



Report

Date: 6 March 2019

Security Level: IN CONFIDENCE

To: Hon Grant Robertson, Minister of Finance
Hon Carmel Sepuloni, Minister for Social Development

Addressing debt relating to Methamphetamine Contamination recovery

Purpose of the report

- 1 This report seeks your agreement to write-off debts incurred by main tenants, additional signatories and other occupants of Housing New Zealand (HNZ) properties who had their tenancies ended due to zero-tolerance methamphetamine contamination policies.
- 2 This debt write-off would occur through your signature of a written authorisation (attached to this report), which then would be presented to the House of Representatives. The written authorisation would establish a class of debt to be written-off under the Social Security Act 2018 (the SSA).

Recommended actions

It is recommended that you:

- 1 **note** that there are a number of clients who incurred debt with the Ministry of Social Development as a result of their tenancies ending due to zero-tolerance methamphetamine contamination policies
- 2 **note** that the debt owed to the Ministry of Social Development comprises recoverable Emergency Housing Special Needs Grants, Advance Payments of Benefits, and other Recoverable Assistance Payments
- 3 **agree** that the Ministry of Social Development write-off debt for recoverable Emergency Housing Special Needs Grants, Advance Payments of Benefits, and other Recoverable Assistance Payments relating to the termination of tenancies as a result of Housing New Zealand's former zero-tolerance methamphetamine contamination policies

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Social Development

- 4 **note** that people who could be eligible for a debt write-off include main tenants, additional signatories and other occupants of Housing New Zealand properties who had their tenancies ended due to zero-tolerance methamphetamine contamination policies

- 5 **note** that the Ministry of Social Development proposes that this debt write-off would extend to payments made in the future relating to the termination of tenancies as a result of Housing New Zealand's former zero-tolerance methamphetamine contamination policies so as to provide non-recoverable assistance to people who have not yet achieved sustainable housing
- 6 **sign** the attached instrument, based on your agreement to recommendation 3, which authorises the establishment of a class of debt to be written-off for public finance purposes generally under section 444 (1) of the Social Security Act 2018 and Regulation 207 (3)(b) of the Social Security Regulations 2018

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Social Development

- 7 **note** that the Minister for Social Development's office will table a copy of the written authorisation in the House of Representatives at the appropriate time
- 8 **agree** to forward a copy of this report to Hon Phil Twyford, Minister for Housing and Urban Development.

Agree / Disagree
Minister of Finance

Agree / Disagree
Minister for Social Development



Policy Manager
Employment and Income Support

6/3/2019
Date

Hon Grant Robertson
Minister of Finance

Hon Carmel Sepuloni
Minister for Social Development

Date

Date

As a result of previous policies related to methamphetamine contamination, some people had Housing New Zealand Tenancies terminated

- 3 In June 2018, HNZ reviewed their methamphetamine contamination policies and concluded that their zero-tolerance approach, which resulted in tenancies being terminated because of low levels of methamphetamine contamination between 1 July 2013 and 1 June 2018, was unnecessary.

Clients affected by previous zero-tolerance methamphetamine contamination policies

- 4 HNZ identified that there are approximately 800 primary signatories whose tenancies were ended between July 2013 and June 2018 in relation to methamphetamine contamination. As at the end of September 2018, out of those 800 primary signatories, 598¹ were current clients of Work and Income. Of those 598 clients, the majority were either on Jobseeker Support (279 people) or Sole Parent Support (143 people).
- 5 We do not have finalised figures for clients' current living arrangements. However, analysis to date shows that clients are either in a tenancy, on the social housing register or are receiving Accommodation Supplement (AS). If they are receiving AS then these people will be in some form of accommodation.

Housing New Zealand committed to an assistance programme to ease hardship to signatories...

- 6 Subsequently, HNZ committed to an assistance programme to support signatories and potentially other household members to ease hardship caused to them through the application of these policies [SWC-18-MIN-0125 refers]. This assistance is in the form of a discretionary grant. These discretionary grants were exempted with Cabinet agreement [CAB-18-MIN-0584 refers] from cash asset and income tests for financial assistance for a period of 12 months to ensure that they did not affect entitlements to assistance, and specifically assistance that included an asset test such as Special Needs Grants, AS or Temporary Additional Support (TAS).

...however, people also incurred debt with the Ministry of Social Development as a result of their tenancies ending

- 7 As a result of their tenancies being terminated signatories and household members may have incurred debt with the Ministry of Social Development (MSD). MSD has undertaken an analysis of the types of debt held by affected people in consultation with HNZ. In total, there were approximately 8,500 recoverable grants to main tenants (228), additional signatories (22), and other occupants (652). Approximately \$3,237,000 was granted.
- 8 More specifically, officials have found that the debt comprises the following:
 - **Recoverable Emergency Housing Special Needs Grants (EH-SNG)²**- as at 18 February 2019 there have been 289 grants to main tenants with an amount granted of approximately \$332,000, eight grants to other signatories of approximately \$7,500 and 23 grants to other occupants with an amount granted of approximately \$23,000. In total there have been 320 grants with a total amount granted of approximately \$363,000.

¹ The available data only shows those on a current benefit or receiving current non-benefit assistance as at the end of September 2018.

² This is a SNG for emergency housing that is last resort assistance and can be used when a client cannot access other adequate accommodation.

- **Recoverable assistance** – this includes advance payments of benefits, Special Needs Grants (SNG), and recoverable assistance payments and can cover a variety of needs such as bedding, board and furniture. A total of approximately \$2,875,000 was granted.

We consider that debt incurred to the Ministry of Social Development should be written-off

- 9 MSD considers that it is important that main tenants, additional signatories and other occupants (people residing in the house as a home) are not adversely affected by MSD debt accrued as a direct result of seeking financial assistance following tenancy terminations in relation to HNZ's zero-tolerance policy. Therefore, MSD proposes that a fair approach should be taken to addressing the debt incurred by these groups. We propose a debt write-off for all recoverable assistance debt.
- 10 In developing this approach MSD considered a number of principles:
 - whether the approach provides the best outcome for clients
 - whether the approach allows for equity between the different groups affected
 - is there alignment between the approach and the Government's position on the methamphetamine testing regime's impacts on clients
 - the practical and administrative costs of implementation.
- 11 MSD notes that writing off all debt, not just emergency housing SNGs, may lead to a perception of "double dipping" given HNZ's assistance programme. However, we consider that this approach is justified due to the nature of HNZ's payments (which are discretionary grants and based on factors such as the number of rooms). It is difficult to translate what HNZ payments are covering to the assistance that clients sought from MSD.
- 12 HNZ payments are discretionary grants and are based on the estimated costs of replacing household goods by number of rooms and acknowledging other associated costs and financial loss.
- 13 From an administrative perspective, even if MSD was to undertake an exercise to determine what HNZ's payment covered and what recoverable assistance a client sought, there is unlikely to be a direct translation. The administrative costs of undertaking such investigation, in addition to the amount of time it could take, would outweigh any potential benefit that may be gained.

We propose to write-off debt relating to all recoverable assistance related to the zero-tolerance methamphetamine policy

- 14 We propose to write-off debt for three different situations. First, MSD proposes that debt be written-off for people who received recoverable SNGs for emergency housing for tenancy terminations due to methamphetamine zero-contamination policies.
- 15 Second, MSD proposes that debt for other recoverable assistance that related directly to tenancy terminations due to methamphetamine zero-contamination policies be written-off. This would cover debt that was incurred until affected people achieved sustainable housing. For the purpose of determining debt write off, sustainable housing means housing that isn't emergency or transitional housing and will be further defined in operational guidelines.
- 16 This approach would help clients who have struggled to secure sustainable housing since the termination of their tenancy to access similar assistance to that which will be written-off for other clients. MSD notes that this will require tracking of eligible clients for it to progress.

17 Third, there are people who have not received assistance as yet. This group of people have not been able to achieve sustainable housing following the termination of their tenancies. These clients have had to shift between a variety of short-term and insecure living situations such as boarding and temporary accommodation. To ensure equity with those who will have their debt written-off and are in sustainable accommodation, MSD proposes that it be able to grant them non-recoverable assistance when they are able to move to sustainable housing. MSD considers that this could also be done through the debt write-off. The debt write-off will be prospective, so if the debt arises now or in the future it will fall under the write-off. This approach aligns with the Government's position on assisting people who have been affected by tenancy terminations due to zero contamination methamphetamine policies.

We considered other options for writing off client debt, but did not progress them

18 In developing this approach for addressing client debt we considered a number of other options. These options comprised:

- writing off EH-SNG debt only
- writing off EH-SNG and recoverable assistance debt, but not providing non-recoverable assistance to people who have not achieved sustainable housing.

19 The alternative options were considered against the principles discussed above (paragraph ten). Neither of these options would provide the best outcome for all clients affected by debt from having their tenancies terminated. Under both options, not all clients would have the entirety of the debt written-off. If only EH-SNG debt was written-off, then affected people would still have debt resulting from advances and other recoverable assistance to pay and would still be affected by the results of zero contamination methamphetamine policies.

20 Similarly, MSD considers that neither alternative option fully allowed for equity between all the different groups affected. Of particular concern were those people who still had not achieved sustainable housing. Those people who have not moved to sustainable housing and later incurred debt from seeking hardship assistance from MSD, would be at a disadvantage when compared to others.

21 Because of this option assessment, neither alternative option was pursued.

We propose to write-off the debt under powers contained in the Social Security Act 2018...

22 Under the SSA, it is possible to write-off MSD debt. This can be achieved through creating a "special class" of debt under section 444 (1) of the SSA and Regulation 207 (3)(b) of the Social Security Regulations 2018. To do this the Minister of Finance and the Minister for Social Development must sign a written authorisation specifying that the defined class of debt be established and written-off for public finance purposes. This written authorisation is then tabled in the House of Representatives.

23 There is existing precedent for debt write-offs by Government. In 2016, the previous National party-led Government wrote off client debt relating to historical errors in assessment and payment systems that affected the accuracy of client AS entitlements. In this situation approximately 65,000 clients were overpaid their AS entitlements to a nominal value of \$53 million.

... to do this we have come up with a proposal for a definition for a class of debt

24 The description of the debts to be written-off will need to be broad enough to capture all those affected. MSD considers that the class of debt should include debts relating to recoverable EH-SNG and Recoverable Assistance for people whose tenancies were terminated due to zero-tolerance methamphetamine contamination policies. Those

people covered by this definition will include main tenants, additional signatories and other occupants.

- 25 The definition specifically ensures that recoverable assistance relating to the termination of tenancies is covered, such as EH-SNG and benefit advances for household items. Establishing this class of debt will mean that MSD will not recover these debts.

We have also developed an operational process to support the debt write-off

- 26 Dependent on Ministerial agreement for a write-off of debt, MSD will implement an operational process for the debt write-off to occur. In addition, in some situations, clients have already made repayments on the debt from their income. We consider that it would be appropriate to refund them in this situation. For clients who are eligible, MSD will investigate their circumstances and identify relevant hardship assistance payments to be written-off or refunded. MSD will then issue a payment. Eligible debts will be reduced to zero by the payment and any payments made by the client against the debt will be repaid to them. MSD will contact the clients in all cases.

We will advise you on exempting refunds from the cash asset and income tests

- 27 Any substantial refunds that clients may receive could impact on people's current and on-going entitlement to some financial assistance, particularly AS and TAS. We will be shortly providing you advice on this in the context of income and asset exemption work. Specifically, we will be seeking your agreement to exempt these refunds from income and asset tests.

Financial implications of the proposed debt write-off

- 28 The proposed debt write-off and debt repayments to clients will be included as a forecast increase in the Vote Social Development, Non-departmental other expense appropriation, Debt-Write-downs appropriation in a separate Joint Minister report that will be prepared for the Budget Economic and Fiscal Update (BEFU) in April 2019. Treasury have been consulted and agreed on the accounting treatment and financial implications for this debt-write-off.

Consultation

- 29 We have consulted with HNZ, the Ministry of Housing and Urban Development and the Treasury on the contents of this paper.

Next steps

- 30 MSD proposes, dependent on your joint agreement, that you sign the attached instrument providing joint authority to establish a class of debt to be written-off for public finance purposes. Officials will then work with the Minister for Social Development's office to table a copy of the instrument in the House of Representatives.
- 31 MSD will prepare a communications plan and accompanying materials to support the debt write-off. This plan will identify how we will work with affected clients and support your office. Officials will work further with your office as required on this communications plan.

32 MSD recommends that you provide a copy of this report to Hon Phil Twyford, the Minister of Housing and Urban Development.

REP/19/2/129

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