FinCap
Got it together

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Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings
Wellington

RE: Budget Policy Statement 2023
Across Aotearoa over 600 dedicated financial mentors are walking alongside whānau every day, as they navigate a pathway towards financial wellbeing.

FinCap welcomes the opportunity to comment on the Budget Policy Statement (BPS) for Budget 2023. We support the focus areas and make two key recommendations for sustainable funding for financial mentors and for action to address the harm being caused by debt to government. Making this funding for financial mentors available can ensure these experts not only maintain their valuable mahi but continually improve their passionate and professional support for their communities.

About FinCap
FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 190 local, free financial mentoring services across Aotearoa. These services support more than 70,000 people in financial hardship annually. 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.

General Comments
As highlighted in the Budget Policy Statement, having an income that can meet the needs of a whānau is a key factor in the life satisfaction of that whānau. Financial mentors are the best equipped experts for supporting whānau in navigating their money management with the increasing cost of living, which is compounding already present stresses for many.

With child poverty and the wellbeing of whānau and their tamariki being a key focus of future work, FinCap highlights two key areas for addressing this issue; the first in increasing funding for financial mentors, and the second is addressing the barriers created by debt to government. Both are key for addressing child poverty in Aotearoa. The following submission outlines these issues and points to why it is crucial that these are recognised in Budget 2023.

Sustainable funding for financial mentors

Sector overview
Financial mentors across Aotearoa are supporting whānau with the challenges tied to the increasing cost of living. Over this same period, financial mentoring services have begun to feel the same pressure of the cost-of-living increase as other sectors, particularly in terms of office space, utilities

and wages. Additional to these direct cost pressures, services are reporting a general decline in available volunteer resources as the sector ages and as volunteers have to decrease their unpaid hours. Where possible these volunteer hours will be filled by paid staff.

A recent survey by FinCap of managers across 57 MSD-funded services indicates that MSD funding accounts for as little as 10% of some funded services' budgets and a full 100% for others. Across all funded services MSD funding averages 61% of what is deemed necessary for a viable service. Additionally, there are 59 services that are not currently funded by MSD. This resource gap distracts financial mentors from getting on with what they do best while they must focus on keeping their community service's door open.

FinCap also surveyed services across Aotearoa in October of 2021to gain insight into the impact of the pandemic on the services. The response indicated that despite additional funding, financial mentoring services were still stretched, and workload had significantly increased – largely due to the additional complexity of cases that they are working with.

Since that survey, there has been a substantial increase in cost-of-living pressures on current and potential service clients. The recent 2022 survey of all FinCap financial mentoring services gathered responses from more than 20% of people employed in the sector. These responders have reported a significant increase in workload due to the rapid increase in cost of living.

Services' social return on investment is extremely good. A recent review of two services by business consulting firm, ImpactLab, identified a Social Return on Investment (SROI) of $1.70 for every dollar of funding.

Current MSD funding	131 services	$21.71m
Additional to reach 100% funding (from current 61%*)		$13.87m
Funding of currently unfunded services to 100%	59 services unfunded predominance of Māori and Pacific Peoples	$16.02m
	Total (per annum):	**$51.6m**
	Total (four-year period):	**$206.4m**

The sector is delivering clear and measurable financial benefits to whānau and communities - particularly the most vulnerable New Zealanders. Many of these benefits will be mitigating cost in other sectors of the Government's social spend, and all of these benefits are improving the quality of life of New Zealanders in the face of intense cost of living pressure.

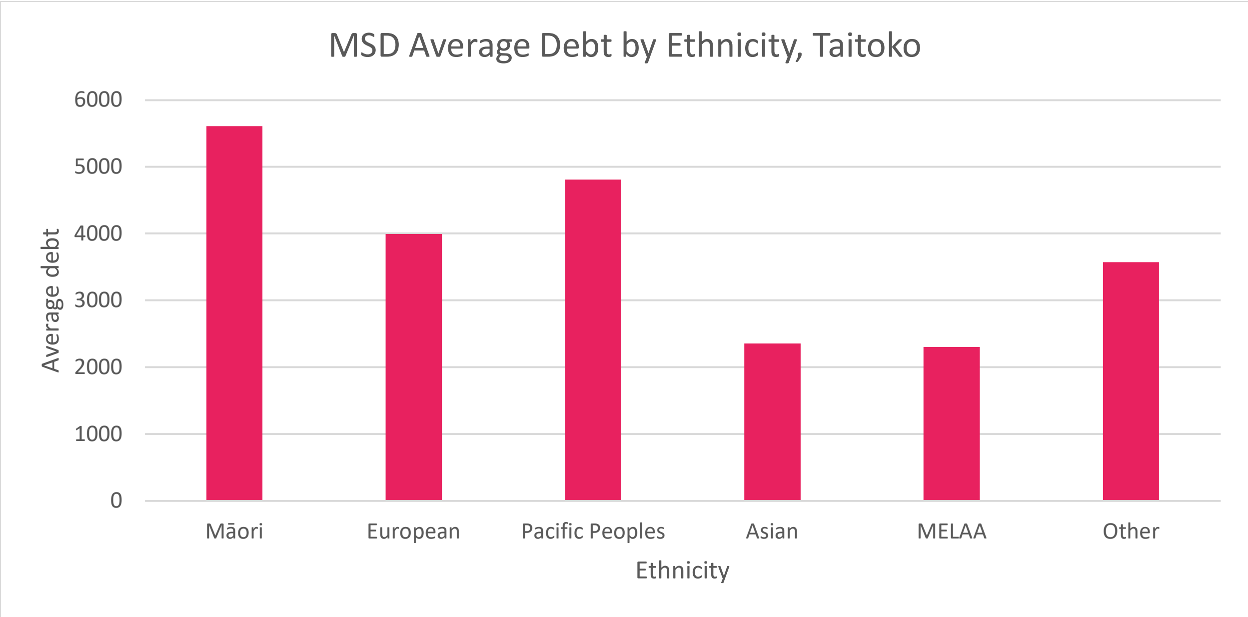
Given the measurable benefits provided by financial mentoring services, the increased financial pressures being faced by an increasing number of New Zealanders, it is clear that the additional funding requested represents extremely high value spend.

Recommendation: Increase funding to reach all 190 financial mentoring services to meet the growing demand. Total per annum $51.6m and total over a four-year period $206.4m.

Debt to Government and child poverty

Overview
The 2022 Child Poverty Monitor[1] found that although benefit and minimum wage increases have lifted many whānau above the poverty line, inequities are still a reality for Māori, disabled, and Pacific children. While the poverty statistic for all children dropped to 16.3%, from its position at 22.8% in 2018, 17.8% of tamariki Māori are living below the poverty line.

As highlighted in the *Proactive Release – Reducing impact of debt to government* (Proactive Release) in February 2022, debt to government most impacts Māori and females.[2] The below graph of the average amount of debt to MSD in Taitoko, Levin also shows that Māori and Pacific peoples hold the highest amounts of debt.



Children in Aotearoa need to be able to thrive, play, learn and explore, and the wellbeing of their whānau is often the key determinant of this. Through the insights of financial mentors and research, FinCap has found debt to government to be a barrier to the wellbeing of children and the prosperity of whānau in Aotearoa.

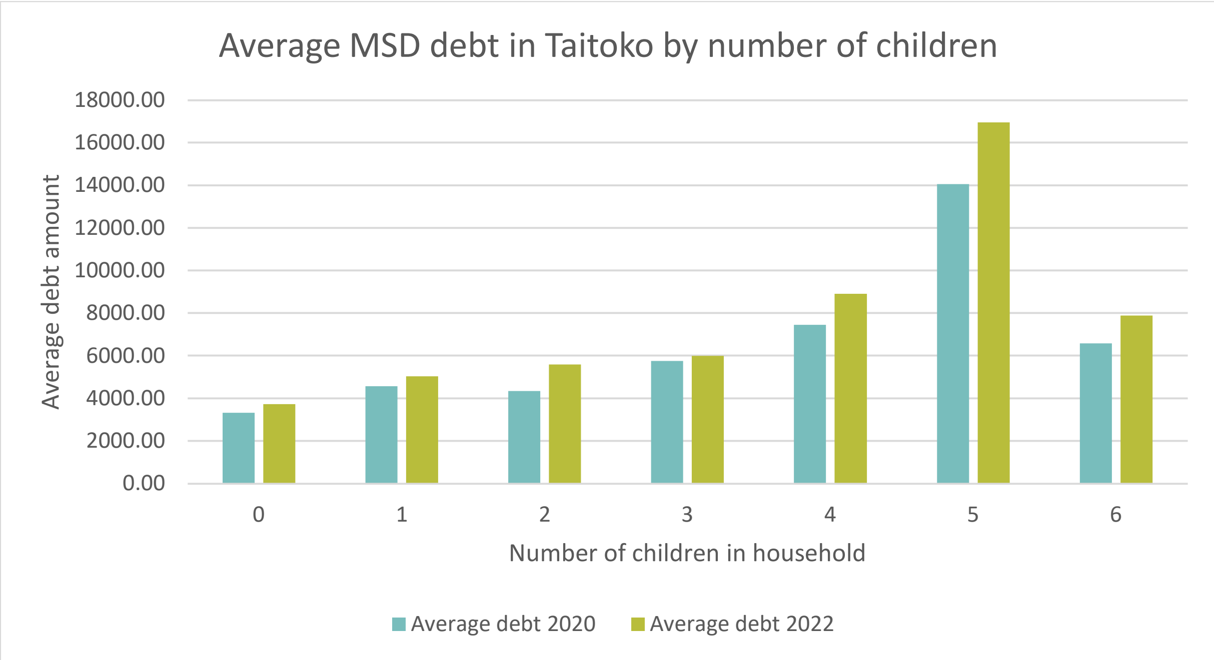
Debt to certain government departments can have an impact on an entire household, especially for the children within it. A recent Insight Brief by the Social Wellbeing Agency looked into the effects that debt to government has on children.[3] This brief found that of the 713,000 people who owe debt to government, 62% are parents or share and address with a child. It also found that parents with debt to MSD, the most commonly owed department by parents, are 25% more likely to have debt that has persisted for at least five years compared to debtors without children. Debtors with children are also more than twice as likely to owe debt to more than one agency. Whānau should be able to

[1] See https://www.childpoverty.org.nz/measures/income
[2] See page 4 https://dpmc.govt.nz/sites/default/files/2022-02/proactive-release-reducing-impact-of-debt-to-government-3feb22.pdf
[3] See https://swa.govt.nz/assets/Children-and-debt-Insights-report.pdf

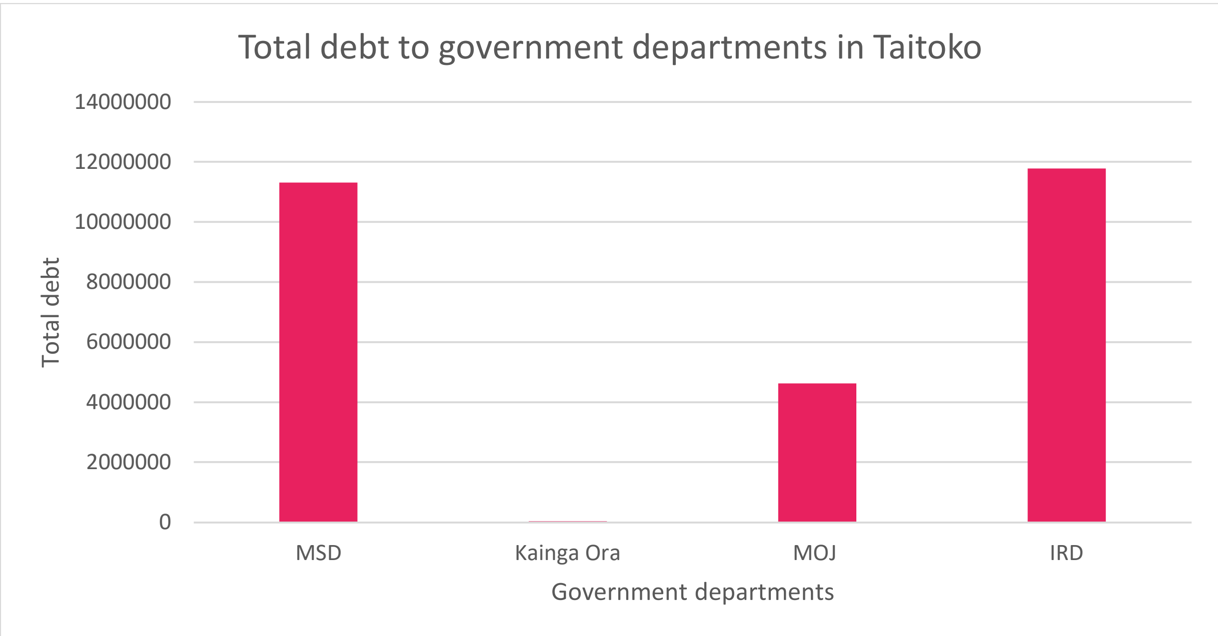
have fair access and engagement with government departments, not be placed into unaffrodable debt where kai and other essentials are taken off the table for tamariki.

Insights gained through an OIA of debt to government, looking specifically at Taitoko, mirrors the same impacts on children that are seen on a national level. These are shown below in a number of graphs that were made using the data from the OIA.

The graph below shows the average debt to MSD broken down by the number of children in a household.



The graph below breaks down the total debt to each key government department in Taitoko. The data for this graph was collected through an OIA request from each department.



Some of the issues that are causing the most harm from debt to government noted by financial mentors are overpayment debt, recoverable grants for essentials, challenges with access, debt held over a long period, and unaffordable repayment rates. Debt to government creates a significant financial burden for whānau. It often compounds already present challenges and creates or entrenches distrust in the welfare system. Whānau have commented that when they have been told that they owe money back, especially when due to overpayments, it often comes as a big shock, when they have been trying hard to avoid this.

Solutions

To address the harm being caused by the current processes for creating and collecting debt to government FinCap makes five key recommendations, as outlined below. These recommendations intend to carry forward the work and research that has already been outlined in the Debt to Government Proactive Release, as well as the ongoing efforts of many community organisations for many years to address this growing issue.

FinCap Recommendations:

1. Implement a priority phone line for financial mentors to MSD and IRD.
2. Apply 4-week grace periods across all benefits when circumstances (such as income) change to avoid overpayment debt.
3. Make grants non-recoverable for essential expenses, such as clothing, food, housing supplies and whiteware. At the same time, raise the threshold for eligibility for the Community Services Card and make more essential services available through the card.
4. Implement a National Policy Statement that sets clear expectations across departments that the creation and collection of debt must be focused on wellbeing and that debts be waived where there is little prospect of prompt repayment after two years. To achieve this:
    - Waive debt that has been held for over two years where there is little prospect of full repayment in a reasonable time frame.
    - Lower the recommended maximum recovery rate to 4% of income and apply affordability assessments, in line with the responsible lending code, to all debts repaid to government departments.

Priority phone lines

In conjunction with commitment 3 of New Zealand's Fourth National Action Plan to establish a multi-channelled approach to accessing public services and support, we recommend that direct phone lines for financial mentors to MSD and Inland Revenue are established.

A direct phone line for financial mentors is of net benefit as financial mentoring sessions are Government funded. Rather than spending up to several hours waiting on hold, the financial mentor and client could use the session more effectively and reach support directly.

Financial mentors have repeatedly mentioned that the extensive wait time on the phone to Inland Revenue and WINZ is disruptive to the support they are providing to whānau. Self-service phone line options have become available for accessing certain Inland Revenue tools. However, the self-service options are limited and do not provide access to important tools, such as the ability to change income details. WINZ have a similar self-service option; however, this offers fewer options for clients calling for support. This highlights the inconsistencies between government departments which are often used simultaneously by whānau accessing welfare support.

Furthermore, although the self-service system may be beneficial to many, it should not be solely relied upon to fill the communication gap. Financial mentors have mentioned that whānau often want to speak to a 'real' person on the phone. This preference is more probable when a whānau has had negative experiences in the past, such as having to pay back overpayment debt to government due to a misunderstanding of complex expectations and rules.[4] There should also be the option for anyone to request an outbound call. The onus should be on the government department to call them back and talk them through any issue.

A direct phone line to MSD and Inland Revenue for financial mentors would help to ease these challenges for whānau and financial mentors. This would create a more efficient and effective system, that allows financial mentors to help solve issues that are time pressured and ensure that the wellbeing of the whānau they work with is not jeopardised. This enables client agency, as they can be on the phone together with the financial mentor.

An additional issue with the access to services over the phone, is the application of fees when paying a late payment fee via the phone with IRD. This fee seems counterproductive considering the likelihood that these payments are already unaffordable if they have already been paid late.

Grace periods

A grace period is the additional time given to a person to pay money that is owed without incurring fees or debt. Time-limited grace periods across the social security system to smooth the times where changes occur would provide a breathing space for whānau.

The Welfare Expert Advisory Group in 2019 recommended improvements to the relationship rules system. An element of this recommendation was the establishment of grace periods for discussing the nature of their relationship with MSD to limit the stress of changes in income. This is an example of how the grace period concept can support whānau by giving more time to changes without adding the likelihood of debt being created.

In 2021 grace periods were introduced to be applied to the Family Tax Credit for the In-Work Tax Credit where they continue to receive the payments for up to two weeks when taking an unpaid break from work. This is another example of where the grace period concept has been implemented to support whānau during especially stressful times.

We recommend the implementation of a four-week grace period across all benefits when there are changes in circumstances, such as income. This is often where overpayment debt is created and through giving a grace period, whānau would have more time to organise and adapt to their changing circumstances without the pressure of possible debt. Financial mentors have also noted that the grace period would be useful for those that are receiving fortnightly income to limit the additional confusion that often occurs.

Non-recoverable grants

No whānau should be pushed into unaffordable debt in order to obtain the most basic essentials. Expenses related to health, education, housing, food, transport and heating as the basic essentials should be available for all whānau. By making grants for these costs non-recoverable whānau that are facing hardship will more easily be able to meet these basic needs without getting into debt.

Alongside this, the Community Services cards should also be used to support whānau with the essentials. The income threshold for eligibility for the cards should be lifted and the services that are available through these cards should be increased to meet the needs of whānau.

[4] See page 114 http://www.weag.govt.nz/assets/documents/WEAG-report/aed960c3ce/WEAG-Report.pdf

Implement a National Policy Statement
The National Policy Statement should commit to lowering the maximum recovery rate and to waiving debt held for more than two years where there is little prospect of prompt repayment.

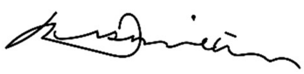
The recommended maximum recovery rate for people receiving current income support is no more than $40 a week unless they volunteer to pay more. Although through the support of financial mentors MSD clients are able to lower their deductions, this should automatically be set at the lowest amount and reflect the affordability for that whānau. Incomes are low for those on benefits and therefore adding deductions will cause harm. We recommend that the maximum recovery rate be set to 4% and that case managers are required to proactively determine whether a whānau can afford the amount that repayments are set at. Affordability for the repayment amount for each whānau should be assessed in line with the responsible lending code.

Research from the Social Wellbeing Agency shows that debt held for longer than two years typically becomes long-term problem debt. Therefore, where debt is held and is not repaid during this time, it becomes an unnecessary and harmful burden for whānau. The barriers that exist, and which create inconsistencies across departments, for the ability of MSD to wipe debt, need to be fixed in order for this to be achieved.

Final comments
FinCap does not currently have the resources to cost the budget implications of these actions on debt to government. However, we are certain that these would be of net benefit given that outstanding and unaffordable debt only lead to wider costs for our communities.

Please contact policy advisor Janeka Rutherford-Busck on 027 261 3690 or at janeka@fincap.org.nz to discuss any aspect of this submission further.

Ngā mihi



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