Inland Revenue
Te Tari Taake

Programme Business Case Addendum

Business Transformation

Implementing New Zealand's future revenue system

October 2018

Version: Final

New Zealand Government

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Part A

Updates to the Programme Business Case

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Executive Summary

This addendum provides a summary of the material changes to the Programme Business Case since the implementation of transformation was approved by Cabinet in November 2015. It should be read in conjunction with the:

- Programme Business Case dated 22 October 2013,
- Programme Business Case Addendum dated October 2014, and
- Programme Update and Detailed Business Case dated November 2015.

The most significant updates are to the economic and management cases. The commercial case has been updated. No material changes have been made to either the strategic or financial cases.

Inland Revenue has made good progress

Good progress has been made since November 2015.

A release plan has been developed which sets out the sequence (within stages) in which taxes and entitlements will be moved to new systems and processes.

The first two releases have been successfully implemented. It's now easier for customers to manage their GST, withholding tax, fringe benefit tax and gaming machine duty obligations.

The *Making Tax Simpler* consultation with New Zealanders on policy changes has been completed, and some legislative changes have already been implemented.

The methodologies and frameworks adopted for design, development, data conversion, testing, implementation, assessing readiness, and change management have all contributed to the success of the first two releases. They are reviewed after each major release.

Inland Revenue has begun changing its organisation design and capabilities. Three new organisation groups were established from February 2018 and changes have been made to Inland Revenue's working environment to support the new design.

Programme governance and management arrangements have been updated to ensure that transformation remains well supported and focused on delivering the commitments made.

Contract negotiations have been completed with a number of suppliers of products and services. Common capabilities continue to be consumed where they exist, meet Inland Revenue's business needs and are cost-effective.

The benefits of these changes are being realised

Positive results are evident across each of the six benefit areas.

Benefit area	Progress as at 30 June 2018
Easier for customers	• 82% of customers find it easy to comply • Improved online services are available for GST, withholding tax, fringe benefit tax and gaming machine duty

Benefit area	Progress as at 30 June 2018
Policy agility	• Government has more agility for GST, withholding tax, fringe benefit tax and gaming machine duty
System resilience	• Technology infrastructure has been strengthened
Compliance cost savings	• 86% of customers filing GST electronically • 87,000 customers filing GST through software • Customers spending 10 less hours a year on their GST obligations
Administrative savings	• Release 1 targets have been achieved
Additional Crown Revenue	• Included in government forecasts from the 2018/19 year

Independent reviews confirm transformation is on track

Regular, independent assurance reviews provide confidence that transformation continues to be well managed and governed.

There have been some additions to scope

The following initiatives have been added to scope since November 2015:

- The accounting income method (AIM) option for provisional tax (Release 2).
- The automatic exchange of information (AEOI) with international tax treaty partners (Release 2).
- Best Start (Release 3).

The Research & Development Tax Incentive and the findings of various working groups are emerging areas of work which are likely to have implications for the scope of transformation.

THE ECONOMIC CASE

Delivering the preferred way forward

This section provides an update on progress in delivering transformation. The preferred way forward and programme roadmap remain unchanged.

Modernisation of the revenue system is well underway

Inland Revenue has made good progress since the Detailed Business Case was prepared (November 2015):

- The Making *Tax Simpler* consultation with New Zealanders on policy changes has been completed, and some legislative changes implemented.
- Changes have been made to Inland Revenue's capabilities and organisation design.
- A release plan has been developed and sets out the sequence (within stages) in which taxes and entitlements will be moved to new systems and processes.
- The first two releases have been successfully implemented.
- Benefits are being realised.

There have been no changes to:

- The preferred way forward, option 3B.
- The overall cost and benefit assumptions.
- The four-stage programme roadmap.

Simplifying policy and legislative settings

A review of policy and legislative settings to support, enable and optimise the benefits from business transformation is well underway, with some changes already enacted.

A series of *Making Tax Simpler* discussion documents, designed to consult New Zealanders on possible changes, have been released:

- Towards a new Tax Administration Act (November 2015).

- Better administration of PAYE and GST (November 2015).
- Better business tax (April 2016) – this was an issues paper rather than a discussion document.
- Investment income information (July 2016).
- Modernisation of the Tax Administration Act (TAA) (December 2016).
- Better administration of individuals income tax (June 2017).
- Better administration of social policy (July 2017).

In June 2016, the Taxation (Transformation: First Phase Simplification and Other Measures) Bill was enacted. This Bill contained legislative changes to support transformation by removing out-dated legislative requirements and simplifying some administrative processes.

In February 2017, the Taxation (Business Tax, Exchange of Information, and Remedial Matters) Bill was enacted. This Bill contained the legislative changes needed to support Stage 1 and the business tax reforms announced as part of Budget 2016.

In March 2018, the Taxation (Annual Rates for 2017–18, Employment and Investment Income, and Remedial Matters) Bill was enacted. This Bill contained the policy changes resulting from the administration of PAYE and GST and investment income information consultation processes.

Also in March 2018, the Government approved policy changes to the TAA (including the role of tax intermediaries and rulings and assessments). The next step is legislative change.

In April 2018, the Government approved policy settings for PAYE error correction and adjustments for payday reporting, and changes that will simplify individuals' income tax. The next step is legislative change.

Where possible, changes to policy settings are being aligned with other changes made by transformation. This will minimise impacts for customers and Inland Revenue.

Further policy and legislative changes may result from the Tax Working Group's recommendations or the work of the Welfare Expert Advisory Group. Until firm recommendations are available it is difficult to assess the impact on Inland Revenue.

Making more intelligent use of information

Improved analytical capabilities will enable Inland Revenue to better use the information and data it has to better understand customers' needs and provide them with more timely and targeted services.

A new data and intelligence platform is expected to be implemented by early 2019.

Improved digital channels are key to enabling customers to self-manage. Beginning from mid-2018, Inland Revenue's website is being revamped and a new myIR landing page will be introduced. The first stage of a redesigned website, focusing on Child Support, was released in September 2018 to provide customers with an opportunity to provide feedback.

These changes will help customers find what they're looking for faster, help them to understand their

obligations and entitlements and make it easier for them to do what they need to do.

Inland Revenue has begun the transition to an intelligent workplace. This includes the phased rollout of an enterprise content management solution, an advanced analytics platform and capabilities, new tools such Skype for Business and Microsoft Office 365, and a new enterprise support services (ESS) platform.

Inland Revenue approached the government of New South Wales to license their business process model for ESS for use across the public sector in New Zealand. Inland Revenue is adapting the model for New Zealand. The model covers processes such as human resources, finance and procurement. Having consistent processes across agencies will enable efficiencies as people will not have to learn new processes when they move between agencies.

As part of Inland Revenue's ESS solution, e-invoicing will be introduced. E-invoicing will enable suppliers to submit their invoices digitally to Inland Revenue. The invoice will be processed and paid, provided it meets the required procurement checks. Inland Revenue expects to be able to process, and potentially pay, invoices more quickly. A pilot for e-invoicing is expected in mid-2019.

Fitting revenue processes seamlessly into people's lives

A key part of transformation is integrating processes into people's lives and businesses' natural systems. This requires Inland Revenue to work with and through others to deliver the high-quality services New Zealanders expect.

As a first step towards greater integration, Inland Revenue worked with software providers to enable customers to file GST through their accounting software.

This demonstrated that there is customer demand for these types of services and laid the foundation for future improvements. There is a strong appetite within the software developer community to work jointly with Inland Revenue to deliver customer outcomes – early engagement and involvement in solution design are key.

AIM is further evidence (see page 21) of this approach.

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

Inland Revenue is creating a workforce with the right knowledge and capabilities to meet the needs of customers both now and in the future. Those designing customer services will be as close to the customer as possible and people working with customers will be empowered to make more decisions and resolve customers' issues more quickly.

Five key shifts underpin the new organisation design:
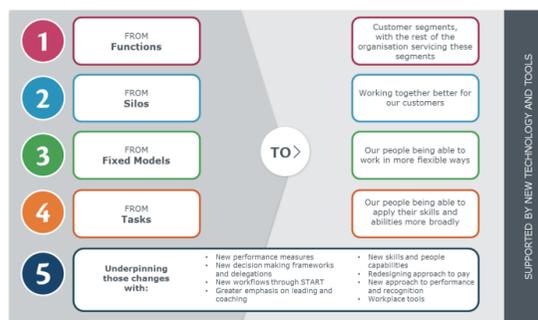
A new organisation design will enable people at Inland Revenue to apply their skills more broadly to a range of work, work together more closely, provide better services to customers, and make the most of a new and evolving working environment, supported by technology.

Customer-facing areas have changed first

Three new groups were established in February 2018:

- Customer and Compliance Services – Individuals
- Customer and Compliance Services – Businesses
- Information and Intelligence Services.

Changes have been made to Inland Revenue's working environment to support the new organisation design:

- A new decision making model and broader delegations has been introduced.
- Workflows have been configured to new roles so that people get work relevant to their customer segment, skills and abilities.
- Performance, recognition and pay approaches have been redesigned.

New delegations, combined with broader roles, means that customers will have their queries responded to more quickly and will be able to talk to one person to get more of their queries resolved.

Implementing a modern technology platform (START[1])

Transformation has moved to a model of a series of releases within stages to reduce risk and business and customer impacts, as shown below.

Major releases will typically occur on an annual cycle in each of the next four years, to align with the beginning of the tax year.

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

Stage 1
Enable secure digital services

Stage 2
Streamline tax

Stage 3
Streamline social policy

Stage 4
Complete the future revenue system

Major Release 1
Customer experience
- Self-service for GST

End-to-end solution
- GST
- Foundational technology

Major Release 2
Policy
- Accounting Income Method (provisional tax – 1.4.18)
- Payday reporting (voluntary – 1.4.18)

Customer experience
- Digital submission of employer information

End-to-end solution
- Withholding taxes
- Fringe benefit tax
- Payroll subsidy
- Gaming machine duty
- Automatic Exchange of Information

Major Release 3
Policy
- Payday reporting (mandatory – 1.4.19)
- Reduction in PAYE electronic filing threshold
- Investment income filing (voluntary – 1.4.19)
- New annual income tax process
- Individuals' income tax (subject to legislation)

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

End-to-end solution
- Income tax, including provisional tax
- Imputation taxes
- Working for Families
- Independent earner tax credit

Major Release 4
Policy
- Investment income filing (mandatory – 1.4.20)
- Social policy changes (tbc – release 4 or 5)

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

End-to-end solution
- PAYE
- KiwiSaver
- Student Loans

Major Release 5
Policy
- Social policy changes (tbc – release 4 or 5)

Customer experience
- Improved self-service for child support
- Full customer view available

End-to-end solution
- Child Support

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

New Zealand Government

Release 1 (Stage 1) – February 2017

GST was migrated to new systems and processes in February 2017. In addition, some elements of foundational technology were replaced, including new data centres and the workflow management system for contact centres.

This release improved experiences for customers, reduced compliance costs for small–medium sized businesses, and delivered administrative savings for Inland Revenue.

- More customers are filing their returns electronically – 86% as at June 2018, an increase of 7% compared to the previous year and an increase of 13% compared to two years ago.
- The number of customers filing their GST through their software is steadily increasing – more than 87,000 as at June 2018 from a pilot of 500 customers in December 2016.
- Customers are spending 10 fewer hours a year meeting their GST obligations.
- Inland Revenue has exceeded the administrative savings target for the first release.

Release 2 (Stage 2) – April 2018

Release 2 went live on 17 April 2018 and further improved customer experiences and reduced the effort required by businesses to meet their obligations:

- Employers can send their information to Inland Revenue digitally and on payday if they choose to do so.

- It is easier for customers to meet their obligations for withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty by using new online services.
- Income information is now collected in START enabling pre-population of individuals' information to begin - this information will be available at the end of the 2018/19 year.

As at 30 June 2018, more than 30,000 withholding returns had been filed using new systems and processes and approximately 3,000 payday returns had been filed by just over 500 customers.

Release 3 (Stage 2) – April 2019

The scope of Release 3 is:

- Completing the migration of income tax and migrating Working for Families to new systems and processes.
- Implementing and operating a data and intelligence platform.
- Revamping digital channels and services.
- Implementing new tool sets and equipment to support Inland Revenue's new ways of working, including networked teams and more remote working.
- Implementing a new software-as-a-service platform for Inland Revenue's enterprise support services.

Once Release 3 has been delivered, all taxes will be administered in START. From this point, government will have significantly improved agility for tax products.

Customers will have:

- on-line services for all tax products - for example customers will be able to file returns, set up payment plans and include attachments on-line
- integrated tax and business processes
- faster, more accurate tax information, providing near real-time visibility of tax
- faster tax refunds
- less likelihood of tax debt and more payment options.

A new year-end process for individuals (subject to legislation) will mean all refunds and tax to pay of more than $20 will be automatically issued.

Releases 4 and 5 (Stages 3 and 4)

Release 4 in April 2020 will enable end-to-end processing of employer information, KiwiSaver and Student Loans in START. Digital services will further improve, enabling customers to do more and more for themselves and interactions and interventions will be better targeted to customers' needs. Inland Revenue's corporate functions will also be transformed.

Release 5 in April 2021 will enable end-to-end processing of Child Support in START, and complete delivery of any remaining products. Heritage systems and any supporting infrastructure that has been built to support co-existence will be decommissioned.

THE COMMERCIAL CASE

Sourcing the services and products required for delivery

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

New Zealand Government

A number of long-term commercial arrangements have been entered into

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

All procurement is consistent with the principles of the Government Rules of Sourcing.

Key suppliers

Since the Detailed Business Case was completed in November 2015, Inland Revenue has completed contract negotiations with a number of suppliers of products and services. These include:

- Accenture for design services.
- FAST Enterprises LLC (FAST) for software and implementation services.
- Revera, a subsidiary of Spark, for all-of-Government (AoG) data centres
- Vodafone for network connectivity to move us to the AoG common capability (Telecommunications-as-a-Service).
- Unisys for on-going support for FIRST.
- Deloitte for identity and access management services.
- Assurity for testing services.
- Team Asparona for an enterprise content management solution.
- SAS to provide a new data and intelligence platform.

Negotiations with Sitecore and AKQA for a web-content management system are ongoing.

Licence negotiations are continuing with Oracle, the preferred technology provider for enterprise support services. Representatives of the Government Chief Digital Officer and Treasury attended vendor presentations during the procurement process.

All-of-government capabilities

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

Infrastructure-as-a-Service (IaaS), Software Framework Agreements, Telecommunications-as-a-Service (TaaS), and the Cloud Framework Agreement for Amazon web services are being used by Inland Revenue.

A supplier of workplace equipment (laptops) was selected from the all-of-government hardware panel.

New Zealand businesses

Inland Revenue seeks a wide range of providers for transformation and will continue to do so. Opportunities are actively promoted to the market place, including New Zealand businesses – for example, advertising on GETS and communications with vendors.

Vendors are not chosen based on where they come from. The Government Rules of Sourcing are very clear that this is not allowed.

To increase transparency, each year Inland Revenue publishes a list of the New Zealand tax resident suppliers[2] it has spent over $500,000 with. From 1 July 2014 to 30 June 2018, $384m has been spent on companies and individual contractors providing services to transformation, of which $282m (74%) has been spent on New Zealand tax resident businesses.

Both delivery partners, FAST and Accenture, have recruited New Zealand staff. FAST has employed 23 New Zealanders as START developers out of 65 total employees in New Zealand. Accenture have employed in excess of 40.

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[2] A company is considered resident if it is incorporated in New Zealand; or if control by company directors is exercised in New Zealand, or if it has its centre of management in New Zealand, or if it has its head office in New Zealand

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 releases, and describes how benefits are being managed and tracked for the programme.

Transformation continues to be well managed and governed

Since the Detailed Business Case (November 2015) was prepared, Inland Revenue has:

- updated programme governance and management arrangements
- adopted programme methodologies and frameworks
- completed a number of independent assurance reviews, and
- regularly reviewed and updated risks.

Programme governance and management arrangements

The programme governance structure as at June 2018 is shown below.
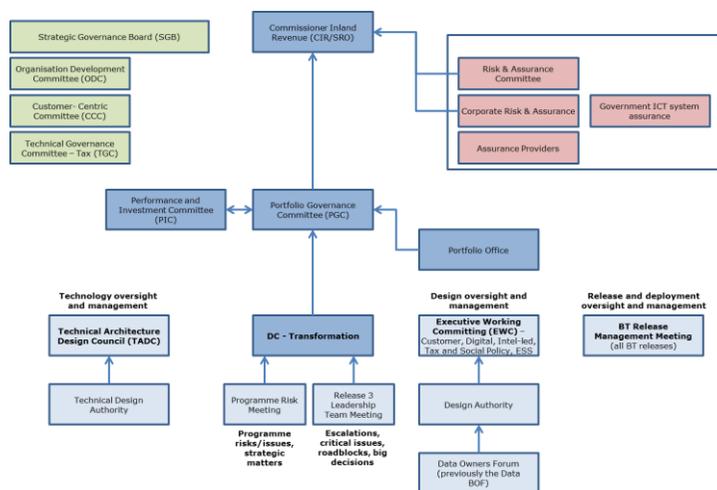

The changes made since November 2015 are:

- In July 2017, Inland Revenue reviewed its governance arrangements ahead of the implementation of Release 2. Governance arrangements now consist of a Strategic Governance Board with five committees– Performance and Investment; Customer-centric; Organisation Development; Technical Governance and Portfolio Governance. Transformation provides regular updates to both the Portfolio Governance Committee (PGC) and Performance and Investment Committee (PIC).
- The replacement of the Design Integration Forum with the Design Authority, and the Technical Design Integration Forum with the Technical Design Authority.

- The discontinuation of the Business Owners Forums (BOF), with the exception of the data BOF which has been replaced by the Data Owners Forum.
- The establishment of the BT Release Management Meeting.

The high-level organisational structure for transformation as at June 2018 is shown below.
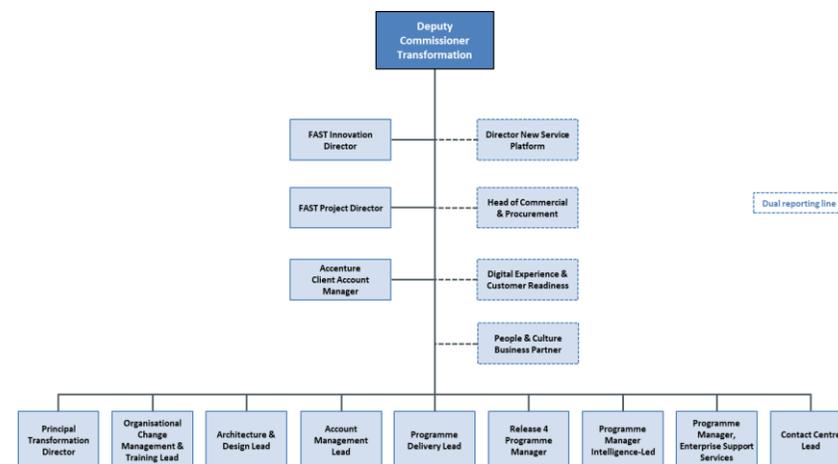
The changes made since November 2015 are:

- Some roles have been renamed – Customer Experience Alignment to Director, Digital Change; Organisational Change & Training to Organisational Change Management & Training; Technical & Architecture to Enterprise Architecture Transformation Lead.
- Some new roles have been established – Director, New Service Platform, the Release Management roles, and Programme Manager, Intelligence-led.
- Some reporting lines have changed – the Senior Business Transformation Lead now reports to the Enterprise Architecture Transformation Lead; the Business Case and Policy leads now report to the Principal Transformation Director; Co-existence, Foundational, and Business Deployment now form part of the release teams. The enterprise support services work now forms part of the responsibility of the Programme Manager, Technical Architecture Delivery.
- The two Commercial Director roles have been combined and the Head of Commercial & Procurement now reports to the Deputy Commissioner, Corporate Integrity & Assurance.

Programme methodologies and approaches

Changes since November 2015 are:

- Business transformation methodologies have been refined following the appointment of Accenture as Inland Revenue's design partner and FAST Enterprises LLC as Inland Revenue's implementation partner.
- A two-speed delivery approach has been adopted to provide appropriate models for different types of releases.
- Approaches in key delivery areas have been developed to ensure consistency, including management of data, testing, and assessing readiness for change.
- Change management processes are in place.

Programme controls remain unchanged.

Business Transformation Methodology (BTM)

Inland Revenue's business transformation methodology is complemented by FAST's implementation methodology and Accenture Delivery Methods (ADM).

FAST's methodology will apply to deliverables FAST lead and manage. FAST's nine step process is shown below.
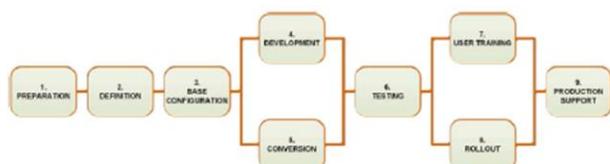
Accenture Delivery Methods (ADM) defines the project work that needs to be done and how it can best be accomplished. Included within ADM are methods, estimators, tools, architectures and procedures. ADM covers four major areas:

- Management Methods - drive discipline and broad-based oversight to ensure identified value is delivered.
- Outsourcing Methods - deliver on-going services across application management, technology infrastructure and business processes.
- Planning Methods - identify value creation opportunities, formulate business strategies and plan solutions.
- Development Methods - design and build solutions and all of their elements including business processes, systems and organizations.

A more agile approach has also been developed to deliver initiatives more quickly.

Delivery model

Transformation has adopted a multi-method delivery approach and is implementing change through two delivery lanes - orange and blue:

- The orange lane represents rapid, continuous change releases.
- The blue lane represents major START releases.

Inland Revenue has developed an enterprise release plan, covering all changes across the organisation including transformation releases. As two releases have already been successfully implemented, future enhancements to these systems and processes will be managed as a business-as-usual change rather than a transformational change. The diagram below shows which changes are being delivered by transformation and which by the wider business.

Data cleansing, conversion and migration approach

Data conversion provides a base set of historic data in START to support business needs. The key steps are:

- Identify and create an inventory of all possible heritage data sources, including information such as registration or financial information, the technology and platforms used for data storage, and people with expertise on specific data.
- Determine the integrity and quality of data.
- Convert the data from FIRST to START – extract, load, reconcile, test and purify.
- Complete user verification - knowledgeable users view converted data in START and compare it to how it is used and appears in heritage applications. Any problems with converted data are logged and managed.
- Run mock conversions to verify that data is being converted correctly by performing the same steps that will occur during the live conversion.

Testing approach

Inland Revenue's approach to testing the changes being implemented by transformation is outlined in the Test Strategy and Plan. Testing of new systems and processes includes a number of phases:

- Unit/verification testing ensures that individual components and modules within each system perform as they should.
- Assembly testing ensures that the integration layer, which links core and satellite systems, works as it should and that data flows across it as it should.
- Business system testing involves Inland Revenue staff testing the functionality within START and how START interacts with other systems. This phase includes integration testing.
- Technical interface testing ensures that connections between applications are established and working.
- Scaled business simulation testing practices the go-live step by step including the migration of data, and processes following go-live such as return filing.
- Partnership testing covers testing with external parties.
- User acceptance testing confirms that systems and processes will fulfil the business requirements.
- Final regression testing ensures that previously developed and tested software still performs the same way after it is changed or interfaced with other software.
- Functional security testing ensures that only authorised users have access to features of a system.
- Infrastructure testing tests the setup of or changes to any hardware, network or software.

- Performance testing verifies that requirements such as response times and transaction rates have been achieved.
- Security testing verifies that solutions conform to minimum security standards.
- Disaster recovery testing confirms that the disaster recovery plan can be executed.
- Operational readiness testing validates deployment and operational tasks, including database backup, database recovery, software installation and configuration.

In addition to these formal test phases, other checks are completed:

- Verifying data conversion.
- Customer user experience validation involves customers trying out and providing feedback on new services.
- Technical cutover testing tests the full deployment in a technical sense. Rollback is tested as part of this phase to confirm that Inland Revenue could revert to the pre-implementation state if required.

The Test Strategy and Plan is reviewed following each major release.

Readiness framework

Inland Revenue has developed a comprehensive and robust business readiness framework for determining readiness for go-live.

The framework uses checkpoints to regularly assess the readiness of customers, business partners and Inland Revenue itself for changes in the lead up to go-live. Readiness is assessed across four major areas:

- Customer readiness – are customers ready to use the service changes?
- Service providers – are service providers ready to use and support the service changes?
- Inland Revenue's readiness – is the business ready to receive and deliver the service changes?
- Programme readiness:
  - Does the solution meet the required levels of quality?
  - Can cutover be achieved within the agreed timeframe and at an acceptable level?
  - Can the changes be supported once implemented?

At a more detailed level, there are also assessments of the readiness of data, processes, infrastructure, applications, policy, quality assurance, support and deployment.

There are six readiness checkpoints. Each checkpoint has a defined purpose and pre-defined conditions that must be met to provide confidence that the preparations for go-live are on track. The checkpoints will confirm that "Inland Revenue is where it expects to be" at key points.

Based on the results of the checkpoints, decisions may be taken to implement contingency options or, in the worst case scenario, to delay go-live.

There are clear accountabilities for making the decision to go-live. A go-live committee is chaired by the Senior Responsible Owner (SRO), and membership consists of four deputy commissioners. Its role is to recommend to

the Commissioner the deployment of changes into production or to recommend roll-back if cutover criteria have not been met.

Change management

Effective change management is essential to ensure that new services and capabilities are adopted by customers and Inland Revenue people.

A customer impact assessment and change management approach is developed and implemented for each release. As the level of change has been increasing with each new release, Inland Revenue's focus on engagement and communication activities is expanding.

Customer readiness has an "inside/out" focus (i.e. did Inland Revenue deliver the planned activities?) and "outside/in" (i.e. based on engagement and customer feedback/surveys are the impacted customers aware of and ready for the change?). Regular checkpoint monitoring before go-live allows Inland Revenue to target areas where more information is required.

Readying Inland Revenue people for change includes:

- Organisation impact assessments are used to guide the scale and intensity of change management required for particular areas of the business.
- A change management plan identifies the change activities needed, including training (on-line, classroom and on the job learning), communications, and user support post-go-live.

- Detailed training, communications and user support plans.

This ensures:

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

Inland Revenue proactively engages with the Public Service Association (PSA) and TaxPro to ensure they understand and support the change management approach and processes. Note that change management in this context is distinct from the management of change processes as set out in Inland Revenue's employment agreements.

Progress tracking

Delivery progress is evaluated through:

- Independent quality assurance and Gateway reviews.
- Oversight by the SRO and governance groups.
- Management and oversight from the DC Transformation and members of the programme leadership team (PLT).
- Monthly red amber green (RAG) status reporting against the 10 keys.[3]

Programme assurance

A programme of regular assurance reviews provides confidence that transformation continues to be well managed and governed. Since the Detailed Business Case in November 2015, a number of independent assurance reviews have taken place.

KPMG have undertaken five reviews:

- IQA4/TQA3 – March 2016
- IQA5/TQA4 – December 2016
- IQA6/TQA5 – August 2017
- IQA7/TQA6 – May 2018.
- IQA8/TQA7 – October 2018.

Four Gateway reviews have been undertaken:

- Gateway 3 (investment decision) - February 2016
- Gateway 0 – July 2017
- Gateway 0 (strategic assessment)/4 (readiness for service) – March 2018.
- Gateway 0/4 – October 2018.

In general, the reviews have all been positive and indicated that transformation is on a firm footing and is being is well managed and governed.

Benefits management

Achievement of the investment objectives is measured against a number of lead and lag indicators and through a series of case studies as shown on the next two pages.

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[3] Scope, risk, issues, inter-dependency, schedule, resource, stakeholder engagement, delivery partners, financials and benefits

Outcome	Investment objective	Indicator	2017/18 Target	2017/18 Actual	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Easier for customers	• Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies • Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services • Increasing the secure sharing of intelligence and information to improve delivery of services to New Zealanders and improve public sector performance	*Lead indicators*								
		Digital uptake by customers	26%	83%[4]	54%	72%	75%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%[5]	85%	87%	88%	89%	90%	90%
		Reduction in compliance time for SME customers (hours per annum)	3 hours	10 hours[6]	8 hours	13 hours	15 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%[7]	99.3%	99.3%	99.4%	99.4%	99.5%	99.5%
		Lag indicators								
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies (refer to appendix F)							
		Cumulative reduction in compliance costs for SMEs	$30m	$80m[8]	$160m	$370m	$590m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government			$90m	$280m	$570m	$1,110m	$1,860m	$2,880m
Reduced time and cost to implement policy	• Improving agility so that policy changes can be made in a timely and cost effective manner • Minimising the risk of protracted system outages and intermittent systems failure	*Lead indicator*								
		Reduction in the time and cost to implement policy	Measured through a series of case studies (refer to appendix F)							
		Lag indicator								
		Increased revenue system resilience as assessed by Inland Revenue	Low	Partial	Low	Partial	Partial	High	High	High
Inland Revenue is more efficient	• Improving productivity and reducing the cost of providing IR's services	*Lead indicator*								
		Digital uptake by customers	26%	83%	54%	72%	75%	78%	82%	85%
		Lag indicators								
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m[9]	$10m	$80m	$100m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs	$5m	$12m	$15m	$95m	$195m	$295m	$395m	$495m

[4] Performance, Facilities & Finance, Business Reporting & Analytics, as at end June 2018. The 26% target used in the 2015 business case related to the percentage of customers using cloud-based software. In future, Inland Revenue will report on the overall percentage digital uptake measured in returns filed electronically, given the wider range of digital channels and functionality now available.

[5] 2017-18 quarter four performance results, impact measures at as 30 June 2018

[6] Better for business: SME's compliance costs in 2016, November 2016

[7] 2017-18 quarter four performance results, impact measures at as 30 June 2018

[8] Better for business: SME's compliance costs in 2016, November 2016

[9] Performance, Facilities & Finance, Corporate Finance. Error corrected in May 2019.

	2017		2018		2019		2020		2021
	Mid 2017	End 2017	Mid 2018	End 2018	Mid 2019	End 2019	Mid 2020	End 2020	Mid 2021
GST and other tax types[10]	Information sharing Policy agility ✓		Information sharing Policy agility[11]			Information sharing Policy agility Crown revenue			
Investment income	Information sharing Crown revenue ✓					Information sharing Crown revenue		Information sharing Crown revenue	
MSD (AISA)		Information sharing ✓		Information sharing Policy agility			Information sharing Crown revenue		
BPS R7		Information sharing ✓			Information sharing		Information sharing		
Accounting Income Method			Information sharing Policy agility ✓		Information sharing Crown revenue		Crown revenue		
NZ Business Number			Information sharing ✓			Information sharing		Information sharing	
Payday reporting				Information sharing Policy agility Crown revenue		Information sharing Policy agility Crown revenue		Information sharing Policy agility Crown revenue	
Automatic Exchange of Information				Information sharing Policy agility Crown revenue		Information sharing Crown revenue		Information sharing Crown revenue	
Return on Investment					Crown revenue		Crown revenue		Crown revenue
Infrastructure & capabilities[12]			System resilience ✓						

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[10] GST and additional tax types where customers use accounting/payroll software to submit information

[11] There was insufficient new information to update the GST case study in mid-2018

[12] This was an addition to the case study work programme

Progress in realising benefits is regularly tracked and reported. To date, the following reports have been delivered:

- Progress update on realising Stage 1 benefits reported to Business Performance Board[13] in April 2017.
- Agreed monitoring thresholds: lead and lag indicators approved by the Executive Working Committee (EWC) in July 2017 and reported to the Ministers of Finance and Revenue.
- Case study work programme was approved by the EWC in July 2017 and reported to Ministers. Case studies are being used to show observable changes for:
  o Improved outcomes for customers from more secure sharing of information
  o Policy agility.
  o Revenue /compliance uplift.
- Six-monthly progress update regarding benefits realisation reported to PIC in November 2017.
- Six-monthly progress update regarding benefits realisation reported to PIC in June 2018.
- Six-monthly progress update regarding benefits realisation reported to PGC and PIC in October 2018.

The Gateway Review team in March 2017 noted that *"…the outcomes and benefits management framework is world class…"*.

KPMG independent quality assurance review in May 2018 noted they have previously *"… reviewed benefits identification, tracking and realisation in some detail and found it to be working effectively"*.

Risk management

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

As at June 2018, there were 56 risks for transformation managed by the programme leadership team, of which the most significant (14 as at June 2018) are reported each month to the Portfolio Governance Committee. The top risks were in the following areas:

- Maintaining momentum – ensuring that critical resources are retained, workloads are managed, and that milestones continue to be met as FIRST is unsupported from June 2021.
- Co-existence – Inland Revenue is now running two production systems and more products and services are now split across FIRST and START.
- External decision-making – the risk that changes in priorities result in extended timescales or that external decision making takes longer than planned.

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[13] Replaced by the Performance & Investment Committee in July 2017

Part B

Additions to the scope of transformation

Cabinet has agreed some additions to scope

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

- The accounting income method (AIM) option for provisional tax.
- The automatic exchange of information (AEOI) with international tax treaty partners.
- Best Start.

These additions to scope are evidence of improved agility given the speed with which they were implemented.

The Research & Development Tax Incentive and findings of working groups are emerging areas of work which are likely to have implications for the scope of transformation.

AIM

On 14 March 2016, Cabinet approved the implementation of a business tax package (CAB-16-MIN-0089 refers) including AIM. AIM is a significant initiative aimed at further reducing customers' compliance costs by providing a "pay-as-you-go" option for provisional tax for businesses with turnover of less than $5 million.

AIM was implemented as part of Release 2 in April 2018, enabling small businesses to better match their provisional tax payments to when they earn their income. As at 30 June 2018, more than 1,100 customers were using AIM.

The benefits of AIM

Until AIM, businesses paid provisional tax at set times of the year, regardless of when they earned their income. This was in part why some businesses consistently rated provisional tax as the most stressful part of running their business.

AIM removes a lot of this stress by enabling small businesses to pay their provisional tax as they earn income, and by fitting provisional tax into the business processes they already have in place. All businesses using AIM have to do is enter their accounting information into their software and their provisional tax payment will be calculated for them.

AIM means businesses can:

- Pay smaller amounts of provisional tax more often.
- Get refunds of overpaid provisional tax during the year.
- Avoid paying interest or penalties provided they pay what their software tells them to, on time.
- Have their provisional tax calculations done for them by their software.
- Have their information sent to Inland Revenue by their software – no extra step required.

Who AIM will suit

AIM will suit different types of small businesses. New businesses, growing businesses, businesses that are really busy at some times of the year and not at others, businesses that already use accounting software, and businesses that find it hard to forecast their income accurately could all benefit from using AIM.

Success in terms of customer uptake and software innovation will take time to eventuate. AIM represents a significant shift and some businesses and their advisors will likely adopt a 'wait and see' approach.

Implementation approach

AIM is a good example of how Inland Revenue is working with others to design and deliver services. To develop the policy, legislation and software to support AIM, Inland Revenue worked with a wide range of parties.

Unlike other tax products, AIM is offered by software providers rather than Inland Revenue. Software developers deliver the solution and are closer to the customer base.

A key part of Inland Revenue's approach was to involve software providers early and create an environment that allowed them to actively contribute to and challenge the solution design.

In mid-2016, Inland Revenue hosted the first collaboration workshop to design how AIM would work within software. The workshop brought together a range of key parties interested in offering AIM including software developers, accountants with small businesses as clients, and Chartered Accountants Australia and New Zealand (CA ANZ).

Workshops were held regularly during the development of AIM to collaborate on the design, implementation and communication of AIM. These workshops were very successful and a key part of building support for AIM.

Regular engagement resulted in building a common understanding of what was required for success.

In addition, Inland Revenue built a community of practitioners from across industry and government to quickly test ideas.

Involving end users and their representatives early helped to ensure that decisions were based on customer needs and on delivering the best possible customer experiences.

Funding

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

AEOI

On 25 April 2016, Cabinet approved the business case for AEOI (CAB-16-MIN-0189.25 refers). Through the implementation of AEOI, New Zealand is playing its part in helping to combat global tax avoidance.

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

The benefits of AEOI

Globalisation has made it easier for people to invest money outside their tax residence jurisdiction. This has provided opportunities for offshore tax evasion.

Financial account information is required by law to be collected by financial institutions around the world for reporting to tax authorities. Tax authorities will exchange this information to ensure everyone pays the right amount of tax.

Who AEOI applies to

Foreign tax residents who currently have an account with a New Zealand financial institution may have their financial account information reported to Inland Revenue. This information may then be shared with a person's home country or jurisdiction, if New Zealand has an AEOI exchange relationship with them.

Information about New Zealand tax residents with financial accounts in any of the jurisdictions participating in the AEOI may be shared with Inland Revenue.

Implementation approach

In April 2016 Inland Revenue's Investment Board agreed that AEOI would be implemented in START to ensure one implementation for AEOI, and to align technology delivery and change management with the wider changes being made by transformation. This minimised change impacts for both customers and staff.

The Board agreed that START was a good fit for delivering the technology capability required as:

- START had the functionality required already built in: START was configured to support the capability required and did not require any customisation.
- Information about customers' incomes, whether earned in New Zealand or overseas, would be held in one place.

- Inland Revenue would be able to more effectively match data received through AEOI with information already held about customers.
- START was scalable for Foreign Account Tax Compliance Act (FATCA).

Now that the functionality has been built in START, it is also being used to securely exchange Foreign Account Tax Compliance Act (FATCA) disclosures with the United States. This has enabled Inland Revenue to decommission the stand-alone systems and processes that previously supported FATCA disclosures.

Funding

Additional funding of $32.2 million was provided to Inland Revenue as part of Budget 2016 to implement AEOI. This funding was separate to the funding approved for transformation.

In September 2016, Inland Revenue sought approval from the Ministers of Finance and Revenue to drawdown $21.5 million of this amount. The decision to implement AEOI in START provided technology solution certainty and enabled costs to be revised.

Best Start

On 17 November 2017, Cabinet approved the implementation of Best Start as part of the Families Package (CAB-17-MIN-0516 refers).

Best Start is part of Working for Families

Best Start payments are $60 per week per child (up to $3,120 a year) for babies born on or after 1 July 2018.

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

All eligible families will receive $60 a week until their baby turns one, no matter what their household income is. If their household income is less than $79,000 a year before tax, then they will continue to receive $60 a week until their child turns three.

After their child's first birthday, families earning between $79,000 and $93,858 a year before tax will continue receiving a reduced payment until their child turns three.

Families earning over $93,858 a year before tax are not entitled to Best Start after their child turns one.

Best Start payments replaced the Parental Tax Credit from 1 July 2018.

Implementation approach

Families apply for Best Start through SmartStart:

- SmartStart is a cross-government online initiative providing step-by-step information and support to help families access the right services for them and their baby.
- Parent can access SmartStart though any device and register the birth of their child, apply for an IRD number for their baby, and apply for Best Start.
- It's an easy and quick digital service that saves parents from having to fill out three different forms for two different departments.

Best Start was delivered by Inland Revenue in its existing heritage systems, so that payments could start as quickly as possible. As it is a component of Working for Families, Best Start will be migrated to START as part of Release 3 in April 2019.

Funding

Additional funding of $6.43 million was approved by Cabinet on 27 November 2017 to implement the Families Package in heritage systems.

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

Research and development tax incentive

In February 2018, Cabinet agreed to implement a research and development (R&D) tax incentive by 1 April 2019 (CAB-18-MIN-0056 refers). The tax incentive will apply from the 31 March 2020 income tax year.

Cabinet has also agreed that by April 2020 there will be some form of support for businesses in tax loss, and that the R&D tax incentive will replace the Growth Grants provided by Callaghan Innovation over time (CAB-18-MIN-0051 refers).

Inland Revenue, the Ministry of Business, Innovation and Employment, and Callaghan Innovation expect to seek decisions on the final design of the policy from Cabinet in September 2018.

The benefits of the incentive

The Government has announced a target to increase New Zealand's R&D expenditure to 2% of Gross Domestic Product (GDP) over 10 years, from the current level of 1.26%.

Business expenditure on R&D (BERD) is recognised as a key indicator of business innovation. This is critical for New Zealand because it supports economic diversification, raises productivity, creates high-value jobs, and improves social and environmental well-being.

It is common for governments to support BERD as without it businesses tend to invest less in R&D than is optimal.

Who the incentive will apply to

The intent is for all businesses to be eligible for the R&D tax incentive, provided they meet the eligibility criteria.

Implementation approach

Inland Revenue will be the administering agency of the R&D tax incentive, supported by Callaghan Innovation.

Businesses will be able to register through myIR and claim the tax incentive at the end of the tax year, i.e. 31 March 2020.

Inland Revenue is currently working through how the R&D tax incentive will be implemented.

Funding

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

Legislation

Legislation was introduced to Parliament in October 2018.

Emerging work

A number of reviews, including the Tax Working Group, Welfare Expert Advisory Group, Holidays Act Working Group, Review of Paid Parental Leave, and Pay Transparency, have the potential to result in further change for Inland Revenue, employers, businesses, intermediaries, and families.

The currently known dates are:

• September 2018 – interim report from the Tax Working Group.

• February 2019 – final advice from the Welfare Expert Advisory Group.

• May 2019 – Holidays Act Working Group due to report back with recommendations.

Until firm recommendations from working groups are available, it is difficult to assess the impact on Inland Revenue's capacity of any additional work.

There is no doubt that transformation presents considerable opportunities.

When considering how to maximise these, the challenge will be how to do so without further increasing what is already an inherently high-risk undertaking, while balancing the volume and pace of change for a range of stakeholders.