



**Inland Revenue**  
Te Tari Taake

## **Interim Programme Update**

### **Business Transformation Programme**

*Implementing Stage 1 of the future revenue system*

June 2016

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New Zealand Government

COMMERCIAL IN CONFIDENCE

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## Executive Summary

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Inland Revenue is well positioned to successfully deliver Stage 1 of its business transformation programme. While the department is well positioned, the programme is in its early stages and remains an inherently high risk undertaking.

*Plans for managing the impacts on customers and Inland Revenue staff are well advanced.*

Overall, the impact of Stage 1 on customers will be positive, requiring only moderate changes to their processes and systems.

Implementing GST in START (simplified tax and revenue technology – the name for the new core platform) is the first step in changing how businesses and individuals interact and connect with the revenue system. The changes being introduced and the ability to file returns through accounting software will make it simpler for GST customers to get things right and difficult to get wrong.

Small/medium enterprises, not-for-profit organisations, and intermediaries are expected to benefit most from new and improved services, reduced compliance costs, and better access to information. Customer reaction following go-live will be proactively monitored.

Inland Revenue intends to absorb as much of the impacts of operating two systems, FIRST and START, as possible. This will be achieved by putting in place a number of manual processes and providing information, education and support to customers, so that impacts will be minimised and service levels appropriately maintained. However as implementation is product based some of the expected impacts cannot be mitigated. There will be some minor impacts for

customers, primarily from the need to work in the new system for GST and the old system for other products.

The impact of Stage 1 on Inland Revenue people will be moderate overall. However, the changes resulting from the implementation of GST in START cut across many roles, as GST is part of the work of a large number of people.

*The technology enablers and commercial arrangements needed for successful implementation are on track.*

The development of START is on track, with an acceptable amount of standard configuration and minimal customisation required for the New Zealand environment. START and FIRST will need to co-exist for a pro-longed period, and is a key programme risk.

Inland Revenue has adopted an innovative approach to addressing co-existence risks. The department has partnered with Accenture to help mitigate this risk as they can provide significant capacity, through their global network, in the critical coding resources required to make changes in FIRST. In addition to the New Zealand-based resources working on the programme, Accenture are providing resources in their delivery centre based in Manila. This centre provides Inland Revenue with the flexibility to scale work effort up and down as required, and the ability to take advantage of different time zones to expand the working day window.

As large-scale integration of multiple systems and business partners is required, testing will be a key focus. New processes and systems will be extensively tested and re-tested until Inland Revenue can confidently

provide assurance that everything is working as it should prior to “go-live” in April 2017.

Assessments of business and customer readiness for go-live will be shared with the Ministers of Finance and Revenue as the go-live date approaches, along with the plan to cutover to new systems and processes.

The commercial arrangements needed to support Stage 1 are in place. This includes working with the Government Chief Information Officer to ensure all-of-government as-a-service offerings meet requirements and can be leveraged. Relevant all-of-government services have been adopted to support Inland Revenue’s new data centres. Partners are critical to successful implementation and partner management is a strength of the programme.

*As preparations for the implementation of Stage 1 are progressing well, planning has begun for Stage 2 which includes all other tax products.*

Stage 2 will be significantly bigger in scope and complexity, hence the need to begin planning and mobilising for this stage in parallel with progressing Stage 1. The transformation programme combined with the implementation of Budget 2016 measures and other initiatives such as base erosion and profit shifting, will mean a significant volume of change for customers, staff and other stakeholders. As a result, Inland Revenue envisages that re-prioritisation will be required should further initiatives be added to the work programme.

The annual programme update to be presented to Cabinet for consideration by December 2016 will confirm the release sequence, costs and benefits of Stage 2.



# Introduction

*This interim programme update outlines the progress being made by Inland Revenue in preparing for Stage 1.*

The purpose of this update is to enable Cabinet to note the progress being made by Inland Revenue in preparing for the implementation of Stage 1 of the business transformation programme.

It should be read with reference to the Programme Business Case (PBC) dated October 2013, the PBC Addendum dated October 2014, and the Programme Update and Detailed Business Case dated November 2015.

*The approach used to develop this update.*

The scope of this update has been agreed with the corporate centre. The document itself has been reviewed by the Treasury and the Government Chief Information Officer (GCIO).

*Business transformation is a long-term programme to modernise New Zealand's revenue system.*

Cabinet has already agreed (SEC Min (13) 4/4 and CAB Min (13) 10/ 4 refer) to change the revenue system through business process and technology change, and to invest in the implementation of New Zealand's future revenue system (CAB-15-MIN-0249 refers).

Transformation is far more than just updating existing computer systems: it will re-shape the way Inland Revenue works with customers, including improvements to policy and legislative settings. Transformation will simplify how services are delivered by changing how customers interact with a digitally-based revenue

system. Government will be able to leverage its information asset to better understand and meet customers' circumstances and needs.

*Inland Revenue is making good progress and is on track to deliver the agreed outcomes and benefits of Stage 1.*

In November 2015, Cabinet noted (CAB-15-MIN-0249 refers) that the programme roadmap had been confirmed following the design phase and that Stage 1 would be delivered over 2016 and 2017, focusing on enabling secure digital services. Inland Revenue is on track to implement Stage 1 by the end of April 2017. The activities and outcomes of Stage 1 will make it easier for customers to meet their GST obligations and are shown in the diagram on the next page.

*Inland Revenue is well positioned for the first stage of what is an inherently high risk programme*

Inland Revenue is on track and within budget to successfully implement Stage 1 by the end of April 2017. While the department is well positioned, the programme is in its early stages and remains an inherently high risk undertaking. The programme's progress and risk profile will be constantly re-assessed, and any new opportunities which arise will need to be balanced against any potential slowing of progress or increase in risk.

While risks may become issues from time to time in a programme of this nature, this is not unexpected. Should any opportunities or issues arise that may impact programme timelines, costs, benefits or risk profile these will be highlighted for Ministers to consider.

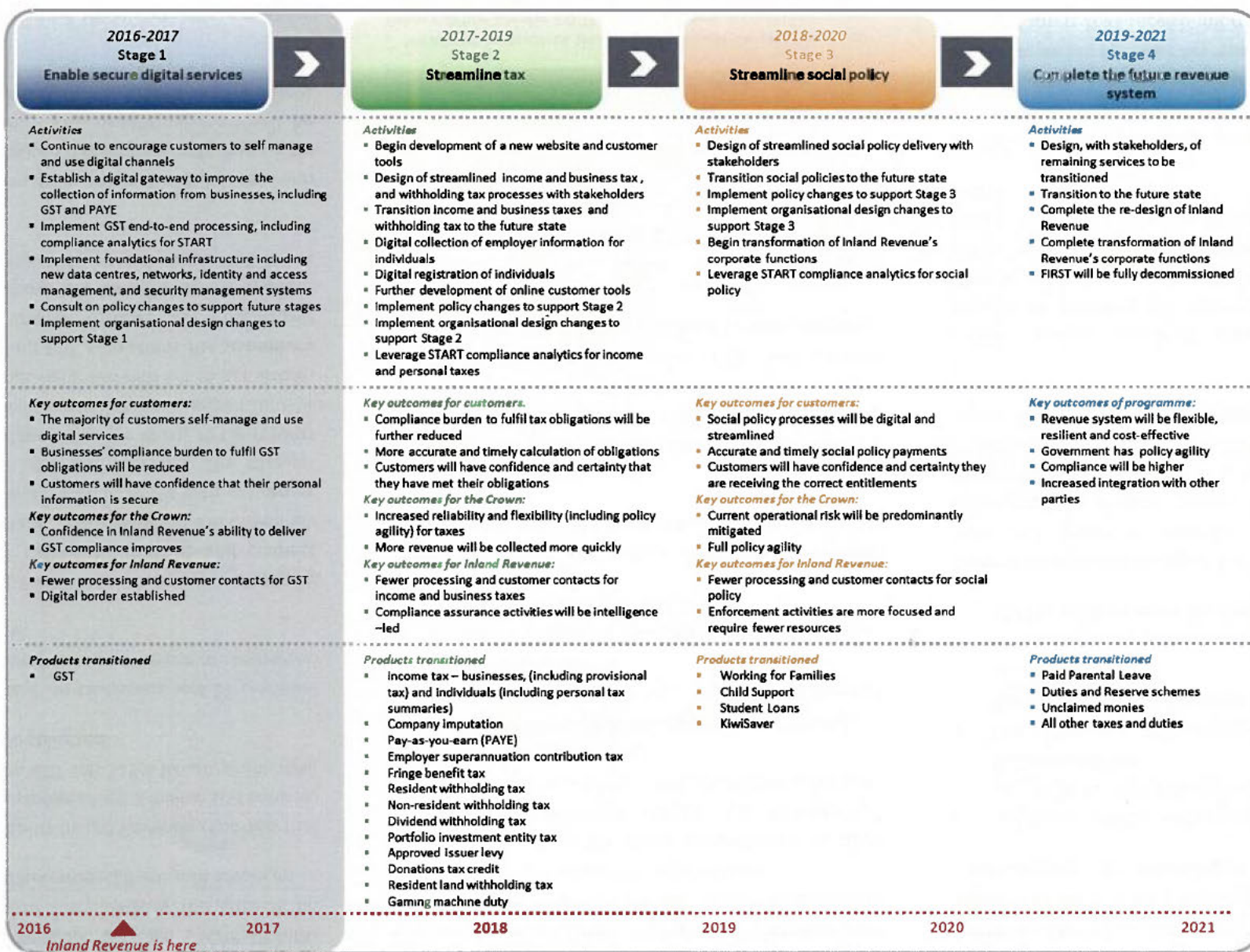
Inland Revenue has robust processes in place for managing risks. KPMG's most recent report noted that "the programme's management of risks and issues continues to be diligent, transparent and effective."

*The programme's status is amber.*

As noted in the PBC Addendum dated October 2014, the programme has adopted a ten keys management framework which focuses on proactive and transparent planning, base-lining and status reporting.

The status of each of these keys as at June 2016 is shown in the diagram below.

|   |                                      |
|---|--------------------------------------|
| <b>Overall programme status (amber)</b> |                                      |
| Scope (light green)                     | Financials (green)                   |
| Benefits (green)                        | Inter-dependencies (light amber)     |
| Resources (light amber)                 | Risks (amber)                        |
| Issues (light amber)                    | Stakeholder engagement (light green) |
| Schedule (amber)                        | Delivery partners (light green)      |





## Impacts of Stage 1 on customers and staff

Cabinet has agreed the scope of Stage 1 (CAB-15-MIN-0249 refers), and plans for managing the impacts on customers and Inland Revenue staff are well advanced.

In its 2015 Annual Report Inland Revenue reported that 631,000 registered customers filed 3 million GST returns, and that revenue from GST was \$15.6 billion, accounting for 26% of tax revenue collected.

*The impacts of Stage 1 on customers will be positive, with a moderate level of change required to customers' processes and systems.*

Implementing GST in START is the first step in changing how businesses and individuals interact and connect with the revenue system. Transformation will ultimately re-shape the way Inland Revenue works with customers and simplify how services are delivered. The changes being introduced in Stage 1 and the ability to file returns through accounting software will make it simpler for GST customers to get things right and difficult to get wrong. To ensure that meeting GST obligations fits seamlessly into people's lives, Inland Revenue will inform and educate customers about the benefits of the changes being made, and further encourage the use of eServices and software.

Benefits for customers from Stage 1 will be new and improved services, reduced compliance costs, and better access to information. Those benefitting most will be small/medium enterprises, not-for-profit organisations, and intermediaries.

Once Stage 1 is implemented, these customers will have:

- Reduced compliance costs through improved self-management services for GST, as well as the ability to submit GST returns through software.
- The ability to make online amendments to their returns and accounts, register their business for GST, register as a tax preparer, include attachments, and set up payment plans.
- Better visibility of their GST payments and refunds.
- Improved GST statements, including customised messages, and letters.
- The ability to identify themselves to Inland Revenue as a GST customer using their NZBN.

Inland Revenue will use a range of channels to provide confidence in and information about the changes being made, including:

- Existing channels such as Inland Revenue's website, business and industry relationship managers, conferences, webinars and face-to-face;
- Tailored information about GST for specific customer groups through direct communications such as emails and inserts;
- Public relations, media, radio and digital communications (including social media)<sup>1</sup> will be used to build awareness and support direct communications; and
- Opportunities for customers to be involved in testing of services.

<sup>1</sup> Ministerial approval of this expenditure will be required as per Cabinet Office Circular CO (15) 4. In addition, advertising expenses must comply with the guidelines for government advertising set out in Appendix B of the Cabinet Manual.

Customers will be provided with information when it is relevant to them. Stage 1 customer communications and marketing will run in three stages:

- Initial engagement with tax agents, businesses and key industry and stakeholder groups is underway and will continue.
- From November 2016, customers most affected by the changes will be informed that change is coming in early 2017.
- Communications from mid-January through to April 2017 to confirm when the changes take effect.

Communication and engagement will continue post go-live, and customer reaction will be proactively monitored. Touchstone groups and surveys will be established to ensure that it is easy for customers to provide feedback about their experiences, and that any issues which arise can be quickly responded to and resolved.

Inland Revenue intends to absorb as much of the impacts of operating two systems as possible, so that impacts on customers will be minimised. There will be some minor impacts for customers and, as outlined above, Inland Revenue has plans in place to manage these:

- All online services will be accessed through myIR as is the case today; there will be a separate tab for GST, which will redirect customers to START, and a separate tab for other tax types.
- Customers may receive information from FIRST and START separately, and in different formats.

- Customers will receive earlier and more frequent notifications about GST amounts owing than currently.

Intermediaries will need to move between two systems when managing their clients' accounts for more than one product (i.e. START for GST, and the existing FIRST and myIR systems for all other tax types).

Road-shows are already underway with industry groups to help intermediaries understand and manage the impacts. Feedback to date has been positive.

*Reference groups continue to provide an independent and external voice.*

Three external advisory groups provide Inland Revenue with advice and insights, and act as a sounding board:

- The Commissioner's Transformation Reference Group;
- Tax Simplification Panel; and
- Information and Communications Technology (ICT) reference group.

These groups meet regularly with Inland Revenue. They very effectively represent the views of customers and industry to help shape Inland Revenue's thinking. Recent engagements with these groups have covered progress with Stage 1 implementation including how heritage systems and coexistence will be managed, Inland Revenue's approach to testing new systems and processes, and change management.

*The design of the future Inland Revenue is underway and the impact of Stage 1 on Inland Revenue people will be moderate.*

Once Stage 1 is implemented, Inland Revenue's customer-facing people will have:

- Improved visibility of GST customer information and a greater ability to search it;
- Less manual work as some simple GST processes will be automated;
- More standardised GST processes; and
- New tools and processes for managing audit and collections cases.

On balance, the impact (degree of change) of Stage 1 is moderate. This means some training and change management is required to ensure Inland Revenue staff are ready to adopt new systems and processes.

While the impact will be moderate overall, the process and system changes resulting from the implementation of GST in START cut across many roles. A large number of people have GST as part of their work, and approximately 4,700 Inland Revenue people will need to be trained (some higher touch than others) to be able to use new systems and business processes.

The impacts will be most apparent in Inland Revenue's service delivery and information technology groups. Coexistence will require Inland Revenue people to work across two systems, and may create manual work in some areas for a period of time.

While the primary focus of change management for Stage 1 will be on reskilling, there will also be some new

skills recruited where needed and some people will leave Inland Revenue.

A transition hub was established in April 2016, to co-ordinate and facilitate transition processes for Inland Revenue people to ensure scalability, consistency and fairness.

Inland Revenue is proactively engaging with unions to ensure they understand and support change management processes.

In April 2016, the National Secretary of the Public Service Association commented that *"The IRD has been proactive so far in communicating with us about the change process, and we will work with them to help staff through a period of massive change."*

Inland Revenue has shared its change management methodology with ACC and the Treasury change group working on investor confidence ratings. In addition, there is regular contact with the State Services Commission (SSC) regarding the approach and likely impacts of the programme.



# Changes to policy and legislative settings

*Policy changes supporting and enabling business transformation are on track and have been generally well received.*

As part of the *Making Tax Simpler* series, five consultation documents were released in 2015 and one so far in 2016. One Bill relating to business transformation has passed its third reading and now awaits Royal assent.

The legislative changes needed to support Stage 1 and the business tax reforms announced as part of Budget 2016 are included in the Taxation (Provisional Tax, Exchange of Information and Remedial Matters) second Bill to be introduced in August 2016 and passed by December 2016.

To be confirmed.

The business tax reforms have been welcomed, with positive feedback and comment received from both businesses and industry groups. Submissions on the best way to implement the proposed changes closed on 30 May 2016. Submitters believed the proposals addressed the key tax concerns for businesses, particularly the difficulties with provisional tax. One proposal that received overwhelming support was the proposed

accounting income method (AIM) to allow small businesses to pay provisional tax through their accounting software.

Consultation with New Zealanders about the policy and law changes needed to support and enable the future revenue system will continue, as shown in the diagram below. The Ministers of Finance and Revenue intend to release further discussion documents in the *Making Tax Simpler* series later this year focusing on:

- improving the tax system for individuals;
- further enhancements to the administrative framework; and
- further business tax reforms.

To be confirmed.

In addition, work has begun on scoping the law changes needed to support social policy, and will be informed by on-going discussions with Ministers, including problem definition and degree of ambition. New systems and processes for social policy will be implemented during Stage 3 of the programme. However, social policy outcomes will improve as a result of changes being introduced in earlier stages. More accurate and timely information about an individual's income and

circumstances will enable entitlements to be paid in a more accurate and timely way.

One of the main enablers of reform for Stage 2 is improving the collection of PAYE information. More accurate and timely PAYE information will improve outcomes for New Zealanders:

- Employers will be able to meet their tax obligations as part of their normal business processes – for example, meeting PAYE obligations at the time they pay wages or salaries.
- Inland Revenue will be able to use PAYE information more effectively to improve the accuracy of withholding and help prevent individuals getting into debt.
- Government will subsequently be able to redesign the social policies that Inland Revenue administers – for example, by introducing shorter periods of assessment to better match assistance to periods of need.

The legislative changes needed to support these outcomes will be included in a Bill to be introduced in September or October 2016.



These dates are indicative only. Dates of future discussion documents are to be agreed in consultation with Ministers.



# Preparing for the implementation of Stage 1

The benefits of Stage 1 are unchanged from the estimates included in the business case considered by Cabinet in November 2015. The technology enablers and commercial arrangements needed to support successful implementation are on track. This is confirmed by recent assurance reviews.

## *The benefits from Stage 1 have been confirmed.*

Stage 1 will deliver both financial and non-financial benefits:

- Financial benefits to the Crown from efficiency savings made by Inland Revenue of \$43 million - \$47 million between 2015/16 and 2023/24.
- Economic benefits from compliance cost savings of \$490 million - \$840 million between 2015/16 and 2023/24. Customers are expected to spend approximately 9 fewer hours on GST compliance in 2023/24, representing a reduction of 37% over the time currently spent on meeting their GST obligations.
- It will be easier for people to meet their GST obligations, improving voluntary compliance and making a significant contribution to Result 10.

The benefits profile for Stage 1 is shown in the appendix.

Benefit reporting will begin in 2017 following the implementation of Stage 1 and will be included in the interim and annual programme updates provided to Cabinet by July and December each year respectively

## *Inland Revenue is working with a range of public and private sector partners to advance Government's Business Growth Agenda and Better Public Services goals.*

Increasing integration with private and public business partners is a key feature of the future revenue system.

From mid-December 2015, Xero and MYOB customers trialled a new service enabling them to file their GST returns through their accounting software. Over 2,000 businesses did so, and feedback has been very positive. Of customers surveyed, 64% said it reduced their costs of compliance and 76% said it made it easier to ensure the information was correct.

The time saved was generally reported to be around 5 to 15 minutes, with a few customers saying it saved more time. *"I'm a sole trader and this reduced the time taken to file from about 10-15 minutes to about 30 seconds. In hourly terms, that's huge"* Survey respondents also emphasised the value of no longer needing to retype information and related this benefit directly to reduced costs of compliance. *"Huge cost saving if you take into account the old process was open to human error/typos."* Inland Revenue will make a digital GST submission service available to other software providers as part of Stage 1.

Plans to enable businesses to file PAYE information through their software from September 2016 will no longer proceed separately, as this functionality will be more effectively delivered as part of Stage 2. Most PAYE intermediary software providers would prefer to invest in the future by integrating into START, rather than into

FIRST initially and then into START. The format and filing frequency of the employer monthly schedule (EMS) will change significantly for Stage 2, which is currently scheduled to go-live in a series of releases throughout 2018 and 2019. As a result, this investment would have had a maximum useful life of between 16 to 28 months, hence the decision to more cost effectively implement this functionality as part of Stage 2.

Inland Revenue is working with the Ministry of Business, Innovation and Employment (MBIE) and the Department of Internal Affairs (DIA) to improve customer services. Once Stage 1 is implemented:

- Customers operating as incorporated entities will be able to identify themselves to Inland Revenue using their New Zealand Business Number (NZBN). To be able to recognise all businesses by their NZBN, Inland Revenue is dependent on MBIE as the lead agency to ensure all required enablers are in place.
- Inland Revenue will enhance existing capability to ensure incorporated entities can continue to be able to incorporate with the Companies Office, get an IRD number, register for GST and register as an employer as part of the same transaction. In addition, any subsequent updates to customers' details, such as the registered address of the company, will be automatically transmitted to Inland Revenue by MBIE.

- New immigrants will be able to digitally register for an IRD number once they enter New Zealand, re-using information they have provided as part of their visa application.
- Customers will be able to use RealMe as an option to access the Inland Revenue portal (myIR).

*Implementing a modern technology platform, with GST as the first step, is progressing well.*

New technology based around START is the major catalyst for modernisation of the revenue system. The development of START is on track, with an acceptable amount of standard configuration and minimal customisation required for the New Zealand environment.

Conversion of customer data from FIRST to START is underway to ensure that records are in the right place and that customers are recognised by both systems. This is a key area of focus as customer information will exist in both systems throughout the transition to START, and must be viewed as a whole to ensure that obligations are correctly calculated and payments correctly processed.

*Testing will be robust and extensive.*

Delivery of Stage 1 will involve large-scale integration of multiple systems and business partners. New processes and systems will be extensively tested over the latter half of 2016 and into early 2017 from a number of perspectives: including customer, integration, security, performance, and cut-over testing. Simulation testing will practice the go-live step by step, including the migration of data, and processes following go-live such as return filing.

Innovative approaches to testing will be adopted. FAST Enterprises LLC's (FAST) iterative methodology is an approach that allows wide and early engagement with stakeholders, with testing based around customer scenarios.

Inland Revenue is exploring ways to engage a representative number of customers to test and provide feedback on the usability and accessibility of services. Usability will test how easy services are to use, and accessibility will test that services can be correctly accessed regardless of technology or device.

Inland Revenue and Assurity, a New Zealand based testing partner, will work together to test services directly with delivery partners such as other government agencies and software providers.

Once underway, elements of testing will be continuous. Services will be tested and re-tested until Inland Revenue is confident that everything is working as it should, and can provide that assurance to stakeholders.

*Inland Revenue has adopted an innovative approach to addressing the challenges of co-existence.*

Both FIRST and START will need to be supported during the transition, and coexistence of business functions and technical capabilities is complex, and is a key programme risk.

Inland Revenue has adopted an innovative approach to addressing co-existence risks. The department has partnered with Accenture to help mitigate this risk as they can provide significant capacity, through their global network, in the critical coding resources required to make changes in FIRST. In addition to the New Zealand-based resources working on the programme, Accenture are providing resources in their delivery centre based in Manila. This centre provides Inland Revenue with the flexibility to scale work effort up and down as required, and the ability to take advantage of different time zones to expand the working day window.

Co-existence is not just about technology. Inland Revenue will also put in place a number of manual processes to help ensure that service levels are appropriately maintained and that any potential degradation in customer experience is carefully managed. This is the best value for money approach for ensuring that the impacts of co-existence on customers are minimised. The planned customer testing will confirm that systems and processes are working as expected and meeting customers' needs. Inland Revenue's intention is that customers do not experience any degradation of service quality during transition.



However as implementation is product based, some of the impacts of co-existence on customers cannot be mitigated. For example, once the enabling legislation has passed, the grace period relating to late payment penalties will be imposed differently depending on whether a product has been migrated to START or is still being administered in FIRST. A similar impact will also apply to the period a customer has to pay a re-assessment before late payment penalties are imposed, although this is an administrative rather than legislative change. For customers, Stage 1 will mean that late payment penalties for GST will be applied differently to those applied to other products.

*Stringent criteria will need to be met before a decision to go live is made.*

Inland Revenue is developing a comprehensive set of criteria to provide confidence that go-live will be successful. The criteria will include, for example, confirmation that:

- technical development and testing is complete, including functional, user, business process, system performance, security and customer testing;
- systems and processes are integrated and work as a whole across FIRST and START, and between Inland Revenue and third parties, such as banks and tax agents;
- all users have been trained and know what will happen and what to expect in the lead up to go-live and once START goes live;
- any changes affecting customers' systems and processes are known and understood, and appropriate proactive communications are in place;

- robust processes are in place to respond to any customer reaction, for example if a large number of calls were received;
- possible risks and issues have been identified and mitigations developed to address any which arise; and
- plans are in place to roll-back implementation in the unlikely event this is necessary.

Inland Revenue intends to share its approach to assessing business and customer readiness with the Ministers of Finance and Revenue, along with the plan to cutover to new systems and processes. The Ministers of Finance and Revenue will be provided with regular updates as the go-live date approaches.

Some legislative changes, for example commencement dates, need to align with the go-live date. At this point in time, nothing precludes this. However Inland Revenue is developing contingency plans to minimise any impacts in the event there is any misalignment.

*To supplement START, other investments are required to provide a modern, secure and reliable technology platform.*

In February 2016, Inland Revenue selected Revera, a subsidiary of Spark, to supply two new data centres and provide support to store and backup customer data, and keep it secure. Inland Revenue and the Government Chief Information Officer have worked together to ensure all-of-government as-a-service offerings meet requirements and can be leveraged. Relevant all-of-government services have been adopted to support the

new centres, which will be fully in place from September 2016.

The new centres will provide Inland Revenue with greater flexibility to scale up and down more quickly as needs change, modern security features, and with much greater back up in the event of an emergency. The current data centres that support FIRST will continue to operate alongside the new centres until 2021, as FIRST and START will co-exist until then.

*The analytical capabilities of START are being assessed prior to any further investment decisions being made.*

One of changes Inland Revenue needs to make to administer a modern revenue system is to make more intelligent use of information. As a first step, the capability of START to screen GST refunds in a more timely way is being explored. GST refunds are currently screened in a separate system to minimise the risk of incorrect or fraudulent refunds being given to customers. Should screening in START prove possible, the time it takes for customers who are entitled to a refund to receive it should be reduced.

Cabinet has agreed to Inland Revenue implementing the Automatic Exchange of Information (AEOI)<sup>2</sup> project. AEOI is an addition to programme scope and will be implemented in START during Stages 2 and 3. START will

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<sup>2</sup>AEOI will enable the discovery of formerly undetected tax evasion. It provides for the exchange of non-resident financial account information with the tax authorities in the account holders' country of residence. Participating jurisdictions that implement AEOI send and receive pre-agreed information each year, without having to send a specific request.

need to be configured to support the capability required, and there will be a need for on-going engagement with stakeholders to refine requirements.

#### *The commercial arrangements needed to support Stage 1 are in place.*

Following Cabinet's agreement to invest in implementation, the Commissioner has entered into long-term commercial arrangements with FAST, Accenture, and Spark and their subsidiary Revera. Both FAST and Accenture have recruited locally to supplement the international skills they have assigned to the programme. Statements of Work (SoW) were agreed in April 2016 between Inland Revenue and:

- FAST for implementation of all four stages of the programme until 2021. The SoW includes the software licence and software maintenance services such as upgrades and defect support. Termination provisions provide flexibility should circumstances or priorities change.
- Accenture for services to make the changes needed to heritage systems to support co-existence.
- Spark and their subsidiary Revera for new data centres and services.

In addition, Inland Revenue has selected Deloitte as the preferred supplier of an identity and access management solution. Contract negotiations are underway and are expected to be completed by July 2016.

Unisys is an existing supplier to Inland Revenue and provides services critical to supporting migration and co-

existence, such as the transfer of data between FIRST and START.

As at the end of April 2016, 89 supplier agreements have been entered into. Of these, just under a fifth were with small and medium enterprises (SMEs), defined as having 19 or fewer employees. This percentage is expected to vary during each stage of the programme to reflect changing resource demands. There is an approximately even split between agreements with New-Zealand based organisations and organisations with global operations.

Partners are critical to the successful implementation of Stage 1 and the overall programme. Accordingly, partner management continues to be a key area of focus and is a strength of the programme. The February 2016 Gateway 3 review noted *"The one team ethos continues with all delivery partners contributing in a positive manner."*

Further procurement activity is underway, consistent with the Government Rules of Sourcing, to select other products and services required for implementation.

In April 2016, Inland Revenue short-listed three potential partners for an information and knowledge management solution, including enterprise search. This procurement process is still in progress.

By July 2016, Inland Revenue will issue a closed request for proposal (RFP) to the all-of-government panel for workplace technology-as-a-service. Inland Revenue is also working with its network provider, Vodafone, to migrate from the current agreement to the all-of-government telecommunications-as-a-service agreement. Together with the adoption of

infrastructure-as-a-service for the new data centres, this demonstrates Inland Revenue's commitment to using all-of-government services where they are available, support the business outcomes of the revenue system and Inland Revenue, and are cost effective.

In their latest review KPMG, Inland Revenue's independent quality assurance (IQA) provider, noted *"The work undertaken since our last review in relation to common capability and ICT procurement is noteworthy in demonstrating good coordination and cooperation between agencies."*

Inland Revenue has been sharing lessons learnt regarding its approach to partner management with the Treasury, the Accident Compensation Corporation (ACC) and Land Information New Zealand (LINZ). In addition, at the request of the Department of Internal Affairs (DIA), Inland Revenue has shared its approach to common capabilities with the Earthquake Commission (EQC), the Department of Corrections and ACC.

#### *Recent assurance reviews have concluded that the programme is well positioned to successfully deliver Stage 1.*

Two independent assurance reviews have been undertaken during 2016 to date and are summarised below.

KPMG undertook a fourth IQA and third technical quality assurance (TQA) review in January and February 2016. KPMG's key finding was that *"...the Programme continues to be well controlled and is working towards both its short and long term goals."* Both the Ministers of



Finance and Revenue have been provided with opportunities to meet with KPMG to discuss their findings, and this practice will continue.

KPMG's UK practice also provided a high level comparison of Inland Revenue's transformation programme with other large scale national government transformation programmes they have been involved in globally from an assurance perspective. KPMG concluded that *"In summary our analysis shows that the BT is a strongly performing programme – outperforming comparator programmes."*

The comparison collated the percentage of findings against each of the assessment criteria (red, amber, yellow and green). To date, Inland Revenue has received no red assessments, versus an average of 8% in comparator programmes. KPMG state that this places *"BT firmly in the upper quartile against the comparators."*

Inland Revenue has received a total of 5% amber assessments, against 46% for amber and red assessments combined for comparator programmes. KPMG state that *"This places the BT in the top decile of the programmes in the comparison."*

The February 2016 Gateway review team found that *"... Stage 1 implementation appears to be in good shape for successful delivery"* and noted that *"Preparations for the implementation of GST end-to-end appear well in hand and there is every expectation that go-live should be achieved as planned."*

Further assurance reviews assessing Inland Revenue's readiness to implement Stage 1 are planned later in 2016:

- In June / July 2016, Audit New Zealand will review procurement practices, and systems, processes and controls regarding the allocation of expenditure;
- In June / July 2016, KPMG will undertake a review assessing the strategy, approach and plans for testing and for data preparation and conversion;
- In September 2016, a blended Gateway 0/4 review will be undertaken; and
- In October / November 2016, a fifth IQA and fourth TQA will be undertaken by KPMG.

In addition to external assurance reviews, Inland Revenue also has independent members sitting on the key governance forums for the programme. The Investment Board has one independent member, and the Portfolio Governance Authority has three independent members.

The Risk and Assurance Committee provides independent advice to the Commissioner.

#### *Planning for Stage 2 is underway.*

Stage 2 will focus on all other tax products and will be significantly bigger in scope and complexity, hence the need to begin planning and mobilising for this stage in parallel with progressing Stage 1. Given the scale of the changes that will be made to systems and processes by Inland Revenue, business partners and customers, Stage 2 is likely to be implemented in a series of releases throughout 2018 and 2019.

Inland Revenue has been engaging with a number of government agencies and larger businesses in preparation for Stage 1. This customer group have indicated that their primary focus will be on Stage 2, as they derive most benefit from these changes, in particular when PAYE is migrated to START.

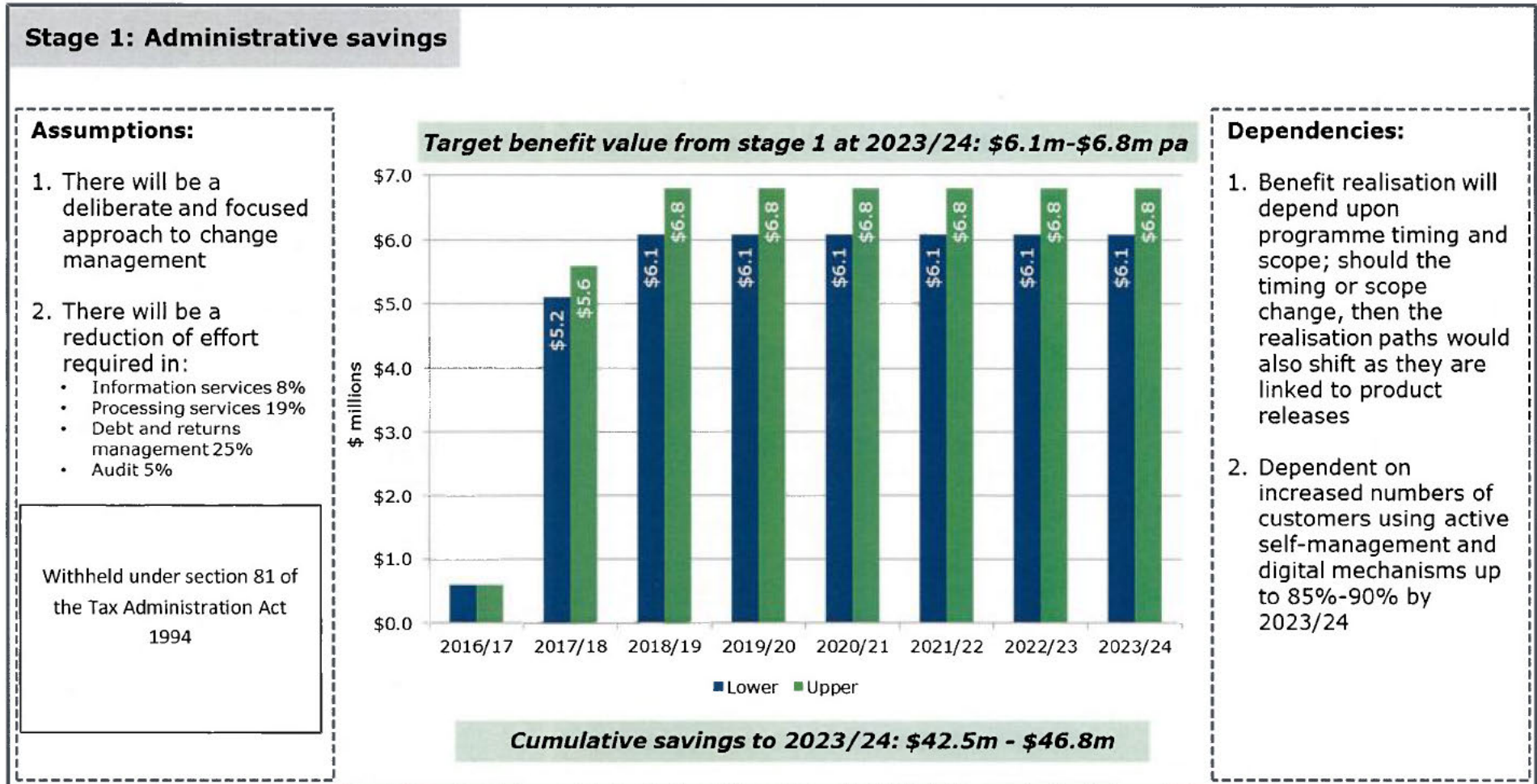
The annual programme update will be presented to Cabinet for consideration by December 2016 to agree the high-level scope and note the estimated costs and benefits of Stage 2.

The transformation programme combined with the implementation of Budget 2016 measures and other initiatives such as base erosion and profit shifting, will mean a significant volume of change for customers, staff and other stakeholders. As a result, Inland Revenue envisages that re-prioritisation will be required should further initiatives be added to the work programme.

Provided there is sufficient lead time, re-prioritisation arising from additions to scope or changes to sequencing can be accommodated, although there may be some consequential implications for costs, benefits, risks and timeframes. Budget 2016 measures and AEOI were carefully considered by Inland Revenue to ensure there were no significant impacts on the programme before direction was sought from Ministers.

# Appendix: Stage 1 benefit profiles

The benefit profile for the administrative savings resulting from Stage 1 is shown in the diagram below.





The benefit profile for the compliance cost savings resulting from Stage 1 is shown in the diagram below.

