Inland Revenue
Te Tari Taake

Programme Business Case Addendum

Business Transformation

Implementing New Zealand's future revenue system

October 2020

Version: Final

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Part A

Updates to the Programme Business Case

This section summarises material changes since the last addendum to the Programme Business Case was prepared in October 2019. The most significant update is to the economic case. The commercial and management cases have also been updated. No changes have been made to either the strategic or financial cases.

Executive Summary

The advent of COVID-19 has had a significant impact on people and economies everywhere. Inland Revenue's response to the challenges presented by the pandemic and the need to act swiftly to support New Zealanders have provided a very visible demonstration of the benefits of transformation.

Inland Revenue has played a key role in supporting the Government's response to COVID-19, while continuing to deliver services, provide support to customers, and implement further changes as part of transformation.

The agility delivered by transformation was a significant enabler of the Government's response to COVID-19.

Decision-makers have significantly more agility than previously to make changes to policy and legislative settings. A focus on keeping solutions as simple as possible for both customers and Inland Revenue means that previous system constraints are no longer an issue. This is a huge change as the answer to "can the system do this and do it at a reasonable price" is now almost always yes rather than no for initiatives that are a good fit with Inland Revenue's core capabilities. However, other constraints, such as the need to ensure that both customers and Inland Revenue itself are ready for changes, are now more evident.

The flexible and iterative nature of START[1] means that new products or services that adopt out-of-the-box processes and use established patterns can be implemented much more quickly than previously. This approach combined with a focus on minimising exceptions and working with other agencies was very evident during the initial response to COVID-19. These ways of working will be even more important as the country recovers.

Inland Revenue has supported the Ministry of Social Development to administer the Wage Subsidy. Initially this was through sharing information and providing a verification service for applications where this was needed. More recently, Inland Revenue has made a portal available to Ministry staff to enable them to self-serve the majority of queries. Providing Ministry staff with access to the relevant information held in START took just 15 working days from when the portal was approved by Inland Revenue's governance forums until it was up and running.

Business tax changes have been implemented to free up cashflow, including a provisional tax threshold lift, the reinstatement of building depreciation and writing off interest on the late payment of tax. In addition, the small business cashflow (loan) scheme and loss carry-back scheme have been introduced. Both schemes have proven to be successful, with 104,000 applications for the loan scheme and $1.6 billion in loans approved and $105 million in funds released to 2,500 customers through loss carry-back as at 9 October 2020.

The small business cashflow (loan) scheme provides a very good demonstration of Inland Revenue's agility. It was 39 working days from the initial decision to begin some preparatory work until the launch of the scheme. It took just 10 days from when the Government confirmed its intentions until the scheme was launched. These timeframes were unthinkable as recently as a couple of years ago.

However, these results were not achieved without cost. Work had to be re-prioritised and resources re-directed to enable people to focus on the higher priority COVID-19 response work.

The continued delivery of services to customers was made possible by transformation.

Inland Revenue quickly shifted the majority of its people to working remotely once the impacts of COVID-19 became clear. This was enabled by the investment made in workplace technology as part of transformation. As a result, Inland Revenue was able to continue to support customers and ensure they pay and receive the right amounts. The second year of automatically issued income tax assessments was largely completed during this period, with 3.1 million assessments issued and $688 million in refunds paid as at 30 June 2020.

For the first time, Inland Revenue implemented changes remotely and Release 4 successfully went live.

On 16 April 2020, KiwiSaver and student loans and the back-end processing of PAYE moved to new systems and processes.

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

A remote go-live was made possible by the investment in tools and technology in recent years which enabled people to work remotely, and by the well-practiced processes developed for previous releases. The cutover team were very well prepared and very clear about what was required of them, having practiced the execution of every required task multiple times.

Going live in the early days of the COVID-19 Alert Level 4 lock down was not an easy call to make, and it was the right one. Not going live would have delayed making new services available to customers which make it easier for them to get the help they need and would have made it more difficult for Inland Revenue to support the Government's response.

Customers now have access to a wider range of services and more information and options. For example, all customers experiencing financial difficulties can apply for relief through a simple, new myIR service.

The benefits for customers of the changes made in Release 4 are evident.

A key consideration throughout transformation has been reducing effort for customers.

Employers, particularly those using gateway services, are finding filing easier, with 89% saying they find it quite or very easy. All employers' information is now held in one place.

The vast majority of individual customers say they like the automatic income tax assessment process as it is straightforward and minimises the actions required from them. Changes were made when the process ran for the second time in 2020 to further improve customer experiences. As a result, Inland Revenue received fewer calls and complaints.

Over 80% of student loan customers are finding it easy to understand and do what they needed to do in myIR. KiwiSaver customers are finding myIR easy to use.

Processing times are now much faster providing customers with certainty sooner. Around three quarters of members' KiwiSaver contributions are now processed in a few days, compared to the 20 to 23 days this used to take. Closing a student loan is now an overnight process that previously took up to 42 days.

The final stage of the transformation programme has been re-planned as a result of the impacts of COVID-19.

The end of the transformation programme is now in sight. Moving the remaining products to new systems and processes will now happen in two releases during 2021, rather than in a single big release as previously planned.

Paid parental leave, duties and foreign trusts will move on 1 March 2021, with Child Support and an upgrade to Inland Revenue's online services likely to follow in October 2021.

Transformation will be completed in 2021/22 and is on track to complete within the funding envelope approved by government in 2015.

The final stage includes work to complete decommissioning of heritage infrastructure and transition the processes, frameworks and methods the transformation programme has built to Inland Revenue's future operating model. This will help to ensure the benefits of transformation are enduring.

Realisation of benefits is well advanced.

The non-financial benefits of policy agility, system resilience and making things easier for customers have been very evident in Inland Revenue's response to COVID- 19.

Overall trends in financial benefits are positive with administrative savings increasing year-on-year. The result for compliance effort reduction for small to medium sized businesses is indicative only this year, as the planned 2020 survey was not run due to COVID-19. The 2018 results have been used in the absence of any new information.

There are still challenges ahead.

Although risk has reduced somewhat, significant risks remain. Operational risk will remain elevated until Inland Revenue completes transformation and fully migrates off heritage systems and processes.

Child Support implementations are notoriously complex and difficult. While Inland Revenue is simplifying requirements as much as possible, this remains a very complex product. In addition, despite Inland Revenue's best efforts at readying customers for change, there are likely to be difficulties as Child Support customers have complex circumstances and can be hard to reach.

Completing transformation will need to be balanced against any future COVID-19-related work and trade-offs may be required.

THE ECONOMIC CASE

Delivering the preferred way forward

This section provides an update on progress in delivering transformation and realising the agreed benefits and outcomes. The preferred way forward and programme roadmap are unchanged. The implementation plan has been updated as a result of the impacts of COVID- 19.

Modernisation of the revenue system is nearing completion

Transformation continues to be implemented as planned:

- The final policy changes to be implemented as part of transformation were being considered by select committee prior to the General Election. The proposed changes aim to simplify the administration of Child Support as part of Stage 4 in late 2021.
- New analytical capabilities are shaping how Inland Revenue supports customers to pay and receive the right amounts and comply with their obligations.
- Changes to Inland Revenue's enterprise support services, capabilities and organisation design continue.
- Release 4 was successfully implemented on 16 April 2020, completing Stage 3 and moving KiwiSaver, student loans and the back-end processing of PAYE, to START.

The external environment has changed significantly since the last addendum to the programme business case was completed in October 2019. The advent of the COVID-19 global pandemic has required all organisations and individuals to adapt.

Inland Revenue's response to COVID-19 amply demonstrates the benefits of the investment made in transformation.

- Inland Revenue was able to quickly shift the majority of its people to a remote working model once the impacts of COVID-19 became clear, as a result of the investment made in workplace technology as part of transformation.
- Go-live of Release 4 was completed remotely. This was made possible by the investment in tools and technology in recent years which enabled people to work remotely, and by the well-practiced release management and change management processes developed for previous releases. The cutover team was very well prepared and very clear about what was required of them, having practiced the execution of every required task multiple times.
- Inland Revenue has played a significant role in delivering the Government's response to COVID-19. The department has supported the Ministry of Social Development (MSD) to administer the Wage Subsidy. Business tax changes to free up cashflow, including a provisional tax threshold lift, the reinstatement of building depreciation and writing off interest on the late payment of tax have been implemented. A very successful small business cashflow (loan) scheme and a loss carry-back scheme have been introduced.

The small business cashflow loan scheme demonstrates the agility now available. The scheme successfully went live at 12.01am on 12 May 2020. It was 39 working days from the initial decision on 13 March 2020 to begin some preparatory work until the launch of the scheme. It took just 10 days from when the Government confirmed its intentions on 25 April 2020 until the scheme was launched.

During the first 5 to 10 minutes Inland Revenue had received 43 applications, with 600 received by 1:20am. As at 9 October 2020, Inland Revenue had received 104,000 applications and approved $1.6 billion in loans. The vast majority of applications have been online, with less than 300 not made through myIR.

Delivering the future revenue system

Delivering the future revenue system has required changes to policy, data, processes, people, and technology. The majority of these changes have already been made, with one final stage to go.

1 Simplifying policy and legislative settings

A review of policy and legislative settings to support, enable, and optimise the benefits from business transformation is in its final stages.

A Bill containing the final transformation policy changes to improve the administration of Child Support has had its first reading and was being considered by select committee before the General Election. A Supplementary Order Paper (SOP) to this Bill proposes to repeal child support incremental penalties and simplify the penalty write-off provisions.

Another SOP to the Taxation (Annual Rates for 2020-21, Feasibility Expenditure, and Remedial Matters) Bill proposes changes to the Unclaimed Monies Act.

Some changes implemented in earlier releases continue to be embedded.

From 1 April 2020, payers of investment income have been required to provide more detailed recipient information more frequently to Inland Revenue. Companies and Māori Authorities have been required to provide Inland Revenue with information about the recipients of investment income. These changes were introduced on an optional basis from 1 April 2019.

This year, investment income information was received on 15 May 2020 and Inland Revenue upgraded its capacity to enable payers to load information directly into its systems. Throughout 2020/21, investment income information will be received each month, so Inland Revenue will have a full picture of an individual's investment income by 20 April 2021. Receiving more detailed investment income information more frequently will enable Inland Revenue to check that people are on the right withholding tax rates.

The exception is Portfolio Investment Entity investment income which will be available on 15 May 2021.

Payers will upload information about recipients of investment income themselves, directly into Inland Revenue's systems.

In addition, there has been a significant reduction in errors in the investment income certificates provided to Inland Revenue since withholding taxes moved to new systems and processes in April 2018. Errors have reduced by 94% from approximately 116,000 errors in 2018 to 7,000 in 2020. One of the large banks had a 2% error rate with certificates in 2018 which meant around 20,000 work items for Inland Revenue. This year, only 83 certificates out of more than 1 million were in error.

The second year of automatically issued income tax assessments continues to make it easier for customers to pay and receive the right amounts.

The automatic issuing of end-of-year income tax assessments ran for the second time in 2020. It ran more smoothly as a result of the changes to investment income information becoming mandatory and Inland Revenue enhancing its approach.

The process has been run over a shorter period of time compared to last year. One of the lessons from last year was that the faster customers receive their assessments, the fewer contacts Inland Revenue receives. This meant that customers received the outcome of their assessment more quickly, a particularly important consideration in the COVID-19 environment.

As at 30 June 2020, 3.1 million assessments had been issued, resulting in over $688 million in refunds and $140 million in tax to pay. At the same time in 2019, 1.6 million assessments had been released out of the total of 3 million, resulting in $395 million in refunds and $67 million in tax to pay.

As can be seen in the graphic below, Inland Revenue received fewer calls and complaints and more customers interacted with the department electronically.

Overall contact demand –29%

Electronic correspondence uptake +70%

Decrease in the number of complaints -49%

A number of legislative changes were implemented as part of Release 4 in April 2020.

Policy changes were implemented which are helping to improve the administration of KiwiSaver and Student Loans and helping to speed up the transfer of employer contributions to KiwiSaver scheme providers.

For KiwiSaver these changes include:

- Inland Revenue passing employer contributions to scheme providers based on information reported by employers. This means members' contributions earn investment returns more quickly.
- Members being able to change their contribution rates more easily (this provision will come into force on 1 April 2022).
- Speeding up the transfer of funds to default providers for automatically enrolled members who do not choose a scheme provider.
- Standardising requirements so that funds are transferred more quickly when a member chooses to change providers.

In addition, Inland Revenue can now advise KiwiSaver scheme providers and portfolio investment entity (PIE) providers what prescribed investor rate (PIR) to apply to a customer. This takes a lot of pain away from customers many of whom may not understand what a PIR is or what to do.

After sending out 1.5 million letters last year to customers who were on the wrong rate asking them to contact their PIE provider to correct their rate, only 15% did so. Up until the 2019/20 tax year customers on a PIR that is too high could not have their overpaid tax refunded. Those on a PIR that is too low had their underpaid tax included in their automatic end-of-year income tax assessment.

From the 2020/21 tax year, overpayments of tax as a result of a being on a PIR that is too high will be included in customers' end-of-year automatic income tax assessments. Customers that are underpaying their tax because they are using a PIR that is too low will be taxed at their appropriate PIR for the year.

For student loans changes include:

- Renaming the student loan repayment holiday to repayment obligation suspension. This makes it clearer to borrowers heading overseas that their repayments are only temporarily on hold and must resume once the suspension ends or they return to New Zealand.
- Writing off student loans in cases where borrowers have been able to prove they did not take out the loan.
- Inland Revenue notifying employers when borrowers' loans are close to being repaid. This is reducing the likelihood of overpayments and borrowers having to contact Inland Revenue to get a refund.
- Treating overseas based borrowers in exceptional circumstances (suffering from a serious illness or disability) as New Zealand based. These borrowers are not charged interest and repayment obligations are based on their income.

More legislative changes are proposed to be introduced in Stage 4 to simplify things for customers.

Changes are proposed to the Unclaimed Money Act 1971 to make it easier for the owners of the funds to track them down and claim them, and for the financial institutions or agencies involved to comply with the rules.

Unclaimed money usually refers to money (such as a bank deposit) which has become disconnected or detached from its owner. Unclaimed money is passed on from the holder (such as a bank) to Inland Revenue as the custodian of those funds until they can be claimed.

Proposed changes include:

- Enabling Inland Revenue to use the data it already holds to more efficiently locate owners.
- Reducing the length of time before money is treated as unclaimed to a standard 5 years.
- Clarifying the information organisations need to send to Inland Revenue.
- Introducing a 60-year limit on the ability of owners to claim their money.

The proposed changes will reduce compliance costs for organisations holding unclaimed money and make it easier for Inland Revenue to track down the owners.

The Child Support Amendment Bill was being considered by the Social Services and Community Committee prior to the General Election. Legislation before parliament lapses and requires reinstatement by the new Government.

The main proposals in the Bill are:

- fairer and more effective penalty rules,
- a grace period for penalties for people new to paying Child Support,
- employer deductions of Child Support for newly liable people,
- a four year time bar for reassessing Child Support, and
- a wider definition of "income" for Child Support purposes, for example including investment income.

A SOP to the Child Support Amendment Bill was released on 9 July 2020. The proposed changes in the SOP would repeal child support incremental penalties and simplify the penalty write-off provisions.

2 Making more intelligent use of information

New analytical capabilities are enabling Inland Revenue to better support customers to pay and receive the right amounts. They are also a key factor in better understanding customer interactions so Inland Revenue can help customers to get things right from the start and improve their experiences.

The analytical capabilities in both the data and intelligence platform and START are making it easier for customers to comply and harder not to. START Discovery Manager enables Inland Revenue to identify errors and issues requiring review. Rules in Integrity Manager prevent revenue loss by ensuring people only receive the payments they are entitled to and enable compliance activity to be better targeted. 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 are contributing to the commitments made to increase assessed Crown revenue and reduce administrative costs for Inland Revenue.

Errors and opportunities for non-compliance are being designed out as part of moving products to new systems and processes and when new products are implemented.

Every return that can generate a refund is checked automatically by Integrity Manager, an analytical capability which is part of START. Returns that trigger a rule are screened and either released or sent for review. All amended returns are checked and screened. Between 1 July 2019 and 30 June 2020, through Integrity Manager Inland Revenue identified approximately 23,000 returns across all tax types that had errors or were potentially fraudulent with an estimated value of just under $200 million. This data has not been audited and is indicative only as Inland Revenue is working to automate this reporting.

Compliance is increasingly being built in at the front-end, including for initiatives introduced in response to COVID- 19.

The small business cashflow (loan) scheme has compliance checks built in as part of the application process to ensure that loans that should be stopped are. This will significantly reduce the effort required after the event to ensure compliance.

For the Wage Subsidy, Inland Revenue shared information with MSD which enabled many applications to be automatically approved. For those that couldn't, an 0800 number enabled MSD staff to verify information with Inland Revenue. From 11 June 2020, a portal has enabled MSD staff to self-serve some queries. Inland Revenue and MSD are fully aligned on the compliance approach for the Wage Subsidy.

START analytical capabilities continue to be refined.

Discovery Manager was used this year to support the automatic income tax assessments process which meant customers with straightforward circumstances had their assessments processed far more quickly than last year.

New Integrity Manager rules have been put in place for residential rental returns to stop expenses being claimed incorrectly and also around the ringfencing of losses. Some people need help understanding whether the ringfencing rules apply to them and others need help with completing their return correctly. There are some people trying to use rental losses to offset their other income which they are not entitled to do. These rules are helping to support a "right from the start" approach such as updating Inland Revenue's website and other communications where there is confusion.

Analytical capabilities are also helping to identify where customers are getting it wrong. The new Integrity Manager rules were implemented in late April 2020. As at 30 June 2020, just under 2,000 tax returns had been reviewed. Of these, around 1,100 returns were amended, resulting in tax revenue of approximately $2.1 million.

For student loans, Discovery Manager, one of the analytical capabilities in START, allows Inland Revenue to identify borrowers who may be overseas but have not previously been matched with Customs information, e.g. a name mismatch. This used to occur at the end of a loan but can now be run much closer to when the travel may have occurred.

The analytical capabilities within START are also helping to ensure borrowers are paying the right amount. For example, as at July 2020, Inland Revenue had been able to identify and notify 4,700 customers who appeared to be eligible to pay a lower rate for their repayments, and around 2,000 customers who appeared to be having too much deducted from their wages. Customers who may be underpaying their obligations were also identified using data held in START.

For the loss carry-back scheme introduced as part of the COVID-19 response, rules in Integrity Manager are identifying patterns of behaviour that may need to be looked at, for example where customers are getting things wrong.

The donations tax credit process has improved significantly.

Brand new tools, optical character recognition (OCR) which Inland Revenue uses to scan documents and Decision Support Manager, one of the analytical capabilities in START, made a significant difference this year. OCR was used to read donation receipts and Decision Support Manager, another of START's analytical capabilities, to verify receipts in straightforward cases.

Those that need further review are stopped. For the 2019/20 year, Inland Revenue identified approximately 31,000 claims worth $23 million that were either an error or fraud. Of this, 3,000 claims totalling $4.1 million were referred to audit teams to investigate.

The two tools, working together, processed and paid donation tax credit claims with no human intervention. For customers who submitted their claims online and where there were no issues with the information provided, refunds went out in days. Approximately 60% to 70% of claims were received online this year.

Previously this was a paper process and required approximately 80 people to key receipts into Inland Revenue's systems. Refunds could take weeks to get to customers.

The data and intelligence platform is beginning to provide a view of what is happening with property transactions throughout the country.

The data and intelligence platform (DIP) has assessed every property transaction since 2015 to try to determine what kind of sale it was and therefore what tax rules apply. The DIP has enabled Inland Revenue to bring together data from a range of sources and present it in a simple visual format. This dashboard enables information to be cut different ways, for example by region, by type of seller such as a builder or developer, and by type of customer such as an individual or a business.

This capability is helping Inland Revenue to better target its compliance activity, ranging from education through to investigation.

Inland Revenue now has greater visibility in real-time of the information it holds.

New reporting tools have made information readily available and highly visible. Information about customer uptake, customer reactions, and the channels customers use is available in real-time.

This is assisting Inland Revenue to make immediate service improvements where necessary and to manage risk. For example, understanding the impacts of COVID-19 on customers and the emerging trends in behaviours to inform what steps to take to support the best outcome for the customer and ensure compliance over time.

The new intelligence centre is enabling people in Inland Revenue to have the right information on hand to make the best decisions. It is making it easier for Inland Revenue to disseminate and share information and insights.

3 Fitting revenue processes seamlessly into people's lives

Integrating processes into people's lives and businesses' natural systems and removing effort for them remains a key focus.

In the weeks immediately after Release 4 go-live and when the 2020 automatic income tax assessments process was underway, Inland Revenue ran a series of surveys to understand customers' experiences. The key findings were:

- Most employers said the Release 4 changes make filing easier, especially the centralising of employer information in myIR and combining the KiwiSaver and new employee forms.
- Changes have been well received by student loan customers with over 80% finding it easy to understand and do what they needed to do in myIR. Customers reacted positively to the updated layout, new service options for New Zealand and overseas based borrowers, and improvements to existing services.
- KiwiSaver customers said they were finding myIR clean and easy to navigate.
- The vast majority of customers liked the automatic income tax assessment process because it was straightforward and minimised the action required from them.

Online services are making it easier for customers and other participants to meet their obligations.

Part of getting things right from the start is making it easy for customers to do what they need to do themselves.

More and more customers are using online services, with 96% of returns filed electronically as at 30 June 2020.

Customers who can are shifting to digital channels in significant numbers. The shifts in customer behaviour Inland Revenue has seen over the last three years include:

- A more than 300% increase in the number of user sessions for myIR. There were 53 million user sessions in 2019/20, compared to 17 million sessions in 2016/17. More than a third of these sessions are now through mobile, compared to just 2% in 2016/17.
- An increase of approximately 160% in the number of sessions on www.ird.govt.nz. There were 48 million sessions in 2019/20 compared to 29 million sessions in 2016/17.
- An increase of just under 240% in the number of sessions on gateway services.

Gateway services enable businesses and employers to file information directly from their software.

As at July 2020, around 45% of employers were filing payday returns through their software using gateway services. A survey conducted in May 2020 after Release 4 go-live showed that 89% of businesses filing through gateway services were finding it quite or very easy. This is significantly higher than for other channels.

Next year, payers of investment income will upload information about recipients of investment income directly into Inland Revenue's systems through new gateway services. This will allow individual customers' income profiles to be pre-populated even earlier for the 2020/21 tax year.

4 Creating an organisation that works together better to improve outcomes for customers

Organisation change is required to ensure that new capabilities and approaches are successfully embedded in Inland Revenue as the transformation programme nears completion. This will take place incrementally during late 2020 and into 2021.

Consultation on a new organisation design for Inland Revenue is continuing.

In June 2020, two new executive-level leadership positions were established to lead Inland Revenue through the next stages of design, consultation and transition. The two roles established were:

- Deputy Commissioner, Enterprise Design and Integrity to prioritise, make Inland Revenue-wide decisions and keep the organisation running, and leverage the capabilities the government has invested in once transformation comes to an end.
- Deputy Commissioner, Enterprise Services encompassing the services that support Inland Revenue to operate every day, such as human resources and finance.

In July 2020, consultation on the roles that will report to the two new Deputy Commissioners took place.

Inland Revenue intends to consult and make final decisions on the roles in these two new groups by December 2020.

Change for Inland Revenue's people will continue into 2021 as the department continues to transform the way it works. A key consideration will be maintaining services to customers as they recover from the economic impact of COVID-19.

Ongoing investment in skills and capabilities continues.

Significant training programmes are completed as part of each release. Before go-live of Release 4 for example, 408 classroom sessions were completed for around 3,800 people as well as significant self-study through eLearning modules.

The way Inland Revenue's people responded to COVID-19 shows that digital literacy and agility, have been significantly developed through transformation. People adapted very quickly to remote working and to using new tools to collaborate and quickly respond to Government priorities.

The second year of the automatic income tax assessments process was run by business groups. This is helping to ensure that a wider number of people are becoming familiar with and proficient in using new systems and processes. More and more capabilities are being handed over to the people and teams who will be responsible for them once transformation comes to an end. This is helping to build the skills of a wider group of Inland Revenue people.

Inland Revenue is working more efficiently as the implementation of a new enterprise support services platform progresses.

Inland Revenue is well advanced with the replacement of its enterprise support services platform (the internal processes and systems that support the day-to-day running of Inland Revenue's corporate functions) to provide for modern ways of working.

Functions have been moving to Ātea (the name Inland Revenue has chosen for the system) in a series of releases to streamline, simplify and, where possible, automate systems and processes.

Ātea is progressively enabling best-practice processes for key functions such as human resources, finance and procurement. During 2020, more of Inland Revenue's finance, human resources, and procurement functions will be using new systems and processes.

Already, Inland Revenue is spending less time compiling and analysing organisational data because Ātea provides a single source of truth and makes data more available and visible.

Inland Revenue has gone live with e-invoicing capability and is working through how to onboard suppliers. Inland Revenue is consistently meeting the target of paying 95% of invoices in 10 business days.

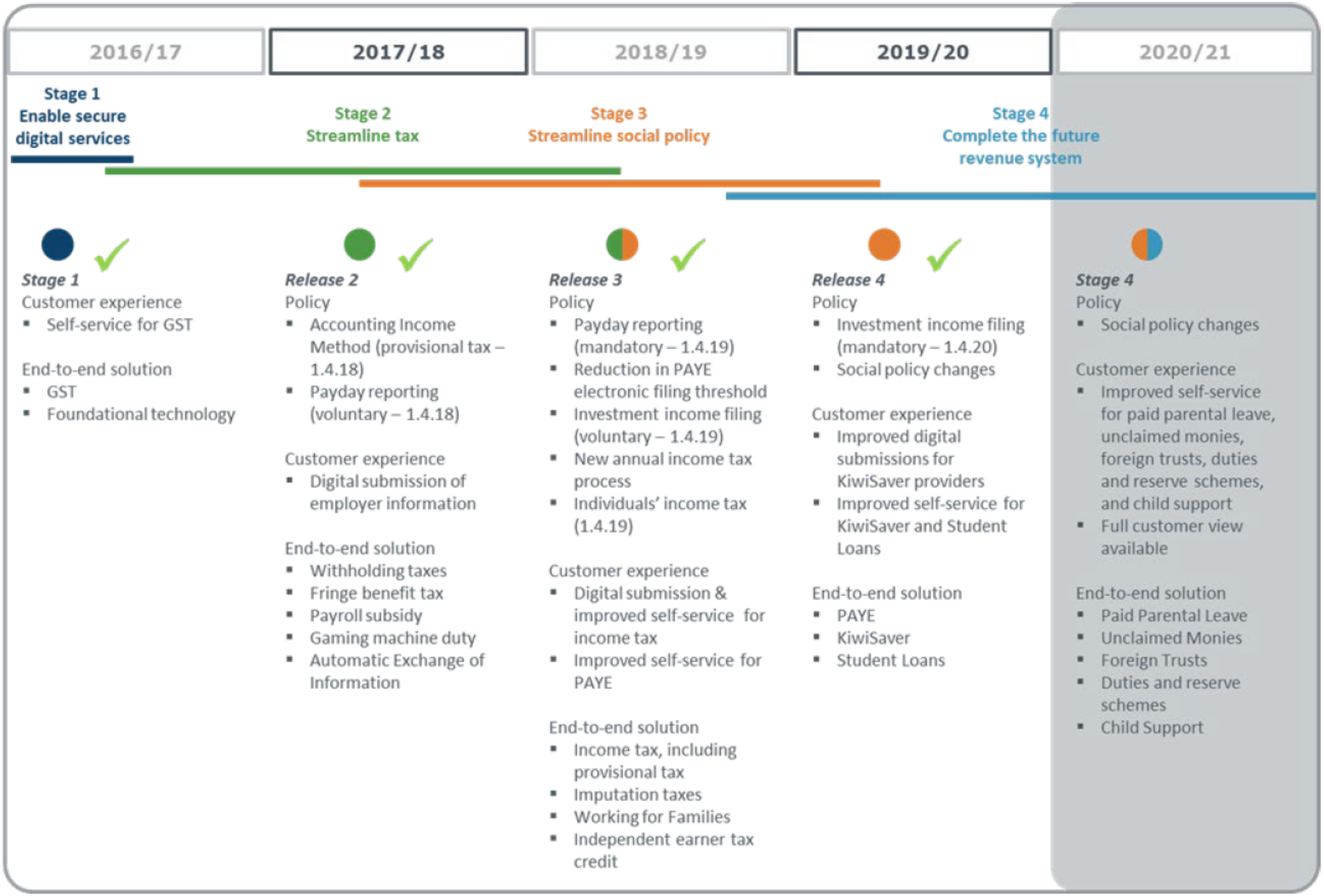
Many agencies are taking the opportunity to learn from Inland Revenue's experience with replacing its enterprise support services. To date, 32 other agencies have been provided with access to the common process model. Inland Revenue is also working with a number of agencies that have chosen to implement the cloud-based Oracle technology Inland Revenue is using to support their back-office functions.

Payroll replacement is the next major piece of work and Inland Revenue is closely aligned with the all-of-Government payroll programme to ensure the department's requirements and approach are consistent with the broader government sector.

5 Implementing a modern technology platform (START)

Three stages have now been implemented successfully, with Stages 2 and 3 implemented in a series of releases, as shown in the diagram on the next page. Following Stage 1 of transformation, Inland Revenue moved to implementing changes in a series of releases to reduce risk and minimise impacts on customers. All changes to date have been implemented on time and on budget. Inland Revenue has kept providing services to customers while fundamentally changing almost every aspect of the way it operates.

Delivering the future revenue system



Go-live of Release 4 occurred in the early stages of the COVID-19 lockdown.

As has been the case with previous releases, a number of enhancements were made in the days and weeks following go-live to improve things that were not working as well as they should. For Release 4 there were approximately 60% fewer issues compared to Release 3. Inland Revenue quickly resolved those that were found.

Going live in the middle of a pandemic was a difficult but necessary call to make. Not going live would have delayed making new services available to customers which make it easier for them to get the help they need and better ensure their payment obligations reflect their current income. A delay would also have compromised Inland Revenue's ability to support the Government with recovery from COVID-19.

The decision to go-live had to be made by 2 April 2020, when New Zealand was barely a week into the Alert Level 4 lockdown. Before deciding to proceed as planned, Inland Revenue consulted with key stakeholders and external partners to ensure they were prepared, given the significant impacts of COVID-19.

For the first time, the vast majority of the go-live process was successfully completed remotely.

A small number of people were required to come into Inland Revenue's offices to manage cutover. There was a maximum of 8 people on site at any one time, compared to a peak of approximately 100 people for previous releases. Cutover was again a significant effort as can be seen in the table below.

Inland Revenue was able to do something as significant as a remote release because of the groundwork put in over the previous two to three years. The two main factors that made a remote cutover possible were people having the tools and technology they needed to enable them to work remotely and a very well prepared cutover team who were very clear about what was required of them.

	Stage 1	Stages 2 and 3		
	February 2017	Release 2 April 2018	Release 3 April 2019	Release 4 April 2020
Products migrated to START	GST	• Withholding taxes • Fringe benefit tax • Payroll subsidy • Gaming machine duty	• Income tax • Working for Families	• KiwiSaver • Student loans • Back-end PAYE processing
Customer readiness				
Seminars for customers	0	250	350	Replaced with 2 webinars due to COVID-19
Webinars for customers	3	15	15	16
Customers contacted	630,000	368,000	2,000,000	1,091,000
Programme readiness				
Accounts migrated	880,000	1 million	19.7 million	7 million
Returns migrated	8.1 million	13 million	15 million	38 million
Transactions migrated	23.6 million	2 million	142 million	172 million
Contributions migrated	0	0	0	767 million
Web logons updated	0	0	8.3 million	0
Time to load data into START	17 hours	11 hours	33 hours	54 hours
Time to remove data from FIRST[2]	12 hours	10 hours	30 hours	21 hours
Number of cut-over tasks	More than 350	More than 540	More than 1,150	More than 1,250
Hours to cut-over	113 hours	93 hours	185 hours	168 hours
Total tests completed	15,462	46,304	94,204	76,293
Business readiness				
Staff trained (classroom)	2,700	2,700	3,600	3,800
Classroom sessions (before go-live)	142	More than 260	More than 370	408

[2] FIRST is Inland Revenue's old core technology platform.

It is easier for people to get the help they need and better ensure payments reflect their current income.

All customers experiencing financial difficulties can apply for relief through a simple, new myIR service. Employers can set up instalment arrangements themselves online for any debt they owe. Student loan borrowers struggling to make repayments can apply for a special deduction rate online. Previously, customers had to ring or write to Inland Revenue to access these services.

KiwiSaver members have better information about their contributions and can do more online for themselves. Anomalies, such as deductions not being received from an employer, can now be identified more easily.

Improved self-serve options for Student Loan borrowers make it easier for them to manage their loans online. It is now easier for borrowers to see what they owe and make payments from within myIR. Borrowers based in Australia, the UK, Europe, and Canada can now pay their loans using Citibank. Taxpayers based in these countries can also use Citibank to pay their tax.

Processing times are now much faster.

Since go-live, KiwiSaver contributions are transferred to scheme providers far more quickly. In the weeks immediately after go-live, around three-quarters of members' contributions were transferred to scheme providers within 3 to 7 working days and 99% were transferred within 14 days. Previously, it would take 20 to 23 working days on average to transfer contributions. In June 2020, 74% of contributions were passed to providers within one day.

Processing of the annual government contribution is also much faster. In the first 9 working days of July 2020, more than 95% of the expected claims for 2020 had been processed. Approximately 2.7 million claims were processed and more than $901 million transferred to KiwiSaver providers. Last year at the same time $285 million had been transferred. At peak, $250 million was transferred to providers in a single day, the highest amount ever. About 900,000 claims were processed in 14 minutes.

Closing a student loan is now an overnight process with nearly all loans automatically ceased when they are paid off. Previously, it took up to 42 days due to the amount of manual work involved.

Businesses have an improved experience.

Businesses can now register in one place and START processes around two-thirds of registrations automatically. This means businesses get registered more quickly and can get on with building and running their business.

Employers now have a consolidated account, meaning all their information is in one place. They can now also file and pay at the same time through myIR. Once a return has been filed, transactions and payments show up immediately, providing greater certainty. Previously, Inland Revenue held payments until the employer monthly schedule had been received so it was clear where to allocate funds to. There was a banner on the old myIR advising employers it could take up to 15 days for their payments to show up in their account. The on-boarding of new employees has improved with the removal of the duplication between employee onboarding and KiwiSaver opt in/out.

Tax agents can now self-serve more, with smaller agents in particular saying myIR works well for them.

Stage 4 is scheduled to go live progressively during 2021.

The impacts of COVID-19 mean that it is no longer possible to complete the programme with a single major release in April 2021 as planned. In March 2020, some work was paused to focus on higher priority COVID-19 work. The programme will conclude with Stage 4 (previously referred to as Release 5) during 2021/22 as planned.

The final stage consists of five workstreams. They are START delivery, technology landscape optimisation, intelligence-led, enterprise support services, and transition and business integration.

The START delivery workstream will move remaining products to new systems and processes. The scope is:

- Migrating paid parental leave, unclaimed monies, duties, foreign trusts, and Child Support to new systems and processes.
- Optimising START to deliver operational efficiencies or resolve major customer pain points.
- Upgrading GenTax (the proprietary name for the software provided by FAST which Inland Revenue has named START). For customers, this will mean a new look and feel for eServices with a new home page for myIR and an improved mobile-responsive design. For Inland Revenue, the upgrade includes expanded analytical capabilities.

- Delivering any new government, legislative, or COVID-19 initiatives.

Remaining products will be moved to new systems and processes in two releases.

Paid parental leave, unclaimed monies, duties (including casino, lottery and totalisator duty, and the problem gambling levy), and foreign trusts will move to new systems and processes on 1 March 2021.

Digital services for paid parental leave customers will be significantly improved. Customers will be able to apply for and track the progress of their application, view next payment details, and view and maintain their personal details. Currently everything is paper-based and paid parental leave payments are not in myIR. Customers and their employers will no longer have to provide an income estimate as Inland Revenue will pre-populate customers' income for them as part of the application process. These changes will reduce effort and provide customers with greater certainty and a better experience.

Proposed policy changes will make it easier for the owners of unclaimed funds to track their money down and claim it and for the organisations holding the funds to comply with the rules (please refer to page 9 for details).

The owners of the funds will be able to claim their money through myIR. This will reduce the information they need to provide as Inland Revenue will already know who they are. They will just need to prove ownership. Currently the owners of funds have to email or write to Inland Revenue.

Organisations holding unclaimed monies will be able to more easily provide information to Inland Revenue, reducing some of their compliance effort. They will provide information electronically and in a standard format. They will be able to upload files securely into myIR. Currently they have to email information.

For duties, customers will be able to upload files securely into myIR and will no longer have to send a PDF.

For foreign trusts, customers will be able to register and file in myIR. They will also be able to view all the information they have previously provided, making it easier for them to meet their compliance obligations.

A later release, likely in October 2021, will include Child Support and the GenTax upgrade.

The second workstream, technology landscape optimisation, will:

- Ensure simple and stable technology is in place during 2021.
- Decommission heritage infrastructure.
- Ensure the production (relied on for daily operations) and non-production environments (not for live use, for example. development or testing) that remain after transformation are sufficient to support business operations.

The intelligence-led workstream will complete the implementation of information management and analytical capabilities.

The enterprise support services workstream will complete the implementation of Ātea, including replacing Inland Revenue's payroll system.

The transition and business integration workstream will:

- Develop and/or transition processes, frameworks, and methods built by the transformation to Inland Revenue's future operating model.
- Manage the closure of the programme.

Programme costs and benefits

Overall programme costs and benefits remain unchanged.

Between 1 July 2014 and 30 June 2020, the programme spent $747 million in operating (excluding depreciation and capital charge) and $375 million in capital. Inland Revenue will complete transformation within the funding envelope approved by Cabinet in 2015 (CAB-15-MIN-0249 refers). To date, Inland Revenue has returned $26 million in operating expenditure savings to the Crown, as well as the operating contingency held by the Ministers of Finance and Revenue of $68 million (excluding depreciation and capital charge). In addition, Inland Revenue has returned the Ministers' capital contingency of $34 million.

Inland Revenue is making very good progress with achieving benefits as shown on pages 18 to 22.

Realisation of non-monetary benefits – progress update

Non-monetary benefits are making the revenue system easier for customers, improving system resilience and providing decision-makers with greater policy agility. Progress against these benefits was self-assessed in a series of stocktakes in mid-2020. This process will be repeated in 2021 and 2022 as Stage 4 is implemented and the programme closes.

In July 2020, the Office of the Auditor General (OAG) completed their performance audit of benefits management for transformation. The report is very positive but notes that *'...the gap between the benefits achieved to date and benefits sought by 2023/24 is significant...'*.

Benefit area 1: easier for customers

Target state

By 2023/24, 90% of customers will find it easy to comply.

Progress to date – 2019/2020 results

Inland Revenue estimates it is about 65% of the way towards achieving this objective (up from 50% in 2019). Progress is further ahead (80%) in making things easy and simple for individuals than for businesses (50%).

How progress is measured/monitored

The agreed basis for monitoring progress is through a series of case studies. Four have been completed to date.

In June 2020, a self-assessment was completed and found good progress has continued including:

- The second year of automatically issued tax assessments has been streamlined significantly and refunds have been paid to customers more quickly as a result.
- KiwiSaver and student loan customers now have greater visibility of their information and can do more for themselves online, following Release 4. As their KiwiSaver and student loan information is being processed more quickly, customers have greater certainty sooner. There are some outstanding issues to be resolved and these are being worked through.
- Businesses can register for services in one place and pay and file at the same time through myIR. All employers' information is held in one place and improved validations notify them when there are issues.
- Inland Revenue can be more proactive in providing support for customers, for example assessing eligibility for entitlements for them.
- Tax agents now have more ability to self-serve. Inland Revenue will continue to focus on resolving issues as quickly as possible.

Benefit area 2: the revenue system is more resilient

Target state

By 2023/24, Inland Revenue will have modern technology with improved risk and service management maturity that:

- is architecturally simpler and well documented;
- recovers from any technology failure quickly and predictably; and
- is more robust and secure.

Progress to date – 2019/20 results

Inland Revenue estimates it is about 70% to 75% of the way towards achieving this objective (up from 60% to 65% in 2019).

How progress is measured/monitored

The agreed basis for monitoring progress is case studies, with one completed to date. In May 2020, a self-assessment was completed. The results are shown in the table below.

Risk profile	Risk rating			
	Current 2015	During co-existence	Target 2023/24	2020
Infrastructure failure	High	High	Low	Medium-High
People/process failure	High	High	Low	Medium-High
Architectural complexity	High	Extreme	Low	Medium
Information security	Extreme	Extreme	Medium	Medium-High
Change	High	Extreme	Low	Medium-Low

The assessment found that good progress has continued including:

- The majority of the products Inland Revenue administers are now on new infrastructure, which is stable and robust handling 50% to 60% more transactions than previously, and with peak loads up to 200% higher. New infrastructure also supported the COVID-19 response.
- There is now minimal co-existence and less reliance on heritage infrastructure.
- Core patterns are now established within START, making it quicker and easier to add new products. The speed with which Inland Revenue has been able to respond to COVID-19 initiatives demonstrates the progress made. In addition, reuse of existing patterns resulted in fewer issues being found following Release 4 go-live.
- The security of Inland Revenue's systems has improved further.

The November 2015 business case defined system resilience relatively narrowly as modernising technology. Resilience can be more broadly defined in terms of Inland Revenue's ability to implement change in an agile way and to maintain business continuity during unexpected or adverse events.

The investment in transformation has created a substantial set of assets for future governments to leverage. These assets also mean Inland Revenue can manage very effectively when disruption occurs, even large-scale disruption. The value delivered has been very evident in recent months with the response to COVID-19.

Benefit area 3: Government has greater agility to implement policy

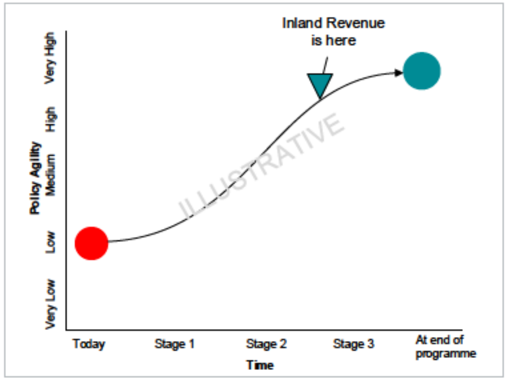
Target state

By 2023/24:

- Government will be able to consider a fuller range of options for achieving its desired policy outcomes.
- The time and cost for Inland Revenue to implement policy changes will be reduced.

Progress to date – 2019/2020 results

Inland Revenue estimates it is about 75% of the way towards achieving the policy agility investment objective (up from 30% in 2019) as shown in the graph below.



Government now has significantly more agility to make changes. Systems are no longer the constraint, provided requirements are simple, clear, data sources are well understood and the right people are involved at the right time. Other constraints, such as meeting customer demand and having access to the right data and accurate data, are now more evident.

Inland Revenue's implementation of the Government's COVID-19 support initiatives demonstrates what is now possible. For example, the small business cashflow (loan) scheme was implemented in 6-7 weeks end-to-end. However, delivering the scheme required significant effort and a re-direction of resources.

How progress is measured/monitored

The agreed basis for monitoring progress is through a series of case studies. Three have been completed to date.

In June 2020, a self-assessment found that Inland Revenue had built on and maintained previous gains including:

- Involving a wide group of people, both within Inland Revenue and external stakeholders in policy design, from the outset.
- Adopting out-of-the-box processes wherever possible.
- Developing a strong understanding of customers and data and better visibility of customers' information and relationships.

The challenge is to integrate the lessons learned from implementing responses to COVID-19 into business-as-usual practices.

Realisation of monetary benefits – progress update

Monetary benefits are reducing compliance effort, additional Crown revenue and administrative savings for Inland Revenue.

Benefit area 4: compliance effort has reduced for small-to-medium sized businesses.

Target state

While the aim is to reduce compliance effort for all customers, smaller businesses are 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.

By 2023/24, SMEs will spend 18 to 26 fewer hours a year meeting their compliance obligations.

This benefit has been monetised on the basis of the value to the owners of these businesses of the time saved. By 2023/24, the cumulative value of the time saved will be $1,330 million.

How progress is measured/monitored

The agreed basis for monitoring progress is a regular survey of owners of 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.

Progress to date – 2019/2020 results

Inland Revenue ran surveys in 2016 and 2018 to assess changes in compliance effort for SMEs. The department had intended to run the 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.

For assessing 2019/20 progress, Inland Revenue has used the results of the 2018 survey as an indicative result as no updated information is available. That survey showed that SMEs reported spending 9 fewer hours on compliance in 2018 compared to 2013. This is below the target of 13 hours for the 2019/20 year.

The cumulative value of the time saved by SMEs up until the 2019/20 year is $500 million, above the target of $380 million.

Achieving future reductions may be impacted by COVID- 19, which may over-shadow businesses' perception of the extent to which their compliance effort has changed.

Although not quantified, effort for individual customers has also reduced with the new year-end automatic income tax assessments process.

Benefit area 5: additional Crown revenue.

Target state

By 2023/24, the cumulative increase in assessed Crown revenue will be $2,880 million driven by:

- improved voluntary compliance through a pro-active, simple and open revenue system;
- proactively ensuring compliance by helping customers get it right from the start; and
- identification of non-compliance driven by use of information and data, customer analytics and insights.

Progress to date – 2019/2020 results

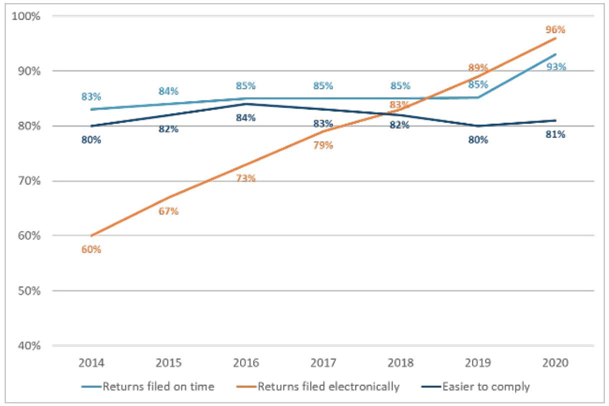
Most people actively try to comply and the majority say they find it easy. For the year ending 30 June 2020, 81% of customers said they found it easy to comply against a target of 87%. This is a slight increase from the 80% reported for the year ending 30 June 2019. There was an improvement during the last quarter of the 2019/20 year. For the quarter ending 30 June 2020, 84% of customers said they found it easy to comply.

The analytical capabilities in the data and intelligence platform and START are making it easier for people to comply as Inland Revenue can more quickly identify where they need help to get it right. These capabilities are also making it harder for people to deliberately avoid their obligations or to claim things they are not entitled to. For example, potentially fraudulent or incorrect refunds are identified and stopped during processing. This is helping to prevent revenue loss which increases the assessed revenue available to government.

How progress is measured/monitored

The agreed basis for monitoring progress is proxy measures and case studies given the difficulty of direct attribution. Two case studies have been completed to date.

The percentage of returns filed on time and filed electronically increased significantly for 2019/20 to 93% and 96% respectively. Both measures have increased by 7% over the last year as shown in the graph below.



Benefit area 6: Inland Revenue is more efficient

Target state

By 2023/24, Inland Revenue will deliver cumulative administrative savings of $495 million. All things being equal, Inland Revenue will be 25-30% smaller than it was at the start of transformation, with reductions across all business groups.

Progress to date – 2019/2020 results

On a cumulative basis, Inland Revenue is ahead of target with savings of $118 million compared to the target of $95 million.

The 2019/20 target of $80 million was not achieved, with Inland Revenue achieving $57 million in savings. Planned organisational changes were deferred due to Release 4 and COVID-19. Changes were put on hold to enable Inland Revenue's people to focus fully on supporting customers and the Government's response to the pandemic. Changes to Inland Revenue's organisation design will now take place later than the timeframes originally envisaged.

In addition, there was always expected to be some inter-year variability in administrative savings as new systems and processes bed in. This has been evident in the results achieved to date. Inland Revenue achieved more savings than expected in both the 2017/18 and 2018/19 years, meaning that cumulative savings are ahead of target.

Overall the trend is positive with annual savings increasing year on year.

How progress is measured/monitored

Digital uptake is a lead indicator for the achievement of administrative savings, as this indicates that work effort is reducing. Digital uptake is well ahead of where Inland Revenue expected it to be. As at 30 June 2020, digital uptake was at 96%, an increase of 7% since 30 June 2019 and well above the target of 72%.

The benefits of a digital revenue system are becoming increasingly evident.

Inland Revenue is already seeing the nature of its work changing. For example, the volume of manual work for Working for Families has reduced considerably compared to last year. The number of manual calculations required as part of the 2020 automatic income tax assessment process was around half what it was last year. This was also true of rollover (when customers' entitlements for the following year are estimated and communicated to them) which happens in February each year.

Employer errors are starting to disappear which is having a considerable impact on work effort. The 120,000 line items in error on employer schedules previously is now down to around 14,000. This is the result of a deliberate focus on designing out errors when products and services are moved to new systems and processes.

For student loans, improved border management query processes have resulted in a huge reduction in the number of cases requiring manual intervention. Prior to Release 4, around 2,000 to 3,000 cases a month required one of Inland Revenue's staff to look at them. In May 2020, just 17 cases required manual intervention.

Analytical capabilities are enabling Inland Revenue to work more efficiently and deliver very cost-effective interventions to help ensure customers pay and receive the right amounts. Inland Revenue is better able to target its activity, delivering productivity improvements.

Progress tracking for all benefit areas

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

Inland Revenue achieved seven out of the ten indicators for which there are quantitative measures.

The measures not achieved for 2019/20 were:

- The percentage of customers who find it easy to comply. While this has increased slightly since last year, it appears it is taking longer than expected for customers to adopt new services and become comfortable with them. There are positive signs however, with student loan customers in particular being very positive about how easy it is to use new services.
- Reduction in compliance time for SMEs. The result for 2019/20 is indicative as it is based on the 2018 survey rather than the 2020 survey, which was deferred due to COVID-19. However the indicative, cumulative value of the time saved is well above target.
- Annual reduction in Inland Revenue's administrative costs. This was not achieved due to the deferral of planned organisational changes in light of COVID-19. However, the cumulative reduction in costs is above target.

Lead and lag indicators

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	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 New Zealanders and improve public sector performance	*Lead indicators*										
		Digital uptake by customers[3]	26%	83%	54%	89%	72%	96%	75%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	81%	88%	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)*[4]	15 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%	99.4%	99.5%	99.5%
		Lag indicators										
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies *(five completed to date)*									
		Cumulative reduction in compliance costs for SMEs	$30m	$80m	$160m	$280m	$370m	$500m *(indicative)*	$590m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government[5]			$90m	Achieved	$280m	Achieved	$570m	$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 and 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 *(three completed to date)*									
		Lag indicator										
		Increased revenue system resilience as assessed by IR	Low	Partial	Low	Partial	Partial	Partial	Partial	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%	78%	82%	85%
		Lag indicators										
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m	$10m	$48m	$80m	$57m	$100m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs	$5m	$12m	$15m	$60m	$95m	$118m	$195m	$295m	$395m	$495m
		Cumulative COVID-19 capability investment made by Ministers							$37m	$45m	$45m	$45m

[3] The 26% target used in the 2015 business case related to the percentage of customers using cloud-based software. Inland Revenue is reporting on the overall percentage digital uptake measured in returns filed electronically.

[4] 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.

[5] The additional revenue is already included in the government's revenue forecasts. This indicator is rated as achieved based on increases in proxy measures.

THE COMMERCIAL CASE

Sourcing the services and products required for delivery

This section outlines the suppliers Inland Revenue is working with to implement the future revenue system.

Commercial arrangements support all-of-Government principles

The major procurement activity required to successfully implement transformation has largely been completed.

Inland Revenue is increasingly turning its attention to ensuring that arrangements for the commercial relationships that will endure once the transformation programme closes are in place and sustainable.

All procurement is consistent with the five principles of Government procurement.

Work underway

Since the last addendum to the programme business case was completed in October 2019, Inland Revenue has continued to work with a range of suppliers on the products and services needed to support transformation. The services sought this year include:

- Privileged access management and identity governance administration services – a recommendation for a preferred supplier and approach has been through Inland Revenue's governance forums. Once budget has been allocated, participants in the request for proposal process will be notified and Inland Revenue will progress negotiations with the preferred supplier. .
- Evidence management – the signing of a Master Services Agreement is imminent. This will enable implementation and a subscription agreement will follow. As part of an initial market scan, Inland Revenue worked with a number of agencies, including the Serious Fraud Office, the Department of Internal Affairs, and the Ministry of Justice to understand their approaches and capabilities.

Activity to be completed

There are two significant pieces of work to be completed over the next year.

As part of the enterprise support services programme of work, Inland Revenue plans to replace its payroll solution. Inland Revenue is closely aligned with the all-of-Government payroll programme to ensure the department's requirements and approach are consistent with the broader government sector. On 30 September 2020, a payroll request for proposal was released.

While the majority of Inland Revenue's people could work remotely easily and effectively during the COVID-19 lock down period, some could not. It was not possible for some contact centre roles for example, as some software cannot currently be accessed remotely. Inland Revenue is looking at solutions to enable this.

Work is also underway to establish the commercial arrangements that will be required once transformation is complete.

Some suppliers will not have an on-going role in providing products or services to Inland Revenue once transformation is complete. The focus with suppliers in this category is to ensure good knowledge transfer so that Inland Revenue has the capabilities needed to continue to successfully run the department following the closure of the programme.

Other suppliers will have an on-going role to play, albeit in a different capacity. For example, the skills and experience required during the design, build and implement phases are different to those needed during the support and optimisation phases. The focus for suppliers in this category is to ensure that commercial arrangements are established that set both Inland Revenue and suppliers up for success once transformation is complete.

All-of-government/shared services capabilities

Inland Revenue continues to consume common capabilities and ICT capabilities where they exist, meet the department's business needs and are cost-effective.

Inland Revenue continues to work with other agencies to leverage the investment made in Ātea.

In February 2020, the Digital Government Leadership Group (DGLG) agreed a work programme to enable the process model developed by Inland Revenue for human resources, finance, asset management and procurement functions to be adopted as a common process model for all-of-Government. The work programme is headed by senior leaders from the functional lead agencies:

- The Public Service Commission for human resources.
- Treasury for finance and asset management.
- The Ministry of Business, Innovation and Employment for procurement.
- The Government Chief Digital Officer for digital government services.

The objectives of the work programme are to improve consistency of processes, provide greater resilience, enable more effective processes, and deliver on-going efficiencies.

COVID-19 has resulted in delays in getting the work programme fully up and running. In October 2020, the DGLG agreed the next steps to progress the work programme. In December 2020, the DGLG will consider the longer-term approach to the common process model, including access, governance, and funding.

In addition, as part of the agreed arrangements for the implementation of Ātea, any material or information developed for Inland Revenue is able to be reused across government. This will enable other agencies using the same technology platform as Inland Revenue (Oracle) to accelerate delivery as they will not have to start from scratch.

Oracle provides upgrades to its software (which Inland Revenue has named Ātea) every quarter. Inland Revenue has automated the testing of these upgrades and is exploring options for enabling other agencies to leverage this capability.

Inland Revenue will also explore how its e-invoicing capability can be leveraged by other agencies, for example working with software developers to establish standard design patterns.

Withheld under s18(c)(i) of the OIA performed an independent quality assurance review of the common process model and the approach and material developed to support the implementation of Oracle technology produced to date. Agencies using the common process model and Inland Revenue configuration will have an accelerator for implementing Oracle cloud-based technology.

New Zealand businesses

Inland Revenue has sought a wide range of providers for transformation. Opportunities have been actively promoted to the market place including New Zealand businesses – for example, advertising on GETS and communications with vendors.

In line with achieving broader cultural, economic, environmental and social outcomes from government procurement, Inland Revenue is considering how opportunities can be created for New Zealand businesses through the department's procurement activity. Information and communications technology has been identified as one of the priority sectors for increasing access to government contracts for New Zealand businesses.

Inland Revenue has developed a social procurement strategy focused on achieving better buying outcomes and therefore greater public value. The department is aiming to drive better social and environmental outcomes through its supply chain and spend with suppliers. Social procurement evaluation criteria have been incorporated into the supplier selection process.

Each year Inland Revenue publishes a list of New Zealand suppliers it has spent over $500,000 with.

For the purposes of procurement, the definition of a New Zealand business is *A business that originated in New Zealand (not being a New Zealand subsidiary of an off-shore business), is majority owned or controlled by New Zealanders, and has its principal place of business in New Zealand*.

Using this definition, between 1 July 2014 and 31 March 2020, where Inland Revenue incurred more than $500,000 on contractors and consultants providing services across the business transformation programme, the total percentage spend on New Zealand companies was 36%.

Based on whether a company is considered a New Zealand resident for tax purposes, the total percentage spend was 73%.

A company is considered a tax resident if it is incorporated in New Zealand, or if control by company directors is exercised in New Zealand, or if it has its centre of management in New Zealand, or if it has its head office in New Zealand.

Both delivery partners, FAST and Accenture, have recruited New Zealand staff. FAST has employed 50 New Zealanders over the last 4 years and had 34 New Zealanders on staff as at May 2020. Accenture have employed over 40.

THE MANAGEMENT CASE

Ensuring successful delivery

This section outlines updated governance and management arrangements for the programme, including assurance, benefits and risk management.

Transformation continues to be well managed and governed

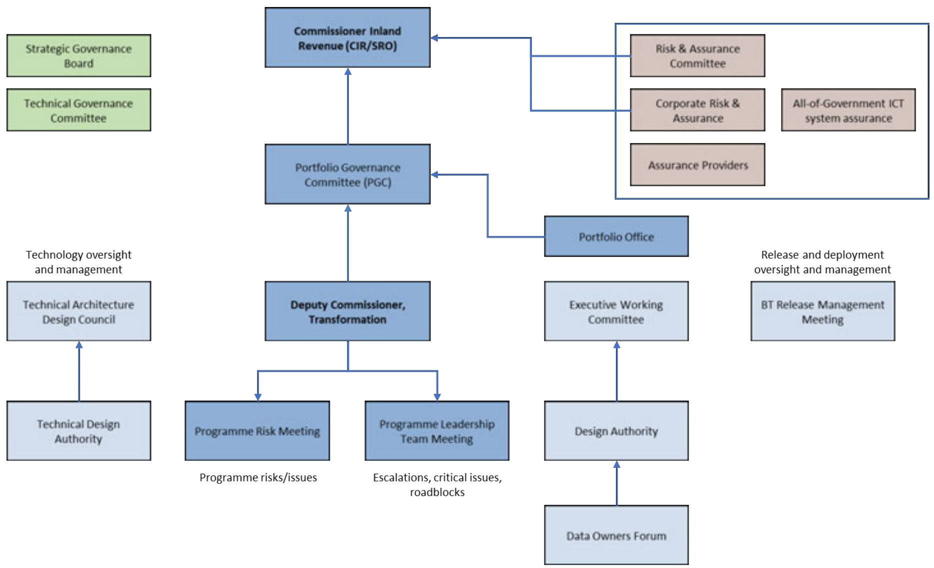
Since the last addendum to the programme business case was completed in October 2019, Inland Revenue has:

- updated programme governance and management arrangements
- completed independent quality assurance reviews, and
- regularly reviewed and updated risks.

Programme methodologies and approaches and Inland Revenue's change management approach remain unchanged.

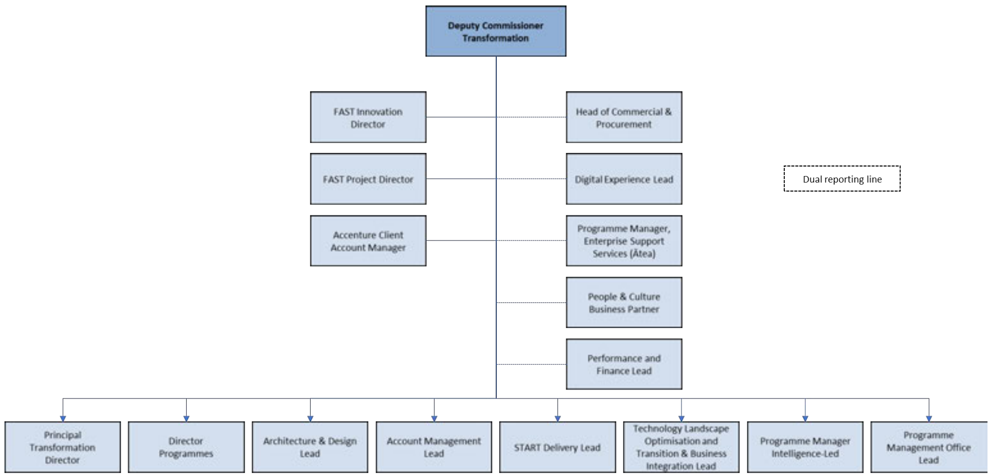
Programme governance arrangements

From February 2020, some changes were made to streamline Inland Revenue's governance system. The Performance and Investment Committee, Organisation Development Committee and Customer-Centric Committee were paused and then formally closed in August 2020. The governance decisions that would have been made at these forums will be made through the remaining governance bodies. An updated governance structure for the programme is shown in the diagram below.



Programme management arrangements

Following Release 4 go-live and the re-planning of the final stage of the programme, the management structure of the programme was reviewed to ensure it is fit-for-purpose for the remainder of the programme. As a result, the Release 4 Programme Manager and Release 5 Programme Manager roles have been renamed to reflect the workstreams remaining in the final stage of the programme. The high-level structure for transformation as at July 2020 is shown in the diagram below.



Progress tracking

Delivery progress is evaluated through:

- Independent quality assurance and Gateway reviews.
- Oversight by the Senior Responsible Owner and governance groups.
- Management and oversight from the Deputy Commissioner, Transformation and members of the Programme Leadership Team (PLT).
- Monthly red amber green (RAG) status reporting against the 10 keys (scope, risk, issues, inter-dependencies, schedule, resource, stakeholder engagement, delivery partners, financials and benefits).

Programme assurance

A programme of regular independent assurance reviews provides confidence that transformation continues to be well managed and governed. Since the last addendum was completed in October 2019, four further independent assurance reviews have taken place.

- A Gateway 4 (Readiness for Service) interim review in October 2019.
- KPMG completed their tenth independent quality assurance and ninth technical quality assurance review (IQA10/TQA9) in January 2020.
- A Gateway 4 (Readiness for Service) review in March 2020.
- KPMG completed their IQA11/TQA10 review in July 2020. Delivery of the final report was delayed due to the COVID-19 pandemic.

Reviews continue to be positive, while noting transformation remains high risk. Summaries of each review are published on Inland Revenue's website.

The Office of the Auditor General (OAG) tabled their performance audit of benefits management for transformation in August 2020 (please refer to page 18).

Benefits management

Progress in realising benefits is regularly tracked and reported. In addition to the programme business case addendum dated October 2019, the following reports have been delivered:

- Nine case studies demonstrating realisation of benefits were provided to the Portfolio Governance Committee to note between July 2019 and September 2020.
- A comprehensive update of progress across all non-monetary and monetary benefits was reported to the Strategic Governance Board in September 2020. Progress for 2019/20 will be shared with central monitoring agencies and independent assurance reviewers.

Risk management

Identification and management of risks remains a strength of the programme.

As at October 2020, there were 54 risks for transformation managed by the programme leadership team, of which the most significant (15 as at October 2020) are reported each month to the Portfolio Governance Committee.

The top risks for transformation are reliance on SAP[6], FIRST satellite functions, and KiwiSaver business-to-business exchanges after July 2022 preventing full decommissioning of Inland Revenue's heritage data centres. There are strong mitigation plans in place for these risks.

[6] Paid parental leave and Inland Revenue's payroll application run off SAP.

Part B

Additions to the scope of transformation

This section summarises additions to scope since the last addendum to the programme business case was prepared in October 2019.

Some additions to scope have been agreed

The additions to scope during 2020 are the result of decisions taken by Government in response to COVID-19.

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 and supporting customers following go-live, and preparing for the peak tax season, including the 2020 automatic income tax assessments.

To achieve this, Inland Revenue focused on:

- Making processes as easy and simple as possible for customers to reduce effort for them at a highly stressful time.
- Ensuring requirements were as clear and as simple as possible.
- Leveraging the digitally-based revenue system to ensure as a wide a reach as possible.
- Clearly understanding the source of data and, where it did not exist, ensuring it could be obtained in way that made implementation simple and straight forward.

It should be noted that these results were not achieved without cost. The final stage of the transformation programme was re-planned as a result, as some work underway was paused to enable people to focus on the higher priority COVID-19 response work.

Inland Revenue was the lead agency for a number of initiatives.

Inland Revenue was the lead agency on two COVID-19 response bills and prepared a Supplementary Order Paper (SOP) for another.

The COVID-19 Response (Taxation and Social Assistance Urgent Measures) Act 2020:

- reintroduced depreciation deductions for non-residential buildings;
- increased the threshold for having to pay provisional tax from $2,500 to $5,000;
- increased the low value asset threshold;
- brought forward the application date of broader refundability for the research and development tax credit by one year to the 2019/20 income year;
- allows Inland Revenue to remit interest on a late tax payment if the taxpayer's ability to make the tax payment on time was significantly adversely affected by COVID-19;
- allows Inland Revenue to share information with other government agencies to assist them in their response to COVID-19;
- removed the work hours eligibility requirement from the in-work tax credit;
- allows people on a temporary visa, that would not otherwise meet the Working for Families residence criteria, to qualify for Working for Families if they receive an emergency benefit from the Ministry of Social Development (MSD);
- ensures that GST does not apply to payments of the COVID-19 Wage Subsidy or the COVID-19 leave payment; and
- restores the rates for the winter energy payment from 2021 onwards to $450 per year for single people with no dependent children and $700 per year for couples and people with dependent children.

The COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Act 2020:

- introduced a temporary tax loss carry-back measure;
- gave the Commissioner of Inland Revenue a temporary discretionary power to modify due dates, timeframes, or procedural requirements for taxpayers who are impacted by COVID-19;
- authorised the Commissioner of Inland Revenue, on behalf of the Crown, to lend money under the small business cashflow (loan) scheme; and
- ensures that special assistance granted under the COVID-19 New Zealanders Stranded Overseas Support Programme has the same treatment for tax and social policy purposes as for the equivalent payments of main benefits, NZ Super, and the veteran's pension.

SOP No. 488 proposed amendments to the Income Tax Act 2007 and the Tax Administration Act 1994 relating to the small business cashflow (loan) scheme and the temporary tax loss carry-back regime, to ensure that those measures work as intended.

The measures are intended to support ordinarily viable and currently vulnerable businesses.

As at 9 October 2020:

- Approximately 104,000 applications for the small business cashflow (loan) scheme had been received and approximately $1.6 billion in loans approved.
- Around 2,500 customers had opted into the loss carry-back scheme and received approximately $105 million in funds released.

As at 12 October 2020:

- Approximately 52,000 customers had use of money interest remitted, to a total value of $5.6 million.
- Approximately 20,000 customers had entered into an instalment arrangement and the total estimated value of interest supressed was $15 million.

Inland Revenue also supported other agencies with the response to COVID-19.

Inland Revenue supported MSD to deliver the Wage Subsidy as part of the COVID-19 response package. While the Wage Subsidy is administered by MSD, it relies on data held by Inland Revenue to verify applications.

Initially, supporting Wage Subsidy applications was very labour-intensive.

Inland Revenue shared information about self-employed individuals, employers and employees with MSD which enabled many applications to be automatically approved.

Many however needed further clarification and initially an 0800 number was established specifically for MSD staff to connect directly with Inland Revenue. Inland Revenue answered more than 350,000 calls from MSD staff between March and early June 2020.

The extension of the Wage Subsidy provided the opportunity to improve support for MSD.

Inland Revenue developed a portal to allow MSD to self-serve some queries.

Customers are benefitting as their applications can be processed more quickly, and both MSD and Inland Revenue are benefitting from improved administration of the subsidy.

The 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 application should be approved.

Inland Revenue only verifies applications where there is some complexity, for example large employers and any exceptions for self-employed customers. These are still managed via a phone call.

The portal also supports COVID-19 Income Relief Payments.

The information required to assess eligibility for these payments is different from that required to assess applications for the Wage Subsidy. MSD requires access to employer and income data to undertake post-payment integrity work.

MSD staff are assigned as a user for either the Wage Subsidy or the Income Relief Payments – not both. This is to protect the integrity of the revenue system and ensure that information shared with MSD is only used for its intended purpose.

The speed with which the portal was implemented is further demonstration of the benefits of transformation.

It took just 15 working days from when the proposal to build the portal was approved through Inland Revenue's governance forums until the portal was up and running. This was enabled by Inland Revenue's new core technology, new workplace technology, and new ways of working.

A networked team, including representatives from MSD, was established to co-design the portal and develop the necessary information-sharing arrangements simultaneously.

The flexible and iterative nature of START meant that changes could be made overnight if needed.