



**Inland Revenue**  
Te Tari Taake

## **Programme Update and Detailed Business Case**

### **Business Transformation Programme**

*Implementing the future revenue system*

November 2015

Version: FINAL

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- Could have personal or commercial impacts; or
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The release of this document also supports the purposes of the Official Information Act 1982 by increasing progressively the availability of official information to the people of New Zealand.

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# Executive Summary

*Making it simpler, more open and certain for New Zealanders to pay their taxes and receive their entitlements*

1. Grow voluntary compliance by making it easier for people to get it right
2. Reduce customer compliance costs
3. Make Government policy changes faster and more cost effectively

**How Inland Revenue will do this:**



Link with systems across government and the private sector



Fit tax seamlessly into people's lives



Make more intelligent use of information

**What Inland Revenue will do:**



Replace its computer system



Become truly digital



Up-skill its people and change its ways of working

*The world is changing, with huge improvements in ways of doing business*

What was acceptable 10 or 20 years ago no longer meets the demands of customers today. The shift to digital and greater globalisation has reshaped how businesses and individuals interact and connect, and their expectations of government.

*To protect the Government's ability to keep providing services, it is important that New Zealand's revenue system keeps pace with change*

The revenue system should be simple and make it easy for people to get things right, but difficult to get wrong. It should serve the needs of all New Zealanders.

It should put customers at the centre and help them from the start, rather than when things go wrong.

Businesses should spend less time on tax and more time on running their business, supporting Government's wider goal of building a more competitive economy.

*Meeting these challenges requires a fundamental shift in the way Inland Revenue thinks, designs and operates*

There is no doubt that Inland Revenue's systems need replacement to improve resilience and agility. They have reached the end of their life and are not sustainable in the medium to long term. The FIRST system is aging, extremely complex, very difficult and costly to maintain, and inflexible.

However, business transformation is far more than just updating a computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings.

Inland Revenue's interactions with customers will increasingly move to proactive assistance to help them get it right from the start, with less time spent reactively remediating. Analytics will support appropriate tailoring of proactive interventions for customers.

Transformation will simplify how services are delivered, by changing how customers interact with a digitally-based revenue system, simplifying policies, and making better use of data and intelligence to better understand customers.

A new operating model and new systems will be the catalysts for these changes, and provide the platform for modernising New Zealand's revenue system.

*Cabinet has already agreed to change the revenue system through business process and technology change*

The programme is a key vehicle for delivering more integrated public services and advancing Government’s business growth agenda, and better public services goals, specifically Results 7, 9 and 10.

More information will be exchanged between agencies, such as with Accident Compensation Corporation (ACC) and the Ministry of Social Development (MSD), to deliver more efficient outcomes for New Zealanders with improved quality, speed and accuracy.

*Inland Revenue is well prepared to commence delivery*

Transformation is a high-profile and complex programme. Over the last two years Inland Revenue has worked to ensure the programme is well set up to deliver the changes that are needed successfully.

An experienced team, who have delivered transformational change of this scale and complexity before, has been recruited from within New Zealand and overseas.

A commercial-off-the-shelf (COTS) software package for tax and social policy, FAST Enterprises’ GenTax, has been selected. GenTax is a configurable system with broad functionality and will form the basis of the new platform.

Delivery will be a joint effort between Inland Revenue and business, industry, practitioners, customers and across government.

*The preferred way forward*

The priority for the programme is delivery of the core tax and social policy platform, starting with GST. GST is a simple tax which will build delivery confidence.

This is required as the current platform and processes have become extraordinarily complex over time. Maintaining Inland Revenue’s business as usual services at current levels while transitioning to a new platform is expected to be challenging.

This starting point also allows Inland Revenue to progress key elements of the wider agenda, such as the introduction of NZBN.

To enable early business benefits to be delivered, Inland Revenue is partnering with the software industry to enable system-to-system exchange of information. This is the first step in integrating tax and business processes, so that Inland Revenue’s systems and processes fit seamlessly into customers’ lives.



The proposed sequencing aligns to government priorities, balances delivery risk, builds confidence, enables delivery of benefits as soon as practically possible, and is consistent with the experiences of other jurisdictions.

This is a good investment because it:

- Provides confidence in the continued collection of tax revenue and distribution of entitlements;
- Improves government’s ability to make policy changes faster and more cost-effectively;
- Grows voluntary compliance by making it easier for people to get it right;
- Creates an information asset to deliver improved outcomes for New Zealand;
- Delivers cumulative financial benefits to the Crown, made up of additional Crown revenue and efficiency savings, until 2023/24 of between \$2,950m to \$5,960m; and
- Delivers cumulative compliance cost savings (economic benefits) until 2023/24 of between \$1,200m to \$2,025m.

### Costs and benefits

The total revised costs to transform New Zealand’s revenue system and resulting benefits are shown in the table below.

Revised costs to complete transformation and benefits 2015	
<b>Non-monetary benefits</b>	
Easier for customers	✓
Revenue system resilience	✓
Agility to implement policy	✓
<b>Monetary benefits and costs for the period 2015/16 to 2023/24<sup>1</sup></b>	
Compliance effort savings	\$1,200m - \$2,025m
Additional Crown revenue and efficiency savings	\$2,950m - \$5,960m
Implementation and operating costs	\$1,500m - \$1,690m

There are still some uncertainties surrounding the co-existence of the old and new platforms which may impact on time and costs. These uncertainties will be resolved over the coming months as the detailed design of co-existence is progressed.

<sup>1</sup> Costs exclude spend on previous phases

### Required funding

The Crown funding that is required is significantly less than originally anticipated. Inland Revenue will fund between 40% and 50% of the programme’s costs.

Cash Costs	Funding for the period 2015/16 to 2023/24 (in real terms)		
	From Crown	From Inland Revenue	Total
Operating costs	\$530m - \$670m	\$450m - \$435m	\$980m - \$1,105m
Capital costs	\$270m - \$335m	\$250m - \$250m	\$520m - \$585m
<b>Total</b>	<b>\$800m - \$1,005m</b>	<b>\$700m - \$685m</b>	<b>\$1,500m - \$1,690m</b>

### Management of change

Inland Revenue in the future will be smaller, and the composition of the workforce will change and become more knowledge based. This change will be managed through a number of progressive transition states.

Inland Revenue will continue to actively engage with stakeholders including members of the Transformation Simplification Panel and Transformation Reference Group.

## Management of risk

Considerable emphasis has been placed on developing the capabilities required to manage and mitigate risks and issues.

The programme's management of risk was recognised as "an exemplar" in the September 2015 Gateway review.

The major areas of risk that decision-makers should be aware of are:

- Uncertainty of programme timeframes and costs as discussed above; this will be mitigated by regular reviews and check-in points with Ministers, and active scope management.
- Expectations may change; this will be mitigated by on-going engagement to ensure expectations are understood.
- The resources needed may not be readily available; this will be mitigated by effective recruitment and retention.
- Customers and staff may not embrace change; this will be mitigated through proactive change management and communication.

## Assurance

- Inland Revenue has a rigorous programme of independent quality assurance, which is regularly reviewed and agreed with the Corporate Centre.
- Recent reviews have concluded the programme is well managed and governed, and ready to implement.

Annual programme updates will be prepared, which will provide visibility of delivery progress, updated costs and benefits, and any material changes to the programme.

A letter from the Commissioner of Inland Revenue confirming support for this business case is provided in appendix A.

### *The Office of the Auditor General (OAG)*

"Strengths of Inland Revenue's governance of the programme include a comprehensive and clear governance structure, an established methodology, and an advanced approach to managing risks."

*KPMG - third IQA and second technical quality assurance (TQA) review*

"Overall the Programme continues to be managed in accordance with good industry practice, and the controlling processes are, in our view, robust and fit for purpose."

*Gateway Review – September 2015*

"Inland Revenue has invested significantly in developing in-house staff and bringing in experienced individuals and fresh expertise. In addition, a one-team ethos has been nurtured with delivery partners."

# Introduction

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## *The purpose of this programme update and detailed business case*

The purpose of this business case is to enable Cabinet to approve the commencement of implementation.

It should be read with reference to the Programme Business Case (PBC) dated October 2013 and the PBC Addendum dated October 2014.

## *The approach used to develop this business case*

To support the preparation of this business case, Inland Revenue engaged Accenture to assist with the high-level design of the future revenue system.

The design was developed with significant input from the wider business, with governance provided by senior executives.

Consultation and co-design has also taken place with other government agencies and the software provider industry, and is on-going. This has been particularly, but not exclusively, in the context of the business growth agenda and Better Public Services Results 7, 9 and 10.

The scope and depth of analysis in this business case has been agreed with the corporate centre. The document itself has been reviewed by New Zealand Government Procurement, the State Services Commission (SSC), the Treasury and the Government Chief Information Officer (GCIO).

## *Structure of this document*

This document conforms to Treasury guidelines for Better Business Case development.

It follows the five case model:

- The Strategic Case provides an overview of the programme and an update on programme progress. The case for change outlined in the PBC, remains sound and has not been updated.
- The Economic Case describes the requirements of the future revenue system and what is required to deliver it, outlines the proposed starting point and the sequencing of future stages, and provides updated costs and benefits for the programme.
- The Commercial Case outlines the products and services required to implement the future revenue system, and the contractual arrangements in place with FAST Enterprises.
- The Financial Case indicates sources of funding for the programme.
- The Management Case describes the governance and management arrangements for implementation, outlines the change impacts and change management approach for Stage 1, and describes how benefits will be managed and tracked for the programme.

## Programme progress

Transformation is a high-profile and complex programme.

The programme continues to be on track and is ready to commence implementation.

Over the last two years Inland Revenue has worked to ensure it has the knowledge and expertise to deliver.

High level design of the future revenue system has been completed and detailed design of Stage 1 is underway.

During recent phases the programme has:

### 1. *Built an experienced and capable team*

The programme has been largely successful in retaining the skills recruited in earlier phases and has supplemented these skills where necessary. Please refer to the 2014 PBC Addendum for biographies of the programme leadership team.

Key skills have been brought in-house, for example vendor management, providing some opportunities for knowledge and skill transfer within Inland Revenue and across the wider public sector.

Maintaining the quality of the team is a key focus for the programme's Senior Responsible Owner (SRO) and Inland Revenue's Executive Leadership Team (ELT).

Recent assurance reviews have commented favourably on the quality of the team. The Gateway 0 review completed in September 2015 found that *"...Inland Revenue has invested significantly in developing in-house staff and bringing in experienced individuals and fresh expertise."*

### 2. *Selected a commercial-off-the-shelf (COTS) software package for tax and social policy to enable detailed design for Stage 1 to commence*

The core COTS provider, FAST Enterprises LLC (FAST), has been selected. The procurement process was comprehensive and robust. The independent quality assurance (IQA) review undertaken by KPMG in June/July 2015 concluded that *"The programme's*

*approach to procurement is transparent, effective and well managed."*

### 3. *From Inland Revenue's target operating model (TOM), developed a business solution blueprint which identifies the requirements of the future revenue system*

The TOM is a comprehensive description of how Inland Revenue will operate in the future.

Seven business solution blueprints were developed during high-level design with a wide range of input. More details can be found in appendix B.

### 4. *Progressed opportunities to allow better integration with public and private sector business partners to improve customer services*

Inland Revenue is partnering with the software industry to enable early business benefits to be delivered. Xero, MYOB and Inland Revenue have been working together to enable customers to submit GST returns from their cloud-based software. This is the first step in integrating tax and business processes.

Solutions are also being co-designed with other agencies. Detailed design is underway with the Ministry of Business, Innovation and Employment (MBIE) for use of the New Zealand Business Number and to allow immigrants to digitally register for tax.

**5. *Engaged with New Zealanders on potential changes to the revenue system to seek their views and support***

Engagements with external reference groups to date indicate support for the programme – the Transformation Reference Group, the Tax Simplification Panel and the ICT Reference Group. Details regarding the purpose of the groups and current membership are available on Inland Revenue’s website.

The *Making Tax Simpler* consultation has been well supported and generated considerable media interest.

Presentations have been made to numerous tax professionals groups, industry groups and community groups. Refer to appendix C for details.

**6. *Continued to engage with the corporate centre to ensure there is a good understanding of and support for the programme***

A memorandum of understanding has been agreed between Inland Revenue and the corporate centre to document roles and working arrangements.

The SRO and senior officials from Treasury, the GCIO, the Department of Prime Minister and Cabinet (DPMC) and SSC meet quarterly.

Monthly assurance meetings, chaired by the Programme Director, are held with the wider corporate centre.<sup>2</sup> Weekly or fortnightly working

meetings, chaired by the Business Case Lead, are held with Treasury and the GCIO.

**7. *Continued to share programme knowledge and expertise across government***

Inland Revenue has been an active participant in building capability in the wider public sector. This has occurred in two areas in particular, procurement and change management.

During 2015 Inland Revenue has:

- Actively participated in Result 9 and 10 Steering Committees to share insights and assist in co-ordinating action plans.
- Presented its approach to transformative change to the Leadership Development Council, leaders from the SSC, the New Zealand Qualifications Authority, the Earthquake Commission, and Treasury.
- Shared copies of the sourcing strategy with MBIE.
- The Chief Information Officer (CIO) from the Ministry of Social Development (MSD) attended product scenario demonstrations for the selection of the COTS provider.
- Shared procurement templates and approaches with the Reserve Bank, Land Information New Zealand, Housing New Zealand, the Ministry of Health, Accident Compensation Corporation (ACC), the Ministry of Education, and MBIE.
- Presented the competitive dialogue case study at an MBIE breakfast seminar and made it available on the website.

- Shared resources, for example making collaborative working spaces and facilitation expertise available to a range of departments.

**8. *Continued to improve its digital offerings to customers, as a precursor to major transformation***

This has included: improving the usability of myIR; improving the website to make high-use content more readily available; making statements and notices available online; and introducing text activation to improve the myIR registration process.

**9. *Upgraded an essential component of Inland Revenue’s technical environment, which will be required until FIRST is decommissioned***

Good progress is being made, with the first release successfully implemented in September 2015. This work has provided the platform for the work underway with Xero and MYOB to enable digital submissions.

**10. *Continued to ready customers and staff for change***

A dedicated change management team has been established, and initial impact assessments for all stakeholder groups have been completed. Both a transition plan for staff and a customer engagement plan have been developed.

Communication and engagement with all stakeholders has increased significantly over the last 12 months.

<sup>2</sup> The Treasury, DPMC, SSC, NZ Govt procurement, GCIO and advisers in the offices of the Ministers of Finance and Revenue

## THE STRATEGIC CASE

### *Updating the case for change*

This section provides an overview of the programme and an update on programme progress. The case for change outlined in the PBC, 22 October 2013, remains sound and has not been updated.

## Strategic Context

### *The world is changing, with huge improvements in ways of doing business*

What was acceptable 10 or 20 years ago no longer meets the demands of customers today. The shift to digital and greater globalisation has reshaped how businesses and individuals interact and connect, and their expectations of government.

### *To protect the Government's ability to keep providing services, it is important that New Zealand's revenue system keeps pace with change*

In 2014-15, Inland Revenue collected just under \$60 billion of tax revenue that helps fund services to benefit all New Zealanders.

The revenue system should be simple and make it easy for people to get things right, but difficult to get wrong. It should serve the needs of all New Zealanders. It should put customers at the centre and help them from the start, rather than when things go wrong.

Businesses should spend less time on tax and more time on running their business, supporting Government's wider goal of building a more competitive economy.

### *Meeting these challenges requires a fundamental shift in the way Inland Revenue thinks, designs and operates*

There is no doubt that Inland Revenue's systems need replacement to improve resilience and agility. They have reached the end of their life and are not sustainable in the medium to long term. The FIRST system is aging, extremely complex, very difficult and costly to maintain, and inflexible.

However, business transformation is far more than just updating a computer system. It is re-shaping the way Inland Revenue works with customers, including improvements to policy and legislative settings.

Transformation will simplify how services are delivered, by changing how customers interact with a digitally-based revenue system, simplifying policies, and making better use of data and intelligence to better understand customers. Inland Revenue will facilitate compliance by moving interactions to the front end so customers get it right from the start: a new compliance approach.

A new operating model and new systems will be the catalysts for these changes, and provide the platform for modernising New Zealand's revenue system.

### *Transformation is not just about Inland Revenue: it has wider implications*

The programme is a key vehicle for delivering more integrated public services and advancing Government's business growth agenda, and better public services goals, specifically Results 7, 9 and 10.

More information will be exchanged between agencies, such as with ACC and MSD, to deliver more efficient outcomes for New Zealanders with improved quality, speed and accuracy.

### *Cabinet has agreed to change the revenue system through business process and technology change*

A modern, digital revenue system will make it simpler, more open and certain for New Zealanders to pay their tax and receive their entitlements. It will provide policy-

makers with agility, and will significantly contribute to a healthy, growing economy and a public service focused on better outcomes for New Zealanders.

Transformation will enable Inland Revenue to deliver on government expectations and priorities, and meet New Zealanders' expectations of a modern revenue system.

The programme will:

- Provide confidence in the continued collection of tax revenue and distribution of entitlements;
- Improve government's ability to make policy changes faster and more cost-effectively;
- Grow voluntary compliance by making it easier for people to get it right; and
- Create an information asset to deliver improved outcomes for New Zealand.

At the end of transformation, Inland Revenue will be more agile, effective and efficient, enable customers to self-manage with speed and certainty, enable government to make timely policy changes, and work with other agencies to optimise interaction across government.

Inland Revenue needs to transform the way it does business, simplify processes to benefit customers, and provide a stable technology platform.

*The programme will enable Inland Revenue to make a significant contribution to Government priorities*

The programme remains aligned to current Government priorities. To improve outcomes for New Zealanders, in conjunction with other agencies, Inland Revenue:

- has worked with the Department of Internal Affairs (DIA) to enable parents to register their new-borns for an IRD number when they register their birth;
- is working with MBIE to enable immigrants to digitally register for an IRD number when they apply for a visa; and
- is facilitating co-design with MBIE regarding use of the NZBN.

Inland Revenue is supporting the Government ICT strategy through:

- adoption of the Infrastructure-as-a-Service (IaaS) offering for existing infrastructure; and
- participation in the process to establish the Telecommunications as a Service (TaaS) offering.<sup>3</sup>

In addition, through the programme Inland Revenue will create an information asset for wider use:

- The *Making Tax Simpler* consultation will consider how the information collection and tax secrecy rules can best support the modernised tax administration and wider Government programmes.
- The quality and frequency of the information Inland Revenue collects will improve, providing opportunities for greater sharing.

The programme will reduce businesses' compliance costs, and make it easier for New Zealanders to interact with government.

*Alignment with other major government programmes and projects*

The Chief Executives of ACC, MSD and Inland Revenue meet on a regular basis to share programme plans and to discuss opportunities to improve services. For example, Inland Revenue is working with MSD to understand if it is possible and practical to share one voice biometric service for customers interacting with multiple agencies.

As further opportunities are identified Inland Revenue will work collaboratively with the corporate centre and relevant agencies to deliver improved outcomes.

**Investment objectives**

The programme's six investment objectives remain appropriate. They have been reviewed and updated to better reflect the desired business outcomes of the programme. The changes are underlined:

1. Improving agility so that policy changes can be made in a timely and cost effective manner.
2. Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies.
3. Improving productivity and reducing the cost of providing our services.
4. 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.
5. Increasing the secure sharing of intelligence and information across government to improve delivery of services to New Zealanders and improve public sector performance.
6. Minimising the risk of protracted system outages and intermittent systems failure.

These changes reflect the central role of digital services in a modern revenue system and the greater role of third parties (private as well as public sector) in the delivery of services.

Measures and targets have been developed for each of the investment objectives. Please refer to appendix D for more information.

<sup>3</sup> A tier 3 Inland Revenue manager is a member of the Steering Group for TaaS

## Approach to dealing with the programme's risk profile

Overall the programme is considered to be inherently high risk. Accordingly, considerable emphasis has been placed on developing the capabilities required to manage and mitigate risks and issues. The programme's management of risk was recognised as "an exemplar" in the September 2015 Gateway review.

The major areas of risk that decision-makers should be aware of are:

- Uncertainty of programme timeframes and costs particularly surrounding the co-existence of old and new technology platforms: this will be mitigated by the work to be undertaken during detailed design for Stage 1 and by providing appropriate contingency allowances.
- A significant external shock may disrupt delivery of the programme, for example an economic shock or a natural disaster: there are few, proactive mitigations available for such an occurrence.
- The resources needed may not be readily available: this will be mitigated by developing strategies to ensure that the experienced resources already recruited are retained, and that effective succession plans are developed and proactively managed.
- Customers and staff may not embrace change: this will be mitigated through proactive change management processes for staff that are robust, consistent and fair and through on-going awareness and education campaigns for customers.
- Policy and business change may not occur in parallel: this will be mitigated by taking a co-ordinated

approach to change and through regular engagement with Ministers.

## Constraints

A key consideration is ensuring that the impacts on customers are minimised. Maintaining service levels while delivering the programme will be a key planning consideration.

Given this aspiration and the complexity of this programme along with the need to balance other pressures, the key programme constraints are considered to be:

- maintaining the stability of the current environment;
- some changes may need to be aligned to business cycles and/or tax years; and
- the capacity of Inland Revenue, customers and other stakeholders to absorb change.

Government may not be easily able to implement significant policy proposals, as Inland Revenue may not easily be able to accommodate sudden changes in sequencing. This will be mitigated through on-going dialogue with Ministers.

## Assurance

Three independent assurance reviews have been undertaken during 2015.

### *OAG review – Programme Governance*

The OAG found that:

*"...Inland Revenue's governance of the programme has provided clear direction, and supported clear and effective decisions."*

*"Strengths of Inland Revenue's governance of the programme include a comprehensive and clear governance structure, an established methodology, and an advanced approach to managing risks."*

*"Having the right senior staff and appropriate external specialist staff involved in the programme's governance has also been a strength."*

### *Independent quality assurance review*

KPMG's third IQA and second technical quality assurance (TQA) review found that:

*"Overall the Programme continues to be managed in accordance with good industry practice, and the controlling processes are, in our view, robust and fit for purpose."*

*"...governance mechanisms continue to function effectively..." and that programme management practices are '...generally robust and effective."*

### *Gate 0 - Gateway*

A Gateway review in September 2015 reported:

*"... an increase in delivery confidence since the last Gateway Review."*

*"Inland Revenue has invested significantly in developing in-house staff and bringing in experienced individuals and fresh expertise. In addition, a one-team ethos has been nurtured with delivery partners."*

*"An Amber/Green delivery confidence assessment at this stage reflects very favourably on the Programme."*

## THE ECONOMIC CASE

### *Outlining the preferred way forward*

This section describes the requirements of the future revenue system and what is required to deliver it; outlines the proposed starting point and the sequencing of future stages; and provides updated costs and benefits for the programme.

# The future revenue system

## The design of the future revenue system

The solution blueprint describes the future revenue system. The revenue system includes the people, policy, processes, technology and data used to deliver the tax and social policies that Inland Revenue administers, and the information Inland Revenue collects and provides to others.

The starting point for the blueprint was Inland Revenue's TOM. The solution blueprint has confirmed the changes needed (as described in the PBC) and identified future requirements.

The revenue system will be digitally based and highly automated, and designed to fit seamlessly into people's lives. This means greater use of insight to design and deliver customer-centred services in partnership with others in or outside government.

Increasing integration with private and public business partners is a key feature. For example, business customers will be able to provide and receive information through their own accounting or payroll system.

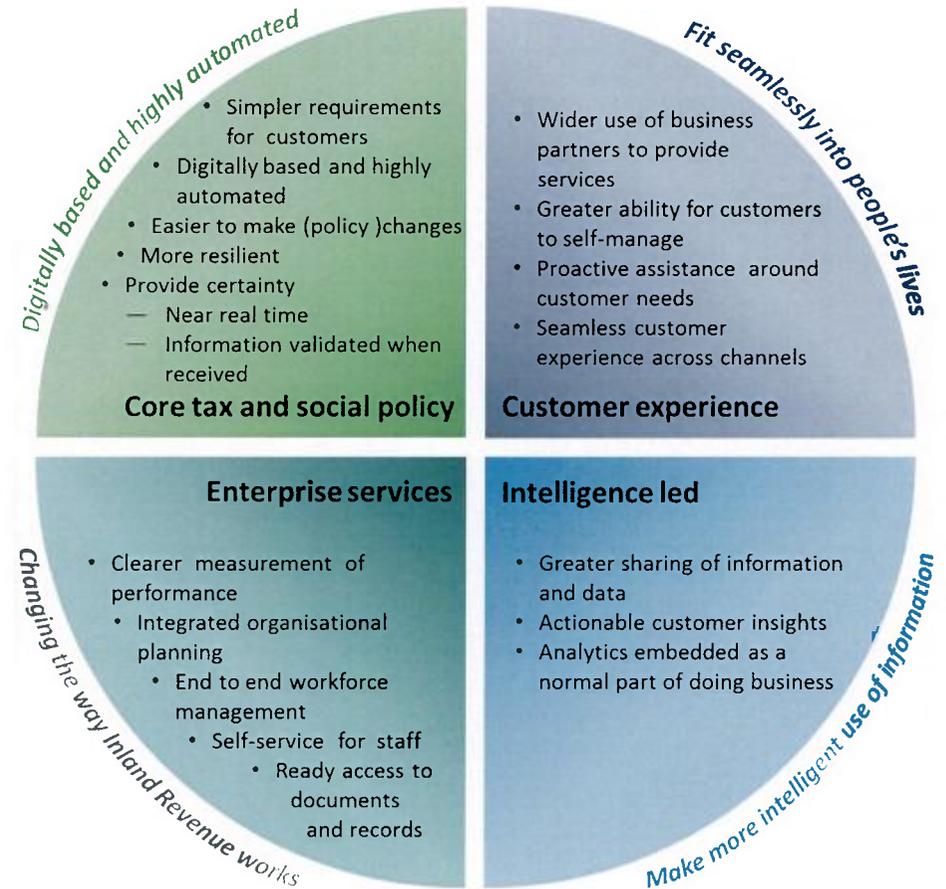
Inland Revenue will provide software developers with application programming interfaces (APIs). APIs will enable third party software applications to connect with Inland Revenue over the internet and:

- allow new and more sophisticated software products to the market;
- provide more choice for customers; and
- improve customer experiences and minimise their costs.

Information collected through business partners will also be used to make it simpler for individual customers. For example, customers' returns will be pre-populated with their interest and dividend income.

To administer the future revenue system Inland Revenue will have to change the way it works and make more intelligent use of information to deliver actionable customer insights. For example, enabling proactive assistance at key events such as starting a business.

Inland Revenue will be in a position to identify what further opportunities may exist to share information as part of the detailed design of each stage. PAYE is an integral source of information – for example, as the accuracy of employment data improves more information may be able to be shared about individuals' circumstances with MSD.



## The components required

Modernisation involves far more than an upgrade of Inland Revenue's technology. It also provides the opportunity to fundamentally review how the revenue system is administered, and consider what changes may be needed. Delivering the future revenue system and the TOM will require the programme to:

1. simplify policy and legislative settings;
2. make more intelligent use of information to proactively ensure customers get it right from the start;
3. fit revenue processes seamlessly into people's lives;
4. transform Inland Revenue's organisational capabilities; and
5. implement a modern technology platform that is digitally based and highly automated.

### *Simplifying policy and legislative settings*

Policy changes will be required across a number of areas to simplify requirements for customers:

- modernisation of PAYE rules;
- reform of business provisional tax;
- reform of business penalty and interest charges;
- withholding taxes and credits on interest and dividends;
- modernisation of the Tax Administration Act; and
- consideration of a welfare type model for some social policies. For example, Child Support and Working for Families Tax Credits.

Improvements to the collection of PAYE and investment income information are foundational building blocks. More accurate information will be collected more

frequently from payers such as employers and financial institutions. This will provide the basis for ensuring that accurate entitlements are paid when they are needed, regardless of which agency administers them.

A key assumption is that policy will be aligned with other changes to minimise impacts for customers and Inland Revenue.

This business case does not include fiscal implications resulting from any proposed policy changes. Full fiscal implications will be included in final policy advice to Cabinet following consultation. Once decisions have been made, fiscal implications will be included in future programme updates.

### *Making more intelligent use of information*

Initially, the programme will seek to leverage Inland Revenue's current analytics environment and the capability that will be delivered via GenTax.

The current analytics environment will have to be strengthened to ensure that it is scalable for increased volumes.

Enhanced analytics capabilities will enable Inland Revenue to better understand customers' circumstances and needs, and proactively work with customers to ensure things are right from the start. This will improve voluntary compliance and enable Inland Revenue to better identify non-compliance and undisclosed income earlier.

In time, this will also enable identification of cross-government policy and service design opportunities to improve outcomes for New Zealanders.

### *Fitting revenue processes seamlessly into people's lives*

As discussed on the next page, some customer experience improvements will be delivered through GenTax. Other changes are required to ensure that channels provide end-to-end support for customers, and to encourage and support self-management.

As an example of how revenue processes will fit seamlessly into people's lives, a digital gateway will be implemented to enable customers of software providers to submit information to Inland Revenue automatically, thus reducing their compliance effort.

By the end of 2015, Inland Revenue will have published a GST API and begun recruiting customers for a GST digital submissions pilot. This functionality is expected to be enhanced to enable digital submissions of PAYE and annual returns during 2016 and 2017.

Interactions with other agencies will be integrated, including allowing immigrants to digitally register with Inland Revenue.

Customers will have greater ability to easily manage their own affairs through:

- A new website with advanced self-management capabilities including, for example, "click to chat".
- Integrated channels which provide a seamless experience. For example, a customer may ring to set up a debt payment plan or direct debit and be unable to complete the transaction. When convenient for them, they will be able to log into their online account and complete the transaction.

## Transforming Inland Revenue's organisational capabilities

The implementation of the new operating model will mean new processes, tools, and ways of working.

Six essential and fundamental shifts are required. Inland Revenue in the future will be a smaller organisation working in partnerships and alliances across government and the private sector. The workforce will be more knowledge-based, supported by greater analytical capability.



Enterprise services are included as part of the programme as an essential part of supporting Inland Revenue's new and more efficient operating model, and overall modernisation.

Some enterprise systems were implemented up to 18 years ago and do not provide for modern ways of

working. Examples of areas required to support a transformed organisation include:

- Recruitment, management and development of people to support a more agile and customer-centred workforce with the agility to proactively meet future customer demand.
- Financial systems and processes – updating Crown accounting and reporting is essential.
- Procurement of goods and services – Inland Revenue is moving to a different model of relationships with integrated service delivery across a range of public and sector partners.
- Management of organisation performance, including the management of performance where delivery is undertaken by external partners or suppliers.

Consistent management of Inland Revenue's documents and records requires a robust enterprise content management solution. This will allow Inland Revenue to:

- collaborate on documents with both internal and with external parties; and
- more easily and efficiently search for, retrieve, distribute and re-use key information.

### *Implementing a modern technology platform that is digitally based and highly automated*

FAST Enterprise's GenTax solution has been selected as the basis for the platform. It is a modern, pre-built, integrated, configurable system which has pre-configured generic tax administration processes. GenTax functionality is broad and includes:

- Largely automated "straight through" processes.

- An integrated and complete view of relationships, products and transactions.
- Secure online customer self-service functions. Customers can view their account status, inspect their filing and payment history, check and update their circumstances, track their entitlements, and file and pay online.
- Customer analytics to model and predict customer preferences and behaviour and discover revenue opportunities.
- Campaign and case management to support targeted customer interventions.

Other investments will be required to supplement GenTax to provide a modern technology platform that is secure and reliable. For example, this includes:

- new data centres;
- networks;
- identity and access management systems; and
- security information management.

Inland Revenue will use a range of authentication solutions to verify the identity and login of customers. In the initial stages the focus will be on organisations that customers connect with regularly and that already have well tested and secure authentication services, such as third-party software providers, banks and other government agencies. RealMe will be included as one of the solutions. This will offer customers choices to ensure the experience is seamless.

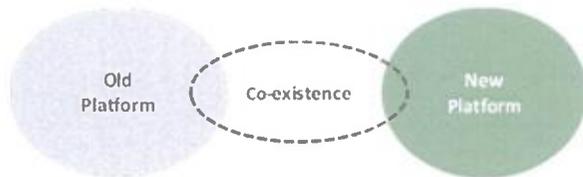
Recognition of customers' New Zealand Business Number (NZBN) will be included in the implementation.

# The preferred way forward

## Delivery considerations

### Transitioning will be complex

The current platform and processes have become extraordinarily complex over time. Maintaining Inland Revenue's business as usual services while transitioning to a new platform and new processes is expected to be challenging.



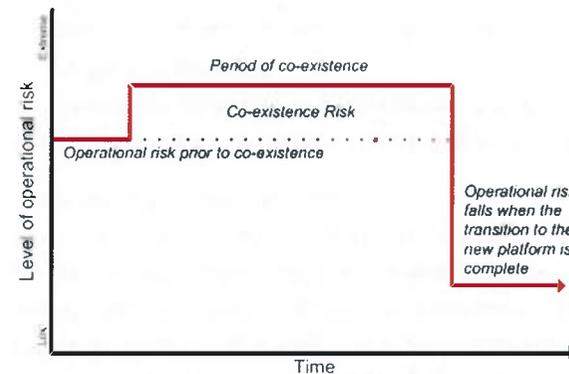
Both the old FIRST platform and a new technology environment will need to be supported during the transition. The co-existence of business functions and technical capabilities is arguably among the most complex challenges of the programme.

There may be considerable information and process flows split across the old and new platforms. For example:

- Customer information may exist across both systems and both systems will require access to read and update it.
- Products may be administered within multiple systems and payments will need to be allocated and directed to the appropriate system.
- Debts may exist on either system, and debt will be managed at a product rather than a customer level.
- Customer compliance history and obligation due dates will exist in two systems meaning customer

interest and penalty calculations will need to access both systems.

Inland Revenue's operational risk profile will rise over the period of the transition to the new platform. While co-existence will increase risk, Inland Revenue considers the risk of a 'big-bang' implementation to be significantly higher.



Implementing a new platform will require:

- Implementation of a new network and data centres.
- Configuration of GenTax to meet the legislative requirements of New Zealand taxes and social policy.
- Migration of complex data containing information that needs to be profiled, analysed and understood and then prepared for migration to GenTax.
- Management of change for customers and staff, including training.
- Development of solutions and processes to allow the old and new platforms to co-exist and continue to provide services to customers.
- Integration with other applications.

Once started, stopping the transition will increase risk and cost. This is because halting part way through:

- will increase operational risk;
- may potentially constrain agility depending on the nature of the change; and
- will be costly because two core systems will have to be supported and maintained.

### Delivery approach

Transitioning to the new platform as quickly as possible is the best way to manage risk as this will limit the period of time that the platforms need to co-exist.

This approach is consistent with other agencies that have converted to GenTax. Therefore, implementation of the core tax and social policy platform is the priority; initially there are some limited choices around sequencing and pace.

Wherever possible; logical functions, services, products and customer groups will be migrated together to limit multiple changes to customers, business partners, intermediaries and Inland Revenue.

Opportunities to deliver business benefits early in the programme will be considered, such as the digital gateway. Taking these opportunities must be balanced with managing risk to the programme.

To minimise impacts to external agencies, such as MSD and ACC, all integration will remain as-is, where possible.

The sequencing of stages will need to take change capacity and business change tolerance into account.

The proposed sequencing aligns to government priorities, balances delivery risk and impacts on customers, builds confidence, enables delivery of benefits as soon as practically possible, and is consistent with the experiences of other jurisdictions.

## Programme roadmap

An updated programme roadmap is shown on the next page outlining Inland Revenue's current view of the delivery sequencing of the programme, and its expected outcomes. Inland Revenue is taking a product based approach to implementation as this allows for smaller steps, and has been recommended by FAST. Further, this approach is consistent with the fact that Inland Revenue administers products as defined by specific legislation.

### *Starting point*

Starting with a simple tax or social policy will prove the core tax and social policy platform and enable Inland Revenue to prove the approach.

GST is recommended as the starting point because it is relatively simple, big enough to provide experience for Inland Revenue and benefits to customers. This is consistent with other GenTax implementations - most have started with a sales tax. Alternative starting points were considered and discounted:

- income and business taxes due to higher implementation risk and misalignment of policy and other changes; and
- social policy due to higher implementation risk and greater change impacts.

Please refer to appendix E for more information.

### *Scope of Stage 1*

Stage 1 will focus on the end-to-end implementation of GST on GenTax. This also includes implementing all the supporting technical infrastructure and co-existence solutions. Inland Revenue is working with the GCIO and

MBIE to understand current all-of-Government (AoG) contracts and capabilities to leverage these where applicable.

The APIs which are currently being developed will be fully implemented to allow cloud software providers to interact with Inland Revenue over the internet.

### *Outcomes from Stage 1*

The benefit to GST customers will be reduced effort. For the Crown, the benefits will be improved GST compliance, improved policy agility for GST, and productivity savings specific to GST processing.

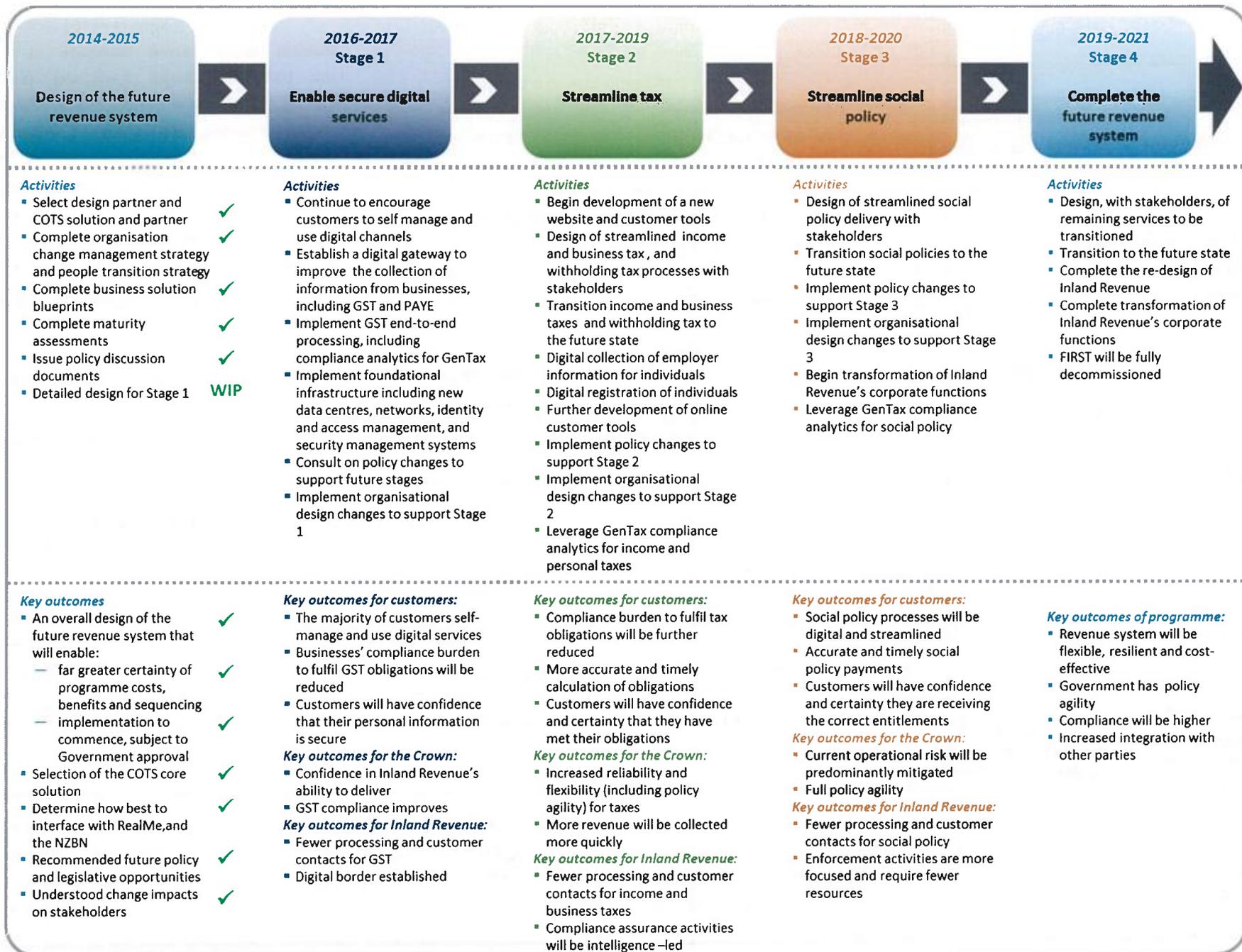
The successful delivery of Stage 1 will provide Government with confidence that Inland Revenue can deliver subsequent stages. Future stages will build on the gains made in Stage 1 as additional products are transitioned to the new platform.

### *Future stages*

Inland Revenue proposes to focus on tax products in Stage 2, and social policy in Stage 3. Stage 4 will focus on any remaining taxes and duties.

It is likely that the delivery plan will change over time as the programme learns and becomes more experienced, as new opportunities are identified, and as Government priorities change. The roadmap sequence will be regularly reviewed to ensure the optimal plan is being delivered. This will take into consideration:

- Government priorities;
- customer experience and benefits;
- co-existence; and
- business needs.



## Programme costs and benefits

This is a good investment because it provides confidence in the continued collection of tax revenue and distribution of entitlements; improves government’s ability to make policy changes faster and more cost-effectively, grows voluntary compliance by making it easier for people to get it right; and creates an information asset to deliver improved outcomes for New Zealand. It will deliver cumulative compliance cost savings (economic benefits) until 2023/24 of between \$1,200m to \$2,025m, and cumulative financial benefits to the Crown until 2023/24 of between \$2,950m to \$5,960m. Refer to the page numbers indicated in the table for further analysis.

		See Page	Revised costs to complete transformation and benefits 2015	Costs and benefits as per PBC Oct 2013
<b>Non-monetary benefits</b>				
Easier for customers	Customers will find it easier to meet their obligations and receive their entitlements	22	✓	✓
Revenue system resilience	The revenue system will be simpler and more resilient, and recover from any failure quickly		✓	✓
Agility to implement policy	The time and cost for Inland Revenue to implement (policy) changes will be markedly reduced		✓	✓
<b>Monetary costs and benefits for the period 2015/16 to 2023/24</b>				
Compliance effort savings	The compliance effort for businesses will reduce	23	\$1,200m - \$2,025m	\$1,100m - \$2,300m
Additional Crown revenue and efficiency savings	Improved customer compliance increases assessed Crown revenue and Inland Revenue will be more efficient and smaller than today		\$2,950m - \$5,960m	\$1,400m - \$2,700m
Implementation and operating costs	Programme implementation costs and operating costs	24	\$1,500m - \$1,690m	\$1,300m - \$1,900m

Other benefits of the programme will include:

- Improving revenue system integrity: further building trust and belief in the revenue system, which underpins voluntary compliance.
- Customers will receive more accurate and timely payments.
- Leveraging the information Inland Revenue collects: this allows customers and other agencies to benefit from Inland Revenue’s information, and will contribute to achieving better public services outcomes – specifically Results 1, 7, 9 and 10.

- Fewer customers making mistakes or having issues with their tax and social policy affairs.
- Fewer customers going into debt: assistance will be better matched to needs by ensuring people receive accurate and timely payment of their entitlements.
- Support for the government ICT strategy through the adoption of common capabilities where they are available, fit-for-purpose and cost effective, for example, as a service offerings.

The costs and benefits have been ranged to reflect any uncertainties. Risk and uncertainty is discussed on page 24. The financial net present value<sup>4</sup> until 2023/24 for the programme is \$425m - \$1,970m.

For a breakdown of costs by activity, please refer to appendix F. The approach to revising costs and benefits is described in appendix G.

<sup>4</sup> Using a discount rate of 9%

## Non-monetary benefits

### Introduction

These benefits consist of making the revenue system easier for customers, improved resilience and greater policy agility.

### Easier for customers

It will be easier for customers to meet their obligations and receive their entitlements.

	At 2023/24	2014/15 Baseline	Change
% of customers who find it easy to comply	90-95%	82%	+10-15%

Currently 82% of customers find it easy to comply<sup>5</sup>. By the end of the programme this will increase to between 90-95% driven by:

- greater use of intelligence, enabling proactive assistance to customers to get it right from the start;
- reducing complexity for customers and only asking for information when necessary;
- encouraging customers to actively self-manage by tailoring services that respond to their needs; and
- fitting Inland Revenue requirements seamlessly into people's lives through integrating information and business processes with other organisations.<sup>6</sup>

<sup>5</sup> Inland Revenue Annual Report 2014

<sup>6</sup> Including DIA, MSD, ACC and MBIE or with external partners such as software industry

### Revenue system resilience

Current resilience is judged to be low due to:

- a number of obsolete systems with high complexity;
- reliance on a small number of people;
- incomplete documentation for key systems; and
- low maturity for service and risk management.

Inland Revenue is already working to manage these risks.

By the end of the programme 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.

However Inland Revenue's risk profile is unlikely to decrease until the later stages of the programme, as any interim reduction of risk will be countered by the risks associated with co-existence. Risk is in fact likely to increase during implementation as fundamental changes are introduced into a complex and fragile environment.

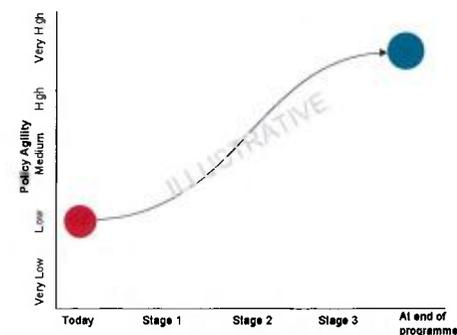
Risk profile	Risk rating		
	Current	During co-existence	Target
Infrastructure failure	High	High	Low
People/process failure	High	High	Low
Architectural complexity	High	Extreme	Low
Information security	Extreme	Extreme	Medium
Change	High	Extreme	Low

### Agility to implement policy

The programme will provide government with greater agility to design and implement policy. Significant improvements will be made in the following areas:

- 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.

Agility will increase as implementation progresses. Following Stage 2, government will have much greater agility for tax products.



The complex inter-relationships between income and social policy (which will still be on FIRST) will place some limits on agility. However, some agility will be possible for achieving wider social policy outcomes as income information collection will have been transitioned. Full policy agility will be provided once the programme is complete. Inland Revenue will be positioned to meet the increasing change profile of a modern economy and society.

A core assumption is that changes will be made through configuration in the GenTax system. GenTax reference sites reported significantly reduced internal implementation times depending on the characteristics of the changes being made. For more information, please refer to appendix H.

## Monetary benefits

### Introduction

These benefits consist of reducing compliance effort and cost, additional Crown revenue and efficiency savings to Inland Revenue.

### Compliance cost savings

The programme will deliver savings to all businesses; however 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. Therefore, this benefit has been monetised on the basis of the value to the owners of these businesses of the time saved.

	Revised benefits 2015	Benefits as per PBC Oct 2013
Benefit for the period 2015/16 to 2023/24	\$1,200m - \$2,025m	\$1,100m - \$2,300m
Annual benefit at 2023/24	\$225m - \$380m p.a.	\$250m - \$450m pa
Average hours saved per SME	18 - 26 hours p.a.	14 - 27 hours p.a.

A reduction in effort will be available to those businesses that choose to use cloud based software that is integrated with Inland Revenue using the digital gateway.

An assumption has been made that by the end of the programme 85-90% of small businesses will be using cloud software. An estimated 30%-40% currently use cloud based software.

The benefit is widely ranged as this shift is reliant on factors beyond Inland Revenue's control. As a result, Inland Revenue has taken a prudent view. Further work

is planned in the early years of the programme with the industry and customers to build an understanding of customer uptake, and the hours saved.

### Additional Crown revenue and efficiency savings

Financial benefits	For the period 2015/16 to 2023/24	
	Revised benefits 2015	Benefits as per PBC Oct 2013
Increase in taxation revenue	\$2,490m - \$5,420m	\$825m - \$1,705m
Reduced cost of debt	-	\$460m - \$820m
Administrative savings for Inland Revenue	\$460m - \$540m	\$115m - \$175m
Total	\$2,950m - \$5,960m	\$1,400m - \$2,700m

#### Taxation revenue

The revenue uplift assumption made in the PBC has been confirmed. An annual mean uplift of \$1.5 billion per annum will be delivered in assessed revenue from the end of the programme. Based on current revenue, this equates to an uplift of 2.5%. Other jurisdictions who implemented Gentax have seen uplifts of 0.3%-2.8%.

The benefit for the period 2015/16 to 2023/24 is significantly higher than the PBC as a result of the shorter duration of the programme which allows for full realisation. The revenue uplift is driven by:

- improved voluntary compliance through a proactive, 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.

Please note that the PBC included a benefit from reducing the cost of debt to the Crown which is not now included because of improved debt management performance.

#### Administrative savings

The programme will deliver administrative savings of \$460m-\$540m for the period 2015/16 to 2023/24. This is a significant increase from the PBC because savings will now be delivered across all areas of Inland Revenue.

All things being equal, Inland Revenue will be approximately 25%-30% smaller at the end of the programme than it is today. This will be a result of reductions in:

- much of the manual processing done today due to more accurate and timely provision of information, digital uptake and automated processing;
- the number of customer contacts<sup>7</sup> due to self-management and proactive, tailored assistance;
- the volume of debt collection work due to fewer customers going into debt;
- the level of audit staff required due to the use of analytics to automatically screen and select taxpayers for investigations;
- the number of technology staff required due to the new COTS technology platform being simpler to maintain and to change; and
- support functions and overhead costs to reflect the smaller size of the organisation, for example office accommodation.

<sup>7</sup> Person to person contacts via call centres and counter services

## Costs to complete transformation

The revision of costs was informed by high level design, the COTS request for proposal (RFP) process and engagement with potential suppliers. No costs external to Inland Revenue have been included.

	Costs to complete transformation for the period 2015/16 to 2023/24	
	Programme revised 2015	PBC Oct 2013
Implementation services and teams	\$961m - \$1,083m	\$990m - \$1,440m
Hardware & software	\$387m - \$435m	\$280m - \$420m
Change management	\$139m - \$157m	
Other	\$13m - \$15m	\$30m - \$40m
<b>Total</b>	<b>\$1,500m - \$1,690m</b>	<b>\$1,300m - \$1,900m</b>

### Implementation services and teams

This includes all the external and external resources required to deliver the programme, including:

- programme management;
- seconded Inland Revenue staff and contractors; and
- implementation services provided by vendors and other consultants.

A key assumption in the PBC was that external partners would deliver the majority of transformation. The revised costing assumes a higher proportion of contractors and local consultants than originally anticipated, which has lowered the overall cost.

The cost of FAST implementation services is \$226m.

### Hardware and software

This includes:

- The physical technology infrastructure to support new systems and processes; new data centres account for \$80m of this cost.
- All the application software, including support and maintenance, and associated licence fees to run new systems and processes.

A greater use of COTS and 'as a service' offerings, and recognition of the need to modernise support services are significant shifts since the PBC.

### Change management

This includes organisation design and training, people transition costs and costs for customer engagement. The extent of change is more fundamental than envisaged in the PBC, and the impacts of the programme are now better understood.

## Risks and uncertainty

A Quantitative Risk Analysis (QRA) has been performed with the assistance of a New Zealand Government accredited risk management consultant on the preferred way forward. The purpose of a QRA is to quantify risk and uncertainty. The QRA has informed the ranging of costs and benefits.

The assumptions with a high degree of significance are the:

- duration of the programme;
- effort surrounding the co-existence of old and new platforms;
- NZD:USD exchange rate; and
- level of increase in assessed revenue.

## THE COMMERCIAL CASE

### *Sourcing the services and products required for delivery*

This section outlines the products and services required to implement the future revenue system, and the contractual arrangements in place with FAST Enterprises.

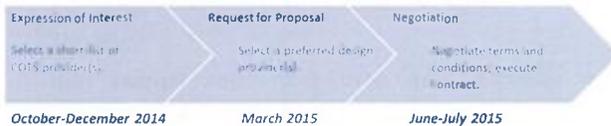
# Selection of new core tax and social policy platform

Inland Revenue has adopted a service aggregation model for all products and services required for the programme. This is the most common model adopted for large, technology-enabled change programmes.

Software, design and implementation services are required for delivering New Zealand's future revenue system. A new core technology platform will administer the taxes and social policies Inland Revenue is responsible for including transaction processing, security, data management and customer relationship management.

## Procurement approach for core tax and social policy platform

An open, competitive, multi-step approach was used that is consistent with Government's rules of sourcing and procurement framework. The steps in the process are shown in the diagram below:



1. An expression of interest (EOI) was issued for the provision of a core COTS solution. Three responses were received: from FAST, Oracle New Zealand (Oracle) and SAP NZ Limited (SAP). Oracle subsequently advised Inland Revenue that they would not be participating in the RFP process.
2. In March 2015 a request for proposal (RFP) was issued to FAST and SAP.

3. Evaluation of the RFP responses was undertaken by an evaluation panel consisting of technology, customer experience, change and business experts from Inland Revenue, as well as an independent technology expert from MBIE.
4. In June 2015, the Commissioner approved the recommendation of the evaluation panel that FAST be selected as the preferred provider for the provision of COTS software and associated services.
5. In August 2015, Inland Revenue and FAST concluded negotiations and signed a contract to start work on the detailed design for Stage 1 of the programme based on FAST's GenTax system.

## Commercial arrangements with FAST

A Master Services Agreement (MSA) has been entered into which sets out the legal terms, conditions, and framework on which FAST will, if required, provide:

- services and deliverables, including support, maintenance, and detailed designs;
- configuration and implementation services;
- option to purchase a license of FAST's proprietary COTS software (GenTax), in the event that Inland Revenue's business case for implementation is approved; and
- GenTax licence terms if Inland Revenue's option is exercised.

Key terms of the MSA relevant to this business case are:

- *Delay provisions* – where a delay is caused by FAST, Inland Revenue will be able to recover losses and recover wasted time costs as specified in a

Statement of Work (SOW) subject to a maximum of 10% of the SOW. Where Inland Revenue causes delay, Fast will mitigate costs and Inland Revenue will be subject to a maximum of 10% of the SOW for a delay claim.

- *Fees* – the MSA allows for engagement by both Fixed Price and on a Time and Materials basis.
- *Termination* - Inland Revenue has the right to terminate for any or no reason.

Following Government's approval to move to implementation, Inland Revenue has the option to purchase a perpetual software license for GenTax.

Inland Revenue has negotiated a right for MSD and the New Zealand Customs Service (Customs) to each licence their own version of GenTax at no additional licence fee. Should they wish to use GenTax, MSD and Customs will have to undertake their own procurement processes to determine whether it is fit for purpose.

A fixed price SOW will be entered into for each stage for the design and configuration of GenTax. A SOW has been entered for the detailed design for Stage 1.

## Process for selecting the other products and services required

The key products and services required for implementation are:

- data centre and hosting services, including infrastructure management, networking, storage, security and backup;
- network services;
- identity and access management solution;
- web content management solution;
- support and development tools, including quality and testing tools and help desk solution and services;
- enterprise content management solution;
- enterprise search solution to enable Inland Revenue to access and retrieve key information;
- telephony platform services;
- desktop services; and
- implementation services.

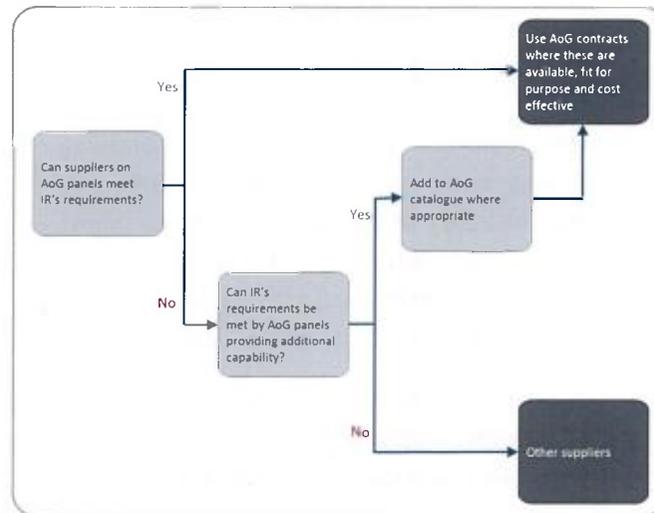
### *Non-core COTS software and services for standard functions*

Inland Revenue's default position is that common capabilities will be adopted where these are available, support the delivery of Inland Revenue's business outcomes and are cost effective.

Inland Revenue has a strong understanding of the current all-of-Government (AoG) contracts and the capabilities available.

Inland Revenue continues to work with officials from the GCIO and MBIE to understand current AoG contracts and capabilities to leverage these where applicable, as outlined in the diagram below:

Where capability is available on an AoG contract, Inland Revenue will assess these capabilities against the requirements and business outcomes of Inland Revenue.



Where there is a fit, Inland Revenue will consume some or all of these capabilities, or potentially consume a mix of the capabilities available in the AoG contracts.

In some cases, there may only be a portion of the AoG contract that is fit for purpose or price competitive. If this proves to be the case, Inland Revenue will consume these capabilities only, and work with the GCIO to source the balance from the market.

Any new capabilities Inland Revenue identifies will be discussed with the GCIO to assess whether they could be added to existing AoG contracts.

For example, with the current data centre market engagement run under the IaaS AoG panel, Inland Revenue and the GCIO are working closely to identify

Inland Revenue's requirements for data centres and how the panel can support these. Where there are identified gaps, the GCIO will work with the IaaS suppliers to enhance the AoG panel offers for other government customers.

Where appropriate, the GCIO have been included in data centre RFP processes, including the deep dive sessions prior to the RFP release and in the deep dive sessions during the evaluation process.

Inland Revenue intends to repeat this approach throughout the life of the programme.

### *Next steps*

Sourcing strategies and plans will be developed to procure the capabilities needed for the implementation phase once this business case has been considered and approved by Cabinet.

## THE FINANCIAL CASE

### *Ascertaining affordability and funding requirements*

This section indicates sources of funding for the programme.

# Funding requirements

## Funding requirements

The Crown funding required is less than originally anticipated. Inland Revenue will fund between 40% and 50% of the programme's costs. This compares to between 15% and 30% estimated in the PBC.

To maximise its contribution, Inland Revenue will redirect the majority of its discretionary asset improvement funding to transformation, effectively limiting non-transformation project spend to legislative and 'run' activities. The funding strategy for transformation includes the re-investment of productivity savings, and a contribution from re-prioritised baseline funding.

	Funding for the period 2015/16 to 2023/24 (in real terms)		
	Required from Crown	Funded by Inland Revenue	Total
<b>Cash items</b>			
Operating costs	\$530m - \$670m	\$450m - \$435m	\$980m - \$1,105m
Capital costs	\$270m - \$335m	\$250m - \$250m	\$520m - \$585m
<b>Total</b>	<b>\$800m - \$1,005m</b>	<b>\$700m - \$685m</b>	<b>\$1,500m - \$1,690m</b>

Funding requirements will be adjusted for inflation and revised annually. If the capital to operating mix changes materially, for example as a result of the availability of 'as a service' offerings, this will have flow on implications for appropriations.

Please note that should the scope of the programme change, Inland Revenue's funding contribution may need to be adjusted. This is because some of the capital to be contributed had been ring-fenced for replacement of Inland Revenue's enterprise systems.

## Risk and uncertainty

Key areas of uncertainty in relationship to funding are:

- the duration of the programme;
- effort estimates and rate;
- foreign exchange rates; and
- contribution from administrative savings.

## Impact on Inland Revenue's baseline

At the completion of transformation, all things being equal, Inland Revenue's baseline will be very similar to today (in real terms) because administrative savings will offset new operating costs and depreciation from the investment. Inland Revenue's ELT is committed to achieving baseline neutrality, and analysis shows this is achievable.

Forecast operating baseline impacts (in real terms)	At 2023/24
New operating costs, depreciation and capital charges	\$92m-\$103m
Administrative savings	\$(100)m - \$(86)m
Forecast baseline (increase)/decrease	\$(8)m - \$17m

New operating costs include 'as a service' costs or any down-stream licence fees.

## THE MANAGEMENT CASE

### *Ensuring successful delivery*

This section describes the governance and management arrangements for implementation, outlines the change impacts and change management approach for Stage 1, and describes how benefits will be managed and tracked for the programme.

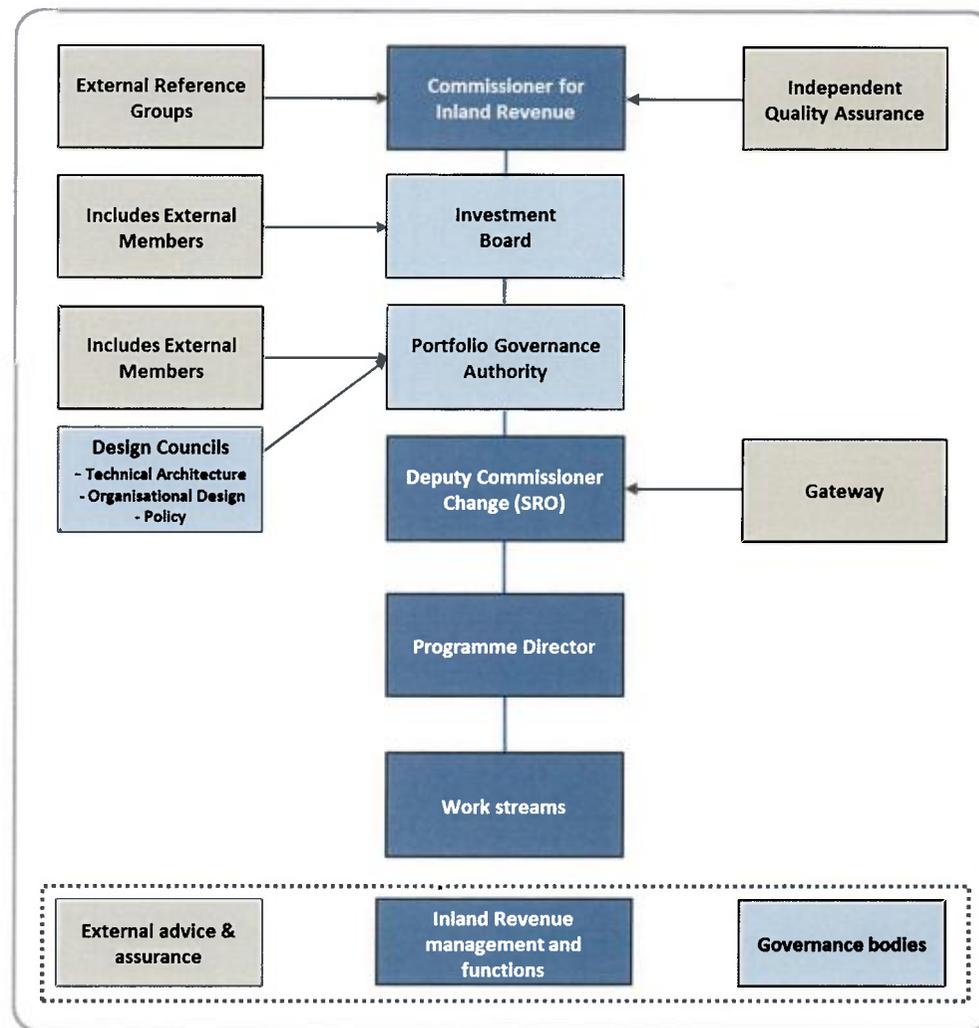
# Programme governance and management

## Programme governance

The programme governance structure is outlined in the diagram at right and will continue to be responsive and adaptive over the life of the programme to ensure it remains fit for purpose. The key features of the governance structure for the programme are:

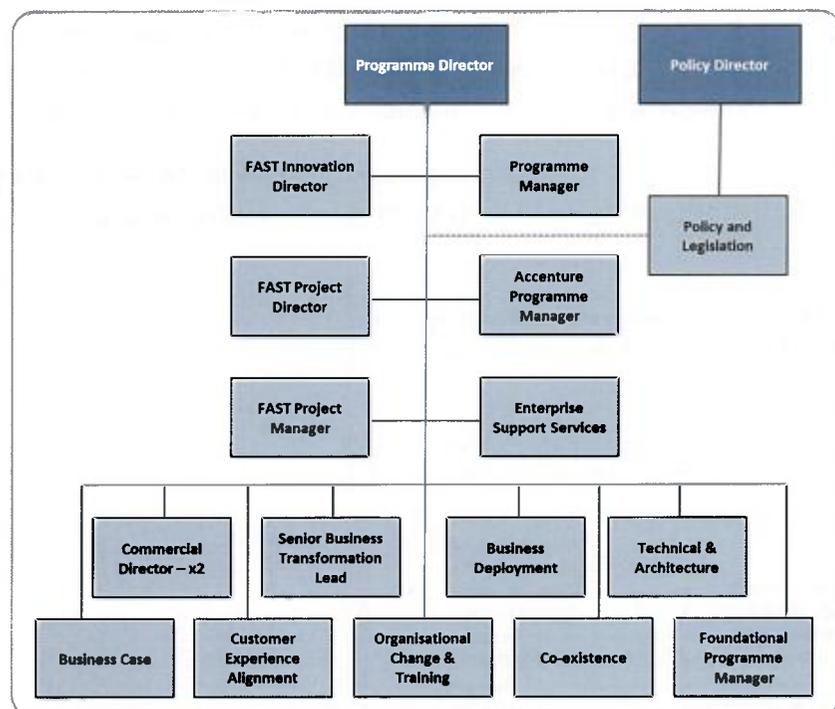
- The SRO is the Deputy Commissioner, Change.
- The Investment Board (IB) ensures that Inland Revenue’s investment portfolio is aligned to its strategic direction, and is chaired by the Commissioner.
- The Portfolio Governance Authority (PGA) ensures that programmes and projects meet their objectives and realise the expected benefits, and is chaired by the Deputy Commissioner, Change. The programme provides a status update to PGA each month.
- External members sit on both the IB and the PGA.
- The design councils have membership representing a wide range of business functions, and are chaired by tier 2 or 3 managers. The councils ensure that solutions meet business needs, and are an important communication channel between the programme and the business.

Inland Revenue governance bodies, including the Risk and Audit Committee, provide wider support and assurance.



## Programme management

The programme will continue to be resourced by Inland Revenue staff, contractors, and implementation partners. The key programme leadership roles are either currently filled or have been recruited for.



## Vendor management

Relationship and performance management of suppliers is the responsibility of the two Commercial Directors, the Programme Director and the Programme Manager. All these individuals are very experienced practitioners, and are supported by a team of specialists dedicated to the programme. A range of mechanisms are used, depending on the nature of a supplier's role in the programme. Where a supplier is providing on-going services, they are assessed against a balanced scorecard which tracks performance across a number of keys.

These include engagement effectiveness, cost management, delivery performance, scope management, team mobilisation and performance, risk and issue management, effectiveness of delivery assurance, and administration and compliance.

Supplier performance (including the scorecard) is reviewed as part of governance, which is tiered depending on the nature of the commercial relationship:

- Executive sponsor meeting – quarterly meeting which reviews the entire relationship.
- Account review meeting – monthly management forum to review commercial relationship.
- Operational meeting – weekly progress and status meeting.

*"Vendor management processes are comprehensive and designed to support collaborative working based on joint goals."*

KPMG – recent IQA review

## Programme Plan for Stage 1

Please refer to appendix I for the delivery schedule for Stage 1.

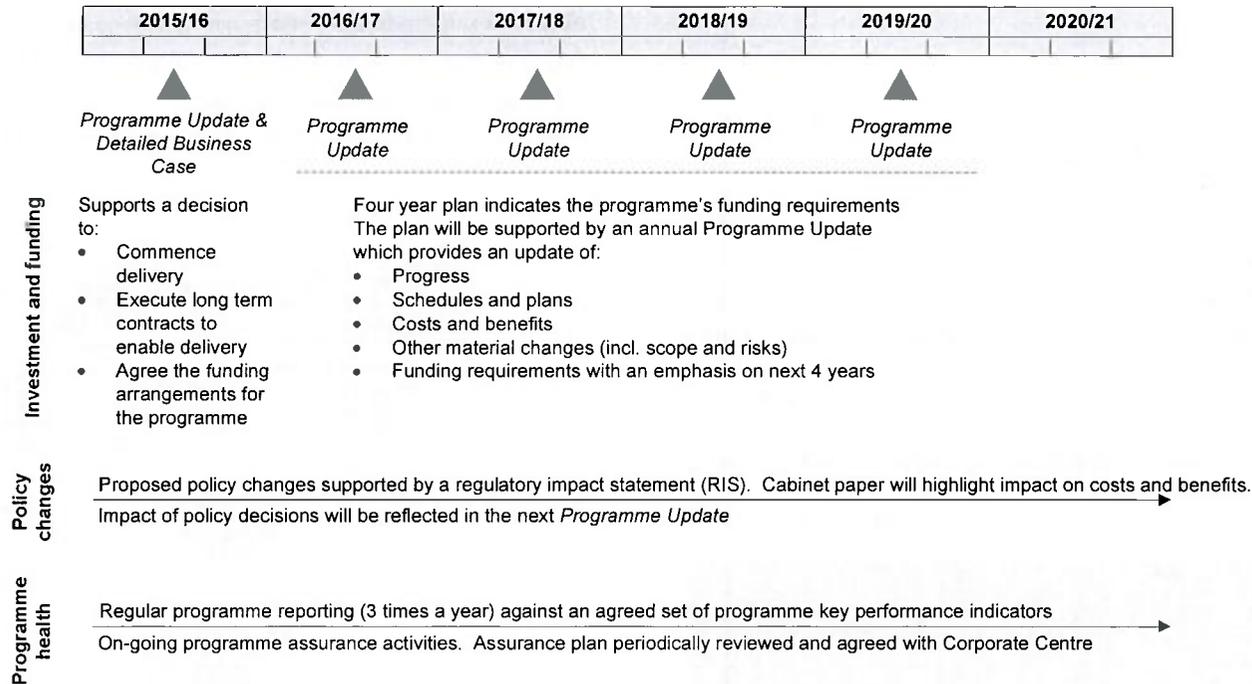
## Methodology

Inland Revenue has developed a methodology that will be applied during the life of the programme – the business transformation methodology (BTM). The methodology is aligned with the Managing Successful Programmes (MSP™) and Better Business Case guidance.

External providers who work on the programme must confirm that their methods align with the BTM.

## Assurance

Annual programme updates will be prepared, which will provide visibility of delivery progress, updated costs and benefits, and any material changes to the programme. In addition, an interim update will be prepared providing Ministers with visibility of delivery progress and any trade-offs that need to be considered. The programme will continue to report regularly as part of Treasury's major projects monitoring arrangements. The diagram below provides an overview of the programme's future reporting arrangements.



An assurance management plan is in place for the programme and has been agreed with the corporate centre. The forward plan will be reviewed with the corporate centre at the end of each phase. The quality assurance process will ensure that:

- there is an overall plan for implementing proactive assurance activities;
- there is capacity for conducting planned and ad hoc reviews;
- on-going IQA and internal reviews are undertaken;
- Gateway reviews are undertaken at both programme and project level; and
- progress is continuously monitored by Central Monitoring Agencies.

Programme progress will be reported through the existing, comprehensive mechanisms, including the monthly assurance meeting, Ministers' status updates, 10 keys reporting, and risks and issues reporting. These cover cost, schedule, and risk.

# Change management

## Customers

### *Customer engagement*

Engaging customers in proposed changes to the revenue system is important for two reasons. Firstly, customer input will help decision-makers to make better informed decisions. Secondly, engagement and communication with customers will help to retain their trust in the revenue system and encourage adoption of changes.

Inland Revenue is proposing to engage customers through:

1. policy consultation, on behalf of Ministers, to gain input on legislative proposals;
2. stakeholder engagement to gain support for proposed changes and to understand how impacts on customers can be minimised;
3. public engagement campaign to retain the trust of the public,<sup>8</sup>
4. the taxpayer simplification panel to promote and critique Inland Revenue's planned engagement with customers; and
5. notifying customers of changes to drive adoption.

The objective will be to ensure that changes are understood and supported, and that change impacts on customers are minimised wherever possible.

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<sup>8</sup> At an estimated total cost of \$6m overall this will require, for each tranche of activity, separate Ministerial approval as per Cabinet Office Circular CO (15) 4. In addition, advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.

### *Impact on customers*

An initial organisational impact assessment has been completed. It is currently being built on as part of detailed design for Stage 1.

### *Approach for Stage 1 for small business*

Inland Revenue will encourage small businesses to adopt the digital channels:

- Paper filers will be encouraged to (at least) file online (recognising that paper may still be the only option for some customers).
- Customers who currently file online will be encouraged to continue to do so. Where these customers could benefit from using accounting software, they will be encouraged to do so.
- Current users of accounting software will be encouraged to upgrade to submit their GST data through their software.

### *Approach for Stage 1 for large enterprises and other government agencies*

Stage 1 is expected to have minimal benefit for this customer group: the key message will be to continue to file online.

### *Change plans*

Detailed impact assessments and change plans will be developed at each stage for the impacted customer groups. For example, Inland Revenue's current thinking for large enterprises and other government agencies is that a phased deployment plan may be required, i.e. a

deployment plan specific to MSD's readiness for example.

Inland Revenue will work with other participants in the revenue system to tailor engagement, communication and education activities.

## Inland Revenue staff

Inland Revenue in the future will be a smaller and more efficient organisation. The composition of the workforce will change and will become more knowledge based.

A vision for the culture Inland Revenue will need in the future has been developed. The key cultural anchors are being customer-centred, intelligence-led and agile.

Leaders who can implement change while delivering day-to-day results will be critical to the success of transformation. A set of leadership dimensions has been developed that will be embedded in people systems and practices, including leadership development, recruitment and selection, and performance management.

### *Impact on staff*

An initial organisation impact assessment indicated some level of change for 90% of Inland Revenue's workforce, and the impacts will begin to be felt from 2015/16.

### *Approach*

Change will be managed through progressive transition states. These reflect the progressive development of organisational capabilities and ways of working. However, people and culture change is complex, and may lag behind some of the technology and product change.

During detailed design for Stage 1, Inland Revenue is developing a detailed understanding of the first transition stage - including a view of the first wave of new functional groups, new roles and skills, and some new ways of working. Change management, training and

transition plans for the first transition stage will be developed as part of the delivery of Stage 1.

### *People transition strategy*

Inland Revenue will have a robust, consistent, fair and efficient approach to transitioning staff which will have five key components:

1. There will be four transition pathways:
  - i. re-skilling for a similar capability role
  - ii. up-skilling for a higher capability role
  - iii. exiting Inland Revenue
  - iv. new skills entering Inland Revenue
2. Management of change - new processes and tools to support multi-stage change.
3. Transition support – Inland Revenue will provide reasonable support to people affected by change.
4. Staff and union engagement – active participation will contribute to success.
5. A dedicated transition hub will be established – to identify and manage impacts at an individual level.

A comprehensive training programme will support those re-skilling, up-skilling or entering a transition pathway. In addition, leadership development programmes will be delivered to enable leaders to support staff through the transformation.

Inland Revenue will be working across government to ensure that other agencies are aware of the skills that might be available to them from staff leaving Inland Revenue.

A transition hub will co-ordinate and facilitate the processes associated with people transition to ensure scalability, consistency and fairness. All people

transitions arising either as a result of the programme or from a major business as usual change will be managed through the transition hub. This will ensure:

- a consistent process for people, regardless of the nature of the change;
- scalable and repeatable change processes; and
- greater efficiency and transparency for affected people.

An initial fit gap analysis has been completed between Inland Revenue's current change processes and the processes required for change on the scale envisaged. A work programme is underway to update or amend current processes where necessary, or to establish new processes where there are gaps. This work spans 34 processes and will continue through until early 2016. The transition hub is expected to be operational from 1 April 2016.

### *Engagement with unions*

Inland Revenue is proactively engaging with the Public Service Association (PSA) and TaxPro to ensure that they understand and support the proposed change management approach and processes.

This will continue throughout the programme.

# Benefit and risk management

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## Benefit management

ELT members will have responsibility for delivery of the programme's benefits.

A benefit management strategy for the programme has been developed and endorsed.

The strategy provides the framework for managing benefits within the programme, and:

- defines benefit components;
- details how programme benefits will be quantified and measured;
- documents how progress will be tracked; and
- describes what governance arrangements will be in place.

Both internal and external stakeholders will be actively involved in the on-going assessment of timeframes, benefits identification and benefits realisation.

A set of benefit profiles will be developed for each programme benefit. A benefit profile describes the key metrics to enable stakeholders to clearly understand:

- what the benefits are;
- when they will occur; and
- roles, responsibilities and accountabilities for realisation.

For the expected benefits profile over the life of the programme, refer to appendix J.

Benefit realisation for Stage 1 is being prepared as part of detailed design of this stage.

## Risk management

Considerable emphasis has been placed on developing the capabilities required to manage and mitigate risks and issues. The programme's management of risk was recognised as "an exemplar" in the September 2015 Gateway review.

The review undertaken in June/July 2015 by KPMG concluded that:

"The programme's reporting of risks and issues continues to be diligent, effective and transparent."

KPMG rated Inland Revenue's performance on the risk and issue dimension as good practice.

# Appendix A – Commissioner’s statement



Inland Revenue  
Te Tari Taake

*Office of the Commissioner*  
55 Featherston Street  
PO Box 2198  
Wellington 6140  
New Zealand

*Telephone: 04 890-1500*

13 October 2015

## **Commissioner’s Statement: Programme Update and Detailed Business Case – Business Transformation Programme**

The purpose of this business case is to support Cabinet’s consideration of a decision to invest in implementing New Zealand’s future revenue system. This investment will deliver a digitally-based and highly automated revenue system, and make it simpler, faster and more cost-effective for New Zealanders to pay their tax and receive their entitlements.

Through the programme, Inland Revenue will make a significant contribution to a healthy, growing economy, and a public service focussed on better outcomes for New Zealanders.

Inland Revenue is well positioned to successfully deliver the changes that are needed. An experienced programme team has been recruited both from New Zealand and overseas who have delivered programmes of this scale and complexity before. Given the inherent risk of the programme, considerable emphasis has been placed on developing the capability, tools and techniques required to manage and mitigate risks and issues.

I am fully committed to successfully delivering the programme. I have been actively involved in the development of this investment proposal, and confirm that the analysis supporting this business case is sound and based on the best available information.

I confirm that the proposal is achievable, and that Inland Revenue can fund the programme to the level indicated. I believe the contingency arrangements in place to address any unforeseen pressures or issues are appropriate.

A handwritten signature in black ink that reads "Naomi Ferguson".

Naomi Ferguson  
**Commissioner of Inland Revenue**

[www.ird.govt.nz](http://www.ird.govt.nz)

## Appendix B – Blueprint design process

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Seven blueprints were developed:

1. Core tax and social policy
2. Customer experience
3. Intelligence led
4. Technology and enterprise integration
5. Organisation design
6. Enterprise support services
7. Technology change and operations

During the high level design, business blueprints were developed to three levels of process decomposition. The business blueprint document focused on the end state including:

- detailed analysis of business and stakeholder requirements
- master data and reporting requirements
- business rule requirements
- risk and controls requirements, highlighting any amendments needed to process the solution to satisfy those requirements
- a future state organisational design and
- a first iteration of FRICE (Forms, Reports, Interfaces, Conversions and Enhancements).

Engagement occurred with payroll and accounting software providers via a co-design process. A Policy Business Transformation Vision: Green Paper was also released to seek feedback.

A number of government agencies were engaged with to ensure that the capabilities for required data exchange is agreed, and designed.

The key review bodies were:

- 1) BOFs (Business Owner Forums). BOFs were established for each blueprint and comprised of senior business representatives.

The BOFs own the business processes that are to be incorporated into solutions, and ratify, refine and recommend changes to the existing business processes. The BOF's ensure that the future state business processes represent the optimum future state in terms of best practice relative to benchmarking research, and are fit for purpose to deliver the Target Operating Model and *IR for the Future*.

- 2) Design Councils provide executive authority for governing and controlling all design components associated with the programme. Design Councils are comprised of mainly tier two executives.
- 3) The Portfolio Governance Authority which is the key governance body for the programme.

## Appendix C – Stakeholder presentations

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Throughout 2015, Inland Revenue has presented to numerous external stakeholder groups. The presentations either completed or scheduled for the remainder of 2015 include:

### Tax professional groups

- Accountants and Tax Agents Institute of New Zealand (ATAINZ);
- National Tax Liaison Group;
- Chartered Accountants Australia and New Zealand (CAANZ);
- Corporate Taxpayers Group;
- The Law Society;
- New Zealand Bookkeepers Association;
- Certified Practising Accountant (CPA) Australia; and
- Deloitte National Tax Conference.

### Industry groups

- Employers and Manufacturing Association (EMA);
- New Zealand Bankers Association;
- Xero conference;
- Trans-Tasman Business Circle; and
- Small Business Development Group.

### Community groups

- Community Networks Aotearoa;
- New Zealand Council of Christian Social Services;
- Age Concern; and
- Citizens Advice Bureau.

A quarterly newsletter has been published online since mid-2014, providing an update on the progress of transformation. All four issues published to date are available on Inland Revenue's website.

Inland Revenue will continue to engage with other government agencies. For example through Result 9 and 10 governance bodies, as well as engagement with ACC's and MSD's change programmes. Inland Revenue is also a participant in all of the ICT Partnership Framework and has representation on all groups.

## Appendix D – Transformation targets and measures

Investment Objectives [primary]	Benefit Area	Measurement	Measure Description	Baseline and source	Programme 2023/24 [all products and services]
Improve customer experience	Easier for customers	Increase in the number of customers who find it easy to comply	Inland Revenue's Customer Satisfaction & Perceptions Survey tool and are based on the net agree score (3-5)	82%	At least 90%
		Improve business perception that the revenue system requires less effort	From Better Public Services Result area 9, a key performance rating for government services to businesses are similar to those of leading private sector firms	3.88	3.00 or less
Increase the secure sharing of information		Case-studies on outcomes of information sharing and security of information	Case studies used to demonstrate the reduction in customer effort as a result of information sharing and security of information	Baseline policy change examples	
Improve customer experience	Reduction in customer tax compliance burden		The cost of compliance is measured in the hours taken to complete tax-related activities from SME compliance cost survey	Total of 61 hours p.a.	18-26 hours p.a. reduction
Minimising system risk	Improved revenue system resilience	Increase in the mean time between failure for customer facing services	This measure records any incidents which impact the customers' ability to interact with Inland Revenue's systems	17 Days for portal	100 days for portal
		Increase in revenue system resilience	Self-assessed end to end view of underlying revenue system resilience [encompassing technology, change, people and process]	Assessed to High	Target is Low
Improving agility	Reduction in the time and cost to implement policy		The case study approach will use examples of policy changes implemented that range from simple to highly complex	Current state case agreed	
More effective services	Financial Benefits to the Crown	Increase in the number of correct customer obligations received on-time)	The purpose of this measure is to track the impact of the improvement of on-time compliance rates	81.5% [GST]	90%
		Additional Crown revenue via improved customer compliance]	An increase in the amount of assessed Crown revenue identified through discrete projects funded through the programme	Nil	Increase \$1.5b p.a.
		Percentage of social policy customers receiving accurate and timely payments	Measures the percentage of all Working for Families Tax Credits (WffTC) payments which are made on time and assesses the accuracy of information received by Inland Revenue	67%	95%
Improving productivity		Administrative savings for IR	The benefits released through discrete projects funded through the programme	Nil	\$95m-\$110m p.a.

## Appendix E – Alternative roadmap starting points

The table demonstrates that there are limited practical choices when considering the roadmap starting point. Six critical success factors were used when considering the pace and sequencing of the roadmap.

Critical Success Factors	Pace		Sequence		
	Focus on core tax and social policy	Both core and organisational capabilities	GST first	Income and business taxes first	Social policy first
Aligned to Government strategies and priorities	✓	✓	✓	✓	✓
Is technically feasible	✓	✓	✓	✓	✓
The customer and other stakeholder impacts are manageable and allow alignment with any policy changes	✓	✓	✓	x	x
Allows benefit realisation to be maximised	✓	✓	x/✓	✓	✓
The delivery risks are considered acceptable	✓	x	✓	x/✓	x
Inland Revenue has the capacity to both manage and absorb the required changes	✓	x	✓	x/✓	x
<b>THE PREFERRED WAY FORWARD</b>	✓		✓		

## Appendix E – Alternative roadmap starting points

	Pace		Sequencing		
	Focus on core tax and social policy	Both core and organisational capabilities	GST	Income and business taxes	Social policy
<b>PROS</b>	<ul style="list-style-type: none"> <li>Allows Inland Revenue to focus on the initial delivery of the new tax and social policy platform</li> <li>Allows Inland Revenue to prudently manage the impact of the programme in a phased manner</li> </ul>	<ul style="list-style-type: none"> <li>Would allow the organisational transformation of Inland Revenue to be accelerated</li> </ul>	<ul style="list-style-type: none"> <li>Aligned with government priorities – business growth agenda and Result 9</li> <li>Reduced compliance costs for businesses (of which tax is the biggest contributor)</li> <li>Relatively simple product, so implementation risk is lower than alternatives</li> <li>Provides enough volume to provide confidence - there are just over 620,000 GST customers</li> </ul>	<ul style="list-style-type: none"> <li>Aligned to government priorities – business growth agenda and Result 9</li> <li>Improved total experience and further reduced compliance costs for businesses</li> <li>Would allow a major pain point raised in the <i>Making Tax Simpler</i> consultation - Provisional Tax - to be addressed</li> <li>Foundations in place for more accurate calculation of individual obligations and entitlements: the income information collected from employers and others (which will be more accurate and frequent) provides the basis for these calculations</li> </ul>	<ul style="list-style-type: none"> <li>Delivers benefits to vulnerable New Zealanders earlier</li> <li>Greater certainty and more accurate entitlements and obligations for Child Support, Working for Families and Kiwisaver customers</li> </ul>
<b>CONS</b>	<ul style="list-style-type: none"> <li>Defers the organisational transformation of Inland Revenue</li> </ul>	<ul style="list-style-type: none"> <li>Unlikely that Inland Revenue has the capacity to manage both implementing new core tax and social policy and new organisational capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Benefits will be limited to GST customers only</li> <li>GST is a significant proportion of the tax revenue (around 25%)</li> </ul>	<ul style="list-style-type: none"> <li>Significantly more complex, resulting in higher implementation risk</li> <li>Insufficient time to allow policy changes to be aligned with other changes</li> <li>Represents the vast bulk of taxation revenue</li> <li>There may be insufficient lead time for customers to make changes to their systems</li> </ul>	<ul style="list-style-type: none"> <li>Income and social policy inter-relationships are very complex and will require integration back into FIRST - higher implementation risk</li> <li>Further change for Child Support customers following quickly after recent reforms</li> <li>Policy changes may not be able to be aligned with technology changes</li> </ul>

## Appendix F – Programme cost breakdown

This table shows costs by delivery activity.

By activity		Programme revised 2015	One-off	On-going
Implementing a modern technology platform that is flexible, digitally based and highly automated	Deploying GenTax as the basis of modernising the revenue system	\$307m - \$348m	\$221m - \$251m	\$86m - \$97m
	Deploying supporting infrastructure	\$204m - \$229m	\$50m - \$56m	\$154m - \$173m
	Designing and delivering a modern technology platform	\$123m - \$138m	\$123m - \$138m	-
	<b>Total</b>	<b>\$634m - \$715m</b>	<b>\$394m - \$445m</b>	<b>\$240m - \$270m</b>
Transforming Inland Revenue's organisational capabilities	Modernising Inland Revenue's corporate functions	\$110m - \$124m	\$98m - \$110m	\$12m - \$14m
	Providing a modern documents and record management capability	\$39m - \$44m	\$15m - \$17m	\$24m - \$27m
	Designing the new Inland Revenue and preparing people for change	\$56m - \$63m	\$56m - \$63m	-
	Transitioning people	\$84m - \$96m	\$49m - \$57m	\$35m - \$39m
	<b>Total</b>	<b>\$289m - \$327m</b>	<b>\$218m - \$247m</b>	<b>\$71m - \$80m</b>
<b>Managing the co-existence of old and new business processes and customer impacts</b>		<b>\$261m - \$294m</b>	<b>\$261m - \$294m</b>	<b>-</b>
Fitting revenue processes seamlessly into people lives	Enabling customers to submit information from their business systems	\$9m - \$10m	\$6m - \$7m	\$3m - \$3m
	Providing advanced self-management through a new website and tools	\$16m - \$19m	\$5m - \$6m	\$11m - \$13m
	Providing an integrated customer experience across all channels	\$13m - \$14m	\$6m - \$6m	\$7m - \$8m
	Designing and delivering a seamless customer experience	\$34m - \$39m	\$34m - \$39m	-
	<b>Total</b>	<b>\$72m - \$82m</b>	<b>\$51m - \$58m</b>	<b>\$21m - \$24m</b>
<b>More intelligent use of information</b>	Providing advanced customer analytics capability	<b>\$42m - \$47m</b>	<b>\$25m - \$28m</b>	<b>\$17m - \$19m</b>
Managing and supporting delivery	Managing and supporting Inland Revenue's transformation	\$156m - \$174m	\$156m - \$174m	-
	Providing accommodation and tools to delivery teams	\$42m - \$47m	\$42m - \$47m	-
	Providing external assurance	\$4m - \$4m	\$4m - \$4m	-
	<b>Total</b>	<b>\$202m - \$225m</b>	<b>\$202m - \$225m</b>	<b>-</b>
<b>TOTAL - PROGRAMME</b>		<b>\$1,500m - \$1,690m</b>	<b>\$1,151m - \$1,297m</b>	<b>\$349m - \$393m</b>
<b>Split between:</b>				
<b>OPERATING</b>		<b>\$980m - \$1,105m</b>	<b>\$631m - \$712m</b>	<b>\$349m - \$393m</b>
<b>CAPITAL</b>		<b>\$520m - \$585m</b>	<b>\$520m - \$585m</b>	<b>-</b>

## Appendix G – Programme cost and benefit estimation approach

This appendix describes the approach used to update the estimated costs and benefits for the programme.

### Overall approach

A fit for purpose “top down” approach was used as the programme has just exited high-level design. The approach leveraged experience and expertise from across the business and the programme, together with programme understanding of the COTS solution, programme delivery plan and other programme activity. The cost and benefit assumptions are aligned to product releases, so that the analysis can be adapted to re-sequencing of product releases within the programme delivery plan.



### Assumptions development

- Topic-specific workshops with a broad range of business representatives were independently facilitated by EY for the quantifiable programme benefits, with the qualitative benefit discussions facilitated by Inland Revenue. Cost estimation workshops were facilitated by Inland Revenue.
- These workshops were attended by senior business representatives and subject matter experts, and supplemented with programme resources.
- The following sources of information were used to generate costing assumptions in addition to the workshops: agreed contracts and market engagement - estimates were obtained or confirmed with the market.
- For each programme benefit, workshop attendees provided insight and generated assumptions about the potential benefit associated with the implementation of each product. Attendees were also asked to identify what other aspects needed to be in place in order to realise benefits (e.g. was a single view of customer required as opposed to a product).

### Analysis and estimation

- Following the workshops, estimates, assumptions and narratives were validated with workshop attendees.
- Benefit pools [long-run] estimates were developed for the quantitative benefits, and descriptions/key insights for the qualitative programme benefits. Benefit realisation pathways were developed for each quantitative benefit, taking into account the information and assumptions captured during workshops.
- Some follow-up workshops were held to identify new and better cost information to confirm or recalibrate an estimate.
- To supplement the estimation process, a number of reference site interviews were also held with other jurisdictions who have, or are in the process of, implementing GenTax.

### Process and model integrity

- The estimation process and the models underwent an IQA conducted by KPMG. The IQA found both the approach and models were fit for purpose and key aspects of good practice are in place.

### Risk modelling

- With the inherent level of uncertainty at this stage of the programme, a quantitative risk analysis (QRA) process was undertaken with an independent risk modelling specialist (Broadleaf Consulting) to incorporate risk and uncertainty into the estimates.
- The QRA workshops identified key drivers of uncertainty, as an input to estimating the likelihood of the programme costs and quantifiable programme benefits being met.

### Validation and governance

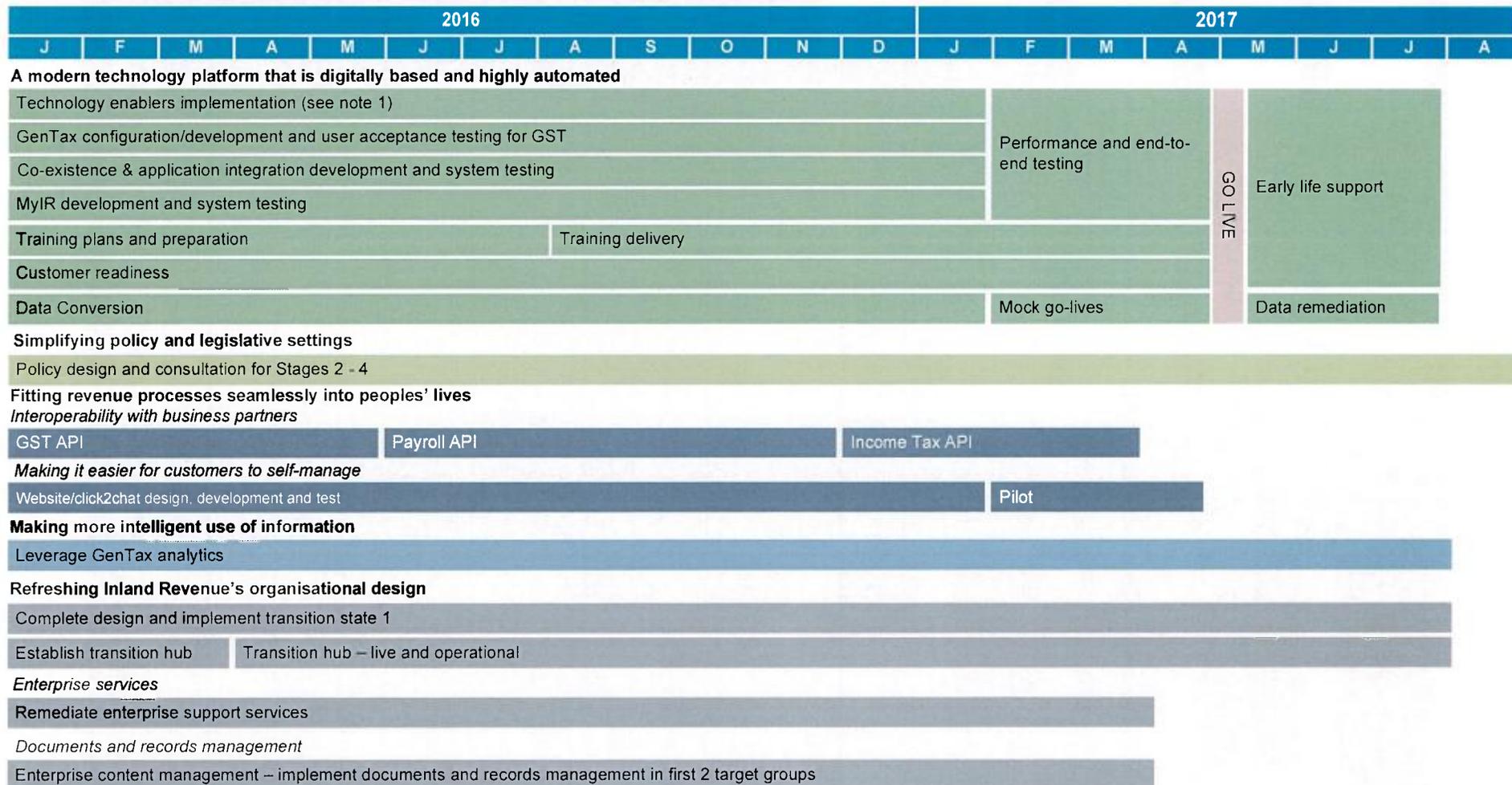
- The SRO, Chief Financial Officer, and Executive Leadership Team (ELT) were actively involved in the validation of the estimation work.
- There has been engagement with the ELT on a regular basis to seek direction, challenge and validation of the underlying assumptions and analysis presented.

## Appendix H – FAST reference sites: reduced time to implement policy

Characteristics of reference site	Benefit
<ul style="list-style-type: none"> <li>State agency</li> </ul> <div style="border: 1px solid black; padding: 5px; text-align: center;">                     Withheld under section 81 of the Tax Administration Act 1994                 </div> <ul style="list-style-type: none"> <li>1,000 internal users</li> </ul>	<ul style="list-style-type: none"> <li>Stood up systems for an excise tax and sales tax in 6-7 weeks.</li> <li>Had unprecedented interaction with industry feedback, and results have been “remarkable”, with virtually no non-compliance.</li> </ul>
<ul style="list-style-type: none"> <li>State agency</li> </ul> <div style="border: 1px solid black; padding: 5px; text-align: center;">                     Withheld under section 81 of the Tax Administration Act 1994                 </div> <ul style="list-style-type: none"> <li>1,000 internal users</li> </ul>	<ul style="list-style-type: none"> <li>“Radically simplified implementation times”:                             <ul style="list-style-type: none"> <li>12 months to implement tax, 12 months for insurance</li> <li>Changes to tax types and rebate calculations can be done in 3-5 months</li> <li>Changes previously taking a week can be done in 1-2 days.</li> </ul> </li> <li>Sent out a letter to about 300,000 claimants within 2 days – in old environment, would have taken 1-2 weeks.</li> <li>Some emergency changes could be made in “minutes”.</li> </ul>
<ul style="list-style-type: none"> <li>State agency</li> </ul> <div style="border: 1px solid black; padding: 5px; text-align: center;">                     Withheld under section 81 of the Tax Administration Act 1994                 </div> <ul style="list-style-type: none"> <li>1,100 internal users</li> </ul>	<ul style="list-style-type: none"> <li>Implemented a new sales tax in 60 days (previously would have taken over a year, and the full focus of the department).</li> <li>Were able to implement 2 new tax types in 2-3 months, less than half the time taken previously.</li> <li>Changes previously taking a week can be done in 2 days.</li> </ul>
<ul style="list-style-type: none"> <li>National agency</li> </ul> <div style="border: 1px solid black; padding: 5px; text-align: center;">                     Withheld under section 81 of the Tax Administration Act 1994                 </div> <ul style="list-style-type: none"> <li>4,000 internal users</li> </ul>	<ul style="list-style-type: none"> <li>Expect that changes will take 25-50% of the time needed in legacy environment.</li> <li>Changes that would have taken 18 months are now expected to take 3-6 months.</li> <li>Note that these are projections only as implementation is still underway.</li> </ul>
<ul style="list-style-type: none"> <li>State agency</li> </ul> <div style="border: 1px solid black; padding: 5px; text-align: center;">                     Withheld under section 81 of the Tax Administration Act 1994                 </div> <ul style="list-style-type: none"> <li>1,500 internal users</li> </ul>	<ul style="list-style-type: none"> <li>12 weeks to implement a new tax.</li> <li>Implement changes to tax types and rebate calculations in 3-5 months, less than half the time previously needed.</li> </ul>

# Appendix I – Delivery plan for Stage 1

Note: assumes approvals in place to allow a start in January 2016



Note 1: includes new data centres, networks, identity and access management systems and security

# Appendix J – Expected benefits profile

