

A framework for debt to government

Guidelines for agencies managing personal debt owed to government

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CHAPTER 1

Introduction and purpose

- 1.1 Following recommendations from the Welfare Expert Advisory and Tax Working Groups, a cross-agency group of officials was convened in 2019 to consider an all-of-government approach to prevent and manage personal debt that people owe to government agencies. The work's overarching goal is to reduce hardship for families and individuals and aims to achieve a fairer and more consistent approach to debt.
- 1.2 The framework has been developed by Inland Revenue, the Ministry of Social Development, the Ministry of Justice, and the Department of the Prime Minister and Cabinet.

Background

- 1.3 Debt can be a standard feature of financial life for many households and can play an important role in smoothing household expenditure, acquiring necessary assets or investing in the future. Moreover, certain types of debt can act as an investment in the individual (e.g., student loans), benefiting the individual and society. Not all debt to government is problem debt – in the right circumstances it can support wellbeing outcomes, and may often be a preferable alternative to private debt.
- 1.4 However, debt can also become a problem when servicing it becomes an unaffordable or persistent burden. This problem debt can have a significant impact on individuals and whānau in hardship, contributing to financial hardship, stress, poor physical and mental health, stigma, and social exclusion.
- 1.5 There is a lack of consistency in the way debt to government is administered. Government agencies have widely differing approaches to managing debt depending on factors such as:
 - Legislative requirements,
 - Level of resources available for case management,
 - Access to information needed to verify an individual's financial situation,
 - A variety of historical policy and pragmatic reasons which may appear unclear or inconsistent from the perspective of an individual with debts to multiple agencies.
- 1.6 The focus of this framework is problem debt and the lack of consistency in how government treats debt owed to it by individuals. It seeks to balance the benefit of access to credit with the prevention of problem debt. And further, to balance having a coherent system based on the policy purpose of the debt with fair consideration of the individual's circumstances.
- 1.7 To achieve this, the framework explores the various types of debt owed by individuals to government, seeks to categorise these, and discusses how they might ideally be treated, taking both policy context and individual circumstances into account.
- 1.8 The framework is intended to be used to help agencies design, implement and evaluate policy and operational processes which relate to the creation, collection or write-off of debt.

Summary of proposals

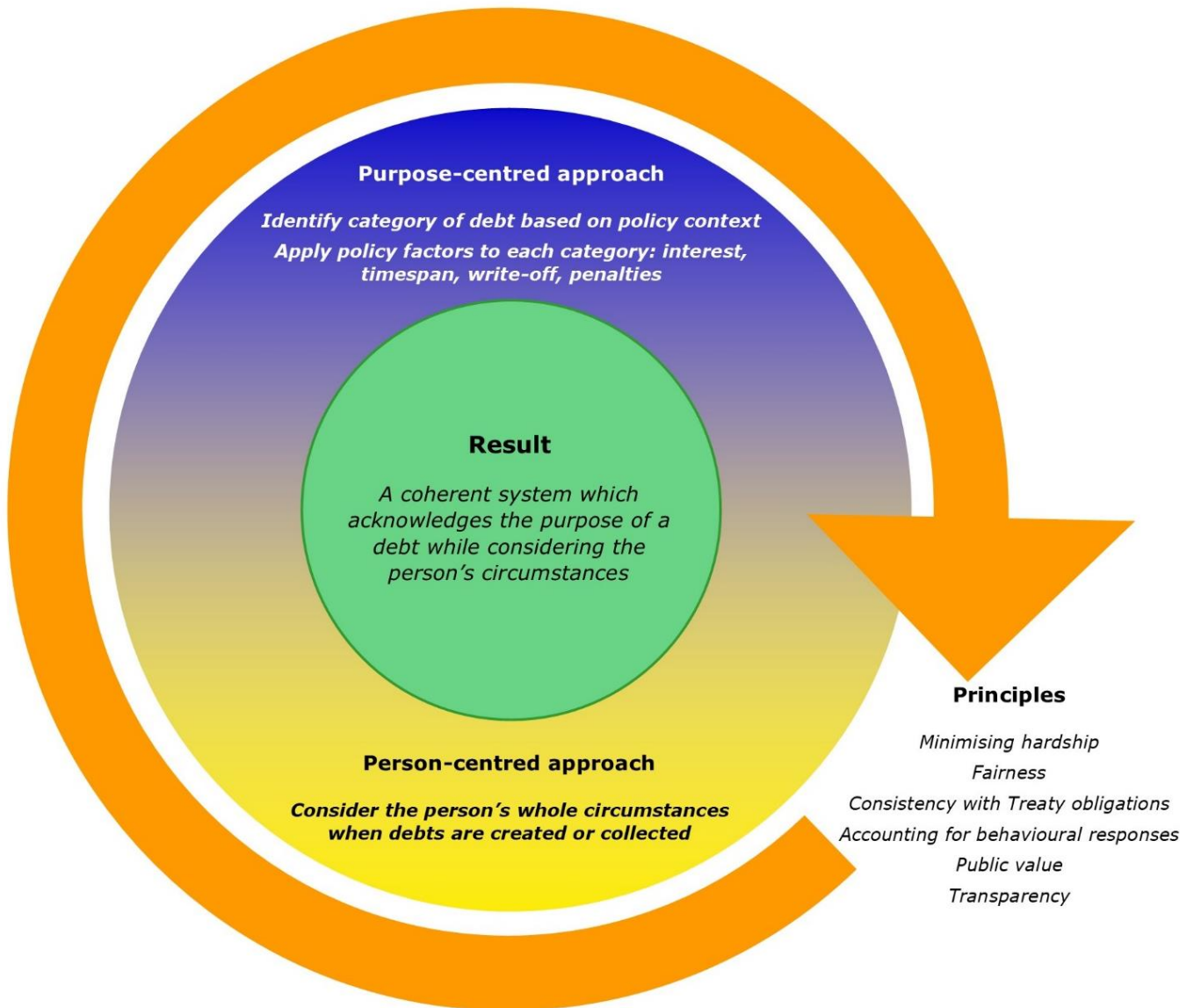
- 1.9 The framework consists of three parts.
 - Part 1: Overarching principles for creating and managing debt.

- Part 2: *The purpose-centred approach* — this section categorises different types of debt according to their underlying policy objectives, and outlines how the debt could be appropriately managed for each category (that is, policy settings).
- Part 3: *The person-centred approach* — this section outlines how agencies might collectively take into account an individual's personal circumstances (including amounts owed to other government agencies) and their ability to repay the debt both when the debt arises (if appropriate) and during the life of the debt.

1.10 The objective is a framework that guides:

- a) how debt could be categorised according to its underlying policy objectives
- b) how each category of debt could be managed (note that these ideal treatments are general, and deviations could be justified)
- c) how agencies should consider and respond to hardship when setting their debt collection policies
- d) how agencies assess whether a person's debt repayments are sustainable given their financial and personal circumstances, including whether the person is eligible for other, non-repayable income support and whether they owe debts to other government agencies
- e) factors to consider when a debt is created, including whether an alternative would be preferable (for example, a grant rather than a loan).

The framework creates a comprehensive approach to debt policy creation and implementation



CHAPTER 2

Principles for creating and managing debt

Principles

- 2.1 These principles represent overarching values that apply generally to all categories of debt.
- 2.2 It is intended that the principles below would be considered at all stages of the debt policy and implementation cycle, including before a debt is created. The principles will sometimes conflict and need to be traded off against one another. Where appropriate, agencies should make these trade-offs explicit.
- **Minimising hardship** — The creation of a debt in the first instance, as well as the terms of its repayment should not place people into hardship or exacerbate existing hardship. Agencies should administer debt in a way that is appropriate for the individual's circumstances as a whole, including whether the longer-term consequences of taking on further debt will have a negative impact on that person or their dependants.
 - **Fairness** — The treatment of debt, including creation, settings, management and relief, should be just and impartial across individuals and agencies. Where appropriate, an individual's relevant circumstances should be considered and accounted for. Sometimes that may mean that different approaches are needed, for example, to ensure that particular population groups receive the same access to debt relief measures as the general population. Approaches to debt should not be applied arbitrarily but should be consistent, with any different approaches justified by specific needs.
 - **Consistency with Treaty obligations** — In Article Three of the Treaty of Waitangi the Crown promises that its obligations to New Zealand citizens are owed equally to Māori. There is an implicit assurance that rights would be enjoyed equally by Māori with all New Zealanders, and this may sometimes mean that special measures are needed to attain that equal enjoyment of benefits. Agencies should consider how Māori and the Crown define and measure equitable outcomes in relation to debt management and what engagement with Māori is required. Agencies should also incorporate a tikanga values perspective in policy development, for example by using Treasury's *He Ara Waiora* framework.
 - **Accounting for behavioural responses** — Where appropriate, positive behavioural outcomes should be incentivised (for example, sustained repayment is incentivised). Further, collection mechanisms, such as write-offs or policies relating to recoverable versus non-recoverable support, should not create perverse incentives (that is, they should not incentivise individuals to incur debt because they expect not to have to repay it).
 - **Public value** — The cost of administering and collecting the debt, and impact on the debtor's wellbeing of pursuing or maintaining the debt, should be weighed against the actual revenue collected and any other public benefits. When a person is unable to repay a debt, and government resources could be better used elsewhere, it may be more efficient to provide relief, such as through write-off provisions. Agencies should also consider public value in creating a debt where collection may not be viable due to hardship.
 - **Transparency** — The administration of debt should be simple and clear (both for individuals and administering departments). Individuals should understand how the debt arose, what is driving the recovery approach, and what their options are in case of hardship. This principle should be reflected in all communication with debtors and potential debtors by using plain

language and accessible communication. Throughout the whole process, options should be available to assist those who require help communicating and care should be taken to ensure that they understand how the debt has arisen, what their rights and obligations are and what options are available if they require assistance.

CHAPTER 3

Purpose-centred approach

The types of debt owed to government

- 3.1 Debt to government arises as a result of different government policies that are intended to achieve different outcomes for New Zealanders. We have organised debt into the following categories according to the underlying policy settings which give rise to the debt:
- a) **Crown Revenue** — Revenue owed to the Crown.
 - b) **Overpayments of Government Support** — Debt caused by incorrect or late information about eligibility or assessment. This type of debt is unintentional but arises due to information mismatch. The information error or lag may be on the part of either the individual or the government agency.
 - c) **Loans or Repayments for Services Provided by the Crown** — Loans or repayments for services provided to individuals who meet specific criteria. Repayment is expected and agreed by the recipient from the outset.
 - d) **Government-administered debt between private parties** — Legal obligations between individuals that are administered by government agencies.
 - e) **Penalties or Infringements** — Penalties or infringements for non-compliance with legislative rules. They are intended to produce a compliance behavioural response.
 - f) **Accrued Interest** — Interest is charged as compensation for the lost time value of money on overdue payments to Government agencies, fairness to other people who pay obligations on time, and ensuring there is no behavioural incentive for delaying payment. Interest is considered a separate category because, once added to a debt, interest may be treated differently to principal.
 - g) **Intentional non-compliance** — Any debt that is the result of the intentional exploitation of systems, policy and procedures to achieve a wrongful gain. This category of debt is defined by individual behaviour rather than by policy context, which means debts from other categories which are the result of this behaviour will fall into this category.

Recommended arrangements for creating and managing debt

- 3.2 Officials have recommended treatments for each category of debt. These are intended to improve consistency across agencies. We look at four different policy factors for each category:
- **Interest** — Is it appropriate to apply interest to this type of debt?
 - **Rate of repayment** — What is the appropriate rate of repayment for the debt, considering its intended timespan? What limits should be placed on repayment amounts? Is it appropriate to provide for repayment extensions or suspensions, and under what conditions?
 - **Write-off** — How appropriate is it to write off this category of debt, and for what reasons? If write-off is not appropriate, should the debt survive bankruptcy?
 - **Penalties** — Is it appropriate to apply non-payment penalties?

Recommended treatments

Recommended treatment for Crown revenue

- 3.3 Examples of Crown revenue are income tax liabilities, customs revenue and ACC levies.
- 3.4 Taxes, fees and levies are necessary to fund government services and spending. As individuals derive benefits from the state (such as those funded through taxation), they incur certain duties — including paying taxes, fees and levies.
- 3.5 Effectively responding to non-compliant taxpayers is important not simply to meeting government’s revenue targets, but more fundamentally to maintaining the integrity of, and public confidence in, the tax system.

Interest	It is appropriate to apply interest to incentivise repayment, to compensate the Crown for the time value of money and for fairness to other people who pay on time.
Timespan	Payment extensions can be agreed with the objective being to maximise recovery and timeliness in a way that maintains integrity.
Write-off	Relief should be considered when an individual faces financial hardship. This could be through extension, write-off, or a combination of both. The cost to the Crown of collecting a debt may also be a consideration.
Penalties	Penalties are a helpful compliance tool but should be targeted at intentional non-compliance as opposed to inability to pay.

Recommended treatment for overpayments of government support

- 3.6 This category refers to overpayments of transfer payments from the government to individuals. Examples include overpaid Working for Families tax credits and benefit overpayments. The ideal treatment is governed by the fact that these payments are primarily intended to provide people with financial assistance when they need it.
- 3.7 This type of debt is unintended. It typically results from inaccurate or late information about eligibility or assessment, or delays in processing this information (this is different from instances of intentional non-compliance). Many recipients will have limited ability to make repayments at the time the debt arises or in the future.
- 3.8 A first priority should be to consider the risk of overpayments when designing policy and operational processes, but this may need to be balanced against the goal of providing timely assistance. More complex policy design can create a higher incidence of debt — for instance, a highly targeted payment may support other policy outcomes but will have more opportunity for debts to arise than a universal payment. This means that complexity in these policies should be weighed against the likelihood of creating debt, and the trade-off should be appropriately justified.

Interest	Interest should not be charged, as this is likely to undermine the income adequacy objective of the original payment. Interest should not be used to incentivise repayment, which should instead be guided by the debtor’s ability to pay.
Timespan	Ability to pay (whether driven by hardship or other circumstances) is the key consideration, and a longer

	timeframe may be appropriate provided that this does not lead to the accumulation of debt.
Write-off	Relief should be considered when an individual faces financial hardship. Further, a lower threshold for write-off than other categories of debt may be appropriate, especially repayment may undermine income adequacy. This needs to be balanced against the behavioural incentives to provide timely and accurate information to the government. If the overpayment is due to administrative error and received by an individual in good faith, including agency failure to act on information provided by the individual, write-off should be the default response. There should be a robust process to identify when a debt is the result of administrative error, including the ability for an individual to instigate this process.
Penalties	Penalties should not generally be applied. They should be reserved for intentional non-compliance.

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

- 3.9 This category refers to loans or repayments for services provided or funded by government to individuals who meet specific criteria. Examples include legal aid debt, and Kainga Ora rental arrears.
- 3.10 The government may provide, guarantee or subsidise loans to individuals or provide or fund services so that people can take up financial assistance or access services at the time they need it. This will be conditional on meeting certain eligibility criteria and assumes that the person is likely to have future ability to service the loan or pay for the service provided. The contractual nature of these agreements means that it is understood between the lender or provider and the recipient that repayment is expected. Government agencies should ensure appropriate information is available and accessible to borrowers so that they are fully informed of repayment expectations.
- 3.11 That said, some services which fall in this category are targeted towards low-income individuals. While repayment is still the default assumption for these types of debt, given the intended recipients, a greater degree of flexibility in the terms of repayment may be appropriate.
- 3.12 Repayable assistance can be a useful way to support low-income households to smooth household expenditure or acquire necessary assets. However, when repayable assistance is being considered, there should be a point in the process where the administering agency considers whether creating a new debt is in the best interests of the person. At a broader level, government should consider whether it is appropriate for certain forms of assistance to be repayable at all.

Interest	May be applied but is unlikely to be appropriate for financial assistance that is specifically targeted to lower-income households.
Timespan	It may be appropriate to extend or defer repayment in case of hardship, especially for financial assistance that has been specifically targeted to lower-income households.
Write-off	May be appropriate in case of hardship. The intended duration of the debt should be factored into the write-off policy. But the contractual nature of these agreements implies that the default position is that the person has an obligation to repay the debt.

Penalties	May be appropriate in case of non-compliance. Where hardship exists however it may be appropriate to write off penalties to facilitate repayment.
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Recommended treatment for Government-administered debt between private parties

- 3.13 This category includes legal obligations between individuals that are administered by government agencies, such as child support owed to the receiving carer.
- 3.14 The government might intervene to administer a debt owed between private individuals, either because it has ordered one party to pay the other or because the debt (though agreed upon independently by each party) is considered important enough that the state must ensure it is honoured.
- 3.15 Though the state acts to enforce these debts, the amounts are not owed to the government, and the government therefore has limited influence on the creation of this debt.

Interest	There is an argument to apply interest to incentivise payment and to compensate the third party for late payment, but this should take into account the risk of debt accumulation, potential behavioural impacts and increased debt collection costs.
Timespan	In general, debt should be collected in accordance with the third-party arrangements or as soon as reasonably possible. Hardship can be taken into account when considering delaying repayment unless inconsistent with policy intent.
Write-off	Because these debts are not owed to the government, they should only be written off with the permission of the individual or entity to whom the debt is owed, or in cases where the debt could not possibly be collected (for example, the debtor is deceased).
Penalties	It is appropriate to apply penalties to this type of debt to help enforce compliance and recover some of the cost of collection. Penalties are typically owed to the government, not the third party, so hardship may be more freely considered for delaying or cancelling the collection of penalties.

Recommended treatment of interest accrued on unpaid debt

- 3.16 This category includes amounts charged at a particular rate for the use of money lent, or for delaying the repayment of a debt. An example is use of money interest on overdue tax. Interest is applied for three reasons:
- To compensate for the lost time value of money on overdue payments to government agencies.
 - Fairness to other people who pay debt on time.
 - Ensuring there is no behavioural incentive to delay payment.

Interest	New interest amounts could be applied to the existing accrued interest portion of a debt; however, this should represent actual costs incurred and agencies should take into account the potential consequence of compounding debt.
Timespan	Interest will typically be collected with the same urgency as the original debt.

Write off	Relief of interest (separate from principal) may be considered where it will facilitate collection of the original debt (for example, as part of a repayment arrangement) or in case of hardship.
Penalties	Penalties should not be applied to late interest payments.

Recommended treatment of fines and infringements

- 3.17 This category refers to penalties imposed in response to non-compliance with legislative rules. Examples include tax shortfall penalties, and penalties added to benefit debt arising from fraud. Penalties and infringement notices are applied for two reasons: as punishment for non-compliance, or to produce a behavioural response. In either case a penalty or infringement notice might also act to recoup some of the cost of the offence.
- 3.18 The ideal treatment of a fine or infringement notice depends on whether it is intended to punish or deter; if both, the relative balance between the two.
- 3.19 A penalty that is intended to punish implies a generally high bar for write off and a generally high urgency for collection.
- 3.20 A penalty that is intended to deter should not reduce people's actual ability to comply (that is, people will not comply if they cannot) or their desire to comply (for example, if repayment seems unrealistic). This implies that write-off may be appropriate, especially in cases of hardship as may a longer timeframe to allow repayment arrangements.
- 3.21 Similar considerations apply when considering whether to create this debt, as well as what alternative approaches may be appropriate to have the desired punitive or incentive effects — and whether other approaches may have more significant detrimental effects than the imposition of the penalty itself. It should also be noted that separate legislative provisions may govern the amount and repayment guidelines of this type of debt, and agencies may have less discretion in way it is administered.

Interest	It may be appropriate to apply interest to fines and penalties where there is a valid reason. However, a key principle of the rule of law is the ability for an individual to be able to determine what they could be liable for. It is important that interest applied to a fine and/or penalty does not undermine this principle.
Timespan	Timely collection is important for penalties with punitive intent; but for penalties with a behavioural objective, settings should be more responsive to an individual's financial situation.
Write-off	Whether it is appropriate to write off a penalty or infringement will depend partly on its purpose: there is a higher bar for writing off penalties with punitive intent as opposed to those with a behavioural objective. Where there is a behavioural objective, write-off ought to be considered against the gravity of the behaviour being disincentivised and the value of maintaining the disincentive instead of writing off debt. Relief of penalties (separate from principal) may be appropriate in some cases to facilitate collection of the original debt.
Penalties	N/A

Ideal treatment of debt arising from intentional non-compliance

3.22 This category includes any debt that is the result of intentional non-compliance, which is the intentional and deceitful exploitation of systems, policy and procedures to achieve a wrongful gain (such as when a person has deliberately delayed providing relevant information to obtain a welfare payment they are not entitled to). This category of debt is defined by individual behaviour. That is, debts from other categories will be classified as this category of debt if they are the result of intentional non-compliance.

Interest	The individual should not benefit from their behaviour, so it is appropriate to apply interest to this type of debt to compensate the government for the time-value of the debt and to incentivise prompt repayment.
Timespan	As for the reason above, it should be collected as soon as reasonably possible.
Write-off	Generally, this type of debt should not be written off, except in cases where collection would be impossible (for example, the debtor is deceased).
Penalties	It is appropriate to apply penalties to this type of debt to ensure compliance and as a punishment for non-compliance.

CHAPTER 4

Person-centred approach

- 4.1 This 'person-centred' approach places the individual and their family at the centre of decision-making when debts are created or collected. This is to ensure that their whole set of circumstances (including debts owed across Government) is considered when debts are created or collected. This approach is intended to ensure that the treatment of debt is appropriate, especially for those in hardship or at risk of hardship.
- 4.2 This is intended to support the general principle that creation or recovery of a debt should not place the individual and their family into hardship or exacerbate existing hardship. This principle promotes equity and efficiency: when a person is unable to repay their debt, the collection process can create and exacerbate stress for the individual at the cost of government resources (which could be invested elsewhere), outweighing the amounts recovered. This problem is multiplied if a person owes debts to several government agencies.
- 4.3 The policy-centred approach and the person-centred approach are intended to work together, with both having an influence over the outcome. There may be instances when the policy intent underlying the creation of a debt (e.g. the imposition of a penalty) conflicts with the obligation to ensure a person or their family are not placed into hardship. Just as policy settings for managing debt may need to have some flexibility to respond to individual circumstances, hardship provisions may also need to be applied differently depending on the purpose of the debt. In these cases, the trade-off should be explicitly considered.
- 4.4 In some cases, a more flexible approach to hardship may deliver worse outcomes than a uniform approach for groups who are less well equipped to advocate for themselves. Agencies must take care that taking a person centered approach does not create barriers which exclude or disadvantage some people.
- 4.5 In taking a 'person-centred' approach to debt, it is recommended that agencies:
- a) Consider the potential for policy alternatives to debt creation.
 - b) Have policies in place for debt relief measures, including write offs, repayment plans or deferral. Further, agencies should consider how to support individuals who have more difficulty accessing relief.
 - c) Make decisions about debt relief in the context of a comprehensive hardship assessment. This should include taking into account other debts that might already exist, which might require considering whether to enter into information sharing agreements with other agencies. It should also involve careful consideration of all relevant information a department holds for the individual, such as debts relating to other products or services.
 - d) Consider how operational discretion can be supported by training and guidance to ensure consistency of treatment, and accessibility.
 - e) Have policies in place around when to refer debtors to financial capability support services or other services (including, where relevant, advocacy and dispute resolution services or specialist services that can support safety and wellbeing for victims of abuse).
 - f) Undertake an assessment of whether or not debtors are receiving their full and correct entitlements.
- 4.6 As with the purpose-centred approach, the person-centred approach is not intended to be prescriptive. Agencies should consider the recommendations in this framework, but they may need to take into account other policy or operational objectives, including any legislative constraints.

Assessing Hardship

- 4.7 Assessing hardship is about assessing the extent to which an individual's or household's material living standards are below a minimum adequate level and they are going without basic necessities. Hardship operates on a continuum of severity, with more serious hardship being of greater concern.
- 4.8 When assessing hardship, the whole of a person's circumstances must be considered. There are a range of factors which the assessment should consider:
- Can the person afford basic living expenses for themselves and any dependants (for example, accommodation, basic household expenses, necessary asset purchases etc.)? Are dependants at risk of being placed into hardship?
 - Does the person have other unavoidable and necessary costs (for example, children's education costs, medical treatment for self or dependants, necessary vehicle repairs for a vehicle used for work or to enable the care of dependents etc.)?
 - Has the person experienced unforeseeable costs (for example, unexpected medical costs)?
 - Given the private and government debt that the person owes, is their debt position sustainable or is debt growing in an unmanageable fashion?
 - What would be the financial impact on the household or wider whānau of any decisions made in relation to the debt owed by the person, including possible opportunity costs?
 - What cultural expectations are present for the individual in terms of supporting wider whānau, or contributing to religious or cultural obligations?
 - Is it likely that the person will experience long term necessary and unavoidable costs (for example, someone with a disability or a long-term health condition)?
 - Is the debt caused by a partner, ex-partner, family member or caregiver who has coercive control over the person's finances? Is the person able to make independent and autonomous decisions about their finances? Is the debt adding to entrapment for someone experiencing family violence or abuse?
- 4.9 An assessment of hardship should consider the resources available to them. Consideration should include:
- The person's sources of income.
 - Whether income is volatile or will change over time.
 - What assets a person has available to help meet the debt.

Taking hardship into account in decision-making

When creating a debt

When an agency can choose to create a debt

- 4.10 When an agency has discretion to create a debt (e.g., granting a loan), the agency should be satisfied that the debt can be repaid over time, without creating or exacerbating hardship (see 4.14 below), and that the debt is in the best interests of the individual.

- 4.11 This is especially important when loans or recoverable grants for essential expenses are offered to households already determined to be in serious hardship. In these instances, alternatives to recoverable assistance could be considered, such as providing assistance as a non-recoverable grant.
- 4.12 However, such alternatives may not be available or appropriate. A recoverable loan may still be in the individual's interests if they have a need that is immediate, essential and significant. Agencies should consider whether the provision of assistance is in someone's best interest and the trade-offs this may involve.

When an agency cannot choose whether to create a debt

- 4.13 Sometimes a debt will be created automatically (for example, when an overpayment is discovered or when imposing a fine for an offence).
- 4.14 The process for imposing infringement fees for example is typically governed by legislation or regulation, leaving agencies no discretion to consider hardship at the time the fee is imposed. In these situations, it is only likely to be practicable to consider hardship more generally when the opportunity arises to review infringement settings.
- 4.15 In the case of overpayments, if a person has been proactive in contacting the agency before the agency identified the debt and cooperative in providing information, a more lenient approach may be considered.

When determining the rate and method of debt recovery

- 4.16 When determining the rate and method of any debt recovery, agencies should consider the impact of any potential recovery arrangements on an individual's financial position, and whether and to what extent it would create hardship for them or any dependants. It should be noted that there are existing provisions for some types of debt collection which aim to protect against hardship (for example, the Summary Proceedings Act sets out a protected earnings rate to restrict deductions on income).
- 4.17 Where hardship may be a factor, the agency should carry out a hardship assessment. This assessment should be as comprehensive as practicable, taking into account the size and likely duration of the debt, the costs to the agency, and the costs to the individual providing the information. It should account for both immediate and longer-term impacts on the debtor. It should consider:
- *The current financial circumstances of the person* — this includes considering the individual's income, costs, and assets, as well as their existing level of debt (from all sources, including other government agencies, any debt owed to local government and all private debt).
 - *The effect that the rate and method of recovery will have on the ability of the person to support themselves and any dependants* — repayment should be sustainable and leave enough for the individual's living expenses and any other debt repayments; it should not cause undue hardship to the individual or any of their dependants (unless there are competing policy considerations that must take priority over this principle, such as a child support liability).
 - *The likely impact on the person's circumstances and level of hardship over the longer term* — repayments should be structured in a way that means the individual can eventually pay down the debt, including any interest payments and penalties that are attached. Consideration should be given to whether repayment settings restrict their ability to improve their circumstances (for example, if settings mean that an increase in income would be offset by higher debt repayments).

- 4.18 Agency hardship assessment should be designed with enough time and care to enable the individual to disclose all relevant information.

When considering whether to provide debt relief

- 4.19 *Hardship as a basis for relief (that is, write-offs or deferral of collection)* — beyond any initial assessment of hardship, hardship relief should be available for consideration as people's circumstances change. If a person is experiencing hardship, recovery of the debt could be reduced or deferred until they are in position to start repayments; or the debt could be written off (although the potential to create perverse incentives should be considered carefully).
- 4.20 The purpose-centred approach provides guidance on the appropriateness of deferral and write-off for each category of debt (*refer to the write-off section of the table within each of the recommended treatments*). However, it should be noted that the intended timeframe of a debt is relevant to what form of relief is appropriate: it might be more appropriate to write-off (defer collection of) of a debt that is intended to be short-term (long-term).

When trying to influence behaviour

- 4.21 Some types of debt are imposed by government to disincentivise certain behaviours, for example, a penalty for non-compliance. In these cases, some degree of financial discomfort forms part of the policy intent in order to discourage the individual from repeating the behaviour (breaking the law, late filing of a tax return, committing fraud).
- 4.22 Hardship may be a side-effect of the financial penalty being imposed but is not the intention. When hardship occurs because of these policies, achieving their policy intent causes a trade-off against the objective to reduce hardship.
- 4.23 In these cases, options should be considered to mitigate this trade-off. For instance, the severity of any financial penalty will vary according to the financial circumstances of the individual, so it may be possible to reduce the penalty for individuals in hardship while still achieving the same level of deterrent.
- 4.24 Or, where an agency has discretion, non-financial penalties could be applied as an alternative; or more discretion could be allowed in terms of when hardship relief may be appropriate (for example, if that individual has children in their care who may be adversely affected by a decrease in household income).

Supporting debtors in hardship

- 4.25 High or persistent debt can cause psychological stress. It may affect an individual's willingness or capacity to engage with government agencies. Debt-related communications should recognise this by using plain language and keeping the communication as simple as possible. Agencies could also consider what communication channels may work best for certain customer groups. Throughout the life of the debt, individuals should be able to understand how the situation has arisen, what their obligations are, and where to go if they need help.
- 4.26 Agencies should also consider what other support might be needed by clients with problem debt, such as for example referring clients to services that can:
- provide financial or budgeting advice
 - assist in restructuring private sector debt
 - help individuals to interact with other government agencies.

Understanding the needs of groups most affected by debt

- 4.27 Some population groups are disproportionately represented in debt statistics, including Māori, Pasifika communities, women, disabled people and children. Māori individuals are overrepresented in almost all categories of debt to the Ministry of Social Development, Ministry of Justice, and Inland Revenue, and are overrepresented in people with debt to multiple agencies¹ and in low-income households². Pasifika communities are also disproportionately represented in lower socio-economic groups, while women are more likely to be left with debt following a relationship break down. Children are also negatively affected when growing up in households where budgets are constrained by large or entrenched debts.
- 4.28 Consistent with the Crown's obligations under Article Three of the Treaty, agencies should engage with Māori to understand how Māori and the Crown define and measure equitable outcomes in relation to debt management and whether special measures are needed to reach those outcomes. Agencies should incorporate a tikanga values perspective in policy development, for example by using Treasury's He Ara Waiora framework.
- 4.29 Agencies should collect data to help them understand debt management outcomes both for Māori and for other affected population groups. Data can inform decisions around what measures might be needed to ensure that everyone has equitable access to debt relief.
- 4.30 For other ethnic communities, it is important that the whole of the debt process is understandable: from the terms under which a debt was established, right through to ensuring that financial mentoring services are accessible. Translation services and clear communication are essential. Religious affiliations and cultural beliefs may also affect various aspects of debt management and agencies should ensure clients are enabled to communicate these.
- 4.31 For those individuals living with a disability, there needs to be consideration of what equitable outcomes look like for this group, recognising that they may have additional costs or have difficulty improving their financial position due to factors beyond their control. Support should be accessible for these individuals in order to ensure they are able to make informed decisions around debt.
- 4.32 Debt may sometimes be the result of economic harm. Agencies should ensure that they:
- Understand the signs of family violence and know how to support customers, including a referral system to expert support services,
 - Avoid requiring evidence of family violence, and avoid requiring repeat disclosure of circumstances,
 - Have a policy on allocation of debt in cases of family violence, and
 - Have effective processes in place to protect information, including between account holders if necessary.

Working with financial mentors and other intermediaries

- 4.33 Financial mentors is a one-on-one service focused on helping people, families, and whānau with their finance. Agencies should consider when to refer clients to financial mentors. A list of useful contacts is attached as Appendix 1.
- 4.34 Financial support is not necessarily a solution to problem debt in itself but has the ability to provide individuals and whānau with the skills and capabilities to better

¹ Māori comprise 44 percent of those with debt to all three agencies.

² 22 per cent of all Māori working-age adults are likely to be on a low income or in receipt of a main benefit.

navigate future financial and debt-related decisions. Financial mentors can be helpful during a hardship assessment process to help communicate the individuals' situation to agencies.

- 4.35 Government agencies should look for opportunities to work in partnership with kaupapa Māori and other culturally specific services, to reduce barriers to accessing support for those most in need, and to address the primary drivers of debt.

Appendix 1

- 4.36 MoneyTalks is a free financial helpline that provides advice to people in difficulty and connects them with financial capability services in their community.
- 4.37 Although the services provided by MoneyTalks tend to be targeted towards clients who hold high interest and penalty bearing debts, such as those from short-term lenders, government agencies may find a benefit in referring clients who hold debt with them to MoneyTalks.
- 4.38 The MoneyTalks website provides links to the following service providers:
- Financial mentor services are listed at <https://www.moneytalks.co.nz/find-help-now/>
 - Other service providers are listed at <https://www.moneytalks.co.nz/our-partners/>