

Empowering families: Increasing certainty and preventing debt in the Working for Families scheme



New Zealand Council Of
Christian Social Services

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Tirohanga Whānui | Overview

The New Zealand Council of Christian Social Services (NZCCSS) welcomes the opportunity to provide feedback on the Ministry of Social Development and Inland Revenue's consultation *Empowering families: Increasing certainty and preventing debt in the Working for Families scheme*. NZCCSS supports the focus of the proposals to prevent debt to government and reduce underpayment of Working for Families entitlements but raises concerns regarding the potential for shorter periods for assessment of income to negatively impact on equitable and full access to entitlements and consequently income sufficiency, child poverty and whānau stress.

Taunakitanga | Recommendations

We raise the following points and recommendations for consideration:

Chapter 3: Issues with the Working for Families System:

Q1. What are the effects of Working for Families debt on families?

NZCCSS members engage regularly with whānau impacted by debt. Regardless of the source, debt is known to exacerbate financial insecurity and income insufficiency and add to whānau stress. An inability to fund debt repayments adds to ongoing financial stress and impacts on families' ability to meet basic needs such as housing, food, and other costs associated with raising children. Debt also impacts on the ability for both parents/caregivers and children to engage in community life, such as through social events and extracurricular activities. In addition to the real impacts of debt, the uncertainty about whether debt may be incurred also creates significant stress and anxiety.

Analysis of debt to government by the Social Wellbeing Agency (2022) highlights that Working for Families debt indirectly affects 300,000 children, with many families owing debt for several years. Government information on debt to government states that 80% of those owing WFF debt to Inland Revenue are women (Department of the Prime Minister & Cabinet, 2022, p.4).

Food insecurity, one aspect of financial insecurity, has been shown to impact mothers in a range of ways, including "significant stress, neglect of personal needs and missing meals in favour of children" (Macauley et. al, 2022, p.1). Mothers' also noted concerns regarding their children's intake of nutritious food and ability to engage in social and recreational activities (ibid).

We observe that there is no recognition within the consultation document that debt, as the driver for the proposed changes, disproportionately impacts women, nor of how women debtors have been or will be specifically consulted with given they are most likely to be affected by these changes.

Q3. What is most important for Working for Families to achieve for families? For example, certainty, maximum entitled payments, or something else?

Overall, NZCCSS believes that the most important achievement of Working for Families is to reduce poverty and ensure families have an adequate income. More specifically in regards to the operations of Working for Families payments we put forward the following priorities:

- Reducing administrative burden, complexity and the need to engage with government systems are priorities for many families.
- Accuracy of payments to provide the least propensity for debt or underpayment.
- Predictability and stability of payment to reduce stress for families so that people know what they will receive.

Q4. Are there any other issues with the way Working for Families operates?

The complexity of Working for Families is a challenge that can make the system difficult to understand and engage with. Anecdotally, people often do not know the different payments or criteria, making the system disempowering and can be a deterrent to take up altogether. Simplification and reduced administrative requirements could help to improve take up and utility of Working for Families.

Q5. Have you faced any issues with the existing approach of estimating your income for the current tax year? Does this approach work well for your family – if so, why?

- The primary challenge in relation to estimating income is the unpredictability of unexpected changes in income or family circumstances. This is most regularly noticeable for those working in insecure, seasonal or casual employment. We recommend stronger consideration for whether the use of buffers, grace periods and/or protected periods might provide greater comfort around income estimation and mitigate the need for claw-back of entitlement where there has been an unexpected increase in income.
- We also suggest raising the debt write-off threshold from the current rate observing that this may be a simple way to reduce debt to government for low-income families, and subsequently increase income sufficiency, at a low cost to government.

Chapter 4: Shorter period of assessment:

Q6. Is there a different way Working for Families payments could be administered than the current annual approach that would make the system easier for families to understand and manage their payments?

Our preferred option would be to apply the proposed lagged income approach (Item 4.25) on a weekly/fortnightly or monthly basis depending on a person's pay cycle, rather than a quarterly basis. This would best reflect a person's actual entitlement on a real time basis and provide greater certainty of reduced risk of under or overpayment. We query why this hasn't been included as an option alongside the scenarios in Items 4.21 & 4.22 and whether this approach could be automated in the same way as the proposed quarterly assessment of lagged income approach. We note that this approach was considered in a [2022 consultation on Working For Families](#).

We do not recommend options that place further administrative burdens on families or create considerable periods of significantly low income due to lag times (for example those demonstrated in Figure 4.29 and 4.32). We believe the onus should be on government agencies to share information on income rather than creating additional time and administrative requirements for families. We are also concerned about the financial challenges that could be created for low-income families by the options put forward. Families are often budgeting pay day to pay day, and the

quarterly square up options mean that some families would simply not have enough money to cover essentials in certain periods. We do not believe this is feasible or appropriate.

On the other options canvassed we note:

- Actual income earned over the previous week, fortnight or month depending on a person's frequency of observed income payments (salary/wages). Non-observed income would still need to be estimated over a specified period and/or squared up at year end. We note that in the consultation document the scenario provided focuses on a more rapid cycle of estimations and square ups, putting the onus on families to submit an estimate to Inland Revenue each week and requiring Inland Revenue to check on a weekly basis for under and over-payments (Items 4.21 & 4.22). We agree that this frequency of estimation would be too administratively burdensome for families.
- Actual annual income for the previous period. As noted in the consultation document, this is how the child support scheme calculates income and poses the risk of income estimates being out of date. We believe this would be mitigated by the option to notify Inland Revenue of any changes to income that could result in underpayment or overpayment, however in this instance the challenges in estimating annual income and potential for debt creation remain where an applicant's income increases unexpectedly over an annual period.

Q7. Would a different period (for example, week, month, quarter) for calculating entitlements create problems? What are the pros and cons of using a shorter period?

We share concerns raised by FACE (Full And Correct Entitlement Limited) regarding:

- The potential for this change to impact negatively on income adequacy, child poverty and equity.
- The impact of shorter periods of assessment on abatement and the potential for low-income families to receive less entitlements due to the shorter period of assessment than they might under the annual model of assessing entitlements.
- We support the recommendation that *"The proposal to move to a shorter period of assessment should include in its design a mechanism to ensure families receive a catch-up payment if the total entitlement they would receive under the current system of annual assessment is more than the amount they do receive under a shorter period of assessment."* (FACE, 2025, p.3). As noted by FACE, we also query the reason for excluding this as an option from the proposal despite it being considered previously in reviews of WFF.
- We also support the recommendation for analysis of how the proposals in the current consultation document compare to the existing model, to enhance public understanding of the impacts of the proposed changes.

We refer you to FACE's submission for further detail on these concerns and recommendations.

As observed with the Family Boost scheme, one of the challenges with assessing income over a shorter period is that where income fluctuates, families may find they shift between eligibility and non-eligibility between quarters, despite qualifying under an annual income threshold. This may result in people missing out on whole quarters of entitlements and receiving significantly less in entitlements than they might under an annual assessment. Experiences of the Family Boost scheme demonstrate a threshold for entitlement that is more sensitive than under an annual assessment approach, given that eligibility between quarters can be impacted simply by the number of pay periods that fall within any given quarter.

We note that Family Boost relies on taxable income only whereas Working for Families relies on a broader range of income sources. The submission document suggests that most families would not have to tell IR when their income changes, which indicates that most of the families receiving WFF receive income from observable sources only. For the 58,000 WFF families who have self-employed income, and for those who may have other non-observable sources of income, the need to estimate income and the squaring up process would remain. We are curious whether estimation would continue to be carried out annually or quarterly. If quarterly, the administration associated with WFF would be increased for this subset of clients.

Q8. What are some benefits or potential issues of a test that looks at past actual income rather than an estimate for the year ahead? In what circumstances might this be easier or more difficult for a family's financial situation? This could include circumstances like fluctuating income and changes in employment.

- We observe from the scenarios in the discussion document that an impact of the lagged income approach is that people receive higher entitlements during periods of higher earning and lesser entitlements during periods of reduced earnings. This conflicts with the intention for Working for Families to support income adequacy for families who may be struggling to make ends meet on a weekly basis.
- We suggest further consideration for how the transition into parental leave might be impacted, as people may not qualify for Working for Families based on their income being higher in the quarter prior to beginning parental leave, but this may be a period where they most need the WFF entitlements due to a sudden drop in income.
- Families would still be required to estimate income from non-observable sources. It is unclear how spikes in income might be dealt with and whether there would be consistency of approach e.g. would a bonus or overtime be treated in a similar manner as a lump sum gift of money e.g. inheritance.

Q9. Ideally, payments to families should change when their circumstances change, should be regular and predictable, and should not easily lead to debt or underpayments. What features are the most crucial for different families? What else could we look at and what could we improve?

The feature we suggest is most crucial for families is income adequacy. Families need to have enough income that they are not put in further hardship by Working for Families systems and processes. Underpinning this as we noted earlier, is:

- Reducing administrative burden, complexity and the need to engage with government systems are priorities for many families.
- Accuracy of payments to provide the least propensity for debt or underpayment.
- Predictability and stability of payment to reduce stress for families so that people know what they will receive.

We suggest further consideration for how greater automation between IR and MSD systems might support the above in line with previous reports including 'Policy report: Working for Families Review – administrative options' from 2022 which stated that "This would not just reduce the incidence of overpayments but should also result in fewer customers being underpaid".

Q10. Could we make changes to the current system that might work better for families than changing to a short period of assessment? This could include things like grace periods, estimate buffers, or other administrative changes.

NZCCSS supports inclusion of the following changes in conjunction with, rather than as an alternative to, the proposed changes to the period of assessment:

- Grace periods for changes in family or income circumstances (Item 4.55)
- Raising the debt write-off threshold from the current rate observing that this may be a simple way to reduce debt to government for low-income families, and subsequently increase income sufficiency, at a low cost to government.
- Administrative improvements such as to make shifts between MSD and IR easier for recipients (Item 4.55)
- A buffer tax credit to reduce overpayments where estimation still occurs (e.g. for non-observable income) (Item 4.55).
- The inclusion of mechanisms to mitigate the impacts of major spikes or variations income, such as smoothing the allocation of income across several quarterly periods if someone received a lump sum in one quarter (Item 4.51).
- Protection of entitlements for beneficiaries as currently occurs (Item 4.51).

Chapter 5: Making work pay: Supporting transition from benefit to work:

Q11. What are the problems experienced when moving from a benefit into work? What barriers prevent this movement into work, aside from the availability of suitable work? Please provide details. (Examples of barriers could include understanding entitlements to support when off the benefit, dealing with additional costs such as transport or childcare, consistency of support payments, the administrative burden or other difficulties in dealing with government agencies).

NZCCSS members note the following barriers in relation to moving from welfare into work:

- **Support for broader needs:** Members express concern regarding the lack of acknowledgement by government of the complexity of need among those we work alongside. It is important to recognise that employment is not the first step for many people, who first require support for housing, mental health, addiction, family violence or other social support before they are able to engage in paid work. Once these challenges are navigated and addressed, employment becomes a possibility.
- **Cost and accessibility of transport:** This includes vehicle costs (fuel, vehicle maintenance, parking) and the cost of public transport. The accessibility of public transport can be a barrier particularly in regional centres and for people working outside of standard business hours. Driver licensing can also be a barrier to transport.
- **Cost and accessibility of childcare:** These are noted by members as significant barriers to people engaging in work. Childcare barriers may not necessarily relate to a person's own children, but their responsibilities for caring for grandchildren or their siblings' children. It is important to acknowledge that during and in the wake of the Covid-19 pandemic people have been more cautious about spreading illness and more likely to keep children home from ECE or school when unwell or to stay home from work themselves. The need to be available to care for sick children may also present a barrier to engagement in paid work.
- **Housing insecurity:** Secure, long-term housing enables people to know they can take and maintain a job locally. Having to move frequently is an enormous barrier to taking on a stable job.

- **Employment landscape and workplace environment:** Concerns regarding security of employment in the current environment can act as a barrier to employment, with the benefit providing certainty of income. On top of that, recent changes that have reduced workers' rights, such as the return of 90 day trials, may also have the effect of making the benefit appear a more secure alternative. Members also note the need for longer-term support for those entering employment, rather than help only to secure a job, so that they can navigate the challenges and learning that comes with entering a work environment for the first time, or after a period of unemployment.
- **Carers:** People in informal caring roles may also struggle to engaging in paid work due to a lack of availability and/or alternative support to provide care in their absence.

Q12. How could things be improved to better support the transition between a benefit and work?

We recommend consideration between MSD and IR about how to ensure a more seamless transition in and out of work to ensure families have security of income and can feel more confident about financial consistency when taking employment opportunities or when needing to return to a main benefit. This could include:

- The provision of wraparound support for an individual or whānau's broader needs and transition into employment.
- Reduced stand down periods for main benefits
- Ensuring people are not penalised through abatements and additional costs associated with work (childcare, transport etc) when engaging in work.
- Further/ more accessible support to reduce financial barriers to access childcare and transport

Q13. What problems could be solved through changes to government systems and settings (for example, how entitlements are paid out)?

- Previous negative experiences in interacting with government systems can impact the extent to which people wish to engage further and consequently their likelihood of receiving accurate entitlements. Reducing administrative requirements and improving accuracy of payments would be important to change this. On top of that, improving customer service and increasing cultural capability across government systems would help to ensure systems are mana-enhancing for those who engage.
- Members observe that where people have a strong advocate they are more often successful in accessing entitlements, suggesting that people may not always feel equipped to advocate for themselves and the difficulty in understanding entitlements both for government the system users.

Q14. What would be the most important issues for the Government to focus on if changes were made to the system (for example, reducing the administrative burden of dealing with government agencies, or increasing the consistency of payments, or something else)?

In line with our previous responses, the most important issues we suggest are:

- Reducing financial hardship and ensuring income security for families
- Reducing administrative burden, complexity and the need to engage with government systems are priorities for many families.
- Accuracy of payments to provide the least propensity for debt or underpayment.
- Predictability and stability of payment to reduce stress for families so that people know what they will receive.

Q15. What would make the biggest difference in supporting families to move off a benefit and into work?

Of the options canvassed in our response to question 12 above, we believe the biggest differences would be made by supporting the individual or families broader needs to enable them to be ready to transition into employment and ensuring they are not financially worse off when moving into work.

Q16. What are the issues, if any, with the payments designed to promote work, such as the in-work tax credit, minimum family tax credit and Childcare Assistance? What is working well, and what is not working well? (For example, the application process, frequency of payment, ability to understand entitlements and so on.) What could be improved?

- The complexity of the current systems of entitlements is confusing and administratively heavy. Many people may not know what they are entitled or find the application process overly difficult to navigate contributing to low uptake. We were disappointed that administrative improvements to help address this for Childcare Assistance funded in Budget 2023 were not progressed.
- The abatement of entitlements can create a disincentive to engage in paid work, increase work hours (either permanently or temporarily, such as taking opportunities for overtime) or penalises success (in the case of a bonus or promotion).
- We suggest that many people outside of government would not be familiar with the types of payments that comprise WFF.
- Reducing complexity and administration and increasing the accuracy and predictability of payments are key areas for improvement. Flexibility of payments or systems to allow buffers that account for the reality of people's lives is also important in improving their accessibility.

Chapter 6: Definition of family scheme income:

Q19. What are your views on simplifying the definition of family scheme income for Working for Families?

NZCCSS supports simplification of the definition of family scheme income to reduce the administrative burden on families associated with declaring non-observable income.

Q20. Do you think that simplifying the definition of family scheme income could cause unfairness between Working for Families recipients?

We query the proposed retention of passive income of children but exclusion of the 'other income' category which includes gifts of money from family members. Both categories may drive income inequity among recipients of Working for Families, where some recipients may benefit from wealth transfer or gifts of money that are not available to other recipients.

Q21. Are there any income types listed in Appendix 1 that should be considered high risk, which could allow people to misrepresent their income for Working for Families if removed?

As noted above, we believe that 'Other income' may present a risk in that some applicants may have access to gifts of money from family members and therefore higher income. We suggest that the potential risk relating to this category be explored further to assess whether it should remain within the definition of family scheme income.

Ngā Tohutoro | References

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Ko wai tātou | Who we are

NZCCSS has six foundation members; the Anglican Care Network, Baptist Churches of New Zealand, Catholic Social Services, Presbyterian Support and the Methodist and Salvation Army Churches.

Through this membership, NZCCSS represents over 100 organisations providing a range of social support services across Aotearoa. Our mission is to call forth a just and compassionate society for Aotearoa, through our commitment to our faith and Te Tiriti o Waitangi.

Further details on NZCCSS can be found on our website - www.nzccss.org.nz.

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