Inland Revenue
Te Tari Taake

Inland Revenue report: Closure of the transformation programme

Date:	15 June 2022	**Priority:**	Medium
Security level:	In confidence	**Report number:**	IR2022/302

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report **Approve** the closure of the programme	None 30 June 2022
Minister of Revenue	**Note** the contents of this report **Approve** the closure of the programme	None 30 June 2022

Contact for telephone discussion (if required)

Name	Position	Telephone
Greg James	Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA

15 June 2022

Minister of Finance
Minister of Revenue

Closure of the transformation programme

Introduction

1. On 7 April 2022, the Cabinet Government Administration and Expenditure Review Committee (GOV) authorised you to confirm the closure of the transformation programme by 30 June 2022 (GOV-22-MIN-0004 refers). This report provides you with an update on our progress with completing remaining work and seeks your approval to close the programme.

2. Since we last reported to you (IR2022/096 refers), transformation's Red, Amber, Green (RAG) status has improved to Green overall, as shown in the table below. The status of all ten reporting keys has improved to Green as the programme completes its remaining deliverables.

	Overall	Scope	Risk	Issues	Inter-dependencies	Schedule	Resources	Stakeholder Engagement	Delivery Partners	Financials	Benefits
CURRENT	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
PREVIOUS	Light Amber	Light Amber	Light Amber	Amber	Light Amber	Amber	Light Amber	Light Amber	Light Amber	Green	Green

Note: The previous status shown is as at February 2022 when we last reported the RAG status of the programme to you.

3. The programme was delivered on time, under budget with savings of $464 million (including depreciation and capital charge) being generated over the 10 year period ending 30 June 2024, and has achieved its investment objectives.

The programme has delivered a modern, digital revenue system

4. Transformation has involved changes to every aspect of the way Inland Revenue operates, including policy settings, processes, our operating model and people capabilities, and technology. The intent was to deliver a modern, digital revenue system that made tax and payments simpler and more certain for customers. This has been achieved.

5. From 2017 to 2021, in six releases across four stages, we successfully moved all the products we administer to new systems and processes, improving the services available to customers.

6. Customers now have online services for all products, making it easy for them to see and track their tax and social policy affairs. All their information is in one place in their myIR account, which is robust, reliable, and available when they need to use it. Most individuals and families now only need to check the information we hold about them. Routine transactions such as these have been automated and moved online, freeing us up to help support customers with more complex circumstances.

7. As each release went live, a comprehensive programme of policy changes was introduced to help simplify things for customers and improve the administration of products. The Bill containing the first changes related to transformation was enacted

on 2 June 2016 and the Bill containing the final transformation-related changes was enacted on 30 March 2021. Changes to policy settings provided the foundation for some fundamental and far-reaching changes, such as the introduction of automatic issuing of end-of-year income tax assessments for individuals.

8. The information we hold is more accurate and near real time. We are better able to analyse data from multiple sources and act on it due to the significant investment made in analytics. We can now respond far more quickly to help customers pay and receive the right amounts. Checks now happen at the time of a transaction, so errors, whether accidental or deliberate, are picked up at the earliest opportunity. This is reducing the need for later debt collection or audit work. For example, we stopped approximately 135,000 applications for the resurgence support payment and a further 168,000 were referred to one of our compliance experts to review. Without transformation, it would simply not have been possible for us to check this volume of applications and make payments to customers quickly.

9. We now partner with a much wider variety of organisations and make more of the information we hold readily available to them, with appropriate security permissions in place. For example, we work with the software industry to enable businesses to use their own systems to meet their tax obligations. Businesses can now choose to work out and pay tax as a by-product of normal business processes, rather than calculating and paying it separately.

10. For the first time, we have a single, end-to-end view of our customers. This makes it much it easier to support customers and for new products to be added at a considerably lower cost and effort than before. This is because common processes that all products use, such as registration, payments, and myIR access, are already in place.

11. The speed with which we were able to make new products available in response to COVID-19 and our ability to look at risk on a customer-by-customer basis shows what can now be done. The Small Business Cashflow (loan) Scheme, the Resurgence Support Payment and the COVID-19 Support Payment were available to customers within weeks, with funds in their account within days of a successful application.

12. We have completely simplified our technology with most of our services now supplied and supported by trusted partners and vendors. The buy rather than build approach is now well ingrained and our technology team focuses on managing our vendors and their service levels

13. Mobile workplace technology has meant we could keep providing services during several significant disruptions in recent years, including the Kaikoura earthquake, long-term building closures due to seismic issues, and the COVID-19 pandemic.

14. Our new organisation design is centred around customers and their needs. Management layers have been streamlined to support the move to broad-based roles, with leaders focusing on managing people rather than managing work or tasks. Devolved decision making is empowering our customer-facing staff to resolve more issues for customers at first contact.

15. The investment made in transformation has created the capabilities that are enabling us to operate successfully in the digital age.

The programme came in under budget

16. The forecast total capital and operating spend for transformation will be approximately $1,641 million over the 10 years from 1 July 2014 to 30 June 2024, with an approximately further $450 million for depreciation and capital charge over the same period.

17. This results in generated forecast programme savings of $250 million (13%) across capital and operating expenditure and $214 million (32%) for depreciation and capital charge as shown in the tables below. The combined forecast savings generated over the 10-year period ending 30 June 2024 are therefore approximately $464 million (18%).

18. Of the total generated savings, $441 million was handed back to the Crown and nearly $23 million repurposed by Cabinet for other priority spending in Inland Revenue.

Table 1: Total forecast capital and operating expenditure 1 July 2014 to 30 June 2024

($ million)	Total spend *Forecast*	Approved funding *Budget*	Forecast underspend *Forecast*	Self-funding increase[1]	**Total savings generated** ***Forecast***	Savings repurposed by Cabinet	**Total savings returned to Crown**
Capital	484	613	(129)	(21)	**(150)**	23	**(127)**
Operating	1,157	1,257	(100)	-	**(100)**	-	**(100)**
Total	**1,641**	**1,870**	**(229)**	**(21)**	**(250)**	23	**(227)**

Table 2: Total forecast depreciation and capital charge 1 July 2014 to 30 June 2024

($ million)	Total spend *Forecast*	Approved funding *Budget*	**Forecast underspend** ***Forecast***
Depreciation	304	443	**(130)**
Capital charge	146	221	**(75)**
Total	**450**	**664**	**(214)**

19. The savings will increase once final costs are known.

20. As part of the Budget 2022 technical initiatives process, $35 million in operating expenditure was transferred to 2022/23 and 2023/24 for residual activities that were unable to be completed due to COVID-19 priorities. We are self-funding the capital costs for these activities of $21 million. Both the capital and operating amounts for the residual activities have been included in table 1 above, showing the total transformation capital and operating expenditure.

21. In addition to generating significant programme savings, we also fulfilled our business case commitment to self-fund a significant portion of the programme spend. We self-funded 47% of the capital and operating costs (target commitment 40%-50%). We also contributed 90% of the depreciation and capital charge funding (business case modelled a minimum contribution of 56%).

The intended outcomes have been achieved

22. Achievement of the investment objectives for the programme is measured against a number of lead and lag indicators shown in the annex. Results for the 2021/22 year are not yet available.

23. For the 2020/21 year, we achieved seven out of the ten indicators for which there are quantitative measures. The measures not achieved were:

- The percentage of customers who find it easy to comply. While this is increasing, this measure is tracking up more slowly than expected. Notwithstanding the significant changes introduced since 2017, 82% of customers say they find it easy to comply.

[1] Inland Revenue increased its internal capital contribution by self-funding the capital for the residual activities ($21 million). This freed-up an equivalent amount of externally funded capital which has been returned to the Crown. Total capital and operating savings therefore increased from $229 million to $250 million.

- Reduction in compliance time for SMEs. The target for 2020/21 was not achieved, with a saving of 5 hours compared to a target of 15 hours. It appears that COVID-19 and payday filing are having an impact. However, the cumulative value of the time saved is above target. We recognise that achieving the targeted time savings by 2023/24 will be challenging, and that an on-going focus on reducing effort for SMEs will be required.
- Annual reduction in Inland Revenue's administrative costs. This was not achieved for 2020/21 as decisions were made to delay some organisational changes in light of COVID-19. However, the cumulative reduction in costs is above target and we are confident we will achieve the targeted savings by 2023/24. The administrative savings we committed to deliver over the life of the programme have already been removed from our baseline, helping to achieve our business case commitment of Inland Revenue being no more expensive to run after transformation than it was before.

24. Although the transformation programme will close by 30 June 2022, we will continue to track and report against our benefit commitments through until 2023/24. Progress will be reported as part of our Annual Reports for 2022, 2023, and 2024.

Final progress updates

25. The exit from our heritage data centres will be completed this month, on or before the 30 June 2022 deadline. The 1 April 2022 changes have been successfully implemented, showing that skills and capabilities have been transferred from the programme team. We have completed the final independent assurance reviews and all programme risks have been closed.

Decommissioning

26. The archiving, shutdown, and removal of our heritage applications has been completed. The final services that were running in the heritage data centres have been shut down and all back-end infrastructure has been decommissioned. The disposal of FIRST is complete and Unisys is working through the secure disposal of all remaining equipment. Unisys will complete the exit of all the equipment that supported Inland Revenue from the two data centres on or before the planned completion date of 30 June 2022.

Handover to business-as-usual

27. The knowledge, processes, and practices we used during transformation have been handed over to their enduring homes in our new organisation design. For example, the successful implementation of the more than 100 changes on 1 April was managed by our new Planning, Design and Delivery function in our Customer and Compliance Services group, not by the programme team.

Independent quality assurance reviews

28. The final quality assurance reviews for the programme have now been completed. We have previously reported the findings of the Gateway review to you (IR2022/173 refers). As noted in that report, the Gateway review team rated transformation as green.

29. In March 2022, we commissioned KPMG to conduct a final Technical Quality Assurance (TQA) review. It is KPMG's twelfth TQA for transformation (TQA 12). The TQA focused on our progress with decommissioning our heritage services, systems and applications. Fieldwork took place during April 2022.

30. KPMG concluded that the "decommissioning and archiving plan is likely to conclude on schedule," and that "the commercial management of the suppliers involved in the decommissioning is well-communicated and controlled." KPMG rated both areas Green.

31. As this was KPMG's final review, they also took the opportunity to make some broader comments. Reviewers noted "the scale and significance of this achievement," referring to both decommissioning and the work to simplify our technology environment, and "the high quality of the Programme's planning and execution." They also noted how important decommissioning is to achieving the outcomes committed to, noting that "technical debt is often overlooked" and "can easily erode benefits unless actively managed." They concluded that "This Programme has, in our view, done an exemplary job of enabling IR to exit the Unisys data-centre, while also aggressively reducing technical debt, in order to deliver a sustainable and cost-effective technology architecture to support IR in the future."

Risks

32. The transformation programme's risk profile has improved to Green.

33. No issues (a risk that has been realised) are being managed.

34. As at June 2022, the programme had no open risks. Since we last reported to you (IR2022/092 refers), the remaining six programme risks have been closed.

Communication

35. We will provide a copy of this report to the Treasury.

Recommendations

36. I recommend that you:

a) **Note** the contents of this report.

Noted | Noted

b) **Approve** the closure of the transformation programme.

Approved / Not Approved | Approved / Not Approved

Greg James
Deputy Commissioner, Transformation
15 June 2022

Hon Grant Robertson
Minister of Finance
/ /2022

Hon David Parker
Minister of Revenue
/ /2022

Annex – Lead and lag indicators for the transformation programme

Outcome	Investment objective	Indicator	2017/18		2018/19		2019/20		2020/21		2021/22	2022/23	2023/24
			Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
Easier for customers	• Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies • Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services • Increasing the secure sharing of intelligence and information to improve delivery of services to NZers and improve public sector performance	*Lead indicators*											
		Digital uptake by customers[2]	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	81%	88%	82%	89%	90%	90%
		Reduction in compliance time for SME customers (hours pa)	3 hours	10 hours	8 hours	9 hours	13 hours	9 hours *(indicative)*[3]	15 hours	5 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.3%	99.4%	99.6%	99.4%	99.5%	99.5%
		Lag indicators											
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies *(six completed to date)*										
		Cumulative reduction in compliance costs for SMEs	$30m	$80m	$160m	$280m	$370m	$500m *(indicative)*	$590m	$640m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government[4]			$90m	Achieved	$280m	Achieved	$570m	Achieved	$1,110m	$1,860m	$2,880m
Reduced time and cost to implement policy	• Improving agility so that policy changes can be made in a timely and cost-effective manner • Minimising the risk of protracted system outages and intermittent systems failure	*Lead indicator*											
		Reduction in the time and cost to implement policy	Measured through a series of case studies *(four completed to date)*										
		Lag indicator											
		Increased revenue system resilience as assessed by IR	Low	Partial	Low	Partial	Partial	Partial	Partial	Substantially achieved	High	High	High
Inland Revenue is more efficient	• Improving productivity and reducing the cost of providing IR's services	*Lead indicator*											
		Digital uptake by customers	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Lag indicators											
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m	$10m	$48m	$80m	$57m	$100m	$87m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs[5]	$5m	$12m	$15m	$60m	$95m	$118m	$195m	$205m	$295m	$395m	$495m

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