

CONTROLLER AND AUDITOR-GENERAL Tumuaki o te Mana Arotake

Performance audit report

Inland Revenue Department: Managing child support debt





Inland Revenue Department: Managing child support debt

This is an independent assurance report about a performance audit carried out under section 16 of the Public Audit Act 2001.

July 2010

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Auditor-General's overview

The Inland Revenue Department (Inland Revenue) is responsible under the Child Support Act 1991 (the Act) for making sure that parents take financial responsibility for their children when a relationship ends and the parents are unable to come to a voluntary arrangement for child support payments. Inland Revenue's role includes collecting money that is paid to the parents with whom the children spend most of their time (custodians), and collecting money for the Crown to offset the cost of any benefits paid to custodians.

Child support money is paid as monthly child support payments, usually by the liable parent (that is, the non-custodial parent). Debt will start accumulating unless a liable parent pays the full amount they owe, on time, every month.

Custodians who are not on a benefit will not receive any child support payments if Inland Revenue cannot collect child support payments. Custodians on a benefit will continue to receive a benefit paid by the Crown, even if Inland Revenue is unable to collect child support payments.

The performance audit we carried out found that, overall, Inland Revenue is doing a good job monitoring, prioritising, and collecting child support debt. However, Inland Revenue needs to do more to prevent debt from occurring in the first place. In my view, Inland Revenue's debt strategy has not adequately focused on preventing debt; nor has it addressed the adverse effect the penalty regime is having on levels of debt.

Penalties and the level of child support debt

Child support debt incurs penalties, and these penalties compound monthly if child support assessments remain unpaid. Any penalties collected are paid to the Crown. At 30 June 2009, child support debt totalled about \$1.56 billion. Of this, \$540 million was for unpaid child support assessments, and \$1.02 billion was for unpaid penalties. Only about \$195 million of the \$1.56 billion debt is owed to custodians; the remaining debt is owed to the Crown, most of it for penalties.

The current penalty regime is inflexible and does not support the effective and efficient management of child support debt. Compounding penalties will see child support debt grow significantly in coming years. Inland Revenue's projections are that child support debt will increase to about \$7 billion by 2018. Most of that projected growth will be in penalty debt, almost all of which will never be collected. In its *Annual Report 2009*, Inland Revenue notes that more than 99% of penalty debt is not considered collectible. Inland Revenue also has very few options for writing off the debt, regardless of how unlikely it is to ever be collected.

I cannot help but observe that, rather than supporting compliance, the penalty regime is impeding the effectiveness of the child support scheme.

At the time of our audit, Inland Revenue had an internal project under way to review penalties, but the findings were not yet available. In my view, this work needs to address whether the current child support penalty regime provides an effective incentive for parents to support their children or is instead creating a disincentive for parents to comply.

Preventing debt

Child support schemes work best when parents pay voluntarily. The larger the number of parents who make voluntary payments into a scheme, the more effective and efficient that scheme is to administer. Inland Revenue has assisted the Minister of Revenue in producing a discussion paper (yet to be released publicly) noting that aspects of the child support scheme may be out of date, and that this could be undermining some parents' willingness to make child support payments.

The child support scheme can be complicated for people to understand, and this is worsened by the fact that most parents' introduction to the scheme comes at a difficult and stressful time in their lives. Inland Revenue's research shows that parents who understand the child support scheme and their obligations are more likely to pay on time. Figures also show that more than 96% of liable parents have paid a penalty while in the scheme. In my view, this shows the need to improve the information that is provided to parents.

Inland Revenue should do more to identify and meet the information needs of parents. Both the content and delivery of information about child support obligations and how the scheme operates need to improve. Inland Revenue's child support debt strategy needs to better reflect how the penalty regime affects people and how penalty levels can influence their compliance.

Parents living overseas

Inland Revenue is unable to find thousands of parents who owe child support payments. Many of these people are believed to be living overseas. The remainder may be in New Zealand, but Inland Revenue is unable to locate them despite making reasonable efforts. The child support assessments for these parents are accruing compounding penalties.

When a liable parent leaves New Zealand and goes to a country other than Australia, Inland Revenue has no authority to enforce the payment of child support, so it must rely on liable parents making payments voluntarily. Inland Revenue has recently begun matching its records with New Zealand Customs Service's travel information, and this has proved a helpful, albeit limited, tool for locating liable parents who are living overseas. Without new international agreements on child support, Inland Revenue will continue to have challenges collecting child support debt from liable parents living overseas.

Monitoring performance

Inland Revenue monitors the child support scheme through monthly reports that show how it is performing against the standards of performance that it has agreed to. Some staff have identified a need for more information for internal reporting purposes, and have produced additional reports. These reports provide a more detailed view of how teams and individual staff are doing. The standards of performance that Inland Revenue monitors, when combined with the additional reports, provide a reasonable view of how the child support scheme operates currently.

I am pleased that some staff at Inland Revenue have begun to collect and produce additional detailed reporting information to better monitor the effectiveness and efficiency of their work.

The information that Inland Revenue collects and reports about its performance is consistent, internally and externally.

Concluding comments

In my view, the largest gains to be made in collecting child support debt come from making it more likely that a liable parent will make their payments voluntarily. This can be achieved in two ways: by creating a scheme that more parents understand and support, and the possibility of new international agreements making it easier to collect child support from overseas.

An effective child support scheme needs to support children, promote positive relationships between parents and their children, and – as much as possible – promote voluntary compliance because parents agree with the scheme. An efficient scheme will achieve these results with the least effort and resources. I encourage Inland Revenue to continue to provide advice on developing a more effective and efficient child support scheme.

I thank the staff of Inland Revenue and others for providing my Office with their assistance and co-operation during this audit.

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Lyn Provost Controller and Auditor-General

20 July 2010

Our recommendations

To control the growth of child support debt, Inland Revenue should do more to prevent debt from occurring in the first place and address, as much as it can, the effect the penalty regime is having on debt. To help achieve that, we recommend that the Inland Revenue Department:

- 1. update its child support debt strategy to better promote voluntary compliance by parents and better reflect the effect the penalty regime has on debt levels;
- 2. provide all parents entering the child support scheme with information that clearly and consistently informs them about their rights and responsibilities, and how the scheme operates;
- 3. identify information that parents are likely to need to understand their ongoing obligations while they are in the child support scheme, and ensure that this information is made readily available to them; and
- 4. assess whether the current child support penalty regime provides an impediment for parents to comply with child support obligations.

Part 1 Introduction

- 1.1 We carried out a performance audit to examine how effectively and efficiently the Inland Revenue Department (Inland Revenue) is managing child support debt (a part of its role in administering the child support scheme). Child support debt is the amount of money owed by the parent responsible for making monthly child support payments (the liable parent).¹ These payments are made to the parent, caregiver, or the Crown – whoever is caring for a child on a continuing basis (the custodian).
- 1.2 Unless a liable parent pays the full amount they owe, on time, every month, debt will start accumulating. In addition to the actual amount owed to the custodian for supporting a child, a range of penalties (payable to the Crown) are imposed. When a debt is not paid, the penalties compound. Some of the debt owed to the Crown is in the form of, or reimbursements for, benefit payments.
- 1.3 Most of this debt (the majority of which is penalties) will never be collected, in part because Inland Revenue has very limited options for writing off child support debt. Having few options for writing off a debt means that a case will continue accruing penalties unless Inland Revenue can resolve the debt (resolving a debt means that a liable parent either owes no money or owes only their current assessment). In its *Annual Report 2009*, Inland Revenue recognises that unpaid penalties are unlikely to ever be recovered by noting that impairment provisions against the penalty debt are more than 99%.
- 1.4 The amount of outstanding child support debt is substantial and growing. Most of this debt is made up of penalties owed to the Crown. Total child support debt at 30 June 2009 was \$1.56 billion (comprising \$540 million for unpaid child support assessments and \$1.02 billion for unpaid penalties). By 2018, if the current system remains unaltered, Inland Revenue estimates that outstanding child support debt will be about \$7 billion.
- 1.5 Inland Revenue administers the child support scheme under the Child Support Act 1991 (the Act). The scheme is designed to help financially support children by collecting money from parents not living with their children. This occurs when a couple with children have split up, or when two people have children and are not living together.
- 1.6 Inland Revenue interprets the objectives of the Act through two main aims relating to the child support scheme. These aims are to ensure that:
 - parents take financial responsibility for their children when marriages and other relationships end; and
 - 1 Child support debt comprises debts owed by liable persons (those liable for child support and/or domestic maintenance of an ex-partner), debt owed by employers who have not passed on child support deductions to Inland Revenue, and overpayments of entitlement to payees (custodians or domestic maintenance recipients). Nearly all of child support debt (99%) is owed by liable parents.

• liable parents make financial contributions to help offset the cost of benefit payments that support custodians and the children, such as the Domestic Purposes Benefit.

The structure of this report

- 1.7 We explain the main aspects of the child support scheme in Part 2 of this report. Part 3 looks at Inland Revenue's current strategy to manage child support debt (child support debt strategy) and how effective it is. Part 4 looks at what Inland Revenue does to help parents understand the child support scheme when first entering it, and ongoing support for parents while they remain in the scheme. Part 5 gives an overview of the current penalties regime, before looking in more detail at the regime's effectiveness in encouraging parents to make child support payments voluntarily. Part 6 considers how Inland Revenue monitors and prioritises debt, and Part 7 looks at debt recovery mechanisms (in New Zealand and offshore).
- 1.8 Appendix 1 looks in more detail at the characteristics of child support debt: debt considered to be uncollectible, debt likely to require legal action, and debt where payment arrangements had been made either here or in Australia.
- 1.9 The main expectations that we assessed Inland Revenue against appear at the start of Parts 3, 4, 5, 6, and 7.

How we carried out the audit

- 1.10 In this report, we have relied on and reproduced information on the levels of child support debt, and parts making up that debt, that Inland Revenue provided to us. Our focus has been on how Inland Revenue manages child support debt, rather than how it records that debt.
- 1.11 We reviewed a sample of child support cases with the help of child support officers. We also spent time listening to telephone calls between Inland Revenue officers and parents to understand how child support officers worked with parents. Both of these activities helped us to understand how child support operates in practice, and we used this understanding when evaluating what we were told in interviews by staff.
- 1.12 We interviewed staff at Inland Revenue's national office and staff working in Wellington, Hamilton, and Christchurch. We spoke with parents who are in the scheme and representatives from groups with an interest in child support. We reviewed a wide range of Inland Revenue's documents and reports, both public and internal. We also reviewed relevant documents and reports produced by other agencies both in New Zealand and overseas.

1.13 For all of our findings, we have considered the consistency of information across these information sources. We also looked at how well that information aligned with our expectations. Our analysis of how well Inland Revenue met our audit expectations is the basis for our judgement on how effectively and efficiently Inland Revenue is managing child support debt.

What we did not audit

- 1.14 We did not audit:
 - the efficiency of Inland Revenue's information systems;
 - accuracy of the data in Inland Revenue's systems;
 - management of debt that was not child support debt;
 - assessments and debt managed by the Australian Child Support Agency; and
 - formulas used to calculate child support assessments.

Part 2 The child support scheme

2.1 In this Part, we describe how the child support scheme operates. We discuss:

- child support obligations;
- the child support assessment;
- child support penalties;
- resolving a debt;
- Inland Revenue's funding and organisational structure for the child support scheme; and
- comparisons with other countries.

Child support obligations

Inland Revenue administers two types of child support: formula assessments and voluntary agreements.

- 2.2 Child support is money paid by parents who are not living with their children to help support those children. Inland Revenue administers two types of child support: formula assessments and voluntary agreements. A formula assessment uses a legislated formula to calculate a child support obligation. A voluntary arrangement relies on an agreement between the custodian and liable parent on the amount of child support.
- 2.3 The custodian usually applies for child support and is usually one of the parents, but may also be any other person, or Child Youth and Family if it is caring for the child.²
- 2.4 A custodian must apply for a formula assessment (see next section) when they are receiving a sole parent rate of benefit from Work and Income New Zealand. If a custodian is not receiving a benefit, their participation in child support is voluntary. People in this latter group may choose to come to Inland Revenue if they cannot receive child support payments any other way.
- 2.5 An application for child support can be filed by either parent (although typically they are filed by custodians). Once Inland Revenue accepts an application for the formula assessment of child support, the child support liability begins.
- 2.6 To be eligible for child support, a child must:
 - be under 19 years of age;
 - not be living with another person in a marriage, civil union, or de facto relationship;
 - not be financially independent; and
 - be a New Zealand citizen or ordinarily resident in New Zealand.

2.7 To be liable for child support, a parent must be the parent of the child and be a New Zealand citizen or ordinarily resident in New Zealand, or in a country with which New Zealand has entered into a reciprocal agreement for the enforcement of child support.³

The formula assessment

A formula assessment uses a legislated four-step formula to calculate a child support obligation.

- 2.8 The formula assessment is calculated using the following four steps (with figures for the tax year ending 31 March 2011):
 - Step 1 The before-tax annual income of the liable parent is calculated. The maximum annual income for child support purposes is \$120,463. This means, for example, that a liable parent earning \$200,000 would still be assessed for child support purposes based on an income of \$120,463.
 - **Step 2** The income for the liable parent is offset by a living allowance, which ranges from \$14,158 for an individual living alone to \$35,868 for someone in a relationship with four or more children.
 - Step 3 The annual child support assessment is then calculated by taking total income less the living allowance, and multiplying it by a percentage ranging between 18% and 30%. This percentage takes into account the number of children for whom support is paid.⁴
 - **Step 4** The total assessment is divided by 12 to create a monthly payment amount.
- 2.9 Only a court or an administrative review can make variations to how a child support assessment is calculated. An administrative review is organised by child support staff but carried out by an independent person.
- 2.10 Inland Revenue usually calculates a liable parent's income based on their salary or wages or from an income tax return. When a liable parent is living overseas in a country other than Australia, Inland Revenue relies on that parent to provide their income information voluntarily. If the liable parent lives in Australia and is successfully located by the Australian Child Support Agency, Inland Revenue will receive any income information available. The minimum child support assessment is currently \$815 each year regardless of income. Figure 1 shows some examples of a child support assessment for liable parents in different scenarios.

4 If there is a shared care arrangement in place, whereby each parent has the child at least 40% of the time, the percentage paid will be reduced.

³ At the time of our audit, Australia was the only country in a reciprocal child support agreement with New Zealand.

Figure 1

Examples of child support assessments for the tax year ending 31 March 2011

Example 1 – A liable parent living alone on a \$28,000 income, supporting two children living with the custodian, would have an annual child support assessment of \$3,322 (paying \$276.85 each month).

Example 2 – A liable parent living alone on a \$65,000 income, supporting two children living with the custodian, would have an annual child support assessment of \$12,202 (paying \$1,016.85 each month).

Example 3 – A liable parent on a \$65,000 income living with a partner and four children, who is also supporting two children living with a custodian, would have an annual child support assessment of \$6,992 (paying \$582.65 each month).

In 2008/09, Inland Revenue collected \$387 million in child support from 176,000 liable parents, which helped support about 279,000 children. Of this amount, \$205 million (53%) was distributed directly to custodians. The rest was paid to the Crown to offset benefits already paid to custodians or as revenue from collected penalties.

Penalties for not paying

A liable parent who does not pay their monthly child support assessment in full and on time will be charged a penalty (a mix of once-only and incremental penalties). Penalties can also be incurred when a parent does not estimate their income accurately.

- 2.12 When a parent does not pay their monthly child support assessment in full and on time, Inland Revenue is required by law to charge them a penalty. This penalty is either \$5 or 10% of the unpaid amount – whichever is greater – and then a further incremental 2% penalty is added for each extra month that the amount remains unpaid. The overall debt compounds, roughly doubling every three years if there are no payments or additional child support assessments. All penalties collected go to the Crown, not to custodians.
- 2.13 If Inland Revenue cannot collect child support, a custodian on a benefit will continue to receive benefit payments. But custodians not on a benefit will not receive child support payments if the payments are not collected by Inland Revenue.
- 2.14 Penalties can also be incurred when a parent does not estimate their income accurately. A child support assessment is based on a previous year's income, not current income. In cases where a parent expects their earnings to drop by 15% or more than they earned the year before, they can estimate their income. However, if a parent estimated their income and earned more than they said they would,

they need to pay the additional child support. A penalty is also charged if the estimate is inaccurate beyond a certain level. A person will pay a 10% penalty on the difference between actual and estimated liability if their estimated liability is less than 80% of their actual liability. There is an additional time-based penalty – if the parent does not pay the difference within 30 days, an additional 10% penalty is levied.

2.15 In the 2008/09 financial year, 6054 parents estimated their income. About a quarter of these parents underestimated their income by enough of a margin to incur penalties.

Resolving a child support debt

Inland Revenue has limited options for writing off child support debts. Penalties will continue accruing until a debt is resolved.

- 2.16 Under the Act, child support assessment debt can be resolved by only a limited number of options:
 - 1. Paying off the debt (so that the liable parent either owes no money or resumes making their payments in the normal way).
 - 2. A court order.
 - 3. A finding that a person is not liable because they are not the parent of the child.
 - 4. If it is proved that the liable parent has died, Inland Revenue will attempt to recover the debt from the estate. If it cannot (and because the Act does not have a provision for writing off assessment debt), Inland Revenue will choose not to commit resources to recovering the debt because it considers this to be an inefficient use of resources.
 - 5. The custodian can take responsibility for collecting a debt they are owed when they were not in receipt of a sole parent rate of benefit by uplifting that debt from Inland Revenue. If all assessment debt is uplifted and any penalty debt remains, the penalties can be written off under the Act.
- 2.17 If a debt cannot be cleared by one of these five options, a child support assessment will remain on Inland Revenue's records and will continue to accrue penalties unless the parent enters into a repayment arrangement and keeps to that arrangement.
- 2.18 After amending legislation was passed at the end of 2006, Inland Revenue has been able to write off the 2% incremental penalties in some circumstances, and generally when outstanding child support assessments are paid. Inland Revenue has less discretion when it comes to writing off the initial penalty of \$5 or 10%

when a payment is missed. Inland Revenue can also stop penalties from accruing once a parent has entered into, and complies with, a repayment plan.

2.19 Inland Revenue wrote off penalties totalling \$26.8 million in 2007/08 and \$21.7 million in 2008/09. At 30 June 2009, the total penalty debt outstanding was \$1.02 billion (comprising \$66 million of initial penalties and \$950 million of incremental penalties).

Inland Revenue's funding and organisational structure for child support

The number of staff working on child support has reduced during the past four years. Latest data indicates that performance has not suffered as a result.

2.20 Inland Revenue does not get a specific Budget appropriation for child support. Figure 2 shows the direct cost of supporting the child support scheme and the number of staff working on child support during the past four years. Direct costs do not include the costs of technology or property.

Direct cost and staffing for child support, from 2006/07 to 2009/10

	Direct cost \$m	Number of staff
2006/07	28.5	548
2007/08	29.6	524
2008/09	31.0	552
2009/10*	28.4	520

Figure 2

* Nine months to 31 March 2010.

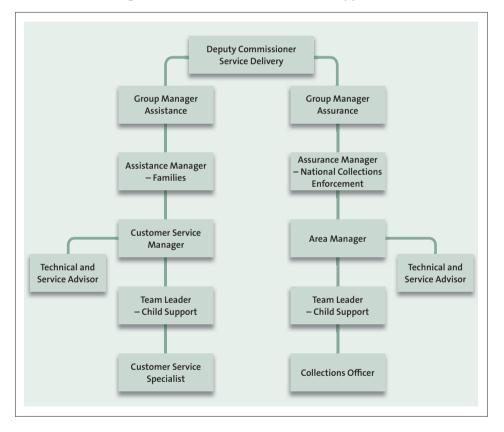
- 2.21 The number of Inland Revenue staff working on child support has reduced for 2009/10, along with a reduction in direct costs. As at March 2010, Inland Revenue's internal reporting shows that these reductions have not negatively affected performance, and that general levels of performance are very similar to the previous year. Inland Revenue told us that it has improved efficiency by using technology, such as automatic call backs, and improving its business processes.
- 2.22 Inland Revenue divides the operational aspects of child support between its Assistance and Assurance divisions. The Assistance division (which includes Inland Revenue's Call Centre) handles the general administration of child support, as well

as some debt collection work. The Assurance division handles more complicated debt cases, and cases where one or both of the parents are located overseas.

2.23 Figure 3 shows how these groups are structured.

Figure 3

Inland Revenue's organisational structure for the child support scheme



Comparisons with other child support schemes

Although international comparisons are difficult, the available information suggests that Inland Revenue is generally doing its job well.

- 2.24 Although other countries have child support schemes, it is difficult to directly compare the performance of different countries. This is because of differences between these schemes and in the ways they report performance. However, it is possible to get some idea of how the child support scheme compares with schemes in two other countries.
- 2.25 In 2008/09, Inland Revenue reported that it had collected 88.6% of child support money assessed since the scheme began in 1992. In contrast, the Australian Child Support Agency had collected 92% of assessed child support since its scheme was created in 1988.⁵
- 2.26 In 2006, the National Audit Office audited the United Kingdom's Child Support Agency and found that the Agency "has so far failed to perform as effectively as its international counterparts, such as Australia and New Zealand." We have been unable to update the 2006 analysis because of changes in the schemes and in the public reporting about the schemes.

⁵ The Australian scheme differs in that it includes an option for child support debt to be paid directly through private arrangements registered with the Australian Child Support Agency. Figures for these private payments are included in the figure of 92%.

Part 3 The strategy for managing child support debt

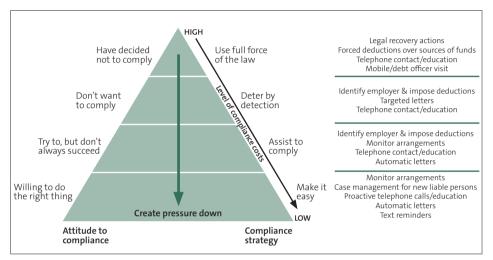
- 3.1 In this Part, we set out our findings about Inland Revenue's strategy to manage child support debt.
- 3.2 We expected Inland Revenue's child support debt strategy to include:
 - clearly informing parents of their obligations while being responsive to their needs;
 - promoting continuing voluntary payments of assessments;
 - · addressing the overall level of child support debt; and
 - a clear and detailed understanding of the main drivers of child support debt, and using this information to inform and update its debt management strategies.
- 3.3 Overall, Inland Revenue needs to improve how it prevents child support debt from occurring in the first place. In our view, Inland Revenue needs to update its child support debt strategy to better inform parents about their child support obligations and how the scheme operates. Inland Revenue's child support debt strategy needs to better reflect how the penalty regime affects parents and their levels of debt. We acknowledge that Inland Revenue is legally obliged to implement the current penalty regime.

Debt compliance and enforcement strategy

Inland Revenue has a compliance and enforcement strategy guiding its overall approach to preventing child support debt. This strategy has not prevented that debt from growing significantly. Inland Revenue is beginning to create a new strategy for child support debt.

3.4 At the time of our audit, Inland Revenue was in the early stages of creating a new strategy to address the growth in child support debt. Inland Revenue's current debt strategy is part of its overall compliance and enforcement strategy, which was initially created in 2001 and updated in 2006. Inland Revenue's 2006 strategy update describes a general model for promoting compliance and enforcement of child support debt. This model (shown in Figure 4) is based on Inland Revenue's compliance model.

Figure 4



Inland Revenue child support scheme compliance and enforcement model

- 3.5 This model shows how people's attitudes about compliance relate to the actions Inland Revenue uses to encourage compliance. For example, the model states that Inland Revenue tries to make it easy for people who are "willing to do the right thing", and will assist those who "try to, but don't always succeed". The model also makes it clear that Inland Revenue will escalate the actions it takes to recover the debt when an individual chooses not to comply (the specifics of debt recovery are discussed in Part 7).
- 3.6 The 2001 strategy noted that "Child Support will remain in a phase of slowing down the growth of debt for another 3 to 5 years before debt starts to plateau and then decline." The 2006 strategy update noted that the compliance and enforcement measures Inland Revenue was taking would contribute to the "containment in the growth of child support debt in the short term, reduce debt over the longer term and promote future compliance."
- 3.7 We acknowledge that the strategy contributes to the collection of child support debt. However, the overall levels of child support debt growth are continuing to increase, fuelled in large part by compounding penalties and older debt. The existing strategies have been unsuccessful in preventing child support penalty debt from increasing significantly.
- 3.8 We acknowledge that Inland Revenue is legally obliged to implement the current penalty regime. Under that regime, the only way that overall debt levels will reduce is if there is 100% compliance – which we consider impossible to achieve in practice. With the current penalty regime and limited provisions available for writing off a debt, child support debt will inevitably increase.

- 3.9 Voluntary compliance is fundamental to Inland Revenue's compliance model. The child support scheme works best when parents pay voluntarily, so Inland Revenue does not have to pursue debts. Inland Revenue does not monitor or have any information on the number of private arrangements that are in place. We recognise that no child support scheme can satisfy all parents, but a scheme that satisfies the greatest number of parents (by being responsive to their needs) will be the most effective and efficient to administer.
- 3.10 We expected Inland Revenue's existing strategy to place more explicit emphasis on encouraging voluntary compliance. In particular, we expected a greater emphasis on informing parents of their obligations, as a way of encouraging liable parents to make their child support payments voluntarily. Additionally, we expected the strategy to better address the effect the penalty regime is having on the growth of debt, and how penalty levels may influence an individual's compliance. We discuss how the penalty regime may affect debt growth and the relationships between penalty levels and peoples' behaviour in greater detail in Parts 4 and 5.
- 3.11 Inland Revenue has assisted the Minister of Revenue in producing a discussion paper (not yet released) noting that aspects of the child support scheme may be out of date and could be undermining some parents' willingness to make child support payments. In our view, updating the scheme could increase voluntary compliance, making it more effective and more efficient to administer.
- 3.12 Inland Revenue is currently preparing a new debt strategy. In our view, this strategy needs to consider ways to encourage voluntary child support payments, and be responsive to the needs of parents. It also needs to clearly address the overall level of child support debt, and understand the drivers of child support debt. Inland Revenue needs to be clear about the specific outcomes it is trying to achieve with its debt strategy, so that it can monitor its performance towards those outcomes.

Recommendation 1

We recommend that the Inland Revenue Department update its child support debt strategy to better promote voluntary compliance by parents and better reflect the effect the penalty regime has on debt levels.

3.13 Inland Revenue told us it accepts this recommendation and plans to incorporate it into the work it has under way in updating its debt strategy.

Part 4 Understanding child support scheme obligations

- 4.1 In this Part, we set out our findings about how Inland Revenue makes sure parents understand the child support scheme and their financial obligations.
- 4.2 We expected Inland Revenue to:
 - know whether parents have enough understanding of their child support obligations to enable them to make regular payments and stay out of debt; and
 - supply parents with standardised, clear, informative, timely, and accurate information on their child support obligations.
- 4.3 Overall, Inland Revenue needs to do more to ensure that liable parents get the information they need to understand the scheme and their financial obligations. That information needs to be readily accessible to parents. Also, the information needs to reflect that parents first entering the child support scheme will need different information than parents who have been in the scheme for a while.

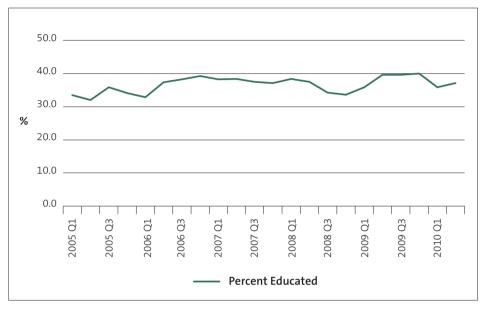
Newly liable parents

A range of pressures can make it hard for parents to understand the child support scheme. Newly liable parents are supposed to get an explanatory telephone call shortly after entering the child support scheme. However, just over one-third of those calls get through to the liable parent. Some, but not all, liable parents are sent written information explaining the scheme.

- 4.4 People often enter into the child support scheme at a difficult emotional time in their lives. These pressures can make it hard for parents to understand the child support scheme. This is a challenge for Inland Revenue. Nevertheless, ensuring parental understanding is important because Inland Revenue's research shows that parents who understand the scheme tend to be more likely to make their child support payments voluntarily and less likely to go into debt.
- 4.5 Inland Revenue's policy is that a newly liable parent should receive a telephone call from Inland Revenue shortly after an application is accepted. This call explains how the scheme works and what a liable parent's obligations are. The liable parent should also get a follow-up telephone call before their first payment is due. If Inland Revenue staff reach an answering machine, then they will leave a message and ask the liable parent to call them back. In many cases, liable parents do not call back.
- 4.6 Inland Revenue refers to these telephone calls as "education calls". Figure 5 shows the completion rate of these telephone calls for the last five years. In that time, telephone calls about the child support scheme got through to only 30-40% of newly liable parents.

Figure 5





Source: Inland Revenue internal document.

- 4.7 As well as telephone calls, a newly liable parent receives an acceptance letter from Inland Revenue explaining that the parent has been named as responsible for paying child support for a child or children. Newly liable parents will also get a notice of assessment. The notice of assessment sets out the amount of child support that the liable parent has to pay, based on the information that Inland Revenue has. If the assessment is based on incorrect information, the liable parent can correct that information and will be reassessed. If Inland Revenue is unable to locate a liable parent, it will still process an application, and assessment and penalty debt will accrue.
- 4.8 The acceptance letter that is sent to newly liable parents offers a brief description of the child support scheme, and suggests the parent calls Inland Revenue or checks its website if they would like more information. Sometimes, but not always, Inland Revenue will send newly liable parents a booklet titled *Helping you understand child support*. The booklet describes the child support scheme from both the liable parent's and custodian's perspective. It explains how the scheme works, the importance of keeping Inland Revenue up to date, how payments are made and received, and what happens if a liable parent goes into child support debt. In our view, Inland Revenue needs to send this information to all newly liable parents.

- 4.9 If a liable parent wants additional information, they need to speak to an officer at Inland Revenue or get the information from Inland Revenue's website.
- 4.10 Inland Revenue sends the custodian introductory letters and a booklet as part of their introduction to the child support scheme.
- 4.11 Given Inland Revenue's research linking understanding with compliance, we consider that Inland Revenue needs to ensure that all newly liable parents get a standardised introduction to the child support scheme that contains consistent and relevant information.
- 4.12 Increased parental understanding of the child support scheme makes it less likely that a parent will go into debt. Parents need certain kinds of information when they first enter the scheme, and other kinds of information during the period they stay in the scheme. That information needs to be responsive to parents needs by being clear, consistent, and relevant. In our view, Inland Revenue needs to do more to make sure that liable parents are getting the right information for their needs, and that the information is readily accessible to them. Comments from Inland Revenue staff during our audit support our view.

Recommendation 2

We recommend that the Inland Revenue Department provide all parents entering the child support scheme with information that clearly and consistently informs them about their rights and responsibilities, and how the scheme operates.

Continuing information for parents

Along with regular monthly statements to liable parents, Inland Revenue sends out other written information from time to time. In our view, Inland Revenue needs to be more proactive in sending out this information.

- 4.13 As well as the correspondence designed for newly liable and custodial parents, Inland Revenue sends regular statements about accounts to liable parents, information about assessments to both parents, and other information from time to time. Inland Revenue will include reminders in the letters for parents to make sure that the information held about them is up to date.
- 4.14 Parents can seek information on their own initiative by calling Inland Revenue or by checking Inland Revenue's website. We reviewed the materials that Inland Revenue gives to parents and have noted some aspects that we consider could be improved. These are noted in Figure 6, and include opportunities to more clearly:
 - explain how penalties may be incurred;
 - inform parents about repayment plans;

- identify the debt that must be repaid; and
- note the voluntary nature of the child support scheme (unless a custodian is receiving a benefit).

Figure 6

Examples of improvements needed to Inland Revenue's information to parents

Example 1 – Highlighting potential penalties on a statement of account

When Inland Revenue sends a monthly statement of account, it clearly states the amount of child support that is due. The penalties that would be incurred if the payment is late are mentioned only on the back of the statement, and the amount of the penalty is not stated. If a child support payment is received one day late, it incurs an immediate 10% penalty, and a 2% compounding penalty is added each month after the assessment has not been paid unless an arrangement is made. A description of the penalties is contained in the booklet that some parents receive, and penalties should be discussed in the education telephone call if that call is completed. See Appendix 2 for an example of a statement of account.

Example 2 – Informing parents about repayment plans

A liable parent who has missed a payment will receive a notice stating that the payment is late, and the next statement will note any outstanding balance. The statements do not note that Inland Revenue can set up a payment plan to help the parent get out of debt, and that penalties will stop accruing once they have negotiated an arrangement with Inland Revenue. Parents might contact Inland Revenue more quickly if this information were proactively supplied.

Example 3 - Clearly identifying debt that must be repaid

Once a liable parent is in debt, they will receive a statement showing their total debt, with no distinction between the amount of debt that is owing under the original assessment and that owing for penalties. There is no mention on the statements that some of the penalties can be written off under certain circumstances. The liable parent will see only a total dollar amount outstanding. There is a brief mention about the ability to write off some penalties in the booklet that some parents receive, but this is not noted on the statement. See Appendix 3 for an example of a statement showing an outstanding debt.

Example 4 - Clearly noting the voluntary nature of child support

Unless a custodian is on a benefit, participating in the Inland Revenue child support scheme is voluntary. The voluntary nature of the scheme is difficult to find on Inland Revenue's website and is not noted in the booklet. Communicating this information more clearly may lead to some parents moving to a private arrangement that does not require Inland Revenue resources to administer. Inland Revenue staff we spoke with noted that parents they work with are not always aware that the scheme is voluntary unless the custodian is on a benefit.

4.15 We have noted some examples where Inland Revenue can improve the information it makes available to parents, and we expect that there are others as

well. In our view, it would be useful for Inland Revenue to identify the information that parents are likely to need and proactively make this information available to parents.

- 4.16 More than 96% of parents who have been liable for making child support payments have been charged a penalty while they have been in the scheme. In our view, this shows the need to improve the information that is provided to parents.
- 4.17 Proactively providing parents with information they are likely to need makes it more likely that parents might feel they can make child support payments (or other arrangements) without the help of Inland Revenue (in part because they feel Inland Revenue has made the paying and collecting of child support easy). This in turn should improve compliance, reduce the number of telephone calls that Inland Revenue gets, and possibly reduce the number of parents in the child support scheme.

Recommendation 3

We recommend that the Inland Revenue Department identify information that parents are likely to need to understand their ongoing obligations while they are in the child support scheme, and ensure that this information is made readily available to them.

4.18 Inland Revenue told us that it accepts Recommendations 2 and 3, and that it will work across the organisation to evolve and enhance the content, timing, and distribution methods of information for both new and existing child support customers.

Part 5 The penalty regime

- 5.1 In this Part, we set out our findings about Inland Revenue's penalty regime. We discuss:
 - child support debt levels, composition, and growth;
 - compounding penalties; and
 - the likelihood of the penalty regime acting as a disincentive to voluntary payment.
- 5.2 We expected Inland Revenue to know:
 - whether the penalty regime encourages parents to make child support payments; and
 - whether the current penalty regime is efficient for Inland Revenue to administer.
- 5.3 Overall, we found there is a general belief among Inland Revenue staff that the current penalty regime can become a disincentive to make child support payments if a person's debt goes beyond a certain level. Inland Revenue has recently started some internal work reviewing penalties.

Child support debt levels, composition, and growth

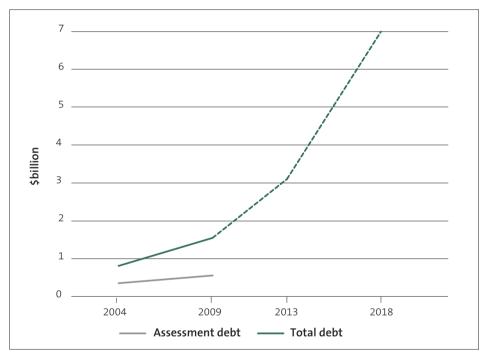
Under the current penalty regime, it is projected that total child support debt could rise to \$7 billion by 2018. Most of that debt will never be collected. Inland Revenue has few options for writing off child support debt.

- 5.4 In its 2009 annual report, Inland Revenue reported that, as at 30 June 2009, it has collected 88.6% of the \$4.4 billion (excluding penalties) assessed by the child support scheme since the scheme began in 1992.
- 5.5 Total child support debt at 30 June 2009 was \$1.56 billion (comprising \$540 million of unpaid child support assessments, and \$1.02 billion of unpaid penalties). These unpaid penalties are unlikely to ever be recovered; Inland Revenue's *Annual Report 2009* recognises this by noting that impairment provisions against the penalty debt are more than 99%.
- 5.6 Because all penalties are paid to the Crown and some child support assessments are paid to the Crown in reimbursement of a benefit, about \$195 million is owed to custodians, with the remainder owed to the Crown.
- 5.7 Figure 7 shows Inland Revenue projections for the growth of child support debt if current trends continue. It also shows the historical level of assessment debt. (Inland Revenue told us that it was unable to provide us with the assessment estimates from now until 2018.) These projections show child support debt

growing to about \$7 billion by 2018. Compounding penalties are responsible for most of this growth (the difference between the two lines represents the growth in penalties). Without any payments or additional child support assessments, a child support debt will double about every three years because of penalties.

Figure 7

Growth in child support debt 2004–2009, and projected growth to 2018



Source: Inland Revenue.

5.8 Under the Act, Inland Revenue has very few options for writing off a valid child support assessment, although it can write-off some penalties once a parent has started to pay the assessment debt. Because there are few write-off options available to Inland Revenue, it is extremely likely a case will continue accruing penalties until Inland Revenue can resolve the debt.

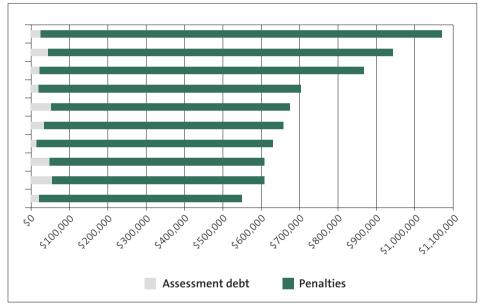
Compounding penalties

Compounding penalties mean that child support debts can become extremely large.

5.9 A child support debt can become very large if it is not resolved. Most of the debt will result from compounding penalties. Figure 8 shows the total outstanding balances, comprising the assessment and penalties, of the ten largest child

support debt cases where the liable parent has never made a payment (as at March 2010). The last known location of all of the liable parents in Figure 8 was overseas, with one of the ten now believed (but not confirmed) to be deceased.

Figure 8



Ten largest child support debts where no payment has ever been made

Source: Inland Revenue

Penalties acting as a disincentive

Many of the Inland Revenue staff we spoke with felt that the current penalty regime reduces compliance. Inland Revenue has recently begun some internal work to review the penalty regime.

- 5.10 If a parent does not make their child support payments on time, they will incur additional debt in the form of penalties (discussed in Part 2). Penalties are meant to serve as a mechanism to support compliance.
- 5.11 In 2003, Inland Revenue produced a briefing paper for the Minister of Revenue about changing the write-off options for the child support penalty regime. The briefing paper stated:

For a significant percentage of the liable persons who are in arrears, their increasing penalty debt is acting as a disincentive to re-enter the child support system and begin payment of their ongoing child support liability.

- 5.12 The Child Support Amendment Act 2006 gave Inland Revenue greater discretion to write off penalties. Inland Revenue wrote off penalties totalling \$26.8 million in 2007/08 and \$21.7 million in 2008/09. Most of these penalties were written off because a portion or all of the outstanding assessment debt had been repaid. Even so, by the end of 2009, the total penalty debt outstanding was \$1.02 billion (comprising \$66 million of initial penalties and \$950 million of incremental penalties).
- 5.13 Many of the Inland Revenue staff and managers we spoke with during our audit felt that the accumulated penalties could serve as a disincentive to comply.
- 5.14 We have not seen any research from Inland Revenue indicating that the child support penalty regime encourages parents to make child support payments.
- 5.15 In our view, the usefulness of penalties as an incentive is weakened by Inland Revenue speaking with only about 30-40% of liable parents when they enter the scheme, not providing all parents with information explaining the penalty regime, and not clearly setting out the penalties on regular statements.
- 5.16 Inland Revenue had started working on an internal paper about the penalty regime at the time of our audit. The paper was at an early stage, so we were unable to review its findings as part of our audit.
- 5.17 In our view, Inland Revenue needs to evaluate the current penalty regime and consider whether it is effective in promoting compliance. Staff comments about penalties and the very high level of impairment against this debt raise the question of how effective and efficient the current penalty regime is.

Recommendation 4

We recommend that the Inland Revenue Department assess whether the current child support penalty regime provides an impediment for parents to comply with child support obligations.

5.18 Inland Revenue has told us it accepts this recommendation, and notes that its current review of child support penalties is internal and focuses primarily on the administration of the current penalty regime. Inland Revenue is continuing work on its internal review to improve the efficiency and effectiveness of policy and processes that support the current legislative framework.

Part 6 Monitoring and prioritising debt

6.1 In this Part, we set out our findings about Inland Revenue's:

- monitoring of debt;
- prioritising of debt; and
- accuracy in assessing debt.
- 6.2 We expected Inland Revenue to:
 - have systems supporting early and automatic detection of debt;
 - have a method to prioritise which debt cases to pursue both in New Zealand and overseas – one that is fair to all parents and takes into account costeffectiveness; and
 - actively manage all debt cases.
- 6.3 Overall, Inland Revenue has effective automated systems to monitor and detect when a liable parent begins to receive new income. Also, Inland Revenue has in place an effective system for prioritising which debt to pursue, one that is responsive to the needs of custodial parents.
- 6.4 Sometimes, Inland Revenue's information about liable parents is either limited or missing. This means that Inland Revenue has to make certain assumptions when calculating child support. This can lead to an incorrect debt assessment being made. However, the amount of debt owing can be revised if additional information becomes available to Inland Revenue. In our view, Inland Revenue takes a sensible approach to handling missing information.

Monitoring debt

Inland Revenue regularly monitors debt, and it has effective automated systems that will identify when a person in debt begins to receive income.

- 6.5 Inland Revenue runs a monthly child support income report that will identify and highlight any new income (including a benefit) that a liable parent with a child support debt has received. It will also identify when someone with a child support debt who does not already have a current repayment arrangement in place receives income.
- 6.6 It is important for Inland Revenue to identify benefit income because a liable parent who is receiving a benefit must have their assessment and any repayment towards a debt deducted from their benefit.
- 6.7 Inland Revenue gets income information from employers, the Accident Compensation Corporation, and the Ministry of Social Development on the fifth or twentieth of each month. Inland Revenue notes this income early in the following month when it runs a new child support income report.

- 6.8 Inland Revenue's monitoring will identify any new income or changes in employer, but it can take up to a month for new income information to appear in the monthly child support income report because of the time it takes to receive and process information supplied by employers.
- 6.9 Our view is that Inland Revenue has a good and effective system in place for monitoring when a person in debt begins to receive new income.

Prioritising debt

Inland Revenue has a method of prioritising which debt to pursue that takes into account the effect of a missed payment on a custodian.

- 6.10 A custodian who has not received a child support payment can contact Inland Revenue. The notification of non-payment will usually be handled by the Assistance division for further investigation. Because of requirements set out in the Privacy Act 1993, much of the information Inland Revenue may have about the liable parent cannot normally be discussed with the custodian.
- 6.11 There is a more formal process for allocating debt cases to officers for follow up. Inland Revenue runs a report every month that highlights cases where certain conditions are met – such as recently missed payment, debt that has reached a certain threshold, or when new income has been noted. This report is used to allocate cases to a particular team, and a team leader assigns those cases to their staff.
- 6.12 During our audit, we found that Inland Revenue is less likely to have a child support officer involved with cases regarded as uncollectible. Our review of child support cases found that these cases tended to have longer gaps between periods when an officer was involved. In our view, this is appropriate. Inland Revenue's current automated monitoring will pick up any travel activity or income for these parents, and child support officers' time can be used more effectively on other cases where a debt is more likely to be recovered.
- 6.13 Overall, Inland Revenue has a system for prioritising child support debt cases that is responsive to custodians and focuses efforts on cases where it is most likely to recover a debt.

Accuracy of debt

When Inland Revenue lacks information about a liable parent, it will make assumptions about income levels, which may be revised when more accurate information becomes available.

- 6.14 The debt information that Inland Revenue holds for an individual uses the child support assessment. The assessment is based on the eligibility, income, and living allowance of the liable parent. Inland Revenue needs to make assumptions when it is unable to confirm the details of any of these three main criteria. These assumptions can be updated when more information becomes available. This might change debt levels, sometimes significantly.
- 6.15 A parent must be a New Zealand citizen or a resident of New Zealand to be eligible or liable for child support payments. Sometimes, liable parents leave the country without notifying Inland Revenue.
- 6.16 A resident's liability will end when they leave the country, but a citizen's will not. The assessment and penalties will continue accruing until Inland Revenue can confirm that the person has left the country and is not a citizen. If a non-citizen returns to New Zealand as a resident, they will again be liable for child support payments.
- 6.17 When Inland Revenue does not have information about a parent's living allowance, it will assume that the liable parent is a single individual with no dependents (a scenario that sets child support at the maximum level). However, a liable parent can inform Inland Revenue if that assumption is incorrect, and this can reduce their assessment.
- 6.18 Inland Revenue will estimate a person's income if it does not have enough information about that individual's income. This generally applies to people living outside of New Zealand or Australia, because Inland Revenue and the Australian Child Support Agency share income information with each other.
- 6.19 For liable parents living in other countries, Inland Revenue's current policy is to initially set the income at the maximum level (a \$120,463 salary with the minimum deduction of \$14,158 for a living allowance). The aim is to get a liable parent's attention.
- 6.20 Setting the income at the maximum level can lead to an estimated debt for the individual that is larger than an actual debt; this can be corrected only if Inland Revenue receives the correct income information. After a period of time, if a liable parent does not respond to requests to provide income levels, Inland Revenue will set the income to a nil level, leading to a minimum assessment.

- 6.21 Updated information can have a major effect on an unpaid debt. For example, during our audit, we saw a case where an application for child support payments was filed in 1994. The custodian stopped receiving payments in 1995. Debt on this case had reached about \$400,000 by the time an officer was able to verify that the liable parent had left the country in 1995. The debt was then recalculated with the assessment ceasing from when the liable parent had left the country. This brought the outstanding assessment to about \$300 and a total debt (with penalties) of about \$11,000. As this remains a valid assessment, penalties will continue to accrue until the debt is recovered or Inland Revenue can resolve the debt under the limited grounds discussed in Part 2.
- 6.22 In our view, it is reasonable for Inland Revenue to make assumptions when it lacks information. But it is important to note the direct link between the accuracy of an outstanding debt and the amount of information that Inland Revenue can collect. If parents live overseas, Inland Revenue might have only limited information. We discuss collecting debt from overseas parents further in Part 7.

Part 7 Recovering debt

7.1 In this Part, we set out our findings about how Inland Revenue:

- recovers debt from liable parents living in New Zealand;
- recovers debt from liable parents living in Australia;
- · recovers debt from liable parents living in other countries; and
- monitors the operation of the child support scheme and provides policy advice about improving aspects of the scheme.
- 7.2 We expected Inland Revenue to:
 - recover debt using all of the tools available to staff;
 - use a range of methods to trace debtors and ensure that debtors are aware of their obligations;
 - identify child support debt that is unlikely to be collected; and
 - regularly and consistently monitor and report on its effectiveness in managing child support debt, and use this information in its child support debt management strategies, operations, and policy advice.
- 7.3 Overall, Inland Revenue is doing a good job collecting child support debt given the difficulties in administering the child support scheme. Inland Revenue has effective tools it can use to recover child support debt from people living in New Zealand. It is more difficult for Inland Revenue to recover debts from people who have variable incomes or lack identifiable assets, but Inland Revenue has adequate tools for this task.
- 7.4 New Zealand has a reciprocal agreement with Australia that enables Inland Revenue to pass child support cases to the Australian Child Support Agency for collection and enforcement. In our view, this agreement works well.
- 7.5 It is much harder for Inland Revenue to recover debt from countries other than Australia, because it does not have any authority to collect debt in other countries and must rely on voluntary compliance. Inland Revenue has a data matching scheme with the New Zealand Customs Service. This allows Inland Revenue to better track the movements of child support debtors, and this is a helpful, albeit limited, tool for collecting child support debt.
- 7.6 Opportunities may arise for Inland Revenue to improve child support debt collection if treaties such as the *Hague Convention for the International Recovery of Child Support and Other Forms of Family Maintenance* come into force (New Zealand is a signatory to this Convention).
- 7.7 Inland Revenue monitors the child support scheme through monthly reports that show how it is performing against its performance standards. Some staff have

proactively created and use additional reports that provide a more detailed view of how teams and individual staff are performing. We commend the initiative shown by these staff. We encourage Inland Revenue to consider expanding its regular internal reporting to include aspects that go beyond monitoring how it is meeting the agreed performance measures.

7.8 In our view, the performance information collected and reported by Inland Revenue internally and externally is consistent.

Domestic debt recovery

Inland Revenue has effective and efficient tools to collect debt from parents receiving a regular income. Inland Revenue has a greater challenge when collecting debt from people not receiving a regular income but has enough tools to do so.

- 7.9 For people believed to be living in New Zealand, the total child support debt was calculated, at 30 June 2009, to be \$1,058 million (comprising \$375 million in assessment debt and \$683 million in penalties). However, Inland Revenue suspects that \$208 million of this debt belongs to liable parents who are living overseas.
- 7.10 As previously discussed, Inland Revenue regularly monitors the income of liable parents with a child support debt, and an automatic report will highlight any such parents who receive new income. When Inland Revenue monitoring finds that a liable parent is receiving a regular salary or wage, Inland Revenue can issue a deduction notice to the employer under section 154 of the Child Support Act. The employer is then legally required to begin deducting child support payments from their employee's salary or wage. Inland Revenue must deduct a child support payment from a liable parent receiving a benefit, and it can also collect repayment for a debt in this way.
- 7.11 We reviewed 82 domestic child support cases and found that Inland Revenue was generally quick to apply a deduction notice when it detected income. The biggest challenge we saw in cases of a salary or wage was that some people frequently changed sources of income. It is important for liable parents to inform Inland Revenue if they have changes in their employment to minimise falling into debt.
- 7.12 If a liable parent is not a salary or wage earner, it is more difficult for Inland Revenue to recover a debt when the parent does not pay voluntarily, because Inland Revenue cannot recover a debt with a deduction notice. Inland Revenue's general approach in these circumstances is to review the case, contact the liable parent, and enter into negotiations about resolving the debt.

- 7.13 If negotiations are unsuccessful, Inland Revenue can seize assets directly from the liable parent. An Inland Revenue officer will search for assets and then attempt to seize them to resolve a debt. Inland Revenue will begin by attempting to seize any funds it can identify in the liable parent's bank account. It will then look for other assets, such as a house, car, boat, or shares. If other assets are found, Inland Revenue can seize them or place a charging order against the asset (this enables money to be recovered when the asset is sold).
- 7.14 If Inland Revenue is unable to negotiate payment or find assets, it can apply to the District or Family Court to summon the liable parent to court for an examination. At an examination, the court will hear arguments from Inland Revenue and the liable parent before making a ruling that could either remove the debt or require the liable parent to pay it.
- 7.15 Overall, Inland Revenue's ability to deduct money from a liable parent's wages is an effective and efficient way to recover a debt. Inland Revenue has a range of tools for recovering debt in other situations that are more complicated to administer because the debt is more difficult to recover. However, these tools do allow Inland Revenue to recover the debt when an individual has the resources to repay the debt. In cases where Inland Revenue is unable to identify the resources needed to repay a debt, that debt will remain outstanding and penalties will continue to accrue.

Debt recovery in Australia

The reciprocal agreement on child support between New Zealand and Australia is effective in recovering debt from liable parents living in Australia.

- 7.16 At 30 June 2009, there was \$471 million in outstanding child support debt owed by liable parents confirmed to be living in Australia. Of this, \$158 million was assessment debt and the remaining \$313 million was penalties. Inland Revenue suspects that there is an additional \$63.8 million in debt owed by liable parents who are currently classed as living in New Zealand but are believed to be living in Australia.
- 7.17 The reciprocal agreement on child support between New Zealand and Australia came into effect on 1 July 2000. Inland Revenue's website describes the agreement as follows:

The agreement allows one country to use the other country to collect child support from liable parents who are living in the other country. For example, New Zealand could send a request to Australia about a liable parent who owes child support for their children in New Zealand. Australia would use their own process to collect the child support and pass it on to Child Support in New Zealand, who would distribute it to the custodian. 7.18 Inland Revenue will usually find out that a liable parent has gone overseas because the custodian or liable parent has told them, or through information from the New Zealand Customs Service. Inland Revenue can verify with the Australian Child Support Agency that the liable parent is in Australia. If so, Inland Revenue can transfer the case to the Australian Child Support Agency for enforcement.

- 7.19 The Australian Child Support Agency was managing slightly more than 10,000 New Zealand cases, representing about \$406.9 million in debt, at the end of the 2008/09 financial year. The Australian Child Support Agency collected \$27.4 million in assessments and penalties during that year.
- 7.20 Cases passed on to the Australian Child Support Agency are managed in one of two ways on an exchange basis, where cases are exchanged on a one-to-one basis, or under a fee-for-service model. Fee-for-service cases involve Inland Revenue paying a separate fee to the Australian Child Support Agency for managing cases additional to those covered by the reciprocal agreement. In 2009/10, Inland Revenue paid the Australian Child Support Agency \$2.4 million to manage 4000 fee-for-service cases (about \$600 a case).
- 7.21 We have not audited the collection approaches used by the Australian Child Support Agency to collect child support debt, and we do not have a view on the efficiency of the arrangement. However, given the difficulties in collecting child support payments once a parent has gone overseas, our view is that the relationship between Inland Revenue and the Australian Child Support Agency is effective.

Debt recovery in other counties

Inland Revenue has few options for recovering debt from people living in countries other than Australia. A New Zealand Customs Service data-matching scheme has provided Inland Revenue with a helpful, albeit limited, tool to help collect overseas debt. The situation could be improved if some international agreements come into force.

7.22 At 30 June 2009, there was \$27 million in outstanding child support debt owed by liable parents confirmed to be living overseas but not in Australia. Of this, \$7 million was assessment debt and the remaining \$20 million was penalties. Inland Revenue suspects that there is an additional \$144 million in debt owed by liable parents who are currently classed as living in New Zealand but are believed to be living overseas in a country other than Australia.

- 7.23 It is difficult for Inland Revenue to administer and recover a debt after a liable parent moves overseas. A liable parent living overseas may not have any assets or income in New Zealand. Inland Revenue may not know the individual's address, and finding it can be a challenge. Inland Revenue has no authority to enforce the payment of child support by liable parents living in countries other than New Zealand or Australia, so it has to rely on negotiated voluntary agreements. In these circumstances, Inland Revenue takes a different approach to recovering a debt.
- 7.24 In some instances, Inland Revenue may know that a parent has moved overseas because the custodian or liable parent has told them. Information from the New Zealand Customs Service can also be used to establish whether a person has left New Zealand.
- 7.25 By checking with the New Zealand Customs Service, Inland Revenue can verify that a person has left the country, which flight they were on, and their initial destination. However, Inland Revenue is not always able to collect information about the person's final destination. For example, if a person is flying from Auckland to London through Hong Kong, the travel data may confirm that the person had travelled to Hong Kong but not to London.
- 7.26 In August 2008, a data-matching scheme between Inland Revenue and the New Zealand Customs Service went live. This scheme allows Inland Revenue to be notified immediately when a parent with a child support debt enters or leaves New Zealand.
- 7.27 Inland Revenue uses the data matching to pass cases on to the Australian Child Support Agency, or to contact parents and try to negotiate child support payments with them. Sometimes, to resolve a debt, Inland Revenue will apply for an arrest warrant to stop a liable parent from leaving the New Zealand.
- 7.28 In our view, the data-matching scheme helps locate parents Inland Revenue has lost track of, and has led to Inland Revenue collecting child support debt that might not otherwise have been collected.
- 7.29 Opportunities may arise for Inland Revenue to improve child support debt collection if treaties such as the *Hague Convention for the International Recovery of Child Support and Other Forms of Family Maintenance* come into force. New Zealand is a signatory to this Convention, and it would provide a basis for collecting child support payments from liable parents living overseas.

Performance monitoring and improvement

Inland Revenue regularly monitors the operation of the child support scheme and provides policy advice about improving aspects of the scheme. We commend the work of some staff in proactively creating and using reports that expand beyond performance standards agreed to between Inland Revenue and the Government.

- 7.30 In its Annual Report 2009, Inland Revenue reports on performance standards agreed with the Government. Internal management reporting focuses on how well it is meeting those performance standards. Performance against all standards is updated internally through monthly management reports.
- 7.31 The performance standards that Inland Revenue reports on in its annual report include the following performance indicators:
 - the accuracy of information given to parents;
 - how quickly Inland Revenue responds to correspondence;
 - how often, and by what means, parents contact Inland Revenue;
 - how long it takes Inland Revenue to carry out core administrative tasks such as registering parents new to the child support scheme, issuing child support assessments, and doing administrative reviews;
 - the number of child support assessments paid on time;
 - the value of child support assessments collected;
 - the percentage of debt cases resolved within the previous 12 months;
 - · the growth in assessment debt, excluding penalties; and
 - the amount and types of debt that is outstanding.
- 7.32 Inland Revenue's internal management reporting covers the same topics as the external reporting, but has additional comparisons between time periods and trends. This internal reporting allows Inland Revenue to track its performance figures monthly instead of annually. Inland Revenue's internal reporting also monitors the levels of child support debt and reports on how these levels have changed over time. In our view, the performance information collected and reported by Inland Revenue is consistent, internally and externally.
- 7.33 Figure 9 shows some of Inland Revenue's performance standards that are most relevant to child support debt. Although Inland Revenue has been slightly below its target in collecting all of a particular year's assessment, it has slightly exceeded its targets in collecting debt and limiting the growth of debt.

Figure 9

Examples of child support scheme performance standards

Performance standard	2006/07	2007/08	2008/09
Collect 78% of the current year's child support assessments	77.2%	76.0%	75.2%
Resolve 70% of paying parents' debt cases within 12 months of due date	72.0%	74.4%	72.6%
Limit growth of total child support debt to less than 11.5% (excluding penalties)	11.8%	9.0%	10.9%

- 7.34 Some Inland Revenue staff we met with during our audit showed us additional reporting information they had created because existing reports did not provide them with all of the information they required. Staff (including managers) use this information to gain a more detailed view of the performance of specific teams (some teams do quite specialised tasks), and the performance of individual staff. The performance standards that Inland Revenue monitors, when combined with the additional internal information staff collect, provide a reasonable view of the current operations of the child support scheme.
- 7.35 Quarterly surveys gauge parents' satisfaction with the services they receive while they are in the child support scheme. Results are reported in Inland Revenue's annual report. Inland Revenue also commissions research on how parents respond to specific aspects of the child support scheme.
- 7.36 Inland Revenue also conducts specialised research about the effectiveness of various pilots and programmes. This research uses the information Inland Revenue collects while administering the child support scheme. Inland Revenue can also use information from its systems to respond to specific queries for information that may fall outside of its normal reporting (for example, when we sought additional information about child support debt – see Appendix 1).
- 7.37 As well as monitoring its performance, we expect Inland Revenue to provide policy advice about making improvements to the child support scheme. In September 2007, Inland Revenue provided a briefing to the Minister of Revenue about possible updates to the child support scheme. Work continued in this area, leading to the preparation of an as yet unreleased discussion paper.
- 7.38 In our view, an organisation needs to regularly review the information it collects if it wishes to better understand and improve its operations. For example, as Inland Revenue makes adjustments to the way that it helps parents understand child support, it needs to make sure it is collecting information that allows it to assess how effective its efforts have been.

7.39 We commend the initiative taken by some staff to improve performance monitoring in their areas. In our view, Inland Revenue needs to encourage staff efforts at improving performance measurement. We also encourage Inland Revenue to expand its regular internal reporting to areas that go beyond monitoring how it is meeting performance measures it has agreed with the Government.

Appendix 1 Characteristics of child support debt

Total child support debt at the end of 2008/09 was \$1.56 billion (comprising \$540 million of unpaid child support payments and \$1.02 billion of unpaid penalties). Because all penalties are paid to the Crown and some child support assessments are paid to the Crown in reimbursement of a benefit, about \$195 million is owed to custodians with the remainder owed to the Crown.

The nearly \$1.56 billion in total child support debt as at the end of 2008/09 was made up of:

- \$363 million (23.3%) in instalment debt owed by people who had made arrangements with Inland Revenue to make regular payments (excluding collection cases handled by the Australian Child Support Agency);
- \$407 million (26.2%) owed by people living in Australia who had made arrangements to make regular payments to the Australian Child Support Agency as part of Inland Revenue's reciprocal agreement;
- \$536 million (34.5%) deemed by Inland Revenue to be not yet under arrangement, covering cases where it was considering legal action against people unwilling to make regular payments; and
- \$249 million (16.0%) recorded by Inland Revenue as uncollectible debt. Payments were unlikely because people were in prison, in hospital, or unable to be found.

The number of people owing child support debt has declined since 2005, although the total outstanding debt has increased during this same period. The increase in debt is caused by an increase in the number of liable parents owing larger child support debts. Figure 10 shows that, despite a reduction in the overall number of debtors during this period, the number of people owing more than \$50,000 has been rising each year.

Figure 10

Number of cases with a debt, by value of debt, from 2005 to 2009

	2005	2006	2007	2008	2009
<\$1,000	61,823	55,354	54,650	53,742	53,588
\$1,000-5,000	37,173	37,835	37,671	37,936	38,391
\$5,000-10,000	13,955	14,279	14,286	14,538	14,935
\$10,000-50,000	19,539	19,104	18,377	18,976	19,684
\$50,000-100,000	2,769	3,845	4,213	4,516	4,635
>\$100,000	746	1,185	1,666	2,318	3,301
Total cases	136,005	131,602	130,863	132,026	134,534

Figure 11 shows that the same trends as those shown in Figure 10 have been occurring with the growth of the amount of debt owed. The levels of outstanding debt have been relatively stable under \$50,000, but debts of \$50,000 or more have grown significantly.

Figure 11

Amount of debt owed, by range of debt, from 2005 to 2009

	2005 \$m	2006 \$m	2007 \$m	2008 \$m	2009 \$m
<\$1,000	18.3	16.2	15.6	15.8	16.0
\$1,000-5,000	92.1	94.7	84.9	95.6	96.4
\$5,000-10,000	99.6	101.5	101.8	103.3	106.0
\$10,000-50,000	447.6	430.8	405.8	418.4	436.1
\$50,000-100,000	187.1	259.1	288.4	320.2	331.3
>\$100,000	109.6	179.5	261.2	384.6	570.0
Total debt	954.2	1,081.9	1,167.7	1,337.9	1,555.8

Appendix 2 Example of a statement of account

3c. 1 – STANDARD STATEMENT – PAYING ON TIME

00095*	Child Support				Inland Revenue Child Support Private Bag Christchurch	
					Telephone 0800 Facsimile 03 97 www.ird.govt.nz	7 9856
					R Russell Commissioner of	f Inland Revenue
	Issue date Statement nun Page IRD number	nber	14 January 2010 1565 1 of 1			
	Reason for iss	ue	The due date for your	payment/s has changed	l.	
2000	Date	Details		Debit	Credit	Balance
		December a	mount	434.85		434.85
1	01 Jan 2010 01 Feb 2010	January amo		434.85		434.85
COPY				434.85		434.85
200				434.85		434.85
100	01 Feb 2010	January amo	ount	Please pay by 20 Janua Please pay by 20 Janua		434.85 \$434.85 \$434.85 \$869.70
•	01 Feb 2010 Look at your Acc at: https://e-serv	January amo ount informatio icces.ird.govt.nz	ount	Please pay by 20 Janua Please pay by 20 Febru Overall Balance	ary 2010	\$434.85 \$434.85

Appendix 3 Example of a statement showing an outstanding debt

3c. 2 – STANDARD STATEMENT – PAYING ON TIME VIA EMPLOYER DEDUCTION

Inland Revenue *10000 *00045 Child Support

СОРУ

Child support statement of account

Inland Revenue Child Support Private Bag Tauranga

Telephone 0800 221 221 Facsimile 07 927 2762 www.ird.govt.nz/childsup ort/

R Russell Commissioner of Inland Revenue

Reason for issue	The amount you need to pay has changed.	
IRD number		
Page	1 of 2	
Statement number	1527	
Issue date	21 September 2009	

Date Details Debit Credit Balance 01 Sept 2009 August amount 0.00 20 Oct 2009 166.80 (credit) 166.80 Deductions expected from your income 01 Oct 2009 September amount Deductions expected from your income 0.00 20 Oct 2009 667.40 667.40 (credit) Total carried forward from the next page/s 9,824.12

Look at your Account information Online. Register for this service	Overdue amount	\$8,989.92
at: https://e-services.ird.govt.nz/ols/index.jsp.	Overall Balance	\$8,989.92
Credits processed on or after 21 September 2009 will	appear on your next state	ment
Credits processed on or after 21 September 2009 will	appear on your next state	ment.

Payment slip Inland Revenue Child Support IRD Number Amount of payment \$ **Overall Balance** \$8,989.92 Please see the back of this statement for how to make your child support payment



Inland Revenue Te Tari Taake Child Support

Issue date	21 September 2009
Statement number	1527
Page	2 of 2
IRD number	

Date	Details	Debit	Credit	Balance	
	1 April 2008 - 31 March 2009			8,492.40	
	1 April 2007 – 31 March 2008			541.72	
-	1 April 2006 – 31 March 2007			790.00	
		Total		\$9,824.12	

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- Local government: Results of the 2008/09 audits
- Statement of Intent 2010–13
- Performance audits from 2008: Follow-up report
- Effectiveness of arrangements for co-ordinating civilian maritime patrols
- Auditor-General's inquiry into certain types of expenditure in Vote Ministerial Services Part 1
- · Local authorities: Planning to meet the forecast demand for drinking water
- Central government: Results of the 2008/09 audits
- Auckland City Council: Management of footpaths contracts
- Investigation into conflicts of interest of four councillors at Environment Canterbury
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