 billion, with \$3.5 billion owed by over 566,600 low-income individuals (low income = salary less than the living wage of \$45,000 per annum).

Table One: Overview of debt to government agencies (as linked to the IDI at September 2020)

	Total debt owed	Main Cause	Individuals owing debt	Average (mean) level of debt per debtor <sup>^</sup>
IR <sup>†</sup>	\$2.640 billion	Income tax and liable parent/child support debt	295,000	\$8,957
MSD	\$1.650 billion	Overpayment and recoverable assistance	461,000	\$3,550
MoJ*	\$0.470 billion	Fines and reparations	260,000	\$1,800

These numbers undercount debtors and total value, as some people are unable to be linked through the IDI.

<sup>†</sup>Includes IR debt from overdue student loan payments, receiving carers, liable parent, income tax, Working for Families, employment activities and GST, and donation tax credits. Student loans are excluded due to the different nature of this debt.

\*Analysis does not include MoJ legal aid data.

<sup>^</sup> The average amount reflects total debt divided by the number of people owing debt, and may not reflect the median levels of debt. If, for instance, there are a portion of people that have a very high amount of debt, this will skew the average and suggest that most people have a higher debt than is actually the case.

### Key findings of debt by agency (IR, MSD, and MOJ)

**IR:** Income taxes and liable parent/child support debt comprise the majority of debt, and child support debt is the category with the largest average level of debt. Significant changes to child support through the Child Support Amendment Act 2021 should help increase engagement with child support and thus slow the growth of child support penalty debt. Core child support liable parent debt may be owed to either the Crown, or to another taxpayer (the receiving carer). Around 40,000 people owe debt due to Working for Families overpayments, of whom 80% are women.

**MSD:** 461,000 individuals have debt to MSD, with an average of \$3,550 debt per debtor. MSD debt is more likely to be held by females (56%) and 38% of debtors are under 35. The majority of MSD debt is due to overpayments (over \$1 billion of overpayment debt, which includes overpayments from error or fraud). A further \$600 million is due to recoverable assistance. Previous SWA research has shown the overpayments are strongly associated with changes in circumstances (employment, income and relationships).

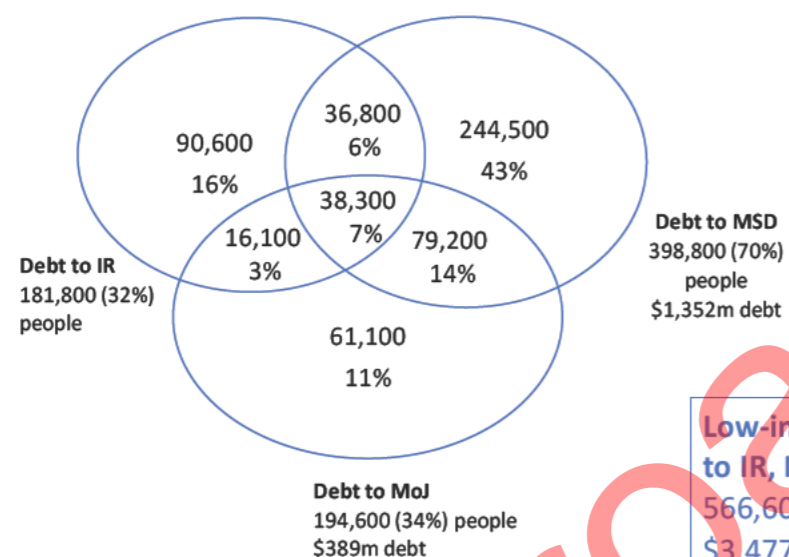
**MoJ:** Fines and reparations make up the majority of MoJ debt. MoJ has the highest proportion of Māori debtors of the three agencies. Note the SWA analysis does not include MoJ legal aid data. Previous analyses show legal aid debt for 52,500 individuals, totalling \$173 million. Average legal aid debt is between \$1,300 (the minimum set by the regulations) and \$2,860 (the next level of debt set by the regulations).

**Common debtors:** 45,000 individuals have debt to all three of MSD, IR, and MoJ. They represent 6% of all debtors, with 17% of all debt, and an average debt of \$17,600. These people are more likely to be male, Māori and aged between 25 to 50. The overlap more often occurs with child support (IR), fines (MoJ) and overpayment and recoverable assistance (MSD). Over half of the individuals with multiple debts are beneficiaries and/or households with children; and most are low-income, with around 50% living on half the living wage). Recent IR and MSD analysis found 57% of people with common debt to both

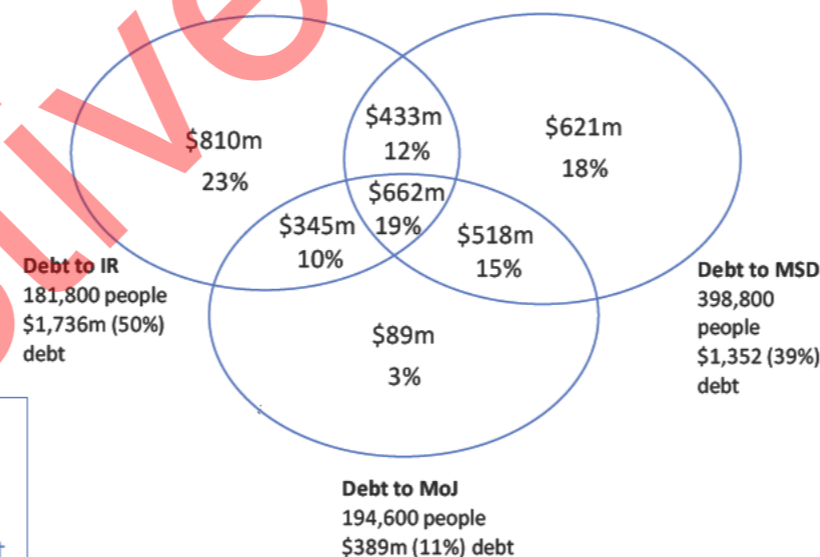
### Debtors with low income: debt to government by number of debtors, total value of debt, and average value of debt

Low income = salary less than the living wage of \$45,000 per annum

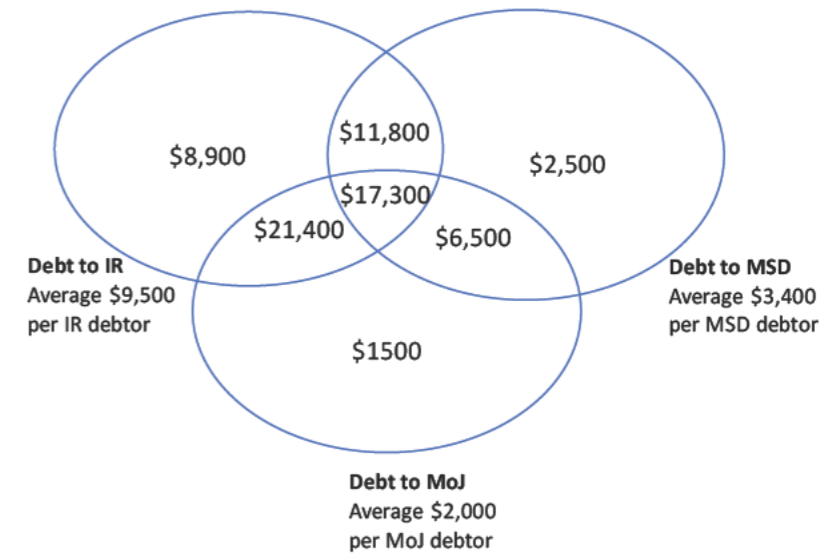
Number of low-income debtors and overlaps by debt type



Total dollar value of low-income debt and joint debt



Average dollar value of low-income debt and joint debt



#### IDI disclaimer:

These results are not official statistics. They have been created for research purposes from the IDI which is carefully managed by Stats NZ. Access to the data used in this study was provided by Stats NZ under conditions designed to give effect to the security and confidentiality provisions of the Statistics Act 1975. The results presented in this study are the work of the author, not Stats NZ or individual data suppliers. The results are based in part on tax data supplied by Inland Revenue to Stats NZ under the Tax Administration Act 1994 for statistical purposes. Any discussion of data limitations or weaknesses is in the context of using the IDI for statistical purposes, and is not related to the data's ability to support Inland Revenue's core operational requirements. Data is for New Zealand residents only.

Section 9(2)(f)(iv)

Section 9(2)(f)(iv)

Proactively Released



# Cabinet Social Wellbeing Committee


## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### Reducing the Impact of Debt to Government for People in Hardship

Portfolio                      Child Poverty Reduction

On 10 November 2021, the Cabinet Social Wellbeing Committee:

- 1        **noted** that, as at September 2020, over 566,600 low income individuals owe \$3.5 billion of debt to government (Ministry of Social Development, Ministry of Justice, and Inland Revenue), which is exacerbating hardship for some individuals and whanau;
- 2        **noted** that work is underway to reduce the impact of problem government debt for people in hardship, with a particular focus on:
  - 2.1      ensuring debt recovery is fair, effective, and avoids exacerbating hardship;
  - 2.2      preventing debt from occurring so that it does not create future problems for those in hardship;
- 3        **noted** that reducing debt for people in hardship will help some of New Zealand's most vulnerable children, and contribute towards reducing child poverty and, in particular, reducing rates of material hardship;
- 4        s9(2)(f)(iv)  

- 5        **endorsed** the following two principles that underpin this work programme:
  - 5.1      improve coherence by improving consistency across the system where appropriate;
  - 5.2      focus on fairness;
- 6        **endorsed** the following areas of work currently underway as part of Phase One:
  - 6.1      the fairness, coherence and consistency of operational processes and policy;
  - 6.2      improvements to the attachment order process;
  - 6.3      the common debtors pilot;
  - 6.4      work to understand and address persistent debt;

- 6.5 focus areas to reduce overpayment debt;
- 6.6 operational changes through the Working for Families Review;
- 6.7 changes to hardship assistance;
- 6.8 s9(2)(f)(iv) [redacted]
- 6.9 changes to reduce debt created through child support;

7 s9(2)(f)(iv) [redacted]

8 s9(2)(f)(iv) [redacted]

9 Section 9(2)(f)(iv) [redacted]

10 **noted** that the implementation timeframes for parts of the Phase One work programme will depend on Budget decisions, including Budget 2022 decisions;

11 **endorsed** the longer-term Phase Two work programme, including:

11.1 longer term options for changes to improve fairness, coherence and consistency in operational processes, policy, and legislation;

11.2 longer-term operational, policy, and legislative changes to reduce overpayment debt, s9(2)(f)(iv) [redacted];

12 **invited** the Minister for Child Poverty Reduction, Minister for Social Development and Employment, Minister of Revenue, and Minister of Justice to report back to the Social Wellbeing Committee by July 2022 on:

12.1 s9(2)(f)(iv) [redacted]

12.2 the plan for Phase Two, which will set out the approach to making the longer-term, more comprehensive changes outlined in paragraph 10 above, and any likely funding or legislative implications;

13 **agreed** that the July 2022 report back above include outcomes to date and options to improve debt recovery on the following:

13.1 changes to improve the fairness, coherence and consistency in operational processes and policy, s9(2)(f)(iv) [redacted]

13.2 changes to improve the use of attachment orders, s9(2)(f)(iv) [redacted]

- 13.3 changes to operational processes arising from the findings from the evaluation of the common debtors pilot;
- 13.4 options to address Section 9(2)(f)(iv) persistent debt, based on the findings of the Social Wellbeing Agency's analysis of the drivers of persistent debt;
- 14 **agreed** that the July 2022 report back above also include outcomes to date and options to prevent problem debt from occurring in the following areas:
  - 14.1 changes to systems and processes to reduce overpayments by the Ministry of Social Development;
  - 14.2 options to improve the delivery of Working for Families payments;
  - 14.3 potential improvements to hardship assistance, Section 9(2)(f)(iv)
  - 14.4 Section 9(2)(f)(iv)
  - 14.5 changes to help parents meet their child support obligations and reduce debt.

Rachel Clarke  
Committee Secretary

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**Present:**

Hon Grant Robertson  
Hon Kelvin Davis  
Hon Dr Megan Woods  
Hon Chris Hipkins (Chair)  
Hon Andrew Little  
Hon Poto Williams  
Hon Kris Faafoi  
Hon Willie Jackson  
Hon Jan Tinetti  
Hon Dr Ayesha Verrall  
Hon Aupito William Sio  
Hon Meka Whaitiri  
Hon Priyanca Radhakrishnan

**Officials present from:**

Office of the Prime Minister  
Officials Committee for SWC



# Cabinet

## Minute of Decision

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### Report of the Cabinet Social Wellbeing Committee: Period Ended 12 November 2021

On 15 November 2021, Cabinet made the following decisions on the work of the Cabinet Social Wellbeing Committee for the period ended 12 November 2021:

Out of Scope



SWC-21-MIN-0171    **Reducing the Impact of Debt to Government for People in Hardship**    CONFIRMED  
Portfolio: Child Poverty Reduction

Out of Scope



Michael Webster  
Secretary of the Cabinet