DEPARTMENT OF THE PRIME MINISTER AND CABINET
TE TARI O TE PIRIMIA ME TE KOMITI MATUA

TE TAI ŌHANGA THE TREASURY

MINISTRY OF JUSTICE
Tāhū o te Ture

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Inland Revenue
Te Tari Taake

Briefing

ADDRESING DEBT TO GOVERNMENT – UDPATE

To: Rt Hon Jacinda Ardern, Prime Minister, Minister for Child Poverty Reduction
Hon Grant Robertson, Minister of Finance
Hon Carmel Sepuloni, Minister for Social Development and Employment
Hon David Parker, Minister of Revenue
Hon Kris Faafoi, Minister of Justice
cc: Hon Dr David Clark, Minister of Commerce and Consumer Affairs
Hon Aupito William Sio, Minister for Courts

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Purpose

- This briefing provides joint Ministers with an update and progress report on agency-specific and cross-agency work on debt to government.

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Minister's office comments:

- ☐ Noted
- ☐ Seen
- ☐ Approved
- ☐ Needs change
- ☐ Withdrawn
- ☐ Not seen by Minister
- ☐ Overtaken by events
- ☐ Referred to

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ADDRESSING DEBT TO GOVERNMENT – UPDATE

Executive Summary

1. While debt can be a standard feature of financial life for many individuals and families, it can also become a problem – contributing to financial hardship, stress, poor physical and mental health, stigma, and social exclusion. Significant work has been underway to address some of these harms in the consumer lending market, including reforms to consumer credit law, and the development of a strategy to support access to safer credit and financial inclusion. Alongside this, officials are continuing to explore possible improvements to the way that individuals' debt to government departments is treated – both how debt is generated, and how it is collected.

2. This briefing provides joint Ministers with an update on agency-specific and cross-agency work on debt to government, and a progress report. This advice is structured by agency responsibility to give relevant Ministers a clear line of sight to their portfolio interests.

3. Officials from the Child Poverty Unit (DPMC), Treasury, Ministry of Social Development (**MSD**), Inland Revenue (**IR**), and Ministry of Justice (**MOJ**) convened in early 2019 to identify cross-agency opportunities to address issues relating to debt to government agencies, with a focus on low-income families. The work has included looking at the cross-agency debt recommendations of the Tax Working Group and the Welfare Expert Advisory Group. In 2019, joint Ministers under the previous Government endorsed priority areas of work, and relevant Ministers agreed to some areas for immediate action within their departments. This work has progressed slower than expected due to COVID-19 interruptions.

4. Based on our work to date, we are of the view that aspects of the intended longer-term cross-agency work (e.g. exploring alignment of debt management, where appropriate) rely on work first being undertaken within agencies. s9(2)(f)(iv) OIA

5. Cross-agency (and within agency) policy thinking will also be supported by the Social Wellbeing Agency's (**SWA**) research into common debtors (due to be completed in mid-2021). That research will give us better information on individuals and families owing debt to government, and insights on the size, scale, and/or nature of common debtors and their debt.

6. In the near-term the cross-agency group will focus on updating joint Ministers on debt work across government as appropriate, establishing an interagency group of operational colleagues working with debt to share insights, and supporting SWA's research. Individual agencies will continue to progress their items on the current work programme, and work with other agencies as appropriate. We expect debt to government work will be tracked as part of the Child and Youth Wellbeing (**CYW**) Ministers meeting.

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Recommendations

It is recommended that you:

a. **Note** that:

   a. officials have undertaken cross-agency work to identify opportunities to address issues relating to debt to government departments, with a focus on low-income families

   b. the cross-agency work on debt to government departments (agreed by Ministers in the previous term of Government) has progressed slower than expected due to COVID-19 interruptions.

b. **Note** officials' view that, at this stage, progress is best supported in the near-term by:

   a. relevant agencies progressing their items on the current work programme, including:

      i. s9(2)(f)(iv) OIA

      ii. MSD's work to understand the drivers of overpayment debt

      iii. MSD and MOJ continuing to work together to explore the current state of information exchange between their respective systems, in order to determine what changes would best support more informed decision-making when setting attachment orders for beneficiaries

      iv. MSD and IR continuing to work together on improving information exchange to help prevent overpayments caused by fluctuating client income

      v. IR convening the first interagency meeting of operational colleagues later this year, to share insights and developments in the way each agency works with debt and debtors, to improve debtor experiences

   b. the cross-agency group focusing on:

      i. updating joint Ministers on debt work across government as appropriate

      ii. establishing an interagency group of operational colleagues working with debt to share insights

      iii. supporting SWA's research into common debtors, that will set a platform for further cross-agency (and within agency) policy thinking.

c. **Agree** that the cross-agency group will report to joint Ministers in August 2021 with:

   a. an update on the debt work taking place across government

   b. findings from SWA's research into common debtors

   c. an analysis of the potential areas for intervention highlighted by the research

   d. proposed next steps.

Prime Minister Ardern	Yes / No	Minister Robertson	Yes / No
Minister Sepuloni	Yes / No	Minister Parker	Yes / No
Minister Faafoi	Yes / No		

d. **Note** that we expect work on debt to government to be tracked as part of the CYW Ministers meeting.

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ADDRESSING DEBT TO GOVERNMENT – UPDATE

Background

7. While debt can be a standard feature of financial life, it can also become a problem. When debt becomes a problem for individuals or families, it can have a significant impact on their wellbeing, and contribute to financial hardship, stress, poor physical and mental health, stigma, and social exclusion. For some low-income families, the immediate need for necessary items (e.g. food, transport) can outweigh the disadvantages of high interest rates, fees, and increasing debt.

The government's role in debt

8. Recognising the role of the debt in the economy and in the lives of individuals, government has a role in the regulation of consumer credit markets and insolvency, as well as in building or supporting financial capability. Significant work is underway in these areas, including reforms to consumer credit law and work under the Safer Credit and Financial Inclusion Strategy.

9. Government is also a creditor — a large number of individuals and families owe money to government departments, and for a variety of reasons. It is a complex picture as the debt held by different agencies often has different drivers/purposes, and is subject to different legislative rules. Even within agencies there are different kinds of debt which are subject to differing rules.

10. The way debt to government is generated and treated can pose a number of issues for individuals and families. For example, recoverable payments to meet a needed expense creates debt for those on low incomes or experiencing hardship, and preventable overpayment debt can create an unnecessary burden. Differing agency approaches to debt recovery and write-off can also raise equity and system issues.

Cross-agency work to date

11. In early 2019 a cross-agency working group was convened to bring a cross-agency perspective on individuals' debt to government agencies, with a focus on debt for low-income families, as well as to provide collective advice on cross-agency debt recommendations made by the Welfare Expert Advisory Group (**WEAG**) and the Tax Working Group (debt recommendations are set out in ***Attachment A***). These recommendations included instigating a cross-government approach to managing debt to government agencies, and establishing a single debt collection agency.

12. Cross-agency work provided the opportunity to compare the treatment of different kinds of debt (and consider equity concerns), and to look at how agencies' debt recovery policies and practices operate for individuals with debt to multiple departments. Our focus on low-income individuals and families reflects the concerns raised by WEAG (and elsewhere), as well the strong link between this work and child poverty reduction.

13. An overview of the different types of debt to government agencies, and the ways those debts are generated and treated, is shown in the (previously provided) A3 attached as ***Attachment D***. Advice to joint Ministers in the previous Government emphasised that debt to government is a complex area, and each agency has its own overarching goals and frameworks.[1] Because information on debt owed to each department is not held centrally, we had limited understanding of common debtors. We commissioned SWA to undertake research into common debtors. SWA worked with IR, MSD, MOJ, and Statistics New Zealand to arrange data loads into the Integrated Data Infrastructure for the purposes of this research. SWA is in the process of analysing that data.

[1] [Briefing DPMC-2018/19-1381; T2019/891; CRT-03-F-01; REP/19/6/562; IR2019-216 refers]. Work to date has focussed on debt to government departments. Other agencies that individuals may owe debt to include the Accident Compensation Commission (e.g. where overpayments have occurred), and Kāinga Ora (e.g. for social housing rent arrears).

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14. Previous advice has also pointed out that, rather than driving at 'alignment' of treatment of debt across agencies in the near-term, it is useful to first address some of the policies or processes generating significant volumes of debt for low-income families (e.g. recoverable assistance payments; overpayments), and consider the operational processes that could be improved to help alleviate hardship (e.g. attachment order decision-making processes).[2] A series of Cabinet and Ministerial decisions have supported work to date (a summary of key decisions in ***Attachment B***).

15. Advice in September 2019 identified some shorter-term priority areas, as well as some potential longer-term areas for exploration.[3] Shorter-term priority areas included:

    a) improving information exchanges between MSD, IR, and MOJ to support better management of debt – including helping to avoid unnecessary overpayments, and providing visibility of common debtors

    b) seeking alignment (where appropriate) of government agencies' approaches to relief when a person is facing (or may face) hardship

16. The following were identified as potential longer-term areas for exploration:

    a) seeking alignment (where appropriate) of approaches to interest and penalty rates

    b) seeking alignment (where appropriate) of approaches to write-off

    c) improved recovery approaches for individuals with debts to multiple agencies.

17. In December 2019, officials updated joint Ministers on the shorter-term priority areas, and joint Ministers agree three areas for immediate action.[4] These were:

    a) s9(2)(f)(iv) OIA

    b) MOJ and MSD improving decision-making processes relating to attachment order repayment levels for beneficiaries

    c) MOJ, MSD, and IR identifying and progressing operational changes to improve debtor experiences.

This advice is structured by agency responsibility

18. This advice is structured by agency responsibility to give relevant Ministers a clear line of sight to their portfolio interests. It covers:

    a) an update on the three areas agreed by relevant Ministers for immediate action in December 2019 (as outlined in paragraph 17 above)

    b) an update on the wider priority areas agreed by joint Ministers in September 2019 (as outlined in paragraph 15 above)

    c) an update on levels of debt to agencies (see agency updates and ***Attachment C***), SWA's research, and Treasury's central debt collection agency advice

    d) a summary of work under the Safer Credit and Financial Inclusion Strategy, MSD's ongoing work to support building financial capability.

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[2] [Briefing DPMC-2019/20-224; T2019/2535; CRT-03-F-01; REP/19/9/850; IR2019-480; Briefing DPMC-2019/20-498; T2019/3989; CRT-03-F-01; REP/19/11/1232; IR2019/642 refer].

[3] [Briefing DPMC-2019/20-224; T2019/2535; CRT-03-F-01; REP/19/9/850; IR2019-480 refers].

[4] [Briefing DPMC-2019/20-498; T2019/3989; CRT-03-F-01; REP/19/11/1232; IR2019/642 refers].

What do the agency updates tell us?

19. The agency updates in the following sections highlight that:

    a) work agreed to by Ministers (in the previous term) has progressed slower than expected, in large part due to COVID-19 interruptions

    b) overall there is a trend of increasing debt levels, with different drivers at play

    c) some of the work agencies are undertaking on debt to government is 'joint' work (e.g. MSD and MOJ work on attachment order decision-making), and much of it sits within individual agencies (e.g. MSD's Hardship Assistance review; IR's work on Child Support debt)

    d) there are pieces of work within agencies that will be key inputs to further cross-agency policy thinking – in particular, MSD's Hardship Assistance review and MSD's work to understand the drivers of overpayment debt. An update to the Minister for Social Development and Employment on both pieces of work is scheduled by July 2021. For example, some of the equity concerns around different treatment of debt on the basis of hardship across agencies will be explored (in part) through MSD's work.

20. Another piece of work that will be a key input to further cross-agency (and within agency) policy thinking is SWA's research into common debtors (described further at paragraphs 56 to 57 below). This research is due to be completed by mid-2021. Once the SWA research is complete, officials will have a clearer idea of the scope and scale of common debtors and their debt, and a clearer idea of the potential benefits of a joined-up approach to managing debt. The research may also provide new insights about the circumstances in which debt is generated, ultimately informing ways that this could be addressed.

21. In the near-term the cross-agency group will focus on updating joint Ministers on debt work across government as appropriate, establishing an interagency group of operational colleagues working with debt to share insights, and supporting SWA's research. Individual agencies will continue to progress their items on the current work programme, and overall work on debt to government will be tracked as part of the CYW Ministers meeting.

Update from the Ministry of Social Development

An update on the areas for immediate action (agreed in December 2019)

Review of Hardship Assistance

22. In December 2019, the then Minister for Social Development agreed that MSD undertake a review of Hardship Assistance as part of the longer-term Welfare Overhaul work programme and in response to the WEAG recommendations. s9(2)(f)(iv) OIA [redacted] This may be appropriate in some cases. However, there is no consistent rule that has been applied when determining which cost categories can be met by recoverable assistance, or which can be met by non-recoverable assistance. MSD will provide an update on the review of Hardship Assistance to the Minister for Social Development and Employment by July 2021.

23. s9(2)(f)(iv) OIA [redacted]

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s9(2)(f)(iv) OIA

[redacted]

24. There are other aspects of the review of Hardship Assistance that may help to reduce client debt to MSD. For example, the Labour Party's 2020 manifesto commitment to increase the Special Needs Grant limit for emergency dental treatment (non-recoverable) from $300 to $1,000 (to be implemented during this term) will allow beneficiaries and some low-income working households to better meet their immediate oral health needs. s9(2)(f)(iv)

[redacted]

MSD-MOJ attachment order work

25. In December 2019, the Minister for Social Development (along with the Minister of Justice) agreed that MSD work with MOJ to improve decision-making processes relating to attachment order repayment levels for beneficiaries, including exploring the possibility of establishing an Approved Information Sharing Agreement (**AISA**). Officials identified attachment order decision-making as the key area in which improved MSD-MOJ information exchange might make a tangible difference for affected MSD debtors. A number of submitters on the credit contracts amendment legislation also highlighted issues with the way that attachment orders impact beneficiaries.

26. MSD and MOJ have explored information sharing mechanisms that would enable MOJ to request information about current deductions from MSD clients' benefits, so that more informed decisions could be made when setting attachment orders. Given the time, complexity, and inability for Courts to be a party to it, MSD and MOJ have ruled out an AISA. However, a Memorandum of Understanding (**MOU**) may be an appropriate vehicle. Officials are continuing to look at how the current system is working. Further detail is set out in MOJ's update (see from paragraph 39 below).

MSD-MOJ-IR improving debtor experience work

27. The Minister for Social Development also agreed (along with the Ministers of Justice and Revenue) that MSD work with MOJ and IR to identify and progress operational changes to improve debtor experiences. In support of this work, a co-designed service is being developed to pilot with customers who owe money to both IR Child Support and MSD. The joint service aims to reduce customer effort, improve the sustainability of repayments, increase the accuracy of customer entitlements and to grant relief that reduces financial hardship for vulnerable New Zealanders. Development work on the pilot was paused in April 2020 to enable both agencies to support the COVID-19 response, but planning has now resumed.

An update on wider policy work related to the priority areas (agreed in September 2019)

MSD-IR information exchange

28. In September 2019 the then joint Ministers agreed that work to improve information exchange between MSD and IR be prioritised. Officials saw this as a key mechanism to help prevent MSD overpayments caused by fluctuating client income. Given the complexity of MSD's multiple systems, and the way these interact with each other, officials are undergoing further work to map out how MSD would integrate the information from the information exchange into MSD's systems. This will include work on establishing the impact for MSD's clients and MSD's IT systems. Having a more detailed understanding of these impacts will help to highlight the best improvements that could be made to the current information exchange. These improvements could include changes to MSD's IT system. MSD will update the Minister for Social Development and Employment by July 2021 on this work.

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Exploring the drivers of overpayment debt

29. Alongside the work on information exchange, further work will be done to determine the drivers of overpayment debt. While improving information exchange between IR and MSD could help to reduce overpayments (for example, if MSD received income information in a more timely manner), it will not address all the causes of overpayment debt on its own. Officials are exploring the possibility of obtaining quantitative and qualitative data to develop a more fulsome idea of what the drivers are behind overpayment debt.

30. We know that overpayments make up a significant proportion of debt to MSD, and this has been increasing in recent years. For example, overpayment debt to MSD was around $990 million in F2019 and increased to around $1,005 million in F2020. SWA's preliminary analysis into MSD overpayments found that:[5]

    a) around 45% of 'benefit spells'[6] result in overpayment debt

    b) Māori, Pacific, women, and parents are overrepresented in this group

    c) transitions off parent support have a 70% chance of resulting in overpayment debt.

31. MSD already has a clear idea of what the drivers are behind recoverable assistance debt and fraud debt, but several unknowns remain around the drivers behind overpayment debt. While officials have a high-level idea of what can cause overpayment debt (for example, when a client does not tell MSD about a change of circumstances in time), this has not been quantified to any level of detail in recent years. MSD is currently working on researching the key drivers of overpayment debt, in order to determine what kinds of changes would have the most significant impact on debt to MSD. MSD will update the Minister for Social Development and Employment on this work by July 2021.

An update on aggregate debt figures

32. In ***Attachment C*** we provide a table showing the aggregate levels of debt owed by individuals to MSD in mid-2018 (as provided to joint Ministers in the previous term), alongside MSD's most recent figures. As at 30 June 2020, around $1.8b accumulated client debt was owed to MSD – an increase of 9% from FY2019. Most of this debt falls under two categories – overpayment debt and recoverable assistance – and the remainder is due to fraud.

33. The root cause of most recoverable assistance debt is income inadequacy. The adequacy of both main benefits and supplementary assistance payments has eroded over time and do not align with the costs they are meant to cover. The amount of recoverable assistance debt has increased by 34% ($70m) in F2019 and 14% ($40m) in FY2020. This is directly related to the increased levels of Hardship Assistance being provided to meet people's immediate and essential needs.

Other work being undertaken by MSD

34. For many low-income families, the immediate need for money often outweighs the disadvantages of high interest rates, fees and ever-growing debt. It is therefore common for MSD clients to owe money to both MSD and private debt lenders. Given this, it is important for this cross-agency work to also consider the work being done to support clients with private debt.

[5] Source: Slide pack presented to the Minister Social Development and Employment, February 2021. As with all of the statistics generated by SWA and referred to in this briefing, these results are not official statistics – they have been created for research purposes from the Integrated Data Infrastructure (IDI) which is carefully managed by Stats NZ.

[6] A 'benefit spell' is a period on benefit. For example, if someone starts on a benefit in January, and stops in February, then joins again in April, and stops again in May, that is two 'spells'.

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Building Financial Capability Services

35. Building Financial Capability (**BFC**) is an integral part of MSD's responses to problem debt. It is a suite of products and services that aim to increase financial wellbeing, particularly for the most deprived population groups. The core services, including over 130 providers of financial mentors and 'MoneyMates' groups, provide localised approaches to dealing with debt in general. 'MoneyTalks' is a multi-modal helpline provides a front door to the network. Specialist advice helps debtors get relief from illegal credit contracts. Services are building closer relationships with local Work and Income sites, as around 66 percent of BFC clients are also Work and Income clients. 39 percent of clients are Māori, and 15 percent Pacific.[7]

36. Over the last three years MSD's focus (and external reporting) in recovering non-current debt has moved away from a limited focus on getting people repaying their debt as quickly as possible once they leave benefit, towards a broader focus on measures which enable a client to sustain repayment. This may mean encouraging clients to repay a bit less if they appear to be overextending themselves. For some clients, this may mean placing recovery of their debt on hold until they are able to sustainably afford repayments. At the same time MSD is increasingly using this engagement to discuss non-beneficiary and in-work support assistance.

National debt solutions work

37. The Safer Credit and Financial Inclusion (**SCAFI**) Strategy is a cross sector strategy developed by the Ministry of Business, Innovation, and Employment (**MBIE**), Te Puni Kōkiri (**TPK**), and MSD – in partnership with the financial sector, non-government organisations, and consumer advocates. The SCAFI Strategy (discussed further at paragraph 64 below) action plan has three actions 'owned' by MSD BFC. MSD, through BFC, is currently funding a range of debt solutions services over the next two years (COVID funding), along with service design of a longer-term national debt solution, with SCAFI input. Components include debt and insolvency specialists, with pilot funding for Christians Against Poverty and Debtfix Ltd. MSD service design is still shaping the longer-term service and its evaluation requirements. Further funding will depend on lessons learned from the roll-out.

Expanding microfinance

38. Good Shepherd/BNZ and Ngā Tāngata Microfinance/Kiwibank received COVID funding to cover operational expenses for two years to expand their offering of no fee, low interest/no interest debt consolidation loans. As above, MSD service design is still shaping up the longer-term service and its evaluation requirements, and further funding will depend on lessons learned.

Update from the Ministry of Justice

An update on the areas for immediate action (agreed in December 2019)

MSD-MOJ attachment order work

39. As noted in MSD's update, in December 2019, the then Minister of Justice (along with the Minister for Social Development) agreed that MOJ work with MSD to improve decision-making processes relating to attachment order repayment levels for beneficiaries, including exploring the possibility of establishing an AISA. Officials identified attachment order decision-making as the key area in which improved MSD-MOJ information exchange might make a tangible difference for affected MSD debtors. A number of submitters on the credit contracts amendment legislation highlighted issues with the way that attachment orders impact beneficiaries.

[7] 2019 FinCap figures.

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40. MOJ and MSD have explored information sharing mechanisms that would enable MOJ to request information about current deductions from MSD clients' benefits, so that more informed decisions could be made when setting attachment orders. Given the time, complexity, and inability for Courts to be a party to it, MOJ and MSD have ruled out an AISA. However, an MOU may be an appropriate vehicle.

41. A potential MOU would establish how MOJ may exchange certain information about people who are the subject of creditor requests for attachment orders to repay civil debt. With around 25,000 of these requests made in 2020, the agreement would need to reflect an effective way of making and responding to these requests, so that both agencies are able to operate it effectively. MOJ are looking at current information exchange between MOJ and MSD systems as an initial way of determining requirements for this. Additional considerations include the ability to share aspects of the formal Court record (requiring specific permissions in legislation or the approval of the judiciary). MOJ are working through possible approaches which can address this.

MSD-MOJ-IR improving debtor experience work

42. The Minister of Justice also agreed (along with the Minister for Social Development, and the Minister of Revenue) that MOJ work with MSD and IR to identify and progress operational changes to improve debtor experiences. MOJ's focus at this stage has been on attachment orders, but later this year interagency operational meetings will begin.

An update on aggregate debt figures

43. In ***Attachment C*** we provide a table showing the aggregate levels of debt owed by individuals to MOJ in 2019 (as provided to joint Ministers in the previous term), alongside MOJ's most recent figures. It shows that MOJ's balances are currently decreasing, primarily due to significant reductions in outstanding fines and reparation. This reduction is partly a result of more proactive and effective collection activity, but is also driven by fewer fines being imposed by police and local councils.

44. However, the value of legal aid debt has increased notably since 2019. The number of legal aid debtors hasn't materially changed, but debtors are likely being set a higher sum of debt to repay under the current regulations when they first receive a legal aid grant. The amount of debt that can/must be assigned is determined through income thresholds set in regulations, and as these settings have not changed since 2008, more people now fit within higher repayment requirements due to wage growth.

Other work being undertaken by MOJ

Analysis of legal aid debt

45. MOJ is undertaking further analysis of the trends in legal aid debt noted above, to confirm the causes of this increase. MOJ has also identified several opportunities to improve the legal aid system which will impact on the debt that legal aid recipients incur and is exploring how these might be implemented.

Update from Inland Revenue

An update on the areas for immediate action (agreed in December 2019)

MSD-MOJ-IR improving debtor experience work

46. As noted in the agency updates above, in December 2019, the then Minister of Revenue (alongside the Minister for Social Development, and the Minister of Justice) agreed that IR work with MSD and MOJ to identify and progress operational changes to improve debtor experiences. This work is ongoing.

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47. As outlined in paragraph 27 above, a co-designed service is being developed to pilot with customers who owe money to both IR Child Support and MSD. The joint service aims to reduce customer effort, improve the sustainability of repayments, increase the accuracy of customer entitlements and to grant relief that reduces financial hardship for vulnerable New Zealanders. Planning has now resumed as development work on the pilot was paused in April 2020 to enable both agencies to support the COVID-19 response.

48. IR is also completing customer research on those with debt to both MSD and IR. This research is being undertaken principally to identify any opportunities for IR and MSD to prevent customers falling into unmanageable debt. The research involves updating IR's common debtors analysis with MSD (first completed in 2016 and which subsequently informed the Common Debtors Pilot), and undertaking robust in-depth qualitative interviews with customers with debt to both agencies. We know that Māori make up a high percentage (44%) of common debtors,[8] so Māori have been a focus of this qualitative phase. The quantitative and qualitative stages of the research are now complete, and the data is being worked through. Findings are expected April 2021 and this will inform interventions to assist debt reduction and prevention for this customer base.

49. IR is also intending to hold the first interagency meeting of operational colleagues later this year, to share insights and developments in the way each agency works with debt and debtors.

An update on broader policy work related to the priority areas (agreed in September 2019)

MSD-IR information exchange

50. In September 2019 the then joint Ministers agreed that work to improve information exchange between MSD and IR be prioritised. Officials saw this as a key mechanism to help prevent MSD overpayments caused by fluctuating client income. IR are currently engaging with MSD to develop a common understanding for defining income to ensure that the right information is exchanged. This engagement is alongside MSD's work on determining how to integrate this information into MSD's systems (further explained in MSD's update at paragraph 28 above).

Looking into use of write-off powers

51. s9(2)(f)(iv) [redacted]

An update on aggregate debt figures

52. In ***Attachment C*** we provide a table showing the aggregate levels of debt owed by individuals to IR in 2018/19 (as provided to joint Ministers in the previous term), alongside IR's most recent figures. Debt relating to income tax, Working for Families Tax Credits and child support has steadily reduced from 2016 to 2019. However, debt levels increased for the year ending 30 June 2020. IR considers that COVID-19 has had some impact on people's ability to repay debt.

53. IR is continuing to work with customers looking at their individual financial circumstances to determine their ability to repay. When financial hardship is assessed, IR is able to write off debt (excluding child support owed to another caregiver).

[8] As at September 2019.

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Other work being undertaken by IR

Child Support Amendment Bill

54. The Child Support Amendment Bill was reported back by the Social Services and Community Committee on 4 March 2021. Amendments to the Child Support Act will make the rules fairer and less complex, which should improve engagement and compliance with the scheme, as well as the introduction of a grace period, easing of initial penalty rules, and making deductions from salary and wages compulsory for newly liable parents. These measures allow IR to work better with parents to help prevent debt occurring in the first place. The Bill also includes a proposal to repeal incremental penalties which will help slow the growth of existing child support debt.

55. If the Bill is enacted, the proposal to repeal incremental penalties will apply from 1 April 2021, with the remaining proposals in the Bill to be implemented before 1 April 2022.

Update on cross-agency debt research

Initial findings from Social Wellbeing Agency research

56. SWA has now completed a final draft of its report for 'Phase 1' of its research. Due to the timing of the Level 4 COVID lockdown, MOJ was not able to provide complete data, so Phase 1 findings are limited to MSD and IR data. We have an initial sense of the scale of common debtors, with SWA finding that 12 percent of those with debt to either MSD or IR (or 87,800 individuals) have debt to both agencies.[9] Another way to look at this: just over 1 in 5 people with debt to MSD also have debt to IR, and just over 1 in 5 people with debt to IR also have debt to MSD.[10] SWA also found that there is significant persistence in debt to government – for example, 68% of debtors to MSD had at least one debt that had lasted more than three years. However, we caution reading too much into this, as efforts to ensure that repayments are affordable can result in lengthier repayment periods – and, importantly, the specific debt does not grow over this time as MSD does not impose interest.

57. SWA's Phase 1 report is preliminary, noting that there are a wide range of questions that remain unexplored – and signalling a number of areas that can be explored as part of Phase 2. SWA is intending to publish its Phase 1 report in the coming months. Through Phase 2 of SWA's research, we will gain a deeper understanding of the types and levels of debt held, and see what the MOJ data can tell us. Phase 2 is due for completion in mid-2021. Officials will then have a clearer idea of the scope and scale of common debtors and their debt, and a clearer idea of the potential benefits of a joined-up approach to managing debt. The research may also provide new insights about the circumstances in which debt is generated, ultimately informing ways that this could be addressed.

IR / MSD common debtors research

58. As noted above, IR is also completing customer research on those with debt to both MSD and IR, principally to identify any opportunities for IR and MSD falling into unmanageable debt. Unlike the SWA research, this research does not include MOJ data, and is not linked to wider IDI data. However, it will include qualitative data that may provide new insights on common debtor experiences. The quantitative and qualitative stages of the research are now complete, and the data is being worked through. Findings are expected April 2021.

[9] That includes debt owed to the Crown, as well as debt that IR collects on behalf of a receiving carer.

[10] *(as above)*

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Update on central debt collection agency advice

59. The final report of the 2019 Tax Working Group recommended the establishment of a single Crown debt collection agency. The Minister of Finance requested further analysis and advice on the proposal, include the costs and benefits. In response, the Treasury recommended a two-staged approach for providing this analysis and advice.[11] Work on this proposal was deprioritised as Treasury focussed on the COVID-19 response. The Treasury will provide a separate update to the Minister of Finance in April 2021.

Keeping an eye on international developments

60. The United Kingdom (**UK**) is undertaking work on government's treatment of debt (encompassing both central and local government/authorities). Cross-government work on debt management began in 2016, but a 2018 National Audit Office (**NAO**) report found the work was constrained by a lack of powers and gaps in participation at senior and local levels. The NAO report found that government lagged behind the retail lending sector in following good debt management practices, and recommended that the cross-government work on debt management be given the mandate and levers to prompt better practices in central and local government.

61. The UK Cabinet Office conducted a consultation on 'fairness in government debt management' in the second half of 2020. It is using the feedback received through consultation to support ongoing assessment of agency processes, as well as for broader policy design – intending to make cross-government changes in 2021/22 (publishing an update by the end of 2021). Some of the issues raised through the NAO report are already being addressed in a New Zealand context (e.g. we are increasing the availability of debt advice services to reduce unmet demand, and affordability is routinely considered for the majority of debt types when assessing repayment rates), but there is no doubt a lot we can learn from the UK process and outcomes. We will follow this work closely.

62. As part of the wider work to address problem debt, the UK Government has introduced a policy that will freeze interest, fees, and enforcement for people in problem debt, with further protections for those in mental health crisis treatment. During the 60-day 'breathing space' period for people with problem debt, individuals will receive professional debt advice to find a long-term solution to their financial difficulties. An impact assessment found that the economic benefits of this change would outweigh the costs. While we have seen examples of increased forbearance by creditors in New Zealand in recent years (particularly in response to COVID-19), the UK policy formalises the process and links forbearance to professional financial advice and support. We will keep an eye on this work as the new policy rolls out, due to come into force on 4 May 2021.

Update on wider debt developments across government

Consumer credit contracts law reform

63. Cross-agency work sits alongside wider government work to address consumer debt problems, including consumer credit reforms. The statutory reforms already in force have significantly increased consumer protections against high-cost lending, and the number of lenders offering high-cost products has more than halved since mid-2020.

Cross-sector collaboration regarding consumer debt: Safer Credit and Financial Inclusion (SCAFI) Strategy

64. As noted above, the SCAFI Strategy is a cross sector strategy developed by MBIE, TPK, and MSD – in partnership with the financial sector, non-government organisations, and consumer

[11] [T2019/3967 refers].

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advocates. The shared vision is: "People and whānau thriving and able to meet their needs, free from problem debt". Steady progress is being made under the SCAFI Action Plan, to improve access to support for those with problem consumer debt, and to develop new products and services to address or prevent debt problems. Initiatives include those led by MSD (outlined in paragraph 37 above), as well as:

Action plan area	Initiatives	Status
Easy access to support with finances	Establishment of referral systems between individual lenders and the free MoneyTalks financial mentor hotline, so borrowers in difficulty can easily access support.	In place with some lenders, ongoing
	Collaborative development and delivery of a targeted consumer information campaign around alternatives to problem debt.	Completed in early 2021
New and inclusive products and services	Trialling a 'social car leasing' model to disrupt predatory car finance companies.	Funding secured for a proof-of-concept pilot in South Auckland, in partnership with the Manukau Urban Māori Authority
	Trialling a new insurance product for low-cost cars, to prevent the need for urgent consumer loans.	Launched by Good Shepherd and Vero in November 2020
A responsive and accountable system	System upgrade for budgeting services to enable better data capture for research into problem debt, and sharing of 'red flags' about lenders to support Commerce Commission monitoring of the sector.	Complete
	Exploring the Privacy Commission's appetite to make changes to its Credit Reporting Privacy Code, to enable maximum reach and effectiveness of Free Me – a register which allows people to limit their own access to credit.	Underway

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Next Steps

65. As outlined above, based on our work to date we are of the view that aspects of the intended longer-term cross-agency work (e.g. exploring alignment of debt management, where appropriate) rely on work first being undertaken within agencies. For example, before proposing options relating to aligning agencies' approaches to relief when a person is facing hardship, we must address debt that accrues directly because of hardship – that is, recoverable assistance. This makes MSD's review of Hardship Assistance (currently underway) a key input to our cross-agency policy thinking. Cross-agency (and within agency) policy thinking will also be supported by SWA's research into common debtors (due to be completed in mid-2021).

66. On that basis, in the near-term the cross-agency group will focus on:

    a) updating joint Ministers on debt work across government as appropriate

    b) establishing an interagency group of operational colleagues working with debt to share insights

    c) supporting SWA's research into common debtors.

67. Individual agencies will continue to progress their items on the current work programme, and work with other agencies as appropriate, as follows:

    a) MSD's review of recoverable versus non-recoverable assistance (as part of the review of Hardship Assistance)

b) MSD's work to understand the drivers of overpayment debt

c) MOJ and MSD continuing to work together to explore the current state of information exchange between their respective systems, in order to determine what changes would best support more informed decision-making when setting attachment orders for beneficiaries

d) MSD and IR continuing to work together on improving information exchange to help prevent overpayments caused by fluctuating client income

e) IR convening the first interagency meeting of operational colleagues later this year, to share insights and developments in the way each agency works with debt and debtors, to improve debtor experiences.

68. MSD will report to the Minister for Social Development and Employment by July 2021 on the review of Hardship Assistance. By July 2021, MSD will also report to their Minister with an update on the work to improve information exchange between MSD and IR, and the work exploring the drivers of overpayment debt.

69. We propose that the cross-agency group will report to joint Ministers in August 2021 with an update on the debt work taking place across government, findings from the Social Wellbeing Agency research into common debtors, an analysis of the potential areas for intervention highlighted by the research, and proposed next steps.

70. We expect debt to government work will be tracked as part of the Child and Youth Wellbeing Ministers meeting.

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ATTACHMENT A: WEAG AND TAX WORKING GROUP DEBT RECOMMENDATIONS

WEAG debt recommendations (February 2019)

1. The WEAG made three key recommendations relating to 'Reducing the generation of debt':
   - *Continue to prioritise a reduction in outstanding benefit debt through sustainable repayments, and minimise the creation of overpayments, including reviewing recoverable hardship assistance and current practice, to be more consistent with whakamana tāngata.*
   - *Align the regulations and practice around benefit debt so that it is treated in substantially the same way as Inland Revenue treats taxpayer debt.*
   - *Instigate a cross-government approach to managing debt to government agencies.*
2. The WEAG also made five detailed recommendations relating to 'Reducing the generation of debt', with the theme, 'Ways to minimise the creation of overpayments and reduce overall indebtedness':
   - *Review all hardship payments and ensure eligibility is in line with the new purpose and principles of the Social Security Act.*
   - *Give MSD the mandate to improve, simplify and redesign practice around income declarations.*
   - *Increase funding for community initiatives that promote financial literacy and for debt reduction, such as no interest, no fee and debt consolidation loans.*
   - *Introduce a scheme of incentivising benefit debt repayment, such as a Matched Debt Reduction Scheme, to reduce outstanding benefit debt.*
   - *Review internal performance measures relating to debt, to bring them in line with the new purpose and principles.*

Tax Working Group debt recommendation (February 2019)

3. The Tax Working Group recommended: *The establishment of a single centralised Crown debt collection agency to achieve economies of scale and more equitable outcomes across all Crown debtors.* The Tax Working Group noted that a centralised debt collection agency could support the review and standardisation of the Crown's approach to debt collection, as well as enhance the specialisation of staff engaged in the work.

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ATTACHMENT B: SUMMARY OF RELEVANT CABINET AND MINISTERIAL DECISIONS

1. On 15 April 2019 Cabinet (under the previous Government) agreed, in response to the recommendations of the WEAG, to undertake immediate work in priority areas, including addressing financial support with a focus on child wellbeing. Cabinet agreed that the approach would include reducing the generation of debt – including a focus on:[12]
   a) a prevention-based approach to look at steps MSD can continue to take to reduce the creation of debt for clients
   b) consideration of the recommendation that suggests aligning regulations and practice so that benefit debt is treated substantially the same as taxpayer debt
   c) consideration of a cross-Government approach to managing debt to government agencies.
2. In September 2019, Joint Ministers agreed to the following priority areas:[13]
   a) improving information exchanges between MSD, IR, and MOJ to support better management of debt – including helping to avoid unnecessary overpayments and providing visibility of common debtors
   b) seeking alignment (where appropriate) of government agencies' approaches to relief when a person is facing (or may face) hardship.
3. On 11 November 2019, Cabinet was informed of the two priority areas, and endorsed the proposed medium-term work programme as part of the Welfare Overhaul, including work focussed on increasing income support and addressing debt.[14] That paper listed opportunities that may be explored over the longer-term, including:
   a) seeking alignment (where appropriate) of approaches to interest and penalty rates; and/or approaches to write-off
   b) improving recovery approaches for individuals with debts to multiple agencies, including consideration of a cross-government agency.
4. The paper also noted that, alongside the cross-agency work, MSD would continue to improve its operational approach to preventing debt for people in the welfare system.
5. In December 2019, joint Ministers were provided with initial advice on the two priority areas, and relevant Ministers agreed to the following areas for immediate action:[15]
   a) s9(2)(f)(iv) OIA
   b) MOJ and MSD improving decision-making processes relating to attachment order repayment levels for beneficiaries, including exploring the possibility of establishing an Approved Information Sharing Agreement
   c) MOJ, MSD, and IR identifying and progressing operational changes to improve debtor experiences, including improving agencies' communications and coordination, and minimising unnecessary administrative burdens.
6. Treasury also provided initial advice to the Minister of Finance on a central debt collection agency in December 2019.[16] That advice was forwarded to joint Ministers.

[12] [CAB-19-MIN-0170 refers].

[13] [Briefing DPMC-2019/20-224; T2019/2535; CRT-03-F-01; REP/19/9/850; IR2019-480 refers].

[14] [CAB-19-MIN-0578 refers].

[15] [Briefing DPMC-2019/20-498; T2019/3989; CRT-03-F-01; REP/19/11/1232; IR2019/642 refers].

[16] [Briefing T2019/3967 refers].

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ATTACHMENT C: INDICATIVE LEVELS OF PERSONAL DEBT TO IR, MSD, MOJ

IR

Area of debt	**Previous balances provided *(mid-2018 / early-2019)*** Balance owed (rounded to nearest $m)	**Previous balances *(June 2019)*** Balance owed (rounded to nearest $m)	**Most recent balances *(June 2020)*** Balance owed (rounded to nearest $m)	**Previous numbers provided *(mid-2018 / early-2019)*** Number of individual debtors	**Previous numbers *(June 2019)*** Number of individual debtors	**Most recent numbers *(June 2020)*** Number of individual debtors
Child support overpayment	$4 million (as at 31/01/2019)	$3 million	$2 million	1,318 (as at 31/01/2019)	1,052	1,003
Child support (overseas)	$297 million (as at 31/01/2019)	$253 million	$201 million	10,083 (as at 31/01/2019)	9,826	8,358
Child Support (court orders)	$12 million (as at 31/01/2019)	$12 million	$12 million	138 (as at 31/01/2019)	141	134
Child Support (general)	$1,828 million *(revised)*[17] (as at 31/01/2019)	$1,857 million	$1,860 million	88,575 (as at 31/01/2019)	89,805	86,805
Individual income tax	*Data unavailable*	*Data unavailable*	$1,099 million	*Data unavailable*	*Data unavailable*	302,642
Student loans	$1,321 million (as at 30/06/2018)	$1,481 million	$1,579 million	93,034 (as at 30/06/2018)	104,103	103,604
WFF tax credit overpayments	$140 million (as at 30/06/2018)	$129 million	$167 million	*Data unavailable*	*Data unavailable*	44,939
Total	N/A[18]	$3,735 million	$3,821 million[19]	N/A	N/A	N/A

Note:

- These balances include penalties and/or interest as applicable.
- IR does not tend to separately record fraud-related debt. IR can prosecute for fraud (which could include fines), but the associated debt is treated in the same way as non-fraud debt. The above figures include all fraud-related debt.
- Total number of debtors may include individuals who owe debt in more than one category so totals have not been provided.
- Individual income tax and numbers of debtors for WFF overpayments were not available in previous years due to constraints in IR's heritage system.

[17] Previous preliminary figure supplied in DPMC-2018/19-1381 was $1,478 million.

[18] This total has not been provided as it combines June 2018 and Jan 2019 balances.

[19] This balance excludes income tax for individuals given that the data for 2019 was not available.

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MSD

Area of debt	Previous balances provided *(as at 30/06/2018)* Balance owed (rounded to nearest $m)	Most recent balances *(as at 30/06/2020)* Balance owed (rounded to nearest $m)	Previous numbers provided *(as at 30/06/2018)* Number of individual debtors	Most recent numbers *(as at 30/06/2020)* Number of individual debtors
Overpayment debt	$768 million	$1,005 million	301,898	295,451
Recoverable assistance debt	$558 million	$681 million	335,971	217,407
Fraud debt	$211 million	$147 million	6,944	44,596
Total	$1,536 million	$1,833 million	514,062	557,454

Note:
- These figures are total accumulated debt, from both clients and former clients.
- The total number of individual debtors is less than the sum of each category of debt, as some individual debtors have debts in more than one category.

MOJ

Area of debt	Previous balances provided *(mid-2019)* Balance owed (rounded to nearest $m)	Most recent balances *(as at 28/02/2021)* Balance owed (rounded to nearest $m)	Previous numbers provided *(mid-2019)* Number of individual debtors	Most recent numbers *(as at 28/02/2021)* Number of individual debtors
Fines and reparation	$568.5 million (as at 31/05/2019)	$523.3 million	500,492 (as at 31/05/2019)	484,587
Legal Aid	$139 million (as at 24/06/2019)	$167 million	59,909 (as at 24/06/2019)	52,500
Family Court Cost Contributions	$6 million[20] (as at 24/06/2019)	$2 million	7,883 (as at 24/06/2019)	690
Total	$713.5 million *(sum of above)*	$692.3 million	568,284 *(sum of above)*	537,777

Note:
- Legal Aid figures are drawn from an operational database which is subject to change, as new data is continually recorded or recoded.
- Fines and reparations only include the total owed by individual debtors and exclude fines/reparation owed by organisations.

[20] MOJ has revised its methodology for calculating the total amount of Family Court Debt owing, to better reflect debts that are established and actively being collected. This has resulted in a correction of previous figures, with overall debt balance decreasing to $2m (see adjacent column).

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ATTACHMENT D: DEBT A3

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ATTACHMENT D

[IN CONFIDENCE]

INDIVIDUALS' DEBT TO GOVERNMENT DEPARTMENTS ...

... can arise from ...

Recoverable assistance	Overpayment (or undercharge)	Failure to meet statutory payment obligations	Fraud	Justice system recovery
... an individual has received one or more recoverable payments which becomes a debt	... an individual is paid more than they are entitled to on the basis of: • an administrative delay or error • a system limitation, and/or • a mistake by the individual	... an individual fails to pay, or falls behind on, statutory payment obligations (either intentionally or non-intentionally)	... an individual has intentionally provided inaccurate information or withheld information in order to receive more than they are entitled to, or in order to pay less than they are required to	... a court orders an individual to pay a fine or reparation, and central government becomes the collector
examples include ...				
• Recoverable assistance payments (e.g. Benefit Advance Payments; Recoverable Assistance Payments; Special Needs Grants) • Legal Aid	• A delay in reducing benefit entitlements (or increasing social housing rent payable) where hours of paid work increases temporarily	• Tax obligations • Child support obligations	• False declaration about income received	• Recovery of cost contribution orders (e.g. contribution to cost of appt. of lawyer for child) • Recovering on behalf of others (e.g. NZ Police; private sector creditors etc.)
and may involve the following government departments ...				
• MSD • MOJ	• MSD • IR	• iR	• MSD • IR	• MOJ

POLICY RESPONSES COULD FOCUS ON ...

... prevention

• A review of the assistance that is recoverable • Improving income adequacy	• Changes to systems and practices to reduce the likelihood of overpayment (e.g. closer monitoring of income as it is earned)	• Changes to systems and practices to reduce the likelihood of missed payments (e.g. direct wage deductions where appropriate)	• Changes to systems and practices to reduce incentives or increase deterrence to commit fraud	• Changes to systems and practices to reduce the likelihood of unpaid fines • Justice system initiatives to reduce crime

• Cross-agency systems changes which could assist in debt prevention, such as real-time information sharing mechanisms (which MSD and IRD are already exploring)
• Cross-agency research into understanding causes of debt and behavioural insight techniques to prevent debt occurring

... recovery / relief

• Alignment (where appropriate) of approaches to recovery when a person is facing (or may face) hardship (e.g. write-off; repayment options)
• Cross-government debt management and collection guidelines, including:
  • Seeking alignment (where appropriate) of interest and penalty rates
  • Exploring other areas for alignment (e.g. not formally establishing debt below a certain value)
  • Improved recovery approaches for individuals with debts to multiple agencies (e.g. schedule of debt prioritisation; single debt collection agency / shared approach to debt collection)
• Options to support a person's interaction with agencies (as well as private sector creditors where relevant) for individuals with debt to multiple agencies
• Consideration of alternative options for people who cannot pay certain kinds of debts (e.g. NSW DoJ Work and Development Order Scheme, where people can 'repay' court fines with approved activities)
• Sharing of best practice or lessons learned between agencies

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