

**Consultation: A proposed framework for debt to government  
Inland Revenue Department (IRD)**

**The Salvation Army New Zealand Fiji Tonga and Samoa Territory Submission – 06 April 2023**

**Summary:**

1. Our overall sense of the IRD’s proposed framework is that it is an uninspiring framework that is not prescriptive or clear enough to address current major debt to government issues. Consequently, The Salvation Army believes that this approach does not give people (and those organisations supporting them) who owe debts to government enough clarity and effective pathways to address this debt.
2. This submission/response will firstly look at the idea of a new single crown debt collection entity that was proposed by the Tax Working Group (TWG). Following that, we give feedback on some aspects of the IRD’s proposed framework. We support submissions from FinCap as the peak body for the BFC sector, and other key actors in this space, who are offering detailed and practical solutions to the questions posed by IRD in the consultation document.

**Background of The Salvation Army:**

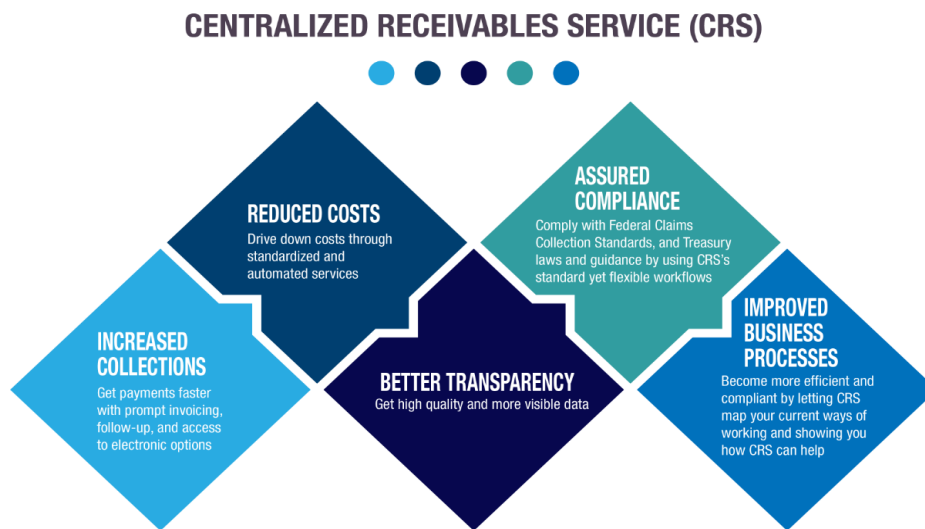
3. The mission of The Salvation Army Te Ope Whakaora is to care for people, transform lives, and reform society by God's power. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and forty years. It provides a wide range of practical social, community, and faith-based services, particularly for those facing various forms of hardship and vulnerability.
4. The Salvation Army employs almost 2,000 people in New Zealand, and the combined services support around 150,000 people annually. In the year to June 2022, these services included providing around 83,000 food parcels to families and individuals, providing some 2,300 people with short-or long-term housing, over 4,000 families and individuals supported with social work or counselling, around 6,600 people supported to deal with alcohol, drug, or gambling addictions , around 3,500 families and individuals helped with budgeting, court and prison chaplains helped 3,300 people.
5. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. It has also been informed by the work of our national network of financial mentors or budgeters throughout the country. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army’s Aotearoa New Zealand Fiji Tonga, and Samoa Territory.

## Single centralised debt collection entity

6. We understand that a single, centralised government debt collection agency has been mooted at various points of this long process<sup>i</sup>. There are few details publicly available about what this entity could look like. Additionally, we were unable to find the original submission that proposed this innovative idea. But this idea had enough merit for the TWG to seriously consider and support this submitter's proposal for this single entity because of the increased efficiency and more equitable outcomes that could emerge from this focussed approach. This approach had also been suggested to and considered by the Welfare Experts Advisory Group, although they were in favour for a cross government approach to debt to government<sup>ii</sup>.
7. The Salvation Army is interested in understanding and gaining more information about (a) the details for this possible new single entity and (b) what the reasons were for the IRD to ignore previous advice and positions in the TWG about exploring this alternative method. We are keen to understand these issues because focussing on this proposed framework that is essentially built around information sharing and developing a consistent approach across government department, while holding some promise, will not necessarily achieve the clear, fair, prescriptive, and targeted outcomes that both government creditors and debtors desperately need moving forward.
8. While creating yet another level and body of central government bureaucracy is not ideal, especially in this age where the public service has had significant growth under this Labour government,<sup>iii</sup> and huge national and family financial and economic pressures, we still submit it is worthwhile to explore further what this idea could look like. This approach, coupled with cleaning up the mess around private debt collection, could be effective tools to help both private and public debt holders gain clarity on their debts, repay them, and have other avenues of redress if available.
9. While this still a theory, we believe there might be real benefit to a single centralised agency that collects and works around debts to government. These benefits could include:
  - a. Focussed and consistent approach.
  - b. Clarity to debtors (and those supporting them) about the single agency they can work with around their debt.
  - c. Freeing up staff and resources in IRD and other government departments heavily involved in these debt issues.
  - d. A single location where relevant community organisations like FinCap, local financial mentoring services and Maori organisations can connect with and help debtors navigate through this new entity. This also allows for (hopefully) greater and easier access for those working with these debtors and the agency where the debt(s) is owed.
  - e. Greater efficiencies and economies of scale could be achieved as a more streamlined system is developed.
  - f. Development of streamlined and clear legislation, policy and procedures around debt owed to the state.
  - g. A single entity could advocate more effectively to Ministers and to different departments about key debt issues.
10. There are some relevant examples from overseas jurisdictions that could inform a wider discussion of a single centralised entity for a New Zealand context.

- a. **USA** – The American federal government has the Centralized Receivables Service (CRS) programme which is the U.S. Department of the Treasury’s initiative to manage non-tax accounts receivable on behalf of federal agencies.<sup>iv</sup> The CRS is focused on managing pre-delinquent debt and debt in the early stages of delinquency before it is referred to Debt Management. As depicted in **Figure 1**, the CRS is forming a single, streamlined debt collection and debt management system across other federal government agencies.

**Figure 1: CRS operating model & principles (USA federal government)**



- b. **UK** – In the UK, particularly since Covid lockdowns, there has been growing concern about how public bodies were collecting and managing debts owed to them. This concern from community groups and other organisations led to the Debt Management Function (in the Cabinet Office) publishing a Call for Evidence on fairness in Government debt management in June 2020.<sup>v</sup> There has been lots of progress in this space, including proposals for a Debt Management Bill (for debt owed to government departments) and amendments to council tax and bailiff regulations related to public debt collection.<sup>vi</sup> The UK approach is similar to the proposed IRD framework here in New Zealand and has been focussed on working with government agencies and their specific debt collection service. However, some groups and researchers have in recent years explored what a single debt collection agency could look like.

**Responding to the proposed framework**

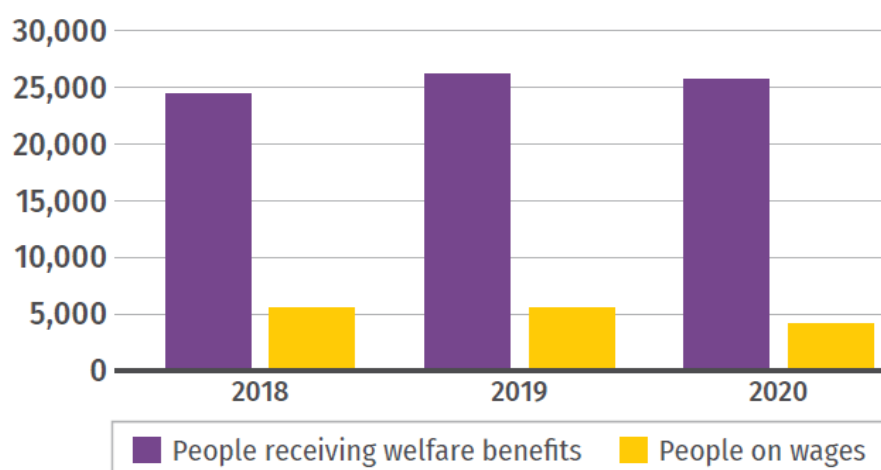
**11.** This following section will offer some general comments on the IRD proposed framework. While we do not believe this proposed framework is the best approach as outlined above, we will respond to some of the key questions or issues raised. We know there will be more opportunities to engage with this policy development process in the future which we are happy to do.

- a. **Principles** – We support the principles set out in the framework. We do question whether a ranking or prioritising system is needed to help clarify a situation where principles might be in conflict with each other. This also raises the question about

whether there should be an over-arching principle that takes precedence over others in this framework.

- b. Robust affordability or hardship assessments** – The Salvation Army contends strongly that robust and detailed affordability assessments are needed for all people owing debts to government. The community financial capability sector has advocated strongly for this around private debt and the CCCFA. We believe central to a framework (or a single crown debt collection agency) should be ensuring all debtors have an affordability assessment that governs the debt recovery, repayment, or forgiveness pathway they undertake. Assessing levels of private debt, culturally related spending, or the presence of any Buy Now Pay Later accounts are crucial in getting a complete picture of the debtor.
  
- c. Different kinds of debt** – Attachment orders around civil debt has been an area that we and many other organisations have advocated for in recent years. In our *Debt Collection and Repossession*<sup>vii</sup> report in 2019, we highlighted these orders and also the need for effective policy solutions like a judgement proof debtor policy. In 2021, we released another paper – *The Struggle is Real*<sup>viii</sup> – looking at financial hardship issues post-Covid. Again, we highlighted the plague of these orders. **Figure 1** shows that most attachment orders being made by Courts are on people with fixed and low incomes through government benefit payments. In 2020, only 14% of attachment orders were placed on people receiving wages, leaving a massive 86% of attachment orders being imposed on beneficiaries. This has been the pattern for attachment orders for the last three years. It is fair to assume that those receiving wages are likely to be in better positions to repay this civil debt compared with people receiving a benefit as their main source of income. In relation to debts to government, more work is needed to reduce this injustice around attachment orders around civil debt that has been created by government or judicial systems. This is why a judgement proof debtor policy (relating to all beneficiaries) is needed for New Zealand. The framework for this policy is alive and well in New Zealand with the passing of the District Court (Protection of Judgment Debtors with Disabilities) Act. Now we need to extend that protection (which will clearly minimise hardship for very vulnerable debtors) to all of those on a welfare benefit. This kind of approach for the relevant debtor/beneficiary could be identified earlier via the robust affordability assessments for all debtors.

**Figure 2: Attachment orders—people receiving benefits and wages—2018–2020.**



- d. **Ethical lending** – Although this is slightly peripheral to this framework, we strongly believe that the scaling up of ethical lending options like Nga Tangata Microfinance and Good Shepherd are vital to provide options of credit for people. A scaled-up ethical lending sector could help people avoid more predatory lenders (in terms of private debt creation), and also help debtors who borrow elsewhere to pay off government debt. This area requires further analysis and more data. But we have consistently advocated that a bigger ethical lending sector can provide real help and alternatives to debt creation (or accumulation) to government departments or private lenders.
- e. **Access for support people** – One area that our financial mentors struggle with is getting good, fast access to public servants regarding the debt to government for our clients. Again, the suggestion of a single centralised debt collection agency interested us for many reasons, including the potential to have a one-stop location for financial mentors, support workers and community navigators to engage with around the government debts of their client. Additionally, this could be the location for the affordability assessment. We submit that this affordability assessment should be done in conjunction with financial mentors who know the holistic situation of the client. Either way, good, timely and consistent access is needed with these various agencies (or a single agency) for our staff to effectively support these debtors.
- f. **Debt forgiveness and write offs** – We welcome this discussion in the proposed framework. Whether it is a cross government approach, or a single entity model discussed above, ensuring there are clearer guidelines relating to minimising hardship and forgiving or writing off debt is extremely helpful. We also support the ordered approach or framework within each category of government debt and when and how to consider if a write off is appropriate or not.

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- i <https://taxworkinggroup.govt.nz/resources/tax-working-group-publishes-interim-report.html>
- ii <https://www.weag.govt.nz/weag-report/whakamana-tangata/restoring-trust-with-people-using-the-welfare-system/recommendations-key-and-detailed/>
- iii <https://www.stuff.co.nz/national/politics/129817523/more-work-or-out-of-control-bureaucracy-labours-swelling-public-service>
- iv <https://www.fiscal.treasury.gov/crs/about.html>
- v <https://commonslibrary.parliament.uk/research-briefings/cbp-9007/>
- vi Ibid.
- vii <https://www.salvationarmy.org.nz/article/debt-collection-and-repossession-aotearoa>
- viii <https://www.salvationarmy.org.nz/article/the-struggle-is-real>