

In Confidence

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Office of the Minister of Revenue

Chair, Cabinet Government Administration and Expenditure Review Committee

Inland Revenue's November 2019 Transformation Update

Proposal

- 1 This paper provides an update regarding Inland Revenue's progress in modernising the revenue system. I am asking Cabinet to note the preparations underway for the next set of changes, the work still ahead, and the results achieved to date.

Executive Summary

- 2 The way customers interact with Inland Revenue and the revenue system has now fundamentally changed. Changes to the collection and use of employment and investment income information have enabled more far-reaching changes to be made, including the introduction of a new year-end process for individuals. The combination of these changes means that, for most individuals, tax will be correctly withheld and entitlements paid accurately at the time they are needed. Customers no longer have to rely on a year-end process to be certain they have paid and received the right amounts.
- 3 Improved analytical capabilities are enhancing the integrity of the revenue system by providing a real-time view of issues customers are struggling with and areas that might require closer investigation. Inland Revenue now has more tools at its disposal to make smarter decisions about where to focus its resources. Errors and non-compliance, both inadvertent and deliberate, are being detected more effectively and detected earlier. Rules created by Inland Revenue's compliance experts are constantly adjusted as customer behaviour changes. Inland Revenue is proactively working with customers to help them get things right, for example ensuring their investments are taxed at the right rate.
- 4 For the year ended 30 June 2019, Inland Revenue has achieved all but one of the indicators that track achievement of the investment objectives of transformation. Throughout transformation, Inland Revenue has focused on implementing changes as cost-effectively as possible. Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.
- 5 While transformation is now well advanced and has been successful to date, there are still two big releases ahead. Student Loans and KiwiSaver are on track to migrate to new systems and processes in April 2020, with Child Support following in April 2021. These are complex products with multiple stakeholders and Inland Revenue is not complacent about the inherent challenges. Testing, to ensure new systems and processes work as they should, is underway and will continue until go-live. Inland Revenue expects to complete around 70,000 tests in total.
- 6 Other changes will be made progressively between now and April 2020. These include a new rulings service from 1 October 2019 that will provide customers with greater certainty,

the reporting by financial institutions of more frequent and more detailed investment income information to Inland Revenue becoming mandatory from 1 April 2020, and further improvements to the online services customers use. Communication and engagement are already underway to ensure that customers and stakeholders understand what is changing and when, and what preparatory steps they may need to take.

- 7 There will also be changes to Inland Revenue's back-office systems and further changes to its organisational design. This reflects the changing nature of Inland Revenue's work and the different capabilities that will be required in some areas in the future.
- 8 Planning is well advanced to ensure that all these changes are implemented smoothly.

Although transformation is now well advanced, two big releases are still ahead

- 9 Inland Revenue has implemented three of five releases, including the biggest changes for individual customers in almost 20 years. This represents a fundamental change to how individual customers interact with Inland Revenue. It reduces effort for them and provides them with greater certainty. The revenue system is now operating in close to real-time which means customers have greater visibility of their taxes and entitlements and can be more confident they are accurate.
- 10 For the year ending 31 March 2019, more than 1.3 million New Zealanders were automatically issued with tax refunds totalling \$572 million. Compared to the year ending 31 March 2018, 557,000 more New Zealanders received a refund and \$188 million more was paid out. Approximately 271,000 people have received a bill and have until 7 February 2020 to pay it. Customers now have more payment options and Inland Revenue has better ways to track payments to ensure they are made on time.
- 11 The changes made to the collection and use of employment and investment income information, together with the new year-end process, have laid the foundation for on-going improvements for individual customers. From 1 April 2020, payers of investment income will be required to provide more detailed recipient information more frequently to Inland Revenue. The year ending 31 March 2021 will be the first full year that Inland Revenue receives both employment and investment income information more frequently and receives more detailed information about the recipients of investment income. Over time, this will mean that more customers will pay and receive the right amounts during the year, further reducing the need for them to interact with Inland Revenue.
- 12 All taxes and Working for Families are now administered on new systems and processes, and customers have vastly improved online services to help them pay and receive the right amounts. The challenge now is to embed the benefits of these changes.
- 13 Student Loans and KiwiSaver will migrate to new systems and processes as part of Release 4 in April 2020, followed by Child Support as part of Release 5 in April 2021. In addition, a range of policy changes will be introduced subject to legislation. These are complex products with many different stakeholders. For Child Support in particular, the changes will affect some customers with complex personal circumstances. To ensure changes are implemented as smoothly as possible, customers and stakeholders are involved in the design and testing of new services.

- 14 From April 2020, all products, except Child Support and paid parental leave, will be in the new system START.¹ This will enable Inland Revenue to further simplify requirements, reduce effort, and improve services for customers.
- 15 KiwiSaver and Student Loan information will be processed more quickly and will be more accurate. Improved self-service options will enable Student Loan borrowers to manage their loans more easily themselves and will provide KiwiSaver members with better information about their contributions and enable them to do more for themselves. Inland Revenue will share Student Loan information with other government agencies more quickly and efficiently and will transfer funds to KiwiSaver scheme providers more quickly, which may have a positive impact on people's KiwiSaver balances. These changes will affect approximately 700,000 Student Loan customers and approximately 2.9 million KiwiSaver members.
- 16 While these are the headline changes, other changes will also be made over this period.
- 17 A new short-process rulings service has been available since 1 October 2019. This service will provide more certainty for any individual or business with an annual gross income below \$20 million and a question involving tax below \$1 million. These customers will be able to apply and pay for a ruling, and track its progress, online.
- 18 Also on 1 October 2019, Inland Revenue's finance, procurement, and some human resources functions moved onto a new cloud-based platform which Inland Revenue has named Ātea. More changes are due to go live in early-mid 2020.
- 19 Inland Revenue has adopted 'out-of-the box' processes to follow a standard process model, which is now being packaged so it can be used by other agencies. These processes are being implemented using Oracle's Software-as-a-Service suite of tools, configured 'out-of-the-box'. Inland Revenue is testing whether its configuration can be reused by other agencies as an accelerator for back-office system replacement. The New Zealand Customs Service have signalled their intention to adopt the model and test whether the Oracle configuration can be used to replace their finance system. The GCDO, Treasury, SSC and Inland Revenue are working together to agree how the process model will be managed, delivered and sustainably funded in the future.
- 20 The back-end processing of PAYE will migrate to START in April 2020. This means employers will be able to manage all their information and obligations in one account and will have a consolidated view of all the deductions they make on behalf of their employees. There will be further changes to the look and feel of the services employers use, including their myIR online account, and they will be able to correct errors themselves.
- 21 Gateway services will be extended to make it easier for customers to deal with Inland Revenue via their software. This includes receiving alerts and notifications from, and sending correspondence to, Inland Revenue. It will be easier and simpler for employers to manage their employee deductions and meet their obligations through their own systems. Hours-paid information will be collected from employers who file through software and already record their payroll on this basis. Some employers may see this as creating additional work for them.
- 22 More flexibility will be introduced for approximately 370,000 Working for Families customers, to help ensure their payments will be more accurate during the year. This will

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

build on the flexibility already provided by the new systems and processes introduced for Working for Families customers in April 2019. For example, new customers who register part way through a year will be able to request any back payment to be paid out, rather than waiting until the end of the year.

- 23 Inland Revenue will further enhance its website and myIR online services for customers and explore opportunities offered by its new analytical capabilities to help customers get things right.
- 24 The focus on retiring heritage systems and processes will increase, as is to be expected at this stage of transformation.

Release 4 is on track for delivery in April 2020

- 25 Testing the new systems and processes for Student Loans and KiwiSaver began in July 2019 and will continue up until go-live in April 2020. Inland Revenue expects to complete approximately 70,000 tests before go-live, and progress is on track.
- 26 Inland Revenue is continuing with its customer and stakeholder engagements and communication. Face-to-face meetings are again playing a key role in readying customers and stakeholders for change. Advertising, social media, direct contact, and information published on Inland Revenue's website will draw people's attention to the changes being made.
- 27 Although a date has not yet been set, Inland Revenue is likely to time go-live around public holidays to minimise the amount of time it is closed to customers.
- 28 Inland Revenue has recognised the need for an integrated plan for the April to July 2020 period. Release 4 will be implemented at the same time as the second year of automatically issued income tax assessments is underway. The first Working for Families rollover in START (when entitlements for the following year are estimated and communicated to customers), and the first annual income tax returns cycle in START, will also be during this period. Inland Revenue is actively managing the risk of these events all occurring in the same window of time.

In addition to further releases, there are still changes to embed from earlier releases

- 29 Changes to the collection and use of employment and investment income information and the introduction of a new year-end process for individuals mean that, over time, more people should pay and receive the right amounts during the year.
- 30 Inland Revenue's new systems and processes have been designed to ensure tax is withheld correctly and entitlements are paid accurately and when needed. Inland Revenue is now seeing data flows at a level it has not previously experienced and, in some cases, receiving data that could not previously be processed in the old system. The combination of new systems and processes and receiving more detailed data more often means that Inland Revenue is now able to see issues that have not previously been visible. It is now apparent that approximately 1.5 million people have been on an incorrect prescribed investor rate (PIR), and that some employers are calculating and deducting employer superannuation contribution tax incorrectly.
- 31 People who invest in a portfolio investment entity, such as KiwiSaver schemes, select a tax rate, referred to as their PIR. Currently, tax on portfolio investment entity income is a

final tax for people have selected a rate that is too high, which means they cannot get the overpaid amount refunded. Following media coverage and Inland Revenue's efforts to contact people proactively, some people will have corrected their PIR. Planned legislative changes will further reduce the number of people on the wrong rate. Subject to legislation, from 1 April 2020, Inland Revenue will provide portfolio investment entities with correct PIRs for:

31.1 people defaulted on to the top rate of 28% if this is too high

31.2 existing investors; and

31.3 new investors if sufficient information is available to Inland Revenue.

32 Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.

33 Employer superannuation contribution tax (ESCT) is payable on contributions made by an employer to an employee's superannuation scheme, including KiwiSaver schemes. Employers are responsible for calculating ESCT and paying it to Inland Revenue. As a result of payday filing, Inland Revenue can now see that some employers are calculating ESCT incorrectly.

34 Before 1 April 2019 when payday filing became mandatory, employers included ESCT as a lump-sum amount for all employees with the payment information they provided to Inland Revenue. Inland Revenue did not receive an itemised amount per employee and could not check that ESCT had been calculated correctly. Since 1 April 2019, Inland Revenue has been receiving the ESCT amount for each employee. As a result, it is now possible to identify errors. I have asked officials to work with employers and payroll providers to better understand why errors in ESCT rates are occurring and what responses may be required to eliminate them, including whether the rules can be simplified.

35 Inland Revenue expects that issues such as these will continue to come to light. For example, once Release 4 has gone live, it will be easier for Inland Revenue to identify and deal with anomalies in KiwiSaver contributions and Student Loan repayments. Addressing errors and anomalies as they occur will ensure the benefits of transformation are enduring.

36 It will take two complete tax cycles for the benefits of the changes to individuals' income tax, employment and investment income information to be fully realised. Improved online services are making it easier for people to update their personal details when they become aware of an error. As is to be expected, customers are taking time to get used to new ways of doing things.

It is getting easier for customers to get things right and harder to get them wrong

37 To help customers pay and receive the right amounts, compliance remains a key area of focus. Inland Revenue now has more tools at its disposal to make smarter decisions about where to focus its resources. Improved analytical capabilities are enhancing the integrity of the revenue system and are providing a real-time view of the issues customers are struggling with and areas that might require closer investigation. Inland Revenue can be

more responsive in providing support where customers need it and act more quickly when obligations are being deliberately avoided.

- 38 Errors and non-compliance, both inadvertent and deliberate, are being detected more effectively and detected earlier. All returns are now automatically risk-profiled, whereas previously only GST returns were automatically assessed for risk. This is enabling Inland Revenue to better target its compliance activity by providing cost-effective interventions, ranging from advice and education where needed, to enforcement where necessary.
- 39 As an example, to help customers get things right, the information provided by employers is analysed to identify inaccuracies earlier and identify people on incorrect tax codes. Inland Revenue can then provide them with the correct code or suggest a tailored tax code.
- 40 Inland Revenue's compliance experts have created rules, which are built into systems and processes, to identify potentially fraudulent activity. For example, there is a rule that analyses donations as a percentage of income. Rules are constantly monitored and adjusted in real time and by customer group, as Inland Revenue observes changes in customer behaviour.
- 41 Inland Revenue can now also search for internet addresses and the use of anonymisers or proxies to identify returns all completed at the same address, and to view online sessions if it appears information is being manipulated to minimise obligations or maximise entitlements.
- 42 Over time, these capabilities will improve voluntary compliance and enable non-compliance to be more readily detected. Inland Revenue's compliance activities will adapt as these new capabilities become embedded and as customer behaviour changes. Interactions and interventions will be better targeted to customers' needs.

Inland Revenue's organisation design will change further

- 43 Changes are being made to Inland Revenue's organisation design, workplace technology and its enterprise support services² to support a greater focus on customers and the use of information and intelligence, and on faster and more cost-effective delivery of policy outcomes. In addition, the adoption of commercial-off-the-shelf (COTS) technology and cloud-based solutions, and the greater use of third parties, mean that Inland Revenue requires different capabilities for the future.
- 44 These changes will continue over the next two years as the nature of Inland Revenue's work changes and to ensure the department can operate sustainably in the future. They have been built into Inland Revenue's funding model and, once transformation is complete, baseline funding will reduce.
- 45 The conclusion of fixed-term arrangements and fewer contractors will contribute to the overall reduction in Inland Revenue's work-force. Other changes are required to ensure that Inland Revenue has the skills and capabilities it needs for the future. This means that a number of permanent employees will leave Inland Revenue over the next two years, some voluntarily and others not.

² The internal processes and systems that support the day-to-day running of Inland Revenue, for example finance, procurement and human resources

- 46 The changes being made to Inland Revenue's information technology team are significant and reflect changes to the mix of skills, capabilities and resources required. Some changes were made ahead of Release 3, and further changes are scheduled to be implemented in early December 2019. More than 80 people will leave Inland Revenue by December 2019, and a further approximately 100 people will leave over the next two to three years. This will leave around 90 people remaining in the information technology team, compared to approximately 330 prior to transformation.
- 47 During transformation, Inland Revenue has increased its investment in developing the capabilities of its people. This is intended to ensure people have transferable skills as work changes, and have opportunities to develop new skills, such as digital literacy and data analytics. This will continue into the 2020s.
- 48 Inland Revenue will continue to work closely with its people, to provide them with choices where it can, and with the unions, to ensure change is managed in a considered way. At times, challenging conversations will be required.

Benefits and costs are tracking to plan

- 49 The fundamental changes made to the revenue system over the last three years are delivering significant value to New Zealanders. There are three main measures of success for transformation:
- 49.1 easier for customers
 - 49.2 reduced time and cost to implement policy (policy agility), and
 - 49.3 administrative savings to Inland Revenue.
- 50 In July 2017, the then Ministers of Finance and Revenue agreed to track achievement of the investment objectives for transformation against a number of lead and lag indicators. Inland Revenue has achieved all but one of the indicators for 2018/19, which are shown in the annex.
- 51 It is easier for customers to pay and receive the right amounts:
- 51.1 Online services are available for all taxes. Customers can provide information, set up payment arrangements, and keep track of everything online. More and more customers are using them, with 89% of returns filed electronically.
 - 51.2 It is easy for customers to do what they need to do, with 80% saying they find it easy to comply. This is the indicator Inland Revenue did not achieve; the target was 85%. The changes introduced in April 2019 appear to have had an impact on customers' perceptions. Inland Revenue expects the new services available to customers and its new analytical capabilities will make it easier for customers to comply, and harder not to, in the future.
 - 51.3 Small-to-medium sized businesses say they are spending nine fewer hours a year meeting their tax obligations, and say new digital services are making a real difference. Since the first changes were made in early 2017, the value of the time saved by these business owners is \$280 million.

- 51.4 New infrastructure is more robust and secure, with customer-facing online services available 99.4% of the time.
- 51.5 New services and new analytical capabilities are making it easier for customers to pay and receive the right amounts, ultimately flowing through to Crown Revenue. For example, customers who set up their own instalment arrangements are more likely to meet their obligations compared to those Inland Revenue sets up arrangements for. Areas where analysis suggests compliance issues exist are more easily identified. For example, returns filed where customers have previously exhibited fraudulent behaviour, where ratios of income to credits are outside of the maximum legislated ratios, or where income information filed by the customers does not match the information Inland Revenue holds.
- 52 The time and cost of implementing policy changes is reducing. Case studies are demonstrating that it is easier for Inland Revenue to make changes and deliver the outcomes policy-makers are looking for, as new systems are configurable. For example, the implementation of the Research and Development Tax Incentive.
- 53 Inland Revenue is working more efficiently to collect and distribute money. Since transformation began, Inland Revenue has made savings of \$60 million from improved administration, compared to a target of \$15 million. As agreed by Cabinet (CAB-15-MIN-0249 refers), Inland Revenue is using these administrative savings as part of its funding contribution for transformation. There are some challenges ahead for Inland Revenue as the department continues to support customers, embeds the changes delivered to date, and completes transformation while moving to a new organisation design.
- 54 Throughout transformation, Inland Revenue has focused on delivering new capabilities as cost-effectively as possible and rigorously managing risks. Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.

Inland Revenue has already returned \$26 million in transformation funding in earlier years.

- 55 The Commissioner retains her contingency to manage any unexpected issues as Releases 4 and 5 are implemented in April 2020 and April 2021. During this period, Inland Revenue will continue to actively manage the costs of the transformation and look for further efficiencies where possible.

Transformation remains inherently high risk

- 56 Transformation will remain high-risk until completion in 2021. Although the overall risk has reduced slightly following the implementation of Release 3, operational risk remains high as heritage and new systems and processes still need to run in tandem. Momentum must be maintained to ensure that Inland Revenue fully migrates off its heritage systems and processes in 2021.
- 57 Inland Revenue is well aware of the dangers of complacency. The remaining releases are big and complex in their own right. As noted in paragraphs 17 to 24, a number of significant changes are being delivered as part of Release 4, in addition to migrating KiwiSaver and Student Loans to new systems and processes. Release 5 will include the migration of Child Support, upgrading to a newer version of START, which will mean changes to the

online services that all customers use, and decommissioning of heritage infrastructure and the infrastructure built to support co-existence.

- 58 An on-going programme of regular assurance reviews will continue, including periodic reviews by the Office of the Auditor General, to provide confidence that transformation is being well managed and governed.

Although transformation is not yet complete and risk and uncertainty remain, there are lessons to be learned from Inland Revenue's approach to modernising the revenue system

- 59 In less than two years, Inland Revenue will have completed its transformation programme. It is a credit to the department that, to date, the changes have been successfully implemented, notwithstanding some challenges along the way.
- 60 It is also highly unusual for changes of this scale and complexity. Inland Revenue has kept providing services to customers while fundamentally changing almost every aspect of the way it operates. The department continues to share what it has learnt with other agencies and to actively engage with others to learn from them. I am of the view that there is much others can take from Inland Revenue's experience.
- 61 Transformation has involved changing almost every aspect of the way Inland Revenue operates. Changes have been made to policy settings, processes, technology, and Inland Revenue's organisation design. A clear programme roadmap, which set out what changes would be delivered when, has provided confidence and enabled the programme to be fully funded from outset. The breadth of the changes made has required effective leadership and discipline to ensure this is a truly transformational change and not simply a technology replacement.
- 62 I have observed that transformation is being led from the top in Inland Revenue. The Commissioner and her executive leadership team collectively own the outcomes of transformation. At times, they have made difficult but necessary decisions. Early on, Inland Revenue recognised that it did not have the skills and experience it needed to be successful and would not find them from within. During 2013 and 2014, an experienced team with a track record in delivering transformational change was recruited from both New Zealand and overseas.
- 63 As well as bringing the right resources on board, having the right partners has been critical. Using a commercial-off-the-shelf (COTS) solution, provided by FAST Enterprises LLC (FAST), was challenging for an organisation used to designing and building its own systems. It has proved to be a key decision. Officials have recently seen the significant improvements planned by FAST for online services and inform me that if Inland Revenue had to build these improvements themselves, the cost would be considerably higher. Inland Revenue is setting aside some of its baseline funding, which has been adjusted for the department's new COTS and as-a-service environment, for future upgrades to START.
- 64 Co-existence, running old and new systems in parallel, has been among the most complex challenges faced by Inland Revenue. In an innovative approach, the department partnered with Accenture to access a global network of the critical coding resources required to make changes to heritage systems. This has enabled Inland Revenue to minimise the impacts of co-existence on customers and stakeholders as much as possible.

- 65 I am assured by officials that Inland Revenue's subject-matter experts are working closely with FAST and Accenture to ensure that skills and knowledge are transferred and become business-as-usual for the department.
- 66 Actively engaging with customers and stakeholders, and involving them in design and testing, has helped Inland Revenue to put customer needs at the centre of its thinking. Lessons-learned exercises after each release have informed Inland Revenue's approach to subsequent releases. For example, tax agents were brought into Inland Revenue after the first release, when the department realised it did not have a full appreciation of how agents actually worked in practice. By being open and prepared to listen, Inland Revenue has been able to deal with the inevitable problems that do occur. Additional support has been provided after the go-live of each release, to enable Inland Revenue to respond quickly to any issues.
- 67 The strong programme disciplines put in place from the outset have ensured that transformation has remained on schedule and that scope creep has been avoided. They have enabled Inland Revenue to Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982. and ensure that the benefits of transformation are enduring. Non-priority projects, even some that were worthwhile and sensible, have been stopped so that Inland Revenue's people can focus on the main effort.
- 68 Governance arrangements are regularly reviewed and independent, external members on Inland Revenue's governance bodies challenge the department's thinking. Regular KPMG and Gateway reviews provide the Minister of Finance and me with assurance that transformation is being well managed.

Next steps

- 69 The next steps are to:
- 69.1 continue preparations for the implementation of Release 4 in April 2020;
 - 69.2 support the passage of the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill which contains key transformation proposals;
 - 69.3 continue with the on-going programme of independent quality assurance; and
 - 69.4 provide a further progress update to Cabinet by July 2020.

Consultation

- 70 A copy of this paper has been provided to the Accident Compensation Corporation; the Department of Internal Affairs; the Department of Prime Minister and Cabinet; the Ministry of Business, Innovation, and Employment; the Ministry of Education, the Ministry of Social Development; the New Zealand Customs Service; and Stats NZ.

Financial Implications

- 71 The proposals in this paper have no financial implications.

Human Rights

- 72 The proposals in this paper have no human rights implications.

Legislative Implications

73 The proposals in this paper do not require any changes to legislation.

Regulatory Impact Analysis

74 The proposals in this paper do not require a Regulatory Impact Statement.

Gender Implications

75 The proposals in this paper have no gender implications.

Disability Perspective

76 The proposals in this paper have no implications for people with disabilities.

Proactive Release

77 I propose to proactively release this Cabinet paper, and associated minutes in whole within 30 working days of Cabinet making final decisions.

Central agencies' comment (The Treasury, State Services Commission and Government Chief Digital Officer)

78 The central agencies were consulted on this update. The Treasury's delivery confidence assessment of the Inland Revenue Business Transformation programme has moved from Amber to Amber/Green. Central agencies acknowledge Inland Revenue's landmark achievement in successfully implementing Release 3, the biggest change to the revenue system since the introduction of FIRST in the early 1990s. The programme has significant work remaining in order to achieve Releases 4 and 5 and manage the continued risk that co-existence between the old and new systems creates. The central agencies continue to have good visibility of the delivery of the programme and continue to be well informed by Inland Revenue of the risks as they arise and the mitigations that are implemented.

79 The Treasury agrees with Inland Revenue's assessment that although Transformation is tracking well, it remains an inherently high-risk programme until completion in 2021, and that momentum must be maintained to ensure that Inland Revenue fully migrates off its heritage systems and processes. Discussions with external assurance providers suggest that delivering of Business Transformation continues to require Inland Revenue to operate close to the edge of its capacity and capability. The Treasury observes that because Ministers are increasingly seeing Inland Revenue as a 'centre of excellence' for managing IT-based change, that it may seem appealing to them to use Inland Revenue as a provider of IT services to other parts of central or local government. We suggest Ministers take a conservative approach to adding any new expectations to Inland Revenue during this time, and that any future change to the function of the department and the expectations for the Commissioner are worked through in consultation with the State Services Commission.

80 The central agencies note that Inland Revenue have been successful in realising administrative savings above target to date. The size of these savings are forecast to increase substantially over the 2020/21 and 2021/22 fiscal years and coincide with the end of time-limited compliance funding. The challenge remains to ensure these savings

are sustainably realised. Information provided by Inland Revenue of glide-path targets is useful to track this progress.

- 81 The central agencies continue to work with Inland Revenue to test Crown revenue outcomes – the business case targets \$2.880 billion cumulative additional Crown revenue by 2023/24, achieved through better compliance. There are significant technical difficulties in tracking this revenue impact, and the previously agreed approach for measuring revenue impact is case studies. To date, these case studies have provided limited insight into likely revenue impacts. Gaining a clearer picture of revenue impacts is important both for tracking progress against the business case, and ensuring that the changes Inland Revenue is making to realise administrative savings are sustainable and will not put revenue at risk.
- 82 Central agencies are pleased that Inland Revenue is sharing some of its ‘lessons learned’ from Business Transformation within the public sector. This contributes to wider learnings in the government investment management system. The Treasury is working with Inland Revenue on further sharing of these lessons with senior public sector leaders. Ministers may wish to check what plans their own agencies have to consider adoption of the common back office process model developed by Inland Revenue.

Recommendations

I recommend that the Committee:

- 1 note that Inland Revenue is on track to migrate KiwiSaver and Student Loans to new systems and processes in April 2020;
- 2 note that further changes will be made to Inland Revenue’s organisation design during 2019/20 and 2020/21;
- 3 note that for 2018/19, Inland Revenue has achieved nine out of the ten indicators agreed as the basis for tracking achievement of the investment objectives for transformation;
- 4 Withheld under Section 9(2)(f)(iv) of 18(c)(i) of the Official Information Act 1982.
- 5 note that the next progress update will be provided to Cabinet by July 2020.

Authorised for lodgement

Hon Stuart Nash
Minister of Revenue

Annex – Lead and lag indicators for transformation – 2018/19 results

Outcome	Investment objective	Indicator	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24	
			Target	Actual	Target	Actual						
Easier for customers	<ul style="list-style-type: none"> 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 	<i>Lead indicators</i>										
		Digital uptake by customers	26%	83%	54%	89%	72%	75%	78%	82%	85%	
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	88%	89%	90%	90%	
		Reduction in compliance time for SME customers (hours per annum)	3 hours	10 hours	8 hours	9 hours	13 hours	15 hours	16 hours	17 hours	18 hours	
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.4%	99.4%	99.5%	99.5%	
		<i>Lag indicators</i>										
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies									
		Cumulative reduction in compliance costs for SMEs	\$30m	\$80m	\$160m	\$280m	\$370m	\$590m	\$820m	\$1,070m	\$1,330m	
Cumulative additional Crown revenue to Government			\$90m	Achieved	\$280m	\$570m	\$1,110m	\$1,860m	\$2,880m			
Reduced time and cost to implement policy	<ul style="list-style-type: none"> 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 	<i>Lead indicator</i>										
		Reduction in the time and cost to implement policy	Measured through a series of case studies									
		<i>Lag indicator</i>										
		Increased revenue system resilience as assessed by Inland Revenue	Low	Partial	Low	Partial	Partial	Partial	High	High	High	
Inland Revenue is more efficient	<ul style="list-style-type: none"> Improving productivity and reducing the cost of providing IR's services 	<i>Lead indicator</i>										
		Digital uptake by customers	26%	83%	54%	89%	72%	75%	78%	82%	85%	
		<i>Lag indicators</i>										
		Annual reduction in Inland Revenue's administrative costs	\$5m	\$12m	\$10m	\$48m	\$80m	\$100m	\$100m	\$100m	\$100m	
		Cumulative reduction in Inland Revenue's administrative costs	\$5m	\$12m	\$15m	\$60m	\$95m	\$195m	\$295m	\$395m	\$495m	

Notes:

- The 26% target for digital uptake used in the 2015 business case related to the percentage of customers using cloud-based software. Inland Revenue is reporting the percentage of returns filed electronically, given the wider range of digital channels and functionality now available.
- Additional Crown revenue is already included in the government's revenue forecasts.
- An error in the 2017/18 actual for the reduction in Inland Revenue's administrative costs was corrected in May 2019.