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Submitted via: policy.webmaster@ird.govt.nz

C/- Deputy Commissioner, Policy
Inland Revenue Department
PO Box 2198
Wellington 6140

Re: Public consultation on the Working for Families scheme

Working for Families is an important part of Aotearoa New Zealand's welfare system which provides crucial financial support to whānau. FinCap welcomes this opportunity to comment during the public consultation on the Working for Families scheme. While we appreciate the stated intent of the proposed changes to reduce debt to government, we have concerns around the potential for these changes to increase income inadequacy for some whānau and inhibit people from receiving their full entitlement of income support in a timely manner.

Given the timeframe within which we have been able to prepare this submission, we have not been able to get comprehensive input from financial mentors, who will have perspectives on the proposed changes informed by their experiences working with clients. However, we have had financial mentors contact us with concerns about how elements of the proposed changes would negatively impact their clients. With this in mind, we have chosen to put forward suggestions for what we believe should be key considerations in the next design and consultation phase for the Working for Families scheme.

About FinCap

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 177 local, free financial mentoring services across Aotearoa. These services supported almost 62,000 whānau facing financial hardship in 2024. We lead the sector in the training and development of financial mentors, the collection and analysis of client data and encourage collaboration between services. We advocate on issues affecting whānau to influence system-level change to reduce the causes of financial hardship.

We support the intent of the proposed changes as they relate to reducing debt to government

FinCap is pleased to see Inland Revenue and MSD taking steps towards alignment with the Debt to Government Framework. The intent of the proposed changes to the Working for Families scheme, to minimise the potential for people to receive overpayment and go into debt, is a good indication that alignment is progressing.

We wish to highlight that the Debt to Government Framework, while centred on the factors that should be considered when creating debt, has a strong emphasis on taking hardship into account when establishing policy related to debt and debt reduction. As such, it is crucial that efforts to reduce the potential for debt to government through schemes such as Working for Families also take a person-centred approach to ensuring that hardship is not created or entrenched through such changes as those proposed.

Shorter quarterly assessment period looks to be an improvement, but needs to be refined
The use of a shorter income assessment period to make sure payments are up to date looks to be an improvement over the current annual estimation system in terms of reducing the potential for overpayment and debt creation. However, aspects of the proposed design appear to suit some whānau situations better than others. We are concerned that in its current state, this design would have a disproportionally negative impact on those who are already experiencing financial instability due to more fluctuations in payment amount.

One financial mentor suggested to us that the quarterly assessment period could remain as a forward-looking estimate, rather than using the last quarter's income and lagging Working for Families payments accordingly. A solution such as this, along with other measures, could go some way towards addressing other concerns that we go on to outline in this submission. There are obviously other dynamics that will need to be considered such as the administration demand for Inland Revenue and the responsibility of whānau to engage with their estimate more regularly. However, given that there are already solutions proposed which involve the ability to notify Inland Revenue of short-term changes in circumstance, a more responsive system may be a good option.

Concerns around entrenching income inadequacy
Along with reducing debt to government, FinCap's other primary concern is ensuring income adequacy for people receiving government support. Our internal data tells us that the majority of financial mentoring clients still experience a weekly deficit upon exiting the services of financial mentors. More often than not, this deficit is due to whānau trying to pay for essentials, and commonly going into debt to do so. This, among other markers, points to the fact that government support is not currently adequate to cover living expenses. We have concerns that some of the proposed changes would exacerbate income inadequacy in certain scenarios, particularly for whānau who need that money week to week.

While the shorter period of assessment has the potential to be more responsive to changes in whānau income, under the current proposal there are examples given where whānau would receive less in weekly payments than they would under the current system. Example 9 in the discussion document is a good example of a scenario that FinCap sees as an unacceptable outcome of the proposed changes, whereby someone would be worse off due to their weekly payments being calculated from past income and not an estimate of overall annual income.

We can see that the 'lagged income' mechanism makes sense from the perspective of achieving accuracy, however the potential for a decreased payment below what a whānau is entitled to poses real risk for wellbeing and social participation. There is also a real concern over the dynamic whereby a quarterly period of higher income followed by a quarterly period of low income would see increased hardship within the low-income period, due to those payments reflecting the past higher income. While this could be squared up during the end of year process, our data tells us that most whānau living week to week need that money as part of their weekly payments. The same issue would exist for the proposed lagging of family circumstances; in this instance (as outlined in Example 5), being able to notify Inland Revenue of changes in family circumstances and receiving an immediate change in payment would be our preferred outcome.

Financial mentors have also shared concerns with us around the potential for increased hardship due to losing Working for Families tax credits when moving from work onto a benefit in cases of job loss. Once again, Example 9 in the discussion document shows a less-than-ideal scenario for an individual who is substantially worse off returning to a main benefit after being employed and losing the in-work tax credit. Changes to Working for Families should account for the additional hardship experienced when moving on to a benefit, and that shortfall is not experienced in the interim, while still incentivizing that people move into employment. Whānau need every cent they are entitled to in a timely manner when events such as job loss occur.

We note here that FinCap continues to support the recommendations made by the Welfare Expert Advisory Group (WEAG) in 2019, which present a pathway towards reforming the welfare sector and establishing income adequacy for those living on government support payments.

We recommend that mechanisms to prevent further income inadequacy, such as grace periods, should be considered and consulted on
Within the next stages of design and consultation, we recommend that more emphasis is placed on targeting dynamics whereby weekly payments are eroded and full entitlement is not able to be accessed.

We return here to the person-centred approach promoted within the Debt to Government Framework and the emphasis on not creating hardship for people who, in good faith, are doing their best to comply with the requirements of government support. Following these principles, we would like to see grace periods (as suggested in paragraph 4.55) built into the process of notifying Inland Revenue about changes to income, employment and living situation where appropriate, and where they would:

- Encourage people to notify Inland Revenue of changes;
- continue to incentivise people to move into work without the fear of losing income that whānau are entitled to and require for week-to-week living costs;
- Prevent greater financial stress during periods of elevated hardship for whānau, such as the period following job loss.

FinCap would like to see proposals and consultation on such mechanisms.

Expanded roles for intermediaries
As an organisation overseeing the provision of financial mentoring services, FinCap was encouraged to see a greater emphasis on the role of intermediaries outlined in the discussion document. Financial mentors are well-positioned to help clients navigate their entitlements and the wider systems of Inland Revenue and MSD.

Currently, FinCap is aware of an issue whereby the standard financial mentor privacy authorisation is not being accepted by Inland Revenue. This creates a barrier for financial mentors looking to help clients gain access to information without gaining an inappropriate amount of control over their clients' engagement with Inland Revenue. We see opportunities for addressing this issue and would welcome engagement from Inland Revenue.

Financial mentors also spend a large amount of time trying to help clients in crisis who need to contact Inland Revenue or MSD, but end up facing long hold times for phone calls or difficulty finding the right person in an organisation to talk to. FinCap would like to see a dedicated phone line for financial mentors at both Inland Revenue and MSD to allow this crucial relationship to be streamlined.

FinCap is eager to discuss these issues further in order to progress the aims of all parties involved.

Please contact Senior Policy Advisor Jake Lilley on jake@fincap.org.nz or 027 278 2672 to discuss any aspect of this submission further.

Ngā mihi,

Fleur Howard
Chief Executive
FinCap