



Proactive Release

The following document has been proactively released by the Department of the Prime Minister and Cabinet (DPMC) on behalf of Hon Jan Tinetti, Minister for Child Poverty Reduction:

Proactive Release: Briefing to the Incoming Minister for Child Poverty Reduction - Supplementary briefings

The following document has been included in this release:

- **Title of paper:** Aide-Memoire: Debt to Government: Briefing to the Incoming Minister for Child Poverty Reduction (DPMC-2022/23-912)

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 codes

- s9(2)(a), to protect the privacy of individuals;
- s9(2)(f)(iv), to maintain the confidentiality of advice tendered by or to Ministers and officials.



Coversheet

Aide-Mémoire: Debt to Government: briefing to the incoming Minister for Child Poverty Reduction

Date:	16/02/2023	Report No:	DPMC-2022/23-912
		Security Level:	IN CONFIDENCE
		Priority level:	Routine

	Action sought	Deadline
Hon Jan Tinetti Minister for Child Poverty Reduction	note the contents of this aide-memoire	21 February

Name	Position	Telephone	1 st Contact
Clare Ward	Executive Director, Child Wellbeing and Poverty Reduction	s9(2)(a)	s9(2)(a) ✓
Hannah Kerr	Director, Child Wellbeing and Poverty Reduction	s9(2)(a)	s9(2)(a)

Departments/agencies consulted on Briefing

Minister's Office

Status:

Signed

Withdrawn

Comment for agency

Attachments: No

Aide-Mémoire

Debt to Government: briefing to the incoming Minister for Child Poverty Reduction

To:	Hon Jan Tinetti, Minister for Child Poverty Reduction		
From:	Clare Ward, Executive Director, Child Wellbeing and Poverty Reduction	Date:	16/02/2023
Briefing Number:	DPMC-2022/23-912	Security Level:	IN CONFIDENCE

Purpose

1. This aide memoire:
 - a. provides you with background on the Debt to Government work programme, to supplement the information in the Briefing to the Incoming Minister for Child Poverty Reduction [DPMC-2022/23-789 refers]
 - b. supports your decision making on the report 'Targeted external consultation on a framework for debt to government – proposed departmental discussion document' [DPMC 2022/23-867], which seeks Joint Ministers¹ decisions on the next steps for the Debt to Government work programme.

Background

Debt owed to government is wide ranging, complex, and has many social impacts, including for children

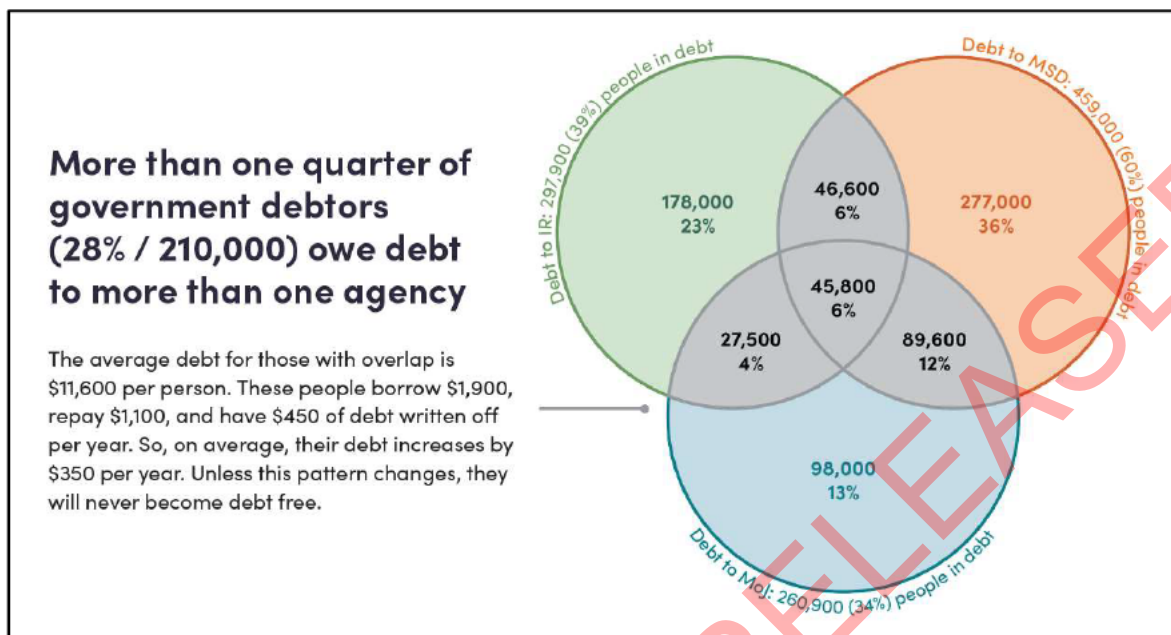
2. The Social Wellbeing Agency (SWA) reported in 2022 that an estimated² 762,460 New Zealand residents owe \$4.68 billion of combined debt to the Ministry for Social Development (MSD), Ministry of Justice (MoJ), and Inland Revenue (IR), with some people in debt to multiple agencies (Figure 1, below).³ These three agencies are the largest sources of debt to government for people in hardship.

¹ The Joint Ministers for this work are you, as the Minister for Child Poverty Reduction, the Minister for Social Development and Employment, the Minister of Justice, and the Minister of Revenue.

² It is not possible to quantify all problem debt in New Zealand using data currently available to the government, but available data can provide a broad sense of the scale of debt to government.

³ Social Wellbeing Agency, November 2022, The persistence of debt to government. Available at <https://swa.govt.nz/assets/The-persistence-of-debt-to-government-research-report.pdf>

Figure 1: Diagram showing scale of debt owed to three government agencies. More than a quarter of people who owe debt to government owe two or more agencies, and 6 percent owe all three agencies shown.



3. Debt to government indirectly affects an estimated 300,000 children in New Zealand. In 2020, 62% of those owing debt to government were parents, or shared an address with a child.⁴
4. Individual debt can be a standard feature of financial life and can form and accrue for multiple reasons. Taking on safe debt can enable individuals and families to access opportunities and improve their circumstances. For example, 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.
5. Debt to government may also be generated when individuals receive: recoverable hardship assistance to meet essential needs; student loans; legal aid; or payments above legislated amounts (eg, due to error or, on rare occasions, fraud) which generate repayment obligations.
6. Some types of debt are also important mechanisms for enforcing social obligations, such as child support or fines. Debt may also result from failure to pay obligations (eg, income tax); interest; establishment and penalty fees; and from private debt, fines, or reparations that are referred to the Ministry of Justice.
7. 'Problem debt' is that which has negative impacts such as: financial hardship - especially for low-income individuals, households, and whānau (eg, if a reduction in income adequacy reduces the ability to repay debt without being put into hardship); stress; stigma

⁴ Social Wellbeing Agency, Nov 2022, Te Atatū – Insights Brief. Available at <https://swa.govt.nz/assets/Children-and-debt-Insights-report.pdf>

or social exclusion; and/or poor physical and mental health.⁵ Repayments based on income earned can also be a disincentive to work.

8. Overall, repayments on debt to government are not keeping up with the creation of new debt. For example, in 2020, repayments were about three-quarters of new debt created.
9. When debt persists in this way over time, especially, it can contribute to psychological stress. More than 85 percent of people who owe debt to government have done so for at least a year, and more than 45 percent have owed debt for at least four years.⁶ This disproportionately affects people with low incomes (who account for three-quarters of those with persistent debt), people receiving main benefits, and people who owe debt to more than one government agency.
10. Different population groups are also more (or less) affected by different types of debt, with government debtors often low income, Māori, and female. For example, women are overrepresented in MoJ debt (legal aid), and 2020 data showed that MSD debt is more likely to be held by females, while 80% of those owing Working for Families debt to IR are also women.
11. Income inadequacy is often the source of entrenched debt, but the complex interactions between different types of debt and the differing debt settings across government⁷ can make managing debt more complex for individuals (and for agencies) to navigate; and can result in perceived unfairness. This has been highlighted by both the Welfare Expert Advisory Group and the Tax Working Group.
12. As well as the impacts on debtors, problem debt also costs government, with spending on health, welfare and justice services, as well as the cost of debt recovery.
13. Finally, debt to government is only part of the debt that individuals and whānau may face, particularly for those with problem debt. Consequently, this debt to government work sits alongside wider government work to address consumer debt problems (eg, work on debt collection, gambling harm, and financial capability).

The debt to government work programme is an opportunity to improve outcomes for people in hardship and reduce child poverty

14. Reducing the impacts of debt to government has the potential to substantially improve the lives of thousands of low-income individuals and whānau, including children in poverty. Reducing household expenditure will contribute to reduced rates of material hardship, which is one of the three primary child poverty measures. This will benefit New Zealand society as a whole, and have lasting impacts across generations.

Substantial progress on the debt to government framework has been made to date

15. In 2019, a cross-agency group of officials was convened to consider a cross-government approach to preventing and managing debt that individuals (particularly those with low

⁵ These impacts have been highlighted by the Welfare Expert Advisory Group, the Tax Working Group, and other community organisations.

⁶ Over the period 2012 – 2020.

⁷ For example, debt held by different agencies has different purposes, and is subject to different legislative rules, resulting in different policy and operational responses for preventing and managing debt.


incomes) owed to government, as part of the welfare overhaul.⁸ This followed advice from the Welfare Expert Advisory Group (WEAG) and the Tax Working Group (TWG).

16. In November 2021, the Cabinet Social Wellbeing Committee (SWC) agreed to a cross-agency work programme aimed at reducing the impacts of debt to government for people in hardship, as proposed by the previous Prime Minister and Minister for Child Poverty Reduction [SWC-21-MIN-0171 refers]. DPMC is represented on both the working group and steering group for this programme.
17. SWC agreed the work programme would:
 - a. be developed by MSD, MoJ, and IR, in consultation with DPMC's Child Poverty Reduction officials
 - b. have two areas of focus:
 - i. ensuring that debt recovery is fair, effective, and avoids exacerbating hardship (for people who have debt)
 - ii. preventing debt from occurring, so that it does not create future problems for those in hardship
 - c. follow two principles:
 - i. improving coherence by improving consistency across the system where appropriate
 - ii. focusing on fairness
 - d. proceed in two Phases:
 - i. Phase One (reporting back to Cabinet in mid-2022) was to scope debt to government issues across agencies, identify changes that could be implemented independently, and lay the foundations for cross-agency work
 - ii. Phase Two (over three to five years) was to progress longer-term, more comprehensive changes via cross-agency work including an overarching debt to government framework. The intention is for the framework to be used for policy and operational processes - as a common reference point to help agencies design, implement, and evaluate aspects of policies which create or relate to the collection of debt.
18. In September 2022, Joint Ministers reported back to SWC on Phase One. SWC noted a number of initiatives that had been completed, including as part of Budget 2022 [SWC-22-MIN-0170]. SWC also noted ongoing work, including the overarching debt framework, endorsed the outline of the framework, and agreed that consultation on the draft framework would proceed in two stages:

⁸The welfare overhaul includes several initiatives on income adequacy that are being led by individual agencies, while the debt to government framework has a strong cross-agency focus. Income adequacy initiatives may also contribute to a reduced reliance on debt for low-income families.

- a. agency consultation (to incorporate consideration of different legislation, policy frameworks, and operational practices)
 - b. external engagement with targeted stakeholders and iwi/Māori (to incorporate lived experience of individuals who owe debt to government and perspectives of key providers and community groups) and a second round of agency consultation.
19. In late 2022, officials completed the first phase of consultation. Agencies were broadly supportive of the draft framework. Some areas for further work were identified: alternatives to financial penalties, hardship arrangements, non-financial supports for debtors, and Māori perspectives. Officials developed an updated framework to reflect this feedback for Joint Ministers' consideration.
20. In December 2022, Joint Ministers noted the outcomes of this consultation and endorsed the revised draft of the framework [DPMC 2022/23-618 refers]. They also agreed on:
- a. implementation/institutionalisation – that the next round of consultation seek views on implementing the framework as a 'Cabinet requirement – whereby proposals coming to Cabinet need to be assessed against the framework, with any exceptions noted and agreed by Ministers (as opposed to non-binding guidance, or an all of government rule – similar to procurement rules)

s9(2)(f)(iv)



21. The previous Minister for Child Poverty Reduction also requested that the next iteration of the framework include greater emphasis on the creation of debt (as opposed to management of existing debt), noting that this is important for reducing harm. In response to Joint Ministers' feedback, officials developed an updated framework for the second round of consultation, which is attached, as below; this includes more explicit reference to the creation of debt within the 'Principles' section of the framework.
22. Joint Ministers were also presented with a tracker showing progress on the broader debt to government work since September 2022 [ie, on initiatives recommended in SWC-22-MIN-0170]. This includes work to understand and address rent arrears owed to Kāinga Ora, scoping work on debt in the community and transitional housing sectors, and joint work between IR and MSD on the common debtors pilot.

Next steps

23. In the report attached [DPMC 2022/23-867] officials are seeking joint Ministers' feedback on:

- a. a proposed engagement plan for the second round of consultation, which is anticipated to take place in for February and March 2023. This plan includes the proposed list of targeted stakeholders;
 - b. a discussion document, which contains the draft framework and questions for respondents.
24. We recommend that you approve the consultation document and engagement plan.
25. The outcomes of the engagement will inform further development of the framework, with advice on proposed changes presented to Joint Ministers in the second quarter of 2023.
26. The revised framework is due to be included in the next report-back to SWC, in June 2023. It is anticipated that this report-back will also include: the consultation outcomes, advice on implementing/institutionalising the framework; any longer-term options for addressing debt to government that arise from the framework's development process, any advice on policy changes that are recommended to be progressed; and an update on the broader debt to government work programme.

s9(2)(a)

Clare Ward
Executive Director
Child Wellbeing and Poverty Reduction

16 February 2023



Hon Jan Tinetti
Minister for Child Poverty Reduction

...19 / 02 / ... 2023

Contact for telephone discussion			
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