Inland Revenue
Te Tari Taake

FINAL Programme Business Case Addendum

Business Transformation

Implementing a digital revenue system

March 2022

Version: FINAL

New Zealand Government

Table of Contents

Executive Summary

Transformation has involved a combination of changes to policy settings, processes, technology, Inland Revenue's operating model and organisation design, and people capabilities. A multi-year, multi-stage programme, transformation has been far more than an upgrade of technology and has meant changing every aspect of the way Inland Revenue operates. The intent was to deliver a modern, digital revenue system that made tax and payments simpler and more certain for customers. This has been achieved. New Zealand now has a revenue system:

- Based around customers' needs
- Easy to understand and interact with
- Using near real-time information
- Digital and highly automated
- Systems and software doing most of the work
- More responsive, flexible, and certain for customers
- Future proofed to accommodate change.

The programme has been implemented on time, under budget, and has achieved its investment objectives.

- Customers have online services that meet their expectations for being able to interact digitally with Inland Revenue and which give them certainty and visibility and make it easier for them to pay and receive the right amounts.
- Effort has reduced for customers. Tax assessments are largely automated for individuals and businesses can use their own systems to calculate and pay their tax.
- With its new analytical capabilities, it is quicker for Inland Revenue to identify when customers are getting things wrong and to work with them proactively. This is helping to ensure customers meet their obligations and receive the payments they are entitled to.
- Government now has the ability to make policy changes far more quickly and cost-effectively, as demonstrated by Inland Revenue's response to the COVID-19 pandemic.
- Inland Revenue's systems are robust and reliable and available when customers need to use them.
- Inland Revenue is working more efficiently and effectively and costs to the taxpayer have reduced.

The investment made in transformation has created the systems and processes required to enable Inland Revenue to operate in the digital age. In total, Inland Revenue is handing back $441 million of the funding approved from 1 July 2014 to 30 June 2024.

What has been delivered.

From 2017 to 2021*, **six releases across four stages were successfully implemented***, progressively moving products to new systems and processes and making improved services available to customers.

Digital services are enabling customers to do as much for themselves as possible in a way and at a time that suits them. Through their myIR account customers can file returns, make payments, advise Inland Revenue of changes in their circumstances, and apply for support online. ***Use of Inland Revenue's digital channels has increased significantly*** in recent years, with user sessions for myIR trebling from 17 million for the year ended 30 June 2016 to 50 million for the year ended 30 June 2021. Over the same period, use of Inland Revenue's website nearly doubled from 29 million to 57 million sessions.

To support the successful migration of products, ***a co-existence solution was built*** to ensure heritage systems and processes would continue to run in parallel. This solution was adjusted for every release as products and data were shifted, ***enabling Inland Revenue to continue to provide services to customers*** without dropping the ball.

Huge amounts of ***customer data was successfully moved from the old system to the new system***. Over the 5 year period, Inland Revenue moved approximately 30 million accounts, 77 million returns, 470 million transactions and 770 million KiwiSaver contributions.

Alongside migrating products, ***an extensive programme of policy changes was also implemented***. Changes to policy settings were aligned with the movement of products to new systems and processes to minimise the change impacts for customers. For example, automatic year-end income tax assessments were introduced when income tax was migrated. This was the biggest change for individuals in approximately 20 years. Other significant changes to policy settings which enabled the move to automatic assessments included the move to payday filing for employers and changes to reporting requirements for payers of investment income.

End-of-year ***refunds are automatically calculated and paid*** to individuals based on the information Inland Revenue holds about them. Since they were introduced for the tax year ending 31 March 2019, Inland Revenue has paid $1.8 billion directly into people's bank accounts.

Businesses can now choose to work out and pay ***tax as a by-product of normal business processes***, rather than calculating and paying it separately. They can provide Inland Revenue with information from their own systems.

Higher levels of automation and rules built into systems mean ***straight forward transactions are processed with no human intervention***. For example, around 93% of GST returns are processed straight through, ensuring customers get valid refunds quickly.

Compliance now happens in real time. Transformation has made things simpler for customers and there has been ***significant shift in both filing and payment compliance*** as a result.

On time filing was at 85% at 30 June 2016, the year immediately before transformation began and as at 28 February 2022 was 96%. On time payments are up around 4% over the same time period.

Over the last five years, the focus of compliance has moved from the end (enforcement after the event) to 'Right from the Start'. The quality and frequency of the data Inland Revenue collects has improved and a significant investment has been made in analytics. ***The focus is now on real time integrity***, providing opportunities to intervene earlier when customers get it wrong, either accidentally or deliberately. This reduces the need for post-return work, whether that is debt collection or audit and investigation.

Compliance ***checks are increasingly occurring at the time a transaction*** takes place. Every return that can generate a refund is checked automatically and upfront checks have been built into application processes for COVID-19 related support.

Inland Revenue is far more able to respond to government priorities. Throughout delivery of the programme, Inland Revenue has continued to support the Government's priorities, including its response to COVID-19. New Zealand now has a very responsive and robust revenue system, which has enabled relief packages such as the small business cashflow (loan) scheme and the resurgence support payment to be delivered within weeks. It is easy for customers to check their eligibility for support online and, if they are, payments arrive in their accounts within days. This would simply not have been possible before transformation.

Mobile workplace technology has meant Inland Revenue could ***keep providing services during several significant disruptions*** in recent years, including the Kaikoura earthquake, long-term building closures due to seismic issues, and the COVID-19 pandemic. Inland Revenue would have been severely constrained in these situations prior to transformation.

What has made transformation successful.

Inland Revenue has reflected on the factors that made it possible to successfully implement a multi-year, multi-stage, highly complex programme. These include:

- ***Investing in the right capability***. Inland Revenue recruited an experienced team with a track record in delivering transformational change.
- ***Choosing the right partners.*** Having the right partners is critical and Inland Revenue developed very strong partnerships with its delivery partners. Core technology decisions were made early.
- ***Leading from the top.*** The Commissioner was the Senior Responsible Owner and a Deputy Commissioner had a sole focus on transformation. Transformation can't be an add on to a busy day job.
- ***Developing a clear vision and roadmap.*** The programme roadmap set out the starting point (GST) and overall phasing. Strong programme disciplines helped to ensure that transformation remained on schedule. Scope was managed tightly by strongly relying on out-of-the-box processes to avoid unnecessary configuration or customisation.
- ***Establishing strong and effective governance.*** This was instrumental in establishing the disciplines needed for successful delivery and was supported by a robust approach to risk management and active financial management practices.
- ***Building and maintaining stakeholder and customer support.*** Actively engaging with customers and stakeholders helped Inland Revenue to put customer needs at the centre of its thinking.
- ***Adapting as you go.*** As a result of lessons learned, Inland Revenue actively changed its approach as the programme progressed. These insights were shared with stakeholders, including other agencies.
- ***Taking people on the journey.*** From early on, Inland Revenue was open with its people about what the changes would mean, including being a smaller organisation at the end. A significant investment in capability development readied people for their next opportunity, whether with Inland Revenue or not.

Although the programme will close by 30 June 2022, Inland Revenue will continue to transform by further leveraging the capabilities that have been delivered. Inland Revenue will continue to look for opportunities to further reduce effort for customers and improve their experiences.

THE ECONOMIC CASE

Confirming delivery of the preferred way forward

This section outlines what has been achieved as a result of transformation and confirms that the programme investment objectives have been met.

The transformation programme has achieved the outcomes intended

In this final addendum, it is useful to start with a reminder of why Inland Revenue embarked on its business transformation programme.

In the mid-to-late-2000s Inland Revenue was facing a number of significant challenges:

- a risk of operational failure affecting tax and payments,
- slow and costly policy implementation,
- inability to meet customers' expectations of modern services, and
- inability to optimise information across the public sector.

In March 2013, the government accepted that there was a "case for change" and agreed to modernise the revenue system through re-engineering business processes, supported by new technology.

In November 2015, the government agreed to invest in transformation to reduce customer effort and cost, improve compliance levels, make policy changes faster and more cost effectively, improve systems resilience, and make Inland Revenue more efficient.

Inland Revenue's business transformation programme has involved a combination of changes to policy, process, technology, and people capabilities. It has been far more than an upgrade of technology and has changed every aspect of the way Inland Revenue operates.

Transformation provided the opportunity to fundamentally review how the revenue system is administered to make tax and payments simpler and more certain for customers. The intent was to deliver a modern, digital revenue system that enabled customers to do as much for themselves as possible in a way and at a time that suited them.

The objectives of transformation

The transformation programme had six investment objectives:

- Improving the customer experience by making it easier and simpler for taxation and social policy customers, with a particular focus on enhanced digital provision of services.
- Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies.
- Increasing the secure sharing of intelligence and information to improve delivery of services to New Zealanders and improve public sector performance.
- Improving agility so that policy changes can be made in a timely and cost effective manner.
- Minimising the risk of protracted system outages and intermittent systems failure.
- Improving productivity and reducing the cost of providing Inland Revenue's services.

These objectives have been achieved. The examples provided in this addendum are illustrative of the outcomes that have been achieved, rather than an exhaustive list of all the changes introduced by transformation.

Please refer to Appendix A for a timeline of the major changes introduced by transformation.

Throughout a period of significant change, customers have continued to have trust and confidence in Inland Revenue. As at 28 February 2022, 91% of customers said they had trust and confidence in Inland Revenue, compared to 88% as at 30 June 2016, the last full year before changes began to be implemented.

Outcome 1: It is easier and simpler for customers to do what they need to do using digital services

Customers now have digital services for all the taxes and social policies that Inland Revenue adminsters. Use of these services is growing.

The percentage of individual income tax payments made digitally was 99% as at 28 February 2022.

The percentage of returns received electronically has increased from 73% for the year ending 30 June 2016 to 99% as at 28 February 2022.

Paper filing is now the exception with around 99% of employment information filed digitally.

The changes introduced by transformation have meant that:

- Many interactions with Inland Revenue are automated, for example end of year refunds.
- Customers have more options available to them to keep themselves on track, for example being able to set up instalment arrangements through myIR.

The transformation programme has achieved the outcomes intended

- New products are designed with a digital first approach, for example the COVID-19 response products.

End of year assessments for individuals are automated.

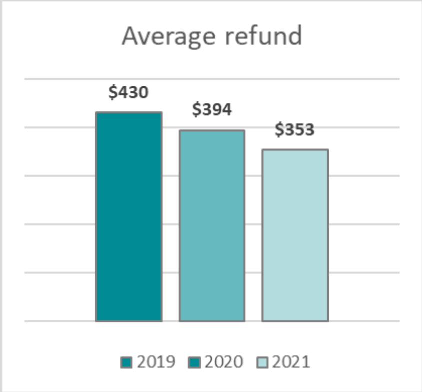
Following the introduction of changes to employment and investment income reporting and a new year-end process, most individuals now don't need to do anything at the end of the year to work out whether they have a refund or tax to pay. Inland Revenue does it all for them and customers can see the results in myIR.

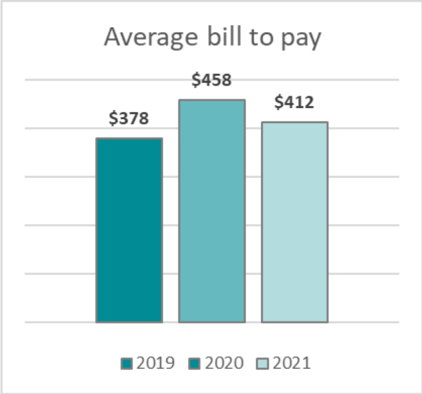
The year ending 31 March 2019 was the first time income tax assessments were automatically issued to individuals. For that year, Inland Revenue automatically refunded $650 million to 1.5 million customers. For the year ending 31 March 2020, 1.8 million individual customers automatically received $714 million in refunds.

For the year ending 31 March 2021, $455 million had been refunded to 1.3 million customers as at 30 June 2021. Final figures are not yet available as customers have until April 2022 to file their 2021 returns.

The year ending 31 March 2021, was the first full year Inland Revenue received more frequent employment and investment income information. This, combined with new analytical tools, has enabled Inland Revenue to intervene earlier where things aren't right to help customers pay and receive the right amounts.

As a result, average, end-of-year refunds and bills to pay are reducing as intended as shown in the diagrams below.





Inland Revenue has improved its approach each year, including speeding up the issuing of assessments. Around two thirds of assessments, approximately 2.1 million, were issued within 11 working days in 2021.

It is easier and quicker for customers to claim their donations tax credits refunds.

Donations tax credit claims are now scanned and analytical tools verify receipts in straightforward cases. This means these straightforward claims are processed and paid with no human intervention. For the year ending 30 June 2021, 82% of claims were made digitally.

Prior to transformation, this was a paper process with customers filling in a form and mailing it with their receipts to Inland Revenue. Receipts were keyed into Inland Revenue's systems manually. Refunds could take weeks to get to customers.

Online services are enabling greater self-management for customers.

There are more options available to customers to manage their own affairs. For example, for the year ended 30 June 2021, customers set up 57,000 instalment arrangements themselves in myIR to pay off debt. This represented 41% of the total instalment arrangements set up. Previously, customers would have had to contact Inland Revenue to arrange this.

The final stage of transformation went live in two releases in 2021, expanding the range of digital services available to customers.

Since 1 March 2021, paid parental leave customers have been able to apply for and track the progress of their application, view next payment details, and view and maintain their personal details. Customers and their employers no longer have to provide an income estimate,

The transformation programme has achieved the outcomes intended

as Inland Revenue pre-populates customers' income for them as part of the application process. Inland Revenue only asks for information not already held and automates as many applications as possible.

Previously, everything was paper-based and paid parental leave payments were not in myIR, Inland Revenue's secure online service.

It is easier for the owners of unclaimed money[1] to track their funds down and claim them, and for the financial institutions or agencies involved to comply with the rules.

Owners are able to claim their money through myIR. This has reduced the information they need to provide as Inland Revenue already knows who they are and they just need to prove ownership. Previously, customers had to email or write to Inland Revenue.

For duties and New Zealand foreign trusts, customers are able to manage their obligations through myIR, making it significantly easier for them to meet these obligations.

Since October 2021, child support customers have had better visibility of their obligations and payments in myIR. They are also able to do more for themselves, including registering online and advising Inland Revenue of any changes in their circumstances.

Information sharing and communication with other agencies has improved through the use of portals and secure file transfer.

The processing of payments and employer deductions has been streamlined and is helping to ensure that receiving carers get their child support as soon as possible after the due date.

Payments now get to carers faster. From November 2021 onwards, child support payments are passed on by the 23rd of the same month, as long as the liable (paying) parent has paid on time. Previously, payments were made on the 7th of the month following the due date. In addition, Inland Revenue can now make payments directly to overseas bank accounts. Previously the department sent cheques, and since it stopped using cheques in March 2020 has used a series of work arounds to release funds overseas.

In October 2021, Inland Revenue upgraded the online services all customers use.

A more modern look and feel for myIR, and simplified presentation of information, is making it easier for customers to focus on what is relevant and important. The layout adapts to fit the size of any screen without loss of functionality, making it seamless to use myIR across different devices, including mobile phones. Simplified navigation is allowing customers to easily find and do what they need to do. Surveys after go-live showed that:

- Overall, seven in ten individual customers found it quite or very easy to do what they need to do.
- Around eight in ten business customers found it quite or very easy to do what they need to do.
- Overall, seven in ten intermediaries from smaller organisations and six in ten from larger organisations found easy to do what they need to do. As high users of myIR, intermediaries will have been very familiar with the previous version.

This demonstrates of the benefits of choosing a commercial-off-the-shelf system as it is "evergreen". This means that systems are updated on an ongoing basis so they are always up-to-date.

An upgrade was not possible in FIRST, Inland Revenue's heritage core processing system.

Upgrades will become part of the normal cycle of events in the years to come so that customers and Inland Revenue itself benefit from the latest advances in technology and services.

Small-to-medium sized businesses who use digital services say they make things quick and easy.

Comments from Inland Revenue's 2021 survey of small-to-medium sized businesses show that improvements to online services and Inland Revenue's website and the ability to file from software are making a difference to those using them.

"Linking GST to Xero accounting software has saved me a lot of time and calculations. End-of-year taxes are made easy with Xero."

[1] Money (such as a bank deposit) which has become disconnected or detached from its owner. Unclaimed money is passed on from the holder after 5 years to Inland Revenue as the custodian until the funds can be claimed. Owners have up to 60 years to claim their funds.

The transformation programme has achieved the outcomes intended

"Being able to log in to myIR - I can access information quickly and do my GST returns easily. Sending email correspondence from here has also been handy."

"I find the website a great source of information. Anything I need to research is pretty easy to find so overall, it has been quite straightforward keeping up to date with all our tax obligations"

COVID-19 products have been designed to make it easy for customers to apply for support.

The small business cashflow (loan) scheme, resurgence support payment, loss carry-back scheme, and writing off interest on late payments have been designed to make it easy for customers to check their eligibility, apply for support, and receive the payments or relief they are entitled to.

Digital services and upfront checks have provided customers with certainty as quickly as possible. The vast majority of applications have been made online with around $4 billion in funds paid out in total for the loan scheme and resurgence support payment within a day or two.

Outcome 2: It is easier for customers to pay and receive the right amounts and harder not to

The vast majority of Inland Revenue's customers try to do the right thing. As a result of transformation, it is easier for customers to do so and this is evident in customers' behaviour.

The percentage of returns filed on time was 96% as at 28 February 2022, a significant increase on the 85% recorded for the year ended 30 June 2016. The percentage of tax payments made on time increased from 87% to 91% over the same period.

The changes introduced by transformation have meant that new processes and new capabilities are making it seamless and low effort for customers to meet their obligations and receive the right entitlements.

Inland Revenue is better able to use the information it holds to help customers pay and receive the right amounts. This is evident in the improvements made to the administration of Working for Families payments and prescribed investor rates.

Analytical capabilities are enabling Inland Revenue to put checks in place upfront and to identify compliance risks more quickly and act on them in more targeted ways. This can be seen with the COVID-19 products and the bright-line property rule.

Working for Families customers have certainty sooner.

In February each year, Inland Revenue assesses entitlements for approximately 380,000 Working for Families customers which will apply from 1 April. This is known as rollover. This process is now faster and more accurate, providing certainty to customers sooner, following the move of Working for Families to new systems and processes in April 2019:

- Previously, it took more than 12 hours to rollover entitlements in old systems and processes. Now, it takes around 30 minutes.
- Previously, Inland Revenue notified customers over a 4 to 5 day period what their future entitlements would be. Now, notifications are sent as soon as entitlements have been calculated.
- Based on what occurred for the 2021 rollover, Inland Revenue expects to let around 95% of customers know what their entitlements will be through myIR. This is up from around 80% previously.

Increasingly, people are on the correct prescribed investor rates.

When income tax moved to new systems and processes in April 2019, it became clear that approximately 1.5 million people were on an incorrect prescribed investor rate (PIR).

Prior to this it was not possible for Inland Revenue to determine whether people were on an incorrect rate as an individual's income details were not all held in one place. This was one of the limitations of Inland Revenue's heritage systems and processes and, as a result, portfolio investment entity income was not associated with individual customers. People on a PIR that was too high could not get their overpaid tax refunded as it was a final tax and those on a PIR that was too low paid tax at their marginal tax rate (which was often higher than their PIR).

Following changes to legislation, from 1 April 2020, Inland Revenue has provided portfolio investment entities with correct PIRs for people on an incorrect rate.

From the year ending 31 March 2021, portfolio investment entity income is included in the end-of-year income tax assessment process and automated where

The transformation programme has achieved the outcomes intended

possible. This means that people on a PIR that is too high have their overpaid tax refunded and those on a rate that is too low pay tax at the correct PIR rather than their marginal tax rate.

Since April 2021, one of the new gateway services[2] available has been a PIR calculator that financial institutions can call on-demand and in volume to obtain their customer's recommended PIR.

These changes are helping to ensure that customers who don't choose the correct PIR for their circumstances don't unknowingly end up paying too much tax that they cannot get back as was historically the case.

Inland Revenue is better targeting its activity to help support customers.

Using its new analytical capabilities, Inland Revenue is better able to target activity based on customer need. For example, before the 2021 end-of-year square up for Working for Families customers Inland Revenue contacted all families new to the scheme to let them know what to expect. This is an example of proactively using the information already held about customers to help build their understanding.

[2] Gateway services enable direct machine-to-machine interactions between systems

Legislative changes to support the final release in the programme will make it easier for customers to pay the right amount of child support and stop debt compounding.

Policy changes are being implemented progressively to reduce the complexity of child support, improve fairness, and increase compliance.

Since 1 April 2021, Inland Revenue has not charged incremental penalties on late child support payments.

Other policy changes came into effect when child support moved to new systems and processes on 28 October 2021. These changes are making it easier for liable parents to keep on top of their payments. For example, employer deductions are now compulsory for parents new to paying child support. Inland Revenue estimates that around 70% of child support deductions will be made through employers following this change.

From 1 April 2022 there will be changes to how child support is assessed. For example, a wider definition of "income" will include investment income.

Analytical capabilities are enabling Inland Revenue to better support customers to pay and receive the right amounts.

The analytical capabilities in both the data and intelligence platform and START[3], Inland Revenue's new core platform, are making it easier for customers to comply and harder not to. A significant amount of non-compliant activity can now be stopped at the earliest possible stage.

[3] START stands for simplified tax and revenue technology and is the name Inland Revenue has chosen for the GenTax software provided by FAST Enterprises LLC.

- START Discovery Manager enables Inland Revenue to identify errors and issues requiring review.
- Rules in START Integrity Manager prevent revenue loss by ensuring people only receive the payments they are entitled to and enable compliance activity to be better targeted. These rules can be adjusted very quickly when needed.
- START Decision Support Manager helps Inland Revenue to make better decisions by providing data and analysis to support and recommend the most appropriate actions.
- The data and intelligence platform is enabling the large variety of data Inland Revenue collects to be quickly collated and made sense of and made available to respond to emerging trends and inform decisions for customers.

These capabilities complement each other and are enabling Inland Revenue to better support customers to get things right and better target its compliance activity for those who choose not to.

Many straight-forward transactions are now automated, with rules in systems stopping those that need review. It is just as important to stop revenue going out the door

The transformation programme has achieved the outcomes intended

when it shouldn't be as it is to ensure people pay and receive the amounts they should.

Every return that can generate a refund is checked automatically. All amended returns are checked and screened. Between 1 July 2020 and 30 June 2021, approximately 117,000 returns across all tax types were identified that had errors or potentially fraudulent with a value of just over $300 million. Please note this data is unaudited.

For the year ending 30 June 2021, donations tax credit claims worth $16.7 million were identified that were either an error or potentially fraudulent. Of this, claims totalling $2.5 million were referred to Inland Revenue's audit teams to investigate.

Previously Inland Revenue would have had to increase its workforce significantly to identify these incorrect claims and to cope with the extra audit and debt work.

More compliance effort is now upfront rather than waiting until the end of the year when customers may find themselves in debt.

One of the benefits of new capabilities is that a high trust approach is not high risk. Inland Revenue can now find the right balance between looking at the applications for support or returns that need to be looked at without unnecessarily stopping those that should go through.

Compliance checks have been built into application processes for COVID-19 products. Around 14,000 applications for the small business cashflow (loan) scheme totalling $200 million were stopped by upfront checks as at March 2022. This represents around 10% of the applications received. Approximately 135,000 applications for the resurgence support payment (RSP), around 15% of the applications received, had also been stopped at the same date.

When the RSP was introduced in February 2021, Inland Revenue was able to build on its experiences with implementing the small business cashflow (loan) scheme to ensure appropriate checks were in place up front.

This learning has continued as each RSP is activated. For example, when the RSP was activated for the Wellington region on 1 July 2021, the rules were adjusted based on some behaviour observed with the two rounds of payments activated for the Auckland region in February 2021.

Customers with applications that are stopped by the upfront checks relating to location are now automatically sent a web message about their application, rather than having to wait for Inland Revenue to contact them. This is a much more efficient way of working and was not something Inland Revenue was able to do when the small business cashflow (loan) scheme was launched.

Inland Revenue's approach to compliance for the RSP took account of feedback from the Auditor General on the Ministry of Social Development's approach to checking wage subsidy compliance. Applications that have been approved are randomly selected to validate that those customers who made it through the up-front checks were entitled to receive the RSP.

Inland Revenue is working more efficiently to ensure compliance with bright-line obligations.

Property compliance has been one of the first focus areas to benefit from the data and intelligence platform (DIP), with an initial focus on bright-line. Having built a data asset that brings together Inland Revenue data alongside Land Information New Zealand (LINZ) and commercial third party data, the DIP is beginning to provide a view of what is happening with property transactions throughout the country.

Every property transaction since 2015 has been assessed to try to determine what kind of sale it was and therefore what tax rules apply. Every month, there are, on average, 3,000 transactions which are under the bright-line period and the DIP identifies those which are potentially subject to the bright-line rule.

In November 2020, Inland Revenue sent information to customers (or their agent as directed) who had sold a property within the bright-line period and not indicated it as their main home. Since August 2021, this information has been sent to customers (or their agent) within a month of the sale.

The information sent to customers is simply reminding them that if the sale is subject to income tax due to the bright-line property rule, then any profits from the sale must be declared in their income tax return when it becomes due. Where they do need to return the income, customers (or their agents) are asked to complete the property sale information form and submit it with their annual income tax return. Customers (or their agents) are

The transformation programme has achieved the outcomes intended

also asked to let Inland Revenue know if the transaction is not subject to the bright-line rule.

This approach is delivering results:

- For the year ended 30 June 2020, 91 voluntary disclosures were received.
- For the year ended 30 June 2021, 397 voluntary disclosures were received – a 300% increase compared to the previous year.

By prompting more people to come forward and self-correct Inland Revenue's compliance specialists are freed up to focus on the more non-compliant customers.

Inland Revenue is now able to work more efficiently and effectively when transactions are identified that do require a closer look. Comparing cases selected by the DIP with those selected before the platform was in place shows the time saved in preparing bright-line cases for audit. The time spent preparing cases dropped from 15 hours to 10 hours and the time spent auditing decreased from 30 hours to 8 hours.

However, effort for small-to-medium sized business has not yet reduced as much as expected.

While the aim of the transformation programme was to reduce compliance effort for all customers, smaller businesses were expected to benefit to a greater degree. Approximately 90% of businesses have five or fewer employees and, typically, compliance tasks are performed by the owner/operator.

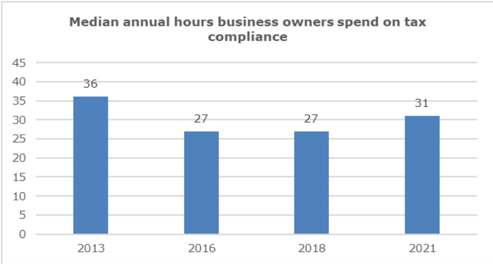
Inland Revenue has regularly surveyed owners of small-to-medium sized businesses (SMEs) to understand how much time and effort they spend meeting their tax obligations.

The 2013 survey is the baseline for measuring compliance effort reductions for SMEs. At that time, the median time SMEs spent on meeting their tax obligations was 36 hours a year.

The 2021 survey showed that SMEs reported spending 5 fewer hours on compliance in 2021 compared to 2013. This is below the target Inland Revenue set itself of 15 fewer hours for the 2020/21 year.

The COVID-19 pandemic has created very challenging business conditions, particularly for SMEs. While there has been a significant amount of Government support available to businesses affected by the pandemic, they need to apply for and demonstrate they are eligible for this support. In addition, Inland Revenue has been encouraging businesses to stay on top of their compliance obligations by filing on time, even if they are not in a position to pay the amounts owing.

The graph below shows how perceptions of the time spent on tax compliance have changed since 2013.



The introduction of mandatory payday filing from 1 April 2019 appears to have had an impact, with time spent complying with PAYE obligations being one of the main drivers of the increase in time since the 2018 survey.

Although SMEs say they are spending more time on compliance, the acceptability of the time spent on tax has improved since 2018. In 2021, more SME owners agreed (60%) that the time their business spends on tax matters is acceptable to them than disagreed (17%). The percentage agreeing that the time is acceptable has increased since 2018 (when it was 55%).

Reducing effort for SMEs will continue to be an ongoing area of focus for Inland Revenue.

Outcome 3: The information Inland Revenue holds is more up-to-date and accurate and can be accessed more easily

As a result of transformation, the range of participants in the revenue system has expanded significantly. Third parties are now able to connect to Inland Revenue's systems to securely access, submit and share data to provide a broader range of services to their clients. This has enabled customers to interact with the revenue system through their natural systems of choice. The two examples given here show what it now possible.

Gateway services are making it easier for third parties and Inland Revenue to exchange information.

A suite of new gateway services was made available in April 2021. These were co-designed with software providers. Gateway services enable direct machine-to-machine interactions between external systems,

The transformation programme has achieved the outcomes intended

"software", and START (Inland Revenue's new core processing system). They are a fast, high-volume channel and allow software providers to offer improved filing and client management services to tax agents in their chosen practice management software package.

The new gateway services offer several advantages. They provide improved support for filing with the ability to retrieve filing obligations, pre-populate returns with data that Inland Revenue holds, retrieve the status of returns, and amend already submitted returns. This improved returns service, alongside the ability to access an extended set of notifications relating to the client and the return itself will enable tax agents to better manage and track their clients' positions.

Gateway services are two-way, enabling tax agents and Inland Revenue to exchange information.

The gateway services that have been developed also provide the ability for other customers to file and update their information such as employers, banks and KiwiSaver scheme providers. Transitioning of KiwiSaver providers to new gateway services was completed during 2021.

Three of the new gateway services enable KiwiSaver providers to query the KiwiSaver membership data and contribution history Inland Revenue holds in real-time. Previously, providers had to contact Inland Revenue by phone or email to request this information which usually took more than a week (often several) and required manual effort. Providers can now do this securely, in real-time, and at volume from their systems.

The IRD number validation service is being used by banks, KiwiSaver providers, tax agents and payroll providers to ensure that their clients are correctly identified thus improving data quality and reducing error rates.

The 7 new customer application programming interfaces (APIs) enable external partners to securely query and update the data Inland Revenue holds about customers in real-time from their systems. These APIs are heavily used by tax agents. The improvement in the accuracy and timeliness of this data benefits Inland Revenue, its partners, and the other government agencies with whom Inland Revenue shares data.

Information is shared with MSD to support the administration of the wage subsidy scheme.

Having more up-to-date employment income information as a result of employers moving to payday filing from 1 April 2019 has enabled Inland Revenue to effectively support the Ministry of Social Development (MSD) in delivering the COVID-19 wage subsidy scheme. Information about self-employed individuals, employers and employees is shared with MSD which enables many applications to be automatically approved. Many however need further clarification and initially a direct 0800 number was established for MSD staff to connect directly with Inland Revenue.

A portal has been in place since 11 June 2020 and allows approved MSD people to access the information they need to verify applications directly, reducing the number of calls and the manual work, and ensuring applications are processed efficiently.

To protect individuals' privacy, MSD users have read-only access to selected data, limited to the minimum data necessary in order to verify whether or not any particular wage subsidy scheme application should be approved.

The portal benefits customers as their applications can be processed more quickly, benefits MSD through an improved ability to administer the subsidy scheme, and benefits Inland Revenue as far fewer calls are received from MSD to validate information.

Outcome 4: Decision-makers have greater agility

Government now has substantially improved agility for the products Inland Revenue administers. A number of new products, not originally within the scope of transformation, have been delivered by the programme. This includes the products introduced in response to the COVID-19 pandemic. For a full list of the additional scope delivered, please refer to appendix B.

The department's support of the response to COVID-19 demonstrates the speed with which new products have been developed and made available.

Two products introduced in response to COVID-19 illustrate what is now possible:

- The Small Business Cashflow (Loan) Scheme was announced by the Government on 5 May 2020. Applications opened on 12 May 2020. Inland Revenue had been working on the scheme since mid-late March 2020.
- The Resurgence Support Payment (RSP) was announced by the Minister of Finance on

The transformation programme has achieved the outcomes intended

15 December 2020 and went live for the first time on 23 February 2021 as a result of a resurgence of COVID-19 in Auckland. Since then, 10 rounds of the payment have been activated.

In both cases, it took a little over a month to design, build and test the first phase.

Experiences with implementing products previously in Inland Revenue's old systems and processes suggest that delivering the RSP would have taken around 3 to 4 times longer.

This level of agility can be preserved by having a system that deals with 90% of transactions, with exceptions handled by people.

Implementing earlier components of the COVID-19 response provided a good basis for implementing the Resurgence Support Payment.

To implement the RSP, Inland Revenue adopted established design patterns within START. Although the RSP may appear to be a different product, it shares a common design with the small business cashflow (loan) scheme. The reuse of existing patterns, and the fact that START is a commercial-off-the-shelf system will help to ensure that the RSP is able to evolve to meet the future needs of government and/or customers.

To ensure that as many applications as possible could be automatically processed and those that should be stopped for review were, Inland Revenue drew on its experiences with implementing the small business cashflow (loan) scheme and supporting MSD to administer the wage subsidy scheme.

Decision Support Manager was used for the first time in the assessment of applications. The upfront integrity rules held in Decision Support Manager can be quickly adjusted if new issues emerge.

A second resurgence of COVID-19 in Auckland in February 2021 meant the RSP was opened to a second round of applications on 8 March 2021. The original design anticipated there could be a need for further applications, with potentially overlapping timeframes, so very little configuration of the system was required.

Further applications were available following a tourist to Wellington testing positive to COVID-19 on 23 June 2021. The Delta outbreak which began on 17 August 2021 resulted in successive rounds of resurgence support payments being made available.

As at March 2022[4], around 840,000 payments totalling $2.9 billion had been made to approximately 231,000 customers.

Inland Revenue's ongoing response to COVID-19 demonstrates the benefits of the investment made in transformation and the agility decision-makers now have.

Outcome 5: Inland Revenue's systems are robust and reliable

All four stages of the transformation programme have now been successfully implemented in a series of releases from 2017 to 2021. All the products Inland Revenue administers are now running on START. Please refer to appendix C for the programme roadmap and to appendix D for information about the effort involved in migrating products from heritage systems to new systems and processes.

Decommissioning of heritage systems is well underway. FIRST, Inland Revenue's core heritage processing system, was switched off on 30 November 2021.

In addition to START, and in line with the all-of-government strategy of moving to digital first and cloud-based solutions, Inland Revenue has adopted a number of other COTS applications:

- Sitecore – manages the content of public facing websites, as well as the internal intranet.
- Microsoft 365 – the platform on which Inland Revenue's people operate. This enabled the roll out of laptops and tablets which allowed Inland Revenue to operate seamlessly during COVID-19 disruptions. It also ensures all information created by any staff member is stored securely centrally, thus reducing the risk of data loss.
- Oracle cloud applications – a fully cloud based 'as-a-Service' solution supporting Inland Revenue's finance and human resources functions, which has been named Ātea.
- Oracle web centre content – supports Inland Revenue's knowledge and document management platform, which has been named STAX.

[4] Applications closed on 13 January 2022

The transformation programme has achieved the outcomes intended

- ServiceNow – Supporting the Inland Revenue-wide Service Desk.
- SAS – a managed suite of products making up the data and intelligence platform (DIP).
- Microsoft Sentinel – an information security repository allowing any information security risks or incidents to be managed.
- One Identity Manager – a cloud-based service that enables identity governance and administration including privileged access management.
- Atlassian (Jira, Confluence) – a suite of products supporting project delivery and risk and issue management.

Systems are configured to Inland Revenue's requirements with minimal customisation.

Inland Revenue's new infrastructure is performing very well as evidenced by its stability in coping with a significant increase in volumes.

During 2021, the third round of automatic end-of-year income tax assessments for individuals saw Inland Revenue's systems handle substantially higher loads than in 2020. Applications for COVID-19 support and relief further added to the load.

Inland Revenue's systems would simply not have been able to cope with the volumes experienced as recently as 2-3 years ago. System availability targets were consistently exceeded during 2020/21.

The number of critical incidents Inland Revenue experiences has declined, with few if any affecting customer-facing services.

Three disaster recovery exercises have been successfully run, with the most recent in November 2020.

Inland Revenue has moved to a new workplace environment, where everyone is mobile-enabled.

People being able to work effectively remotely enables Inland Revenue to respond quickly and smoothly to disruptions, such as COVID-19 and building closures. As a result, Inland Revenue's organisational resilience has increased significantly.

The evergreen nature of the services and products that are now used to deliver services, including technology infrastructure, means these are all delivered as-a-service and kept up to date by trusted partners and vendors. As a result, Inland Revenue's services and products will always be up to date.

The move to cloud computing has provided numerous benefits.

Inland Revenue's systems are now off-the-shelf and cloud-based. The benefits of this approach include:

- Collaboration: Third parties can communicate and share information more easily with Inland Revenue.
- Flexibility: Inland Revenue's people can access tools and data from any location.
- Improved business continuity: In the event of a natural disaster, data is stored in a secure location and is able to be accessed.
- Currency/efficiency: Software is regularly updated and current.

Outcome 6: Inland Revenue is working more efficiently

High levels of automation, straight through processes that reduce effort for customers and Inland Revenue, and digital uptake have changed the nature of Inland Revenue's work considerably. As customer effort has reduced, Inland Revenue's work effort has reduced.

The size of Inland Revenue's workforce has reduced commensurately with an FTE profile as at 30 June 2021 that is 28% less than it was at 30 June 2016.

Processing times have improved significantly, providing customers with certainty sooner.

The following examples illustrate the speed with which Inland Revenue can now process transactions.

KiwiSaver and student loans moved to new systems and processes in April 2020.

KiwiSaver providers apply for the government contribution on behalf of their members after 30 June each year. In the first 5 days of July 2021, Inland Revenue processed more than 2.6 million claims for $904 million in total, representing the bulk of the claims.

On 5 July 2021 alone, 1.2 million claims were processed overnight in 35 minutes. This was the first year Inland Revenue was able to keep up with incoming demand and process and pay claims on the same day. Error rates were well down on 2020, as the issues that were causing many of the errors have been addressed.

The transformation programme has achieved the outcomes intended

Previously, the quickest Inland Revenue managed to catch up on processing the backlog of errors was 12 days.

Closing a student loan used to be resource intensive for Inland Revenue, resulting in delays for customers.

The information needed to close a loan took time to arrive, as employer monthly schedules (replaced by payday filing in April 2019) were filed at the end of the following month. This meant the majority of loans were overpaid by the time Inland Revenue took any action to close them.

In most cases, multiple contacts with customers were required to sort things out. This meant delays in closing the loan and refunding overpayments. Customers could wait months for overpaid amounts to be refunded to them, resulting in unnecessary frustration.

Overall, each account took about 40 to 45 days to finalise and required considerable follow up with employers and customers.

Now, the vast majority of loan closures are processed overnight. For example, between January and June 2021, 97% of straightforward closures were processed overnight.

Child support moved to new systems and processes in October 2021.

New systems and processes are far more efficient. This can be seen, for example, with the automated population of case information being sent to Services Australia for child support cases managed under the reciprocal agreement. The monthly schedule Inland Revenue sends to Australia outlining payments collected on their behalf can now be produced automatically in a matter of minutes. Previously it could take up to two days to produce and was highly manual.

Inland Revenue now automatically notifies employers or the Ministry of Social Development when deductions need to be made from income or a benefit to pay a liable parent's child support. Since go-live Inland Revenue has automatically set up over 6,000 deductions from income that would previously have been done manually and taken longer. These are deductions for newly liable parents, parents already paying by deduction and whose source of income has changed, and parents who have defaulted on their payments.

Inland Revenue is better targeting its specialist resources to help support customers.

Inland Revenue's customer compliance specialists are able to focus on more complex, higher value customer interventions, such as audits or investigations.

Imputation transactions provide a good example of this in practice. These transactions are often misunderstood by both agents and customers and are recorded incorrectly as a result.

The data and intelligence platform enables risks and reporting anomalies to be quickly identified. This has significantly reduced the time (from potentially hours to a few minutes) needed to identify which cases should be reviewed by one of Inland Revenue's compliance specialists. Specialists assigned a case can easily access a report which highlights the risk areas for review and includes all the detail required to review imputation returns.

Inland Revenue's organisation design has fundamentally changed.

Organisation design changes were progressively introduced from February 2018 to support the move to a customer-centric, intelligence-led, agile and inclusive organisation.

As part of the re-design, management layers were streamlined to support the move to broad-based roles, with leaders focusing on managing people rather than managing work or tasks.

A new model for delegations has been adopted, empowering customer-facing staff to resolve more issues for customers at first contact.

Working as part of a networked team is now standard practice across Inland Revenue. This was amply demonstrated by the way we responded to COVID-19. Networked teams bring people with different skills and experience together to implement new initiatives and to improve things or resolve issues for customers.

The transformation programme has achieved the outcomes intended

Tracking achievement of these outcomes.

Achievement of the investment objectives is measured against a number of lead and lag indicators shown on the next page.

For the 2020/21 year, Inland Revenue achieved seven out of the ten indicators for which there are quantitative measures.

The measures not achieved were:

- The percentage of customers who find it easy to comply. While this is increasing, this measure is tracking up more slowly than expected. Notwithstanding the significant changes introduced since 2017, 82% of customers say they find it easy to comply.
- Reduction in compliance time for SMEs. The target for 2020/21 was not achieved, with a saving of 5 hours compared to a target of 15 hours. It appears that COVID-19 and payday filing are having an impact. However the cumulative value of the time saved is above target. Inland Revenue recognises that achieving the targeted time savings by 2023/24 will be challenging, and that an on-going focus on reducing effort for SMEs will be required.
- Annual reduction in Inland Revenue's administrative costs. This was not achieved for 2020/21 as decisions were made to delay some organisational changes in light of COVID-19. However the cumulative reduction in costs is above target and Inland Revenue is confident it will achieve the targeted savings by 2023/24.

Although the transformation programme will close by 30 June 2022, Inland Revenue will continue to track and report against its benefit commitments through until 2023/24.

Outcome	Investment objective	Indicator	2017/18 Target	2017/18 Actual	2018/19 Target	2018/19 Actual	2019/20 Target	2019/20 Actual	2020/21 Target	2020/21 Actual	2021/22 Target	2022/23 Target	2023/24 Target
Easier for customers	• Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies • Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services • Increasing the secure sharing of intelligence and information to improve delivery of services to NZers and improve public sector performance	*Lead indicators*											
		Digital uptake by customers[5]	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	81%	88%	82%	89%	90%	90%
		Reduction in compliance time for SME customers (hours pa)	3 hours	10 hours	8 hours	9 hours	13 hours	9 hours *(indicative)*[6]	15 hours	5 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.3%	99.4%	99.6%	99.4%	99.5%	99.5%
		Lag indicators											
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies *(six completed to date)*										
		Cumulative reduction in compliance costs for SMEs	$30m	$80m	$160m	$280m	$370m	$500m *(indicative)*	$590m	$640m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government[7]			$90m	Achieved	$280m	Achieved	$570m	Achieved	$1,110m	$1,860m	$2,880m
Reduced time and cost to implement policy	• Improving agility so that policy changes can be made in a timely d cost-effective manner • Minimising the risk of protracted system outages and intermittent systems failure	*Lead indicator*											
		Reduction in the time and cost to implement policy	Measured through a series of case studies *(four completed to date)*										
		Lag indicator											
		Increased revenue system resilience as assessed by IR	Low	Partial	Low	Partial	Partial	Partial	Partial	Substantially achieved	High	High	High
Inland Revenue is more efficient	• Improving productivity and reducing the cost of providing IR's services	*Lead indicator*											
		Digital uptake by customers	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Lag indicators											
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m	$10m	$48m	$80m	$57m	$100m	$87m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs[8]	$5m	$12m	$15m	$60m	$95m	$118m	$195m	$205m	$295m	$395m	$495m

[5] The 26% target used for 2017/18 in the 2015 business case related to the percentage of customers using cloud-based software. From 2018/19 onwards, Inland Revenue reports on the overall percentage of digital uptake measured in returns filed electronically.
[6] Inland Revenue had intended to run the SME compliance cost survey again in 2020, however the impacts of COVID-19, especially on smaller businesses, resulted in a decision being taken to delay the survey until 2021. The 2018 survey has been used as an indicative result.
[7] The additional revenue is already included in the government's revenue forecasts. This indicator is rated as achieved based on increases in proxy measures.
[8] These figures do not include investment decisions made by Ministers to support the Government's response to COVID-19 of $36.9m in 2020/21, $26.5m in 2021/22, and $22.7m in 2022/23.

THE COMMERCIAL CASE

Confirming arrangements for the services and products required for on-going operations

This section outlines the commercial arrangements Inland Revenue has put in place for the post-transformation environment and the work that will continue beyond programme closure.

Enduring commercial arrangements are in place

Inland Revenue has moved from a build and maintain environment to using commercial-off-the-self (COTS) solutions. The heritage approach of on-premises perpetual licencing has given way to hosted as-a-service solutions.

As a result, Inland Revenue is now more reliant on its key partners to enable services to be delivered to customers. This has necessitated a different approach to commercial relationships, one built on high-trust and collaboration rather than a more traditional service level agreement arrangement.

During the implementation of transformation, relationships with key implementation partners were managed by the programme. The initial contracts covered the services and solutions needed to support implementation. As these relationships were always intended to be long-term and as the programme nears a close, the focus has shifted to the ongoing support arrangements needed with partners.

The key long-term relationships for Inland Revenue include:

- FAST Enterprises LLC (FAST) who provide the core processing platform and customer-facing digital services.
- Oracle who provide the enterprise support services platform.
- SAS who provide the data and intelligence platform.
- Spark who provide data centre and hosting services.
- Microsoft who provide Microsoft 365 and Azure cloud services.
- AKQA who provide web services.
- TeamIM who provide information knowledge management services.

Management of these relationships has now transferred to their enduring home in Inland Revenue's new organisation structure and appropriate commercial arrangements have been put in place.

Work underway.

There is a small amount of work to be completed prior to the closure of the transformation programme by 30 June 2022.

Decommissioning of heritage systems and processes is proceeding at pace and will be completed by programme closure. Alongside this activity, commercial arrangements with the providers of heritage services and solutions are being terminated to enable Inland Revenue's heritage data centres to be fully decommissioned.

In December 2021, Inland Revenue terminated its mainframe agreement with Unisys and handed FIRST, its heritage core processing system, over to Unisys to begin decommissioning. This was a key milestone for the programme.

Other work underway which will be completed before programme closure includes:

- Privileged access management and identity governance services[9] is on schedule to replace the heritage identity management processes and systems in March 2022 to enable the exit from the data centres. Further work will be completed in April/May 2022 to conclude this work.
- Mobile-Desktop-as-a-Service is an interim solution enabling Inland Revenue's contact centre staff and FAST's developers to work from home during pandemic related disruption. This arrangement will be required until Inland Revenue has a new contact centre solution in place.

[9] Management of user accounts, roles, and access rights for individuals in an organisation.

THE FINANCIAL CASE

Confirming the return of funding

This section outlines the forecast total costs for transformation and the funding Inland Revenue will return to the Crown at the conclusion of the programme.

The programme has come in under budget and is returning funding to the Crown

Confirming the return of funding.

This section outlines the forecast total costs for transformation and the funding Inland Revenue will return to the Crown at the conclusion of the programme. With the programme closing on 30 June 2022, this financial case (prepared in March 2022) documents the near completed financial results for transformation, including:

- A forecast cost outturn and the funding amount to be handed back to the Crown.
- An update on the commitment made in the November 2015 business case regarding Inland Revenue's funding contribution to transformation.
- An update on the business case commitment regarding the size of Inland Revenue's post-transformation operating baseline.

The forecast amounts assume that all the transformation-related technical adjustments submitted through the Budget 2022 technical initiatives process are approved by Cabinet.

The transformation programme will come in under budget.

Inland Revenue can now provide an estimate of the cost to complete transformation with a high level of confidence. Forecast total capital and operating spend will be approximately $1,641 million over the 10-years from 1 July 2014 to 30 June 2024, with an approximately further $450 million for depreciation and capital charge over the same period.

This means forecast programme savings of $227 million (12%) across capital and operating expenditure and $214 million (32%) for depreciation and capital charge. The combined savings to be handed back to the Crown are therefore approximately $441 million (17%), with a further capital saving of nearly $23 million repurposed by Cabinet for other priority spending in Inland Revenue. The forecast savings could increase slightly once the programme is formally closed and final costs are known. The tables below and on the next page show the total forecast transformation spend for capital and operating and depreciation and capital charge over the 10-year period, broken down by:

- Pre-design and design phases (1 July 2014 to 31 December 2015)
- Implementation (1 January 2016 to 30 June 2022)
- Residual activities[10] deferred due to COVID-19 (1 July 2022 to 30 June 2024)
- On-going operating costs until 30 June 2024
- Depreciation and capital charge to 30 June 2024 (shown in separate table).

($ million)	Pre-design & design *Actual*	Implementation *Forecast*	Residual activities *Forecast*	**One-off costs** ***Forecast***	On-going to 30/6/2024 *Forecast*	**Total spend** ***Forecast***	**Approved funding** ***Budget***	Forecast underspend *Forecast*	Self-funding increase[11]	**Total savings handed back to Crown** ***Forecast***
Capital	-	463	21	**484**	-	**484**	**590**	(106)	(21)	**(127)**
Operating	74	915	35	**1,024**	133	**1,157**	**1,257**	(100)	-	**(100)**
Total capital & operating	**74**	**1,378**	**56**	**1,508**	**133**	**1,641**	**1,847**	**(206)**	**(21)**	**(227)**

[10] The residual activities were deferred because the programme had to temporarily redeploy resources to priority COVID-19 initiatives. These activities include work to complete our future-proofed contact centre capability, the optimisation of START and enterprise support services as well as finish embedding new organisational capabilities.

[11] Inland Revenue increased its internal capital contribution by self-funding the capital for the residual activities ($21 million). This freed-up an equivalent amount of externally funded capital which can now be returned to the Crown. Capital and operating savings handed back to the Crown thus increased from $206 million to $227 million.

($ million)	Total spend *Forecast*	Approved funding *Budget*	**Forecast underspend** ***Forecast***
Depreciation	304	443	(139)
Capital charge	146	221	(75)
Total depreciation & capital charge	450	664	**(214)**

Savings were achieved through a combination of:

- Active commercial practices, with a dedicated team of procurement professionals with significant experience in managing complex, multi-vendor environments.
- Tight scope management, with a strong reliance on implementation of out-of-the box processes and no unnecessary configuration or customisation.
- A strong focus on delivery, with any delays short-lived and managed within internal contingencies.
- Rigorous financial management practices, with regular reviews of budgets and forecasts to ensure we delivered value for money.
- Active risk management including regular risk identification and mitigation as well as an annual update of the Quantitative Risk Analysis (QRA) for the cost estimates.

Furthermore, Inland Revenue was able to make use of several 'as-a-Service' offerings that were not available in the market when the costs for transformation were modelled in the November 2015 business case. These offerings significantly reduced the amount of capital spending, with a corresponding reduction in depreciation and capital charge expenses.

Some of the depreciation and capital charge underspend is also due to capital expenditure being incurred later in the programme than was assumed in the business case.

Most of the transformation underspend has been returned to the Crown as a saving, with a smaller amount redirected by Cabinet to another priority.

Of total generated savings of nearly $464 million over the 10-year period ending 30 June 2024, Inland Revenue has returned nearly $441 million to the Crown. Cabinet agreed to repurpose a further capital funding saving of almost $23 million, through a capital to operating swap, to help manage increased demand and integrity issues related to COVID-19 within Inland Revenue (CAB-12-MIN-008 refers).

Of the total $441 million hand back to the Crown, $12 million was returned in the 2021 October Baseline Update, $160 million was returned in previous years and an amount of $269 million is being returned through the Budget 2022 technical package.

The table below shows the amounts handed back over the life of the programme.

Distribution of savings ($ million)	Returned in previous years & 2021 OBU *Actual*	Returned through Budget 2022 technical package[12] *Forecast*	**Total savings handed back to Crown** ***Forecast***	**Savings repurposed by Cabinet for other priorities** ***Forecast***	**Total generated savings** ***Forecast***
Capital	34	93	127	23	150
Operating	93	7	100	-	100
Total capital & operating	127	100	**227**	**23**	**250**
Depreciation	22	117	139	-	139
Capital charge	23	52	75	-	75
Total depreciation & capital charge	45	169	**214**	**-**	**214**
Grand total	**172**	**269**	**441**	**23**	**464**

[12] The assumption made is that the recommendation to hand back this funding will be approved in the Budget 2022 technical package.

Across capital and operating (including depreciation and capital charge), Inland Revenue has handed back 17% of the total funding approved for transformation.

Expressed in a different way, this equates to a hand back of nearly 32% of the new Crown funding approved for transformation ($441 million of $1,384 million), i.e. this excludes the funding contributed by Inland Revenue.

The commitment made in the November 2015 business case to self-fund a significant portion of the capital and operating costs of transformation has been achieved.

In the November 2015 business case, Inland Revenue committed to contributing between 40% and 50% of transformation capital and operating funding from internal sources in the 10-year period from 1 July 2014 to 30 June 2024. This included a contribution from balance sheet capital reserves as well as savings from the operating baseline.

As shown in the table below, Inland Revenue is forecasting to achieve this commitment, with approximately 47% of the capital and operating funding for transformation coming from internal sources.

Self-funded cost ($ million)	Self-funded amount *Forecast*	Total spend *Forecast*	**Self-funded percentage** ***Forecast***	Business case commitment
Capital	280	484	**58%**	
Operating	478	1,157	**41%**	
Total capital & operating	758	1,641	**47%**	40% - 50%

Inland Revenue's contribution for the depreciation and capital charge costs was modelled at a minimum of 56% in the business case. As explained previously, the forecast final depreciation and capital charge costs are significantly lower than originally modelled, however the Inland Revenue dollar contribution remained the same as modelled at $413 million. Inland Revenue's percentage contribution to the depreciation and capital charge cost therefore increased to about 90%.

In real terms, Inland Revenue's post-transformation operating baseline is considerably lower than its pre-transformation baseline; this exceeds the department's November 2015 business case commitment to achieve post-transformation baseline neutrality in real terms.

Modelling for the November 2015 business case showed that administrative savings resulting from transformation would offset new operating costs including depreciation. Inland Revenue committed to delivering an operating baseline post-transformation that would be about equal in real terms to the pre-transformation baseline.

This commitment has been exceeded. As shown in the table below, while the like-for-like nominal baseline is about the same (1% higher), the post-transformation operating baseline expressed in real terms[13] has reduced by 15%.

($ million)	**2014/15**	**2022/23**
Nominal original	**727**	**746**
Less transformation design in 2014/15	(37)	-
Less residual activities	-	(24)
Less funding for new policy initiatives, time-limited funding, and one-off baseline movement	(28)	(51)
Nominal adjusted[14] (like-for-like comparison)	**663**	**671**
Real adjusted (in 2015 dollars)	**663**	**560**

[13] Excludes inflation to ensure comparability with the 2015 business case.

[14] To ensure a like-for-like comparison between the two years, some adjustments have been made including the removal of time-limited new policy initiatives introduced in the interim as well as transformation design costs in 2014/15 and residual activities in 2022/23.

THE MANAGEMENT CASE

Confirming post-transformation management arrangements

This section outlines the governance and management arrangements Inland Revenue has established for the post-transformation environment, including risk management and benefit tracking.

Enduring management and governance arrangements are in place

Inland Revenue been making changes to its organisation design and policies and practices since 2017 to reflect changes in the nature of its work and to ensure the department could operate sustainably once the programme closes.

In addition, a dedicated workstream was established as part of the final stage of the programme to ensure a smooth transition of the services, processes, frameworks and methods that will endure after the programme closes.

Since the last addendum was prepared in October 2020, Inland Revenue has:

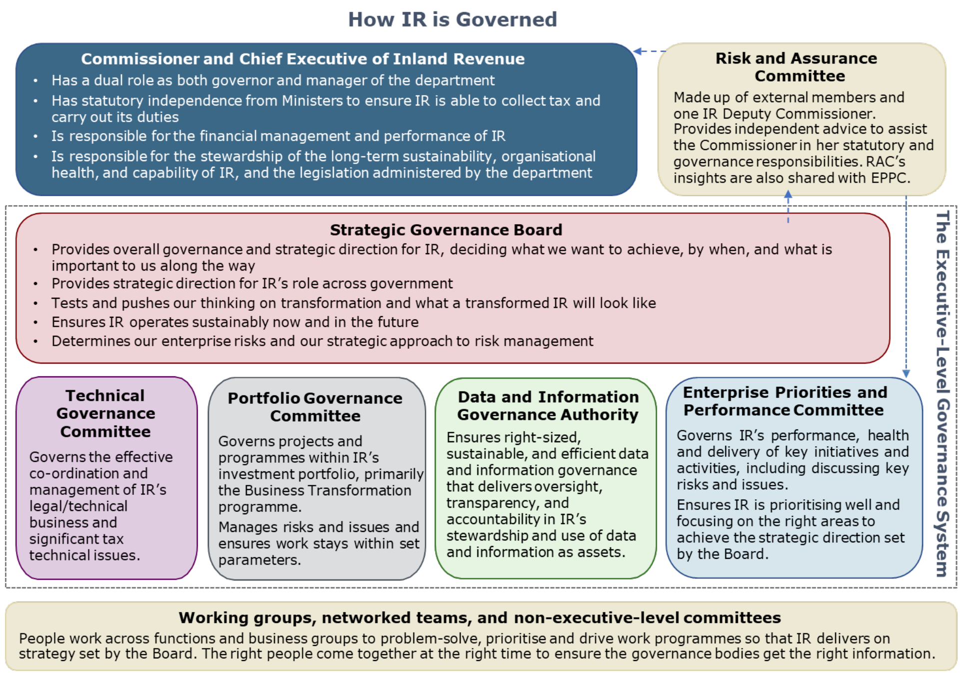
- updated its governance arrangements
- completed changes to its organisation design
- updated its Enterprise Risk Management Framework and Risk Management Policy
- agreed on-going benefit monitoring commitments.

Governance arrangements

Inland Revenue's governance arrangements have continued to evolve to ensure they remain fit for purpose. Two new enterprise-level governance bodies have been established:

- The Enterprise Priorities and Performance Committee (EPPC) was established in September 2020. EPPC governs Inland Revenue's performance, health and delivery of key initiatives and activities, and ensures the focus is on the right areas to achieve the strategic direction set by the Strategic Governance Board.
- The Data and Information Governance Authority (DIGA) became part of Inland Revenue's executive-level governance system in August 2021. DIGA ensures Inland Revenue has transparent and accountable governance arrangements that provide oversight of the management and use of data.

An updated governance structure for Inland Revenue is shown in the column on the right.



Organisation design

Inland Revenue is working more efficiently.

Higher levels of automation and rules built into systems mean straight forward transactions are processed with no human intervention. For example, around 93% of GST returns are processed straight through, ensuring customers get valid refunds quickly. As customer effort has reduced, the nature of Inland Revenue's work has changed. This has freed Inland Revenue up to focus on customers who need help and support and those who choose not to comply with their obligations. The size of Inland Revenue's workforce has reduced commensurately, with 28% fewer full-time equivalents (FTEs) as at 30 June 2021 compared to 30 June 2016. The reduction of 1,556 in the number of FTEs was achieved by adopting a set of workforce management principles. This meant that redundancies were limited to around 450, some of which were voluntary, with the balance achieved through attrition.

A full organisational redesign was completed, beginning in 2017 and concluded during 2021.

The new operating model enables Inland Revenue to harness collective strengths and knowledge to solve issues, innovate and improve services using new digital capabilities and networked ways of working, and delegate decisions closer to the customer.

Since 2017, Inland Revenue has created new capability-based roles, more flexible teams, and new leadership models. Capability-based roles are focused on transferable skills such as customer service or digital literacy as well as new capabilities such as data analytics, enabling people to build their capabilities as work has changed.

The first three new organisation groups were established in February 2018 to enable a stronger focus on meeting customers' needs - two Customer & Compliance Services groups, one focused on individuals, families and micro-businesses and one on small, medium and significant enterprises, and the Information and Intelligence Services group.

These were followed by new structures and models for Policy and Regulatory Stewardship in 2019 and the Tax Counsel Office in 2020.

In 2021, the final organisation design changes resulted in new functions being established for the post-transformation environment.

The Corporate and Enabling Services organisation design has resulted in a number of changes which became effective from 1 March 2021. These changes included the establishment of a number of new teams including:

- The Planning, Design and Delivery (PDD) group prioritises, designs, schedules and implements changes to START and related business processes resulting from policy changes, government initiatives, budget changes, annual returns, system and service pack upgrades, continuous improvement or other change demand. This group reported to the Deputy Commissioner Transformation until 31 December 2021 and has now transitioned to become part of Customer and Compliance Services (CCS). The Deputy Commissioner, Transformation is providing support and mentoring until the programme closes at 30 June 2022.
- The Enterprise Service Delivery team in the Enterprise Services business group has similar responsibilities to PDD for the systems that support the day-to-day running of Inland Revenue.
- The Strategic Portfolio Stewardship team in the Enterprise Design and Integrity (ED&I) business group supports enterprise planning, risk management, performance monitoring and reporting, investment analysis, and a portfolio of change initiatives.
- The Strategic Architecture team in ED&I ensures there is a clear link between strategy and implementation by translating strategy and policy into integrated, connected and feasible design, which is aligned with organisational frameworks, processes and systems. The team supports Inland Revenue's decision making by providing system-wide thinking and an end-to-end perspective.

When PDD was established it was made up of three business units - Design and Delivery, Capability and Outcomes (C&O), and Customer Experience Design (CXD). Detailed design was completed for the Design and Delivery team by March 2021 as part of the Corporate and Enabling Services design. Detailed design for C&O and CXD was completed in November 2021.

Also In November 2021, Inland Revenue established the Compliance Strategy and Innovation team in CCS. This team provides an enduring home for the START analytics work and brings in compliance planning and intervention design work.

Inland Revenue's organisation design changes are now complete with new capability-based roles, more flexible teams and new leadership models.

Mobile workplace technology is enabling Inland Revenue's people to work from anywhere.

Inland Revenue kept providing services during several significant disruptions that occurred during the implementation of the programme, including the Kaikoura earthquake, long-term building closures due to seismic issues, and the COVID-19 pandemic.

Risk management

In October 2021, Inland Revenue updated its Enterprise Risk Management Framework to support accountability, ownership and stakeholder confidence that risks are identified and managed effectively. All risks at Inland Revenue are visible and transparent through the use of an Enterprise Risk Management tool with robust dashboard functionality.

Inland Revenue's Enterprise Risk Management Framework is consistent with the International Risk Management Standard (ISO 31000:2018) and is aligned to The Committee of Sponsoring Organisations of Treadway Commission (COSO) Enterprise Risk Management Framework 2017.

In October 2021, Inland Revenue also updated its Risk Management Policy. This policy provides clarity on the objectives of risk management at Inland Revenue, and ensures roles and responsibilities are in place to collectively manage risks.

The Strategic Governance Board oversees risk management and the Risk and Assurance Committee provides independent oversight.

Progress tracking of benefit realisation

Responsibility for reporting progress has been handed over from the programme to its enduring home in Inland Revenue's new organisation structure. The Performance and Reporting team, part of Strategic Portfolio Stewardship in ED&I, is now accountable for ongoing track and reporting of Inland Revenue's benefit commitments.

To ensure visibility for stakeholders, progress against benefits and outcomes, including the table of lead and lag indicators, will be published in Inland Revenue's Annual Reports for 2022, 2023 and 2024.

Appendix A – High level transformation timeline

19 November 2015	**Cabinet approved the detailed business case** enabling implementation to begin.
2 June 2016	**The Taxation (Transformation: First Phase Simplification and Other Measures) Bill was enacted.** This Bill contained legislative changes to support transformation by removing out-dated legislative requirements and simplifying some administrative processes.
7 February 2017	**Stage 1 go-live** (GST moved to new systems (**START**) and processes). Prior to this a number of key activities such as the establishment of new data centres were completed.
21 February 2017	**The Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill was enacted.** This Bill contained the legislative changes needed to support Stage 1 and measures to simplify tax processes.
February 2018	The **first three groups in Inland Revenue's new organisation design were established:** Customer & Compliance Services – Individuals, Customer & Compliance Services – Business, and Information & Intelligence Services; **3000+ staff move to new roles.**
29 March 2018	The **Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Bill** was enacted. This Bill contained measures to improve the accuracy of tax collected through the year, changing the reporting requirements for employment and investment income information.
17 April 2018	**Release 2 go-live** (withholding taxes, FBT, and gaming machine duty moved to new systems (**START** and processes; the accounting income method (AIM) for provisional tax and the automatic exchange of information with international tax treaty partners (AEOI) were implemented; payday filing was introduced on a voluntary basis).
7 September 2018	A **pilot version of Inland Revenue's re-designed website** was released for customer feedback, focused on child support.
11 February 2019	The **first phase of the new enterprise support services platform** (**Ātea) went live**, moving budgeting and forecasting functions to new systems and processes.
Early 2019	The new **data and intelligence platform (DIP) was implemented**. The DIP enables the vast and varied data Inland Revenue collects to be quickly collated and made of sense of.
1 April 2019	**The Taxation (Annual Rates for 2018-19, Modernising Tax Administration and Remedial Matters) was enacted**. This Bill simplified how tax is assessed for individuals by issuing tax refunds automatically and made it easier for individuals to apply for tailored tax code.
26 April 2019	**Release 3 go-live** (income tax and Working for Families moved to new systems (**START**) and processes; a new year end process for individuals was introduced; payday filing became mandatory; new requirements for investment income reporting were introduced on a voluntary basis).
26 April 2019	Following the pilot, Inland Revenue's **redesigned website went live** with new income tax, Working for Families and child support content. Content for other products was updated and moved over to the new website in line with releases.
September 2019	The Policy & Regulatory Stewardship group was established as part of the new organisation design (previously the Policy and Strategy group).
1 October 2019	**Second release of Ātea** - finance, procurement and some human resources functions move onto the new platform.
February 2020	The **Tax Counsel Office (TCO)** was established as part of the new organisation design (previously the Office of the Chief Tax Counsel).
31 March 2020	**The Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill was enacted**. This Bill contained legislative changes to simplify and modernise the administration of KiwiSaver and student loans repayments.
17 April 2020	**Release 4 go-live** (KiwiSaver, student loans and PAYE processing moved to new systems (**START**) and processes; investment income reporting changes became mandatory).

Appendix A – High level transformation timeline

May 2020	First release of the new and improved **tax technical website went live,** with rulings, determinations, interpretation statements and other tax technical documents accessible on the new site.
7 September 2020	**Third release of Ātea** - sustainability and affordability functions go live.
1 March 2021	**Stage 4, Release 1 go-live** (paid parental leave, unclaimed money, duties and NZ foreign trusts moved to new systems (**START**) and processes).
1 March 2021	The **final groups were established as part of our new organisation design**– Enterprise Services and Enterprise Design & Integrity.
24 March 2021	The **Child Support Amendment Bill was enacted**. This Bill contained a range of measures to support the October release.
30 March 2021	The **Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill was enacted**. This Bill contained measures to improve the administration of unclaimed money.
28 October 2021	**Stage 4, Release 2 go-live** (child support moves to new systems and processes (**START**), the online services customers use and the software Inland Revenue's people use is upgraded).
30 November 2021	FIRST, **Inland Revenue's heritage core processing system, is switched off.**

Appendix B – Additional scope delivered during transformation

Following decisions made by Cabinet, there have been additions to the scope of transformation since the Detailed Business Case was prepared in November 2015.

The accounting income method (AIM) option for provisional tax.

AIM was implemented as part of Release 2 in April 2018, enabling small businesses to better match their provisional tax payments to when they earn their income.

AIM means businesses can pay smaller amounts of provisional tax more often and get refunds of overpaid provisional tax during the year. Until AIM, businesses paid provisional tax at set times of the year, regardless of when they earned their income.

Implementation costs for AIM were included within the overall funding approved for transformation.

The automatic exchange of information (AEOI) with international tax treaty partners.

New Zealand is one of many jurisdictions that has committed to a global initiative led by the Organisation for Economic Co-operation and Development (OECD) on the automatic exchange of financial account information (AEOI) using the Common Reporting Standard (CRS).

Tax authorities will exchange this information to ensure everyone pays the right amount of tax. AEOI was implemented as part of Release 2 in April 2018.

Additional funding of $32.2 million was provided to Inland Revenue as part of Budget 2016 to implement AEOI. In September 2016, Inland Revenue sought approval to drawdown $21.5 million of this amount. The decision to implement AEOI in START provided technology solution certainty and enabled costs to be revised.

Best Start.

Best Start payments are $60 per week per child for babies born on or after 1 July 2018.

Families can choose to receive the payment every week, every fortnight or once a year, in line with other Working for Families payments.

To meet delivery timeframes, Best Start was first implemented in Inland Revenue's heritage systems and processes (for which additional funding was provided) then migrated to new systems and processes as part of Release 3 in April 2019.

The costs for migrating Best Start to new systems and processes as part of Release 3 formed part of the overall funding approved for transformation.

Research and Development Tax Incentive.

The Research and Development Tax Incentive (RDTI) operates as a tax credit and features a 15% tax credit on up to $120 million of eligible expenditure. It has been available to eligible businesses since the 2019/20 income year.

Inland Revenue is the administering agency of the RDTI, supported by Callaghan Innovation. The RDTI was delivered as part of Release 4.

Additional funding of $4.3 million over 4 years was provided as part of Budget 2018 for one-off implementation costs for the R&D tax incentive.

Hours paid.

Collection of hours paid information was included as part Release 4 in April 2020 and did not require additional funding.

This information is collected from employers who file through software and who already record their payroll on this basis. This will help to improve the administration of Working for Families and Child Support. These payments are partly determined by the hours people are paid for.

COVID-19 response initiatives.

Inland Revenue's swift response to COVID-19 amply demonstrates the benefits of the investment made in transformation and the agility decision-makers now have.

The initiatives were delivered while Inland Revenue was organising its people to work remotely, preparing for the implementation of Release 4 in April 2020 and the peak tax season, including the 2020 automatic income tax assessments.

In early 2020, Inland Revenue was the lead agency on two COVID-19 response bills and prepared a Supplementary Order Paper (SOP) for another. These introduced a number of changes including:

- Allowing Inland Revenue to share information with other government agencies to assist them in their response to COVID-19. For example, Inland Revenue

Appendix B – Additional scope delivered during transformation

supported MSD to administer the wage subsidy scheme as it relies on data held by Inland Revenue to verify applications. Inland Revenue shared information about self-employed individuals, employers and employees with MSD which enabled many applications to be automatically approved. Initially, supporting Wage Subsidy applications was very labour-intensive. However in June 2020, Inland Revenue developed a portal to allow MSD to self-serve some queries.

- Authorising the Commissioner of Inland Revenue, on behalf of the Crown, to lend money under the small business cashflow (loan) scheme.

Following a resurgence of COVID-19 in early 2021, The Taxation (COVID-19 Resurgence Support Payments and Other Matters) Bill was enacted on 18 February 2021. The Resurgence Support Payment was announced by the Government on 15 December 2020 and made available for the first time on 23 February 2021.

Revised eligibility criteria to make the small business cashflow loan scheme available to more businesses by also took effect from early February 2021.

Appendix C – Programme roadmap

2016/17	2017/18	2018/19	2019/20	2020/21

Stage 1
Enable secure digital services

Stage 2
Streamline tax

Stage 3
Streamline social policy

Stage 4
Complete the future revenue system

Stage 1

Customer experience

- Self-service for GST

End-to-end solution

- GST
- Foundational technology

Release 2

Policy

- Accounting Income Method (provisional tax – 1.4.18)
- Payday reporting (voluntary – 1.4.18)

Customer experience

- Digital submission of employer information

End-to-end solution

- Withholding taxes
- Fringe benefit tax
- Payroll subsidy
- Gaming machine duty
- Automatic Exchange of Information

Release 3

Policy

- Payday reporting (mandatory – 1.4.19)
- Reduction in PAYE electronic filing threshold
- Investment income filing (voluntary – 1.4.19)
- New annual income tax process
- Individuals' income tax (1.4.19)

Customer experience

- Digital submission & improved self-service for income tax
- Improved self-service for PAYE

End-to-end solution

- Income tax, including provisional tax
- Imputation taxes
- Working for Families
- Independent earner tax credit

Release 4

Policy

- Investment income filing (mandatory – 1.4.20)
- Social policy changes

Customer experience

- Improved digital submissions for KiwiSaver providers
- Improved self-service for KiwiSaver and Student Loans

End-to-end solution

- PAYE
- KiwiSaver
- Student Loans

Stage 4

Policy

- Social policy changes

Customer experience

- Improved self-service for paid parental leave, unclaimed money, NZ foreign trusts, duties and reserve schemes, and child support
- Full customer view available

End-to-end solution

- Paid Parental Leave
- Unclaimed Money
- NZ Foreign Trusts
- Duties and reserve schemes
- Child Support

Appendix D – Release effort

	Stage 1	Stages 2 and 3			Stage 4	
		Release 2	Release 3	Release 4	Release 1	Release 2
	Feb 2017	April 2018	April 2019	April 2020	March 2021	October 2021
Products migrated to START	• GST • Co-existence	• Withholding taxes • Fringe benefit tax • Payroll subsidy • Gaming machine duty	• Income tax • Working for Families	• KiwiSaver • Student Loans • Back-end processing of PAYE	• Paid parental leave • Unclaimed money • NZ foreign trusts • Duties	• Child support • Upgrade to online services • Version 12 major upgrade
Customer readiness						
Seminars for customers	0	250	350	Face to face seminars replaced with webinars due to COVID-19		
Webinars for customers	3	15	15	16	8	14
Customers contacted	630,000	368,000	2,000,000	1,091,000	14,300	1,000,000
Programme readiness						
Accounts migrated	880,000	1 million	19.7 million	7 million	7,000	570,000
Returns migrated	8.1 million	13 million	15 million	38 million	12,000	2.8 million assessments
Transactions migrated	23.6 million	2 million	142 million	172 million	1.4 million	129 million
Contributions migrated	n/a	n/a	n/a	767 million	n/a	n/a
Web logons updated	n/a	n/a	8.3 million	n/a	n/a	n/a
Time to load data into START	17 hours	11 hours	33 hours	54 hours	4 hours	35 hours
Time to remove data from FIRST	12 hours	10 hours	30 hours	21 hours	n/a	23.5 hours
Number of cut-over tasks	More than 350	More than 540	More than 1,150	More than 1,250	891	More than 1,150
Hours to cut-over	113 hours	93 hours	185 hours	168 hours	48 hours	140 hours
Total tests completed[15]	15,462	46,304	94,204	76,293	1,554	35,801
Business readiness						
Staff trained	2,700	2,700	3,600	3,800	520	3,600

[15] There was a change in approach for testing from Stage 4, Release 1 in March 2021 as subsequent releases used as much of the already delivered design patterns as possible. Most of the testing effort was put into areas where the products had unique requirements. In practice, this meant less testing on functions common to all products, which allowed the focus to be on the areas of real complexity or risk.