

31 May 2022

Submitted via: WFFReview@msd.govt.nz

Working for Families Review
Ministry of Social Development
Wellington

RE: Working for Families Review

Working for Families Tax Credits (WfFTC) need to truly work for whānau in Aotearoa. No tamariki should have to go without essentials because of inconsistent and confusing support systems and rules. In Aotearoa, 16.3 per cent¹ of children are living in material hardship. A fit for purpose Working for Families scheme is crucial for lowering this number and increasing the prosperity of whānau.

FinCap welcomes the opportunity to comment on the Working for Families (WfF) review. We strongly encourage the Government to make changes to the scheme so that it serves its purpose of increasing the wellbeing of whānau and tamariki.

The review of WfF is important and welcomed. The following submission draws on the expertise of financial mentors, who walk alongside many whānau that interact with the WfFTC system. FinCap also works in partnership with Muaūpoko Tribal Authority (MTA) in Taitoko, Levin. The focus of this work is to promote whānau prosperity by addressing child poverty. The insights from MTA are also included in this submission.

About FinCap

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 200+ 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.

Response to Working for Families Review questions

Q1. What do you like about Working for Families? Is there anything that you don't want changed?

"I feel the whole WFF package was a good package. It made it possible for someone like myself to come off a benefit which was really empowering. I then received my child support. That made a huge financial impact. However, a lot of parents aren't paying child support so at times I have seen the main carer stay on an abated benefit because the in-work tax credit wasn't enough to make it worthwhile going off the benefit. Especially now that accommodation supplements have gone up so much in our area. I feel the in-work tax credit needs to be higher than it is to make it really viable to go off a benefit as it's not as substantial as it was when it was introduced." – financial mentor

¹ See StatsNZ <https://www.stats.govt.nz/news/child-poverty-statistics-show-all-measures-trending-downwards-over-the-last-three-years>.

In 2021, the Child Poverty Action Group (CPAG) released research on the implementation status of the Welfare Expert Advisory Group (WEAG) recommendations.² This research found that none of the 42 recommendations had yet been fully implemented. Many elements of the social security system do not reflect the current needs of whānau in Aotearoa.³ The social security system should serve to restore and maintain the wellbeing of whānau so they can participate meaningfully with their communities.

One of the recommendations from the 2018 WEAG report was to increase the Family Tax Credit (FTC) to \$170 a week for the eldest child, and to \$120 a week for the subsequent children. As it currently stands, \$127.73 is provided for the eldest child and \$104.08 for subsequent children. Financial mentors have often mentioned that the amount provided through Working for Families is not enough to cover the rising costs of living. FinCap supports the WEAG recommendation to increase the FTC to \$170 and \$120, with appropriate indexing applied each year so that it maintains its value.

Investing in support for families with children has seen positive results in the countries that have done so. For example, in Sweden, child poverty rates are at just 4 per cent compared to in Aotearoa where they're at 16.3 per cent. In Sweden there has been investment in supporting care for families with children, which has contributed to lower levels of child poverty.⁴ This wholistic approach, where the wellbeing of families is centered, has proven to be successful. In Aotearoa, the intended outcome of the WfFTC should be brought into the forefront. Parents, children, carers and whānau members should be able to participate fully in their communities to increase the prosperity of whānau.

"I feel there should be more recognition of age and the rising costs for different age groups. The Best Start tax credit caters to the extra costs of a baby. However, anyone with a child in High School will attest to the extra costs involved being quite significant."- financial mentor

Recommendation: Increase the FTC to \$170 and \$120, with appropriate indexing applied each year so that it maintains its value.

Q3 and Q4. How can Working for Families better support low income working families and families with changing hours, shift work, or part-time hours?

"Family Tax Credit debt is a challenge. It needs to be easier, and more information given around regularly logging income with IRD. However, that said I have seen numerous circumstances when someone has done the right things but incurred a debt through changing jobs or a payrise. If either of these happen any later than December in the financial year people are likely to incur debt and its too late to reverse it." – financial mentor

As highlighted in the quote above, financial mentors have noted that issues with overpayment are a major challenge. 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 due to overpayments it has often been a big shock, when they have been trying hard to avoid this.

A financial mentor has also noted that overpayment issues occur more commonly when FTC payments are coming from Work and Income New Zealand (WINZ). The language on the WINZ website is harsh on

² See <https://www.cpag.org.nz/assets/Children-cant-live-on-promises-CPAG-report-Dec21.pdf>

³ Whakamana Tāngata – restoring dignity to social security in New Zealand, 2019, Welfare Expert Advisory Group - <http://www.weag.govt.nz/assets/documents/weag-report/aed960c3ce/weag-report.pdf>

⁴ See <https://www.oecd.org/els/family/swedenssupportforparentswithchildreniscomprehensiveandeffectivebutexpensive.htm>

repayment issues. This quote from the website, under 'your debt with us,' highlights the prioritisation of repayment over whānau wellbeing: "We also have certain legal rights if you don't repay us, for instance we can have money deducted from your wages or bank account."⁵ FinCap recommends that consistency across the provision of FTC be greatly improved.

Although the lump sum payment option may serve to minimize chances of overpayment, as it is calculated with the accurate income levels known, many whānau need the financial support on a weekly or fortnightly basis. This is especially important as the weekly costs of food, rent and petrol have risen. Where there is a risk of overpayment whānau may opt for the lump sum payment as it appears to be safer. However, the system needs to be set-up in a manner that makes it easy for whānau to record their income details without there being a risk of overpayment debt being incurred unknowingly.

Clearer communication of expectations and an easier method for changing income details would support and lessen the likelihood of unexpected overpayment debt. This could be supported by more thorough case management for all benefit types and WffTC. Where whānau are being paid their WffTC via WINZ, then the case management should provide a wraparound service and one point of contact. Communications should be friendly and supportive, remembering again that the purpose of the WffTC is to support the wellbeing of families and children.

In conjunction with this, anyone that is confused about the steps that they need to take, should be able to request an outbound call. The onus should be on Government department to call them back and talk them through important steps. This way, if it takes time for the department to get back to the client, any overpayment that might have occurred is not charged back to the client. This would help to level the power imbalance, as often it is the misunderstandings and lack of guidance that result in overpayment debt.

We also recommend that work be done to improve the system for the provision of recoverable and non-recoverable grants. The increased income limits for recoverable assistance in Budget 2022 does not go far enough to support whānau on a pathway away from hardship. The support is for essential items such as washing machines and clothing and should be provided with prioritised consideration of the wellbeing of children and their whānau.

The two sections below also address solutions for the issue of overpayment, in the forms of direct phone lines for financial mentors, the implementation of grace periods and improvements to the abatement threshold system.

Recommendation: Improve consistency, ease, and clarity of IRD and WINZ systems to reduce chances of overpayment debt being incurred. Improve recoverable and non-recoverable grant provision. Improve case management service to create a wraparound service and call-back function.

Direct phone line for financial mentors

Financial mentors have repeatedly mentioned that the extensive wait time on the phone to Inland Revenue (IRD) and WINZ is disruptive to the support they are providing to whānau. Self-service phone line options have become available for accessing certain IRD 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. The issues with inconsistencies are addressed in more detail under question seven of this submission.

⁵ See <https://www.workandincome.govt.nz/on-a-benefit/debt/index.html>

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 have 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.

A direct phone line to MSD and IRD 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. 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.

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.

Recommendation: provide a direct phone line for financial mentors to reach IRD and WINZ while working with a client.

Grace periods

In 2008 grace periods were introduced for late penalty payments by IRD.⁶ We recommend that the grace period concept be implemented across other parts of the welfare system. A four-week grace period where payments continue despite a change in circumstances would support whānau that are transitioning into paid work. This would also lower the likelihood of overpayment as it would allow whānau to have breathing space during a time of change. These times are often busy and can have added stress. Allowing this grace period in combination with the direct phone line for financial mentors would mean that there is more support for whānau during these times.

In the UK, a nine-month grace period has been introduced for those on the Universal Credit which gives support for living costs.⁷ These are in place for those that have previously been working with a pay rate above the income cap. Where their circumstances change and they apply for Universal Credit, they are allowed a grace period of nine months where the income cap does not apply to them. Although the structure of the UK system differs to that in Aotearoa, the grace period concept is one that would help to improve the system we have here. Grace periods would show whānau that the purpose of genuine support is truly at the center of the support system, rather than being a system with constant surprising penalties.

Recommendation: implement grace periods for WfFTC payments when income levels change.

Abatement thresholds

The abatement thresholds and systems are a commonly highlighted issue by financial mentors. This becomes especially difficult for those that have fluctuating weekly work hours or gain a small pay rise. At times where the change is minor, it can push a whānau above the threshold, but means that they are not gaining any further income. This means that there is little incentive to maintain or increase hours, especially where time is precious with meeting the needs of their children and whānau.

⁶ See <https://www.taxtechnical.ird.govt.nz/en/new-legislation/act-articles/2009-34/other-policy-matters/penalties/grace-periods>

⁷ See <https://www.gov.uk/benefit-cap/how-earnings-affect-when-benefit-cap-starts>

Recommendation: lift the abatement threshold and apply grace periods where abatement thresholds are met.

Q5. How can Working for Families support families and whānau make-up and care arrangements (for example, shared care of children)?

Many financial mentors have commented on the challenges that exist in shared care arrangements. They have especially spoken to the challenges that arise when each parent gets half of the FTC. In reality, each parent is caring for their children and still need the whole amount as the needs of the children can't be halved.

"I'm not sure how shared care is worked out but I feel that to just half the payments to each parent in shared care isn't supporting the child enough. Each parent needs to provide fully for the child and can't do it with half the FTC. I have seen FTC paid to a parent that isn't the main carer and also to a stepparent. This has mostly happened when its paid through MSD. However, I feel its meant to go to the main caregiver so that needs to be fixed as it disadvantages the child when it goes to the wrong person." – financial mentor

Recommendation: provide the entire amount of FTC to each parent where care is shared between separated partners.

Q6. If you have any concerns about Working for Families, what are they?

Financial mentors have raised concern over issues where WfFTC are included as income when assessing affordability for debt repayments. For those on low incomes it can end up taking money away from direct children's needs if the corresponding need isn't reflected in expenses.

We recommend further funding for regulation, to ensure that where affordability assessments are being completed for whānau with WfFTC, priority is given to checking that those expenses relevant to the children's wellbeing are accurately accounted for.

We also recommend that debt collection practices are addressed in Aotearoa. Specifically, we recommend that the attachment order process is amended to protect payments from WINZ from being collected. Removing 157 (4) from District Court Act 2016 will immediately cease attachment orders being made following a court judgement on a debt that may see up to 40 per cent of a benefit taken for debt repayments.

Recommendation: amend attachment order practices to protect payments from WINZ from being collected.

Q7. If you could change one thing about working for families, what would it be? How would you change it?

There are many inconsistencies across IRD and MSD, in how their systems, practice and powers operate. Financial mentors have commented on how this adds additional time and confusion for whānau, who interact with both systems simultaneously.

The ways in which you access these services, amounts you can receive, rules, and penalties should be consistent. For whānau that receive a main benefit, then they typically get their WfFTC through WINZ. To limit confusion, penalties and time spent, the regulations and practices should be aligned. Consistency does not need to limit or undermine flexibility, but instead can be principles that complement each other to provide a system that supports whānau prosperity. Clients should be able to rely on the processes being the same, and that their circumstances will be listened and responded to. Although every whānau experiences

different and unique challenges, consistency across government support would help to make the available assistance more valuable.

Recommendation: address the many inconsistencies between IRD and MSD and synchronize the provision of support between both departments in a timely manner.

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

Ngā mihi,



Ruth Smithers
Chief Executive
FinCap