



Budget 2017

Four-year Plan

Covering Vote Revenue



November 2016

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Introduction

Introduction

This is a time of great change, challenge and opportunity for Inland Revenue. We are on our way to achieving our vision of being a world-class revenue organisation recognised for service and excellence.

We want to make it easy for our customers to interact with us and to pay and receive the right amount. We also want to continue to meet the changing expectations of government and society.

Where we are going

We are transforming how we work and deliver services to our customers, which involves changes for our people, policies, processes and platforms.

We will simplify how services are delivered by changing how customers interact with the revenue system and by simplifying policies. As a truly customer-centric organisation, we will put our customers at the centre of everything we do and help them to get it right from the start.

We will become increasingly intelligence-led, making better use of information to generate insights, increase our understanding of our customers and inform our decisions.

By the end of our transformation in 2021, we will be administering a modern, digital revenue system with our public- and private-sector partners. We will be more agile, effective and efficient, and we will be able to make timely policy changes for Government.

How we are going to get there

Part 1 of our Four-year Plan explains that we are working in a changing operating environment and fundamentally transforming without losing sight of what we are here for—to contribute to the economic and social wellbeing of New Zealanders through collecting and distributing money.

Transforming our revenue system and ways of working and delivering the Tax Policy Work Programme will ensure we contribute to Government priorities of building a more competitive and productive economy, responsibly managing Government finances, and delivering better public services.

Our recently refreshed strategic direction, *IR for the future*, guides us and helps us stay focused on our purpose, what we want to achieve, and what is important to us in how we work.

***IR for the future* includes our corporate strategy. The six strands of this strategy set out our long-term ambitions and provide us with overall direction as we transform.**

Our multi-year Business Transformation programme, supported by our Tax Policy Work Programme, is a key enabler of our corporate strategy.

Our Performance Measurement Framework and our outcome and impact measures show our shift in focus from outputs—what we produce or provide—to what we want to achieve.

In Part 2 we start by summarising how we will achieve our plans: through undergoing a wide-ranging, large-scale transformation, with our Business Transformation programme as a key enabler. We then discuss our plans under four important themes: 'Making it easier for customers', 'Providing policy advice to the Government', 'Protecting New Zealand's revenue', and 'Managing ourselves well'.

There is significant connection between these themes. For example, we discuss our customer-centric approach under the theme 'Making it easier for customers', but customer-centricity is also important to providing good policy advice, protecting revenue, and managing ourselves well. Similarly, we discuss our approach to external collaboration under the theme 'Managing ourselves well', but effective collaboration will also help us to make it easier for customers, provide good policy advice, and protect revenue.

This inter-connection reflects today's complex and ambitious public-sector environment, where we are all working together to enable an efficient, effective and relevant government–citizen relationship for a better New Zealand.

A key enabler: Our Business Transformation programme

The Business Transformation programme roadmap (see p. 22) has four stages, running from 2016 to 2021:



Stage 1, which started in January 2016, focuses on implementing GST in our new START software. START stands for Simplified Tax and Revenue Technology, and is the name we have chosen for the GenTax software provided by FAST Enterprises.

This stage also involves progressing a number of digital initiatives, putting technology enablers in place, preparing our customers and our people for change, and designing our future organisation.

When Stage 1 is complete, most customers will self-manage and use digital services, and businesses will find it easier to meet their GST obligations.

We are working on the design of Stage 2, which will focus on all other tax products and will be significantly bigger in scope and complexity than Stage 1. Stage 2 will allow more accurate and timely calculation of customers' tax obligations and help give customers confidence that they have met those obligations.

In March 2017, we will ask Cabinet to confirm the scope of Stage 2 and its estimated costs and benefits. We will be able to provide more detail on the impacts of Stage 2 for our customers, for us, and for other agencies in early 2017, and we will be able to give an update on the implementation of Stage 1.

Stage 3 will deliver digital, streamlined social policy processes that give customers confidence they are receiving accurate and timely entitlements. At the end of Stage 4, the revenue system will be flexible, resilient and cost-effective.

As with all large-scale transformation programmes, ours is inherently high risk. We have robust processes in place for managing risks.

Throughout our Business Transformation programme, we will update Cabinet regularly, report on our milestones, engage with customers and other stakeholders, consult widely and release timely information.

Making it easier for our customers

Over the coming four years, we will continue to make progress on our strategic objectives of reducing customer compliance costs and growing voluntary compliance by making it easier for people to get it right. Guided by our corporate strategy and enabled through transformation, we will be putting the customer at the centre of everything we do.

Becoming increasingly customer-centric involves understanding our customers and how they interact with the revenue system. It also involves collaborating with customers and other stakeholders to design a revenue system that makes it easier to get things right.

We will anticipate and proactively support the key events in customers' lives, using processes and services that fit with their lives rather than with our internal requirements.

Our 'right from the start' approach means supporting our customers upfront, before issues arise, rather than responding to non-compliance after it happens. To support this approach, we will develop a greater understanding of our customers' lives, needs, perspectives, and behaviours.

As we become more intelligence-led over the next four years, the quality, timeliness and accuracy of the information we collect will improve, and we will identify more opportunities to share information. This will help us to target resources to the areas that provide the best value to customers and government. Using customer insights will help us to continuously improve our activities and design the right customer experiences.

We will keep involving customers and other stakeholders in our transformation, using a range of channels. This will help to maintain their trust and confidence in us, encourage understanding of changes, and support better-informed decisions.

Providing policy advice to the Government

There is high public support for New Zealand's general tax structure, with its broad-base, low-rate tax settings. A coherent, consistent and simple tax system makes getting it right easier and less costly for customers. However, it is impossible to maintain a good tax system through a set of static rules. Legislation needs to be changed and refined as new situations, behaviours and concerns emerge.

The tax system is one of the biggest regulatory interventions in the economy. It is critical that it operates effectively and stakeholders are well informed about changes. Our regulatory stewardship goal is to have regulatory systems that are well designed,

well understood, well operated and fit for purpose. We will continue to achieve this through the Tax Policy Work Programme.

We will frame and support our transformation by simplifying and modernising policy and legislative settings.

Protecting New Zealand’s revenue

Protecting the integrity of the tax system and New Zealand’s revenue underpins everything we do. We will continue to assess risks to compliance, make it easier for our customers to get it right, and apply international best practice.

We will continue to be involved in international solutions to protect revenue, including the global Automatic Exchange of Information initiative, and to consider measures to address the issue of base erosion and profit shifting.

We will also keep building on our success in protecting New Zealand’s revenue in the areas of property tax compliance, complex technical issues, the hidden economy and fraud, unfiled returns and overdue debt, child support compliance and student loan debt.

Managing ourselves well

To ensure we keep meeting customer and Government expectations and maximise our efficiency and effectiveness, we will be transforming our technological and analytical capabilities through implementing START and realising the opportunities new technology provides. We are also building on our culture of continuous improvement to help us deliver service and excellence for our customers.

Throughout our transformation, we will keep working with others (public, private and not for profit) to create value and better outcomes—for customers, government, New Zealand, and ourselves.

We will also work to continuously improve our risk management practices to ensure they fit our changing environment.

Throughout this time of change, our governance system will keep us on track and oversee our performance and progress against our corporate strategy.

Aligning with the Direction and Priorities for System Stewardship

We know that a connected, collaborative public sector can better serve New Zealanders’ needs. The *Direction and Priorities for System Stewardship*, agreed by Chief Executives in March 2016, sets out a vision for joined-up services that put the current and future needs and wellbeing of New Zealanders at the heart of the operation of the state sector. This vision is reflected in our corporate strategy.

We are working to achieve the *Direction and Priorities for System Stewardship* vision in many ways, including:

- listening to and understanding our customers so that we can design, and transform, our services around their needs
- starting to take a customer-centred 'results' or 'outcomes' approach
- treating the information we hold as a strategic asset that can be shared to benefit government and society, while retaining customer confidence in our ability to protect their privacy
- implementing our Business Transformation programme
- working with Better Public Services results leads and contributing to the Better Public Services results
- contributing to the delivery of the Government ICT Strategy
- working with functional leads and heads of profession
- building leadership capability.

Our people: The basis of our success

Part 3 of this Four-year Plan explains that as we transform, there will be changes to how we organise ourselves and the capabilities we need. In the future, we will be a smaller organisation working in partnerships and alliances across government and the private sector. The workforce will be more knowledge-based, supported by greater analytical capability. The people strand of our corporate strategy and our organisation design blueprint will guide how we manage and transform our organisational capability and workforce over the coming years.

We have identified the seven organisational capabilities we will need in the future and expect to have completed the detailed design of the first three of these by April 2017. We have also identified 12 people capabilities for uplift and developed plans for the activities that will achieve this uplift. We have created a People Transition Hub to coordinate and facilitate transition.

Our transformation will mean significant change for our people over the coming years. We are working to ensure that we equip our people with the right capabilities and that we have mechanisms and processes in place to support them through these changes. This includes an extensive communications and engagement process with our people and our unions.

We are building an organisational culture that will help us achieve our strategic intentions, deliver results and encourage high levels of employee engagement. Our people leadership strategy is supporting and developing our leaders so that they can lead the change in our culture through transformation. We are also continuing to look for ways to better understand and respond to the diversity of our people and customers.

Taking a holistic approach to our finances

How we manage and use our funding will continue to be a key factor in our success. We will take a holistic and transparent approach, applying our funding to achieve outcomes and deliver quality services to our customers while supporting transformation.

We recognise that managing ourselves well requires us to take an integrated view of:

- our sources of funding
- our uses of funding
- our benefit management approach
- the financial impact of our transformation

We are facing financial pressure in coming years, with a forecast deficit driven by our remuneration cost pressure. We also face a number of fiscal challenges over the next four years, including making a 40–50% contribution towards the programme cost of Business Transformation, realising transformation-related administrative savings, and managing a significant reduction in time-limited funding.

Within the parameters of this Four-year Plan, we are confident in our ability to manage our financial position and to achieve the savings required to remain within baseline. Continuing to maintain visibility of all aspects of our funding and track realisation of savings will be crucial.

We will continue to monitor our out-year financial position and ensure that we take a sustainable view of both current and future needs through this time of change.

We recognise that Four-year Plans have a wide audience, and we have included a glossary at the end of this Plan to help readers with unfamiliar terms.

Part 1

Our story

What we are here for

Inland Revenue plays a critical role in improving the economic and social wellbeing of New Zealanders by collecting and distributing money. We collect over 80% of the Crown's revenue, and we collect and distribute social support payments. We also provide tax and social policy advice to the Government.



In the 2015–16 financial year, we collected \$64.3 billion in revenue to help fund government programmes.

At all times, we need to make sure we are protecting the integrity of the tax system. This includes our customers':

- trust in us
- rights to confidentiality
- rights to have their tax determined fairly, impartially and according to the law
- responsibilities to comply with the law.

We have a wide range of customers, including employees, employers, the self-employed, companies, parents, students, shoppers, savers and investors. We want to make it easy for our customers to interact with us and to pay and receive the right amount. We also want to continue to meet the changing expectations of government and society.

For the tax year ended March 2015:



Individuals—over 3.6 million people paid PAYE or filed a personal tax return.



Employers—nearly 200,000 employers filed almost 2.1 million employer monthly schedules with PAYE deductions for employees.



Companies—382,000 company tax returns were filed.



GST filers—631,000 registered customers filed over 3 million GST returns.

For the 2015–16 financial year:



Working for Families Tax Credits—with the Ministry of Social Development, we distributed \$2.4 billion in entitlements to support working families.



Child support—we collected \$474 million from 170,000 liable parents who pay child support and distributed \$280 million to carers. The balance is retained by the Government to help offset the cost of sole-parent benefits.



KiwiSaver—we administer the scheme by collecting contributions and transferring them to scheme providers for investment. We transferred \$5 billion to scheme providers. At 30 June 2016 there were 2.6 million people enrolled in KiwiSaver.



Student loans—we jointly administer this programme with the Ministries of Education and Social Development (StudyLink). We had 730,000 student loan borrowers and collected \$1.2 billion in repayments.



Paid parental leave—we make payments, for the Ministry of Business, Innovation and Employment, to parents who take leave from their job or business to care for a baby. We made \$217 million in payments to 26,300 parents.

Our operating environment

To set our strategic direction, we need to understand our operating environment and explore how it could change in future. We are continually evaluating our environment to identify existing and emerging trends, risks and opportunities. This allows us to be ready to respond, ensuring sustainable and successful delivery of our services and the achievement of our vision and mission.

The New Zealand public-sector operating environment is moving from uniformity to diversity, from stability to volatility, and from clear to permeable boundaries. Against this backdrop, we must continue to maintain the integrity of the tax system as our population, and therefore our customer base, becomes more diverse, digitally connected and mobile.

The reconstruction of Canterbury and our increasing trade and investment relationships with Asia, the fastest-growing region in the world, are important contributors to projected economic growth. Equally, economic disruption in these economies or another domestic natural disaster could have knock-on effects on tax revenue.

Like all developed countries, New Zealand needs to respond to domestic and international risks to our revenue base, as well as to wider change drivers such as technology-driven change and volatility in the global economy. For example:

- changes to jobs from the introduction of technology and from movement of work between countries
- challenges in tracking income, arising from global ways of working, alternative currencies and increases in peer-to-peer interactions
- economic changes from shifts in economic power, conflict, and interdependencies between national economies.

The increasing complexity of global business means that we need to be actively involved in international solutions to protect revenue and promote visibility for the global flow of capital. An example is our participation in the work led by the Organisation for Economic Cooperation and Development on tax base erosion and profit shifting by multinationals.

We are also continuing to strengthen our collaboration with overseas revenue agencies, including the Australian Taxation Office and Her Majesty's Revenue and Customs in the United Kingdom. We exchange strategic insights on emerging trends and critical uncertainties in the wider tax operating environment for mutual benefit.

We need to keep pace with rapid technology changes, the expectations of our customers, and their increasing digital literacy and access to mobile devices. To do this we will enable customers to manage their own affairs in a more cost-effective way through digital channels. The make-up of New Zealand's population is changing, with increasing numbers of migrants who have different service needs. Our ageing population will also have economic costs and will affect potential revenue. We continually seek to understand these population changes and develop the capabilities, skills and organisational culture required to meet changing customer needs.

We recognise that we hold a large amount of information and that this is an important asset that can help improve the delivery of services to New Zealanders and public-sector performance. We are enhancing our use of information, and we are improving the way it is managed, analysed and used to develop intelligence. This will help us and other government agencies to understand our customers better, make evidence-based management and policy decisions, and use our resources more effectively. We continue to work closely with other government agencies and the private sector to link our systems and deliver seamless customer services.

We will gather and share the right information at the right time and in the right way so that customers only need to provide government with their information once and government is better enabled to achieve cross-agency outcomes. Our challenge is to balance this against protecting customer privacy, commercial sensitivity and the integrity of the tax system.

As we plan for the next four years and beyond, we have identified challenges that we will need to monitor so that we can build a sustainable organisation that is well positioned to respond to changes in our environment and Government priorities. We will do this by:

- challenging our assumptions about the future, and building our capability to scan for, identify and assess emerging trends
- understanding our operating environment better and applying insights about possible future scenarios to anticipate change and make better decisions today
- building our agility, including the ability to quickly shift resources and develop policy responses
- building better connections between our future thinking, decision-making, planning, policy design and implementation and risk-assessment processes
- rethinking how we collaborate with other government agencies, overseas revenue agencies, the private sector, customers and stakeholders so that we can build and maintain relationships that support a new way of working
- fundamentally transforming our business to become a modern, world-class revenue organisation.



What's changing globally and in NZ?



What's going to happen to our world in the future?



We can't predict the future, but we can understand what's possible.

In the last two decades **powerful drivers** have been shifting the global environment

POPULATION GROWTH

The global population will grow to 8 billion by 2026 & 9 billion by 2042 ...increasing competition for food, water, energy, land in many areas. Is there an opportunity for NZ to supply some of those needs?

DEMOGRAPHIC TRANSITION

Most developed countries have ageing populations. In New Zealand this means there will be an **affordability challenge**. Currently there are 5 people in the NZ workforce for every person over 65. In 2050 there will be 2.5 to every 1.

POWER SHIFT

There is a global economic and power shift from west to east... this creates new markets closer to New Zealand (opportunity) but also the **risk** of increased conflict

CLIMATE CHANGE

Disruption to people and food supply through drought, flood, increase in pests and disease. **Infrastructure costs** from extreme weather events. Opportunities for **new energy sources**.

URBANISATION

By 2030 there will be 41+ megacities of 10 MILLION+. Megacities increasingly drive global economies. NZ's total population is less than half the population of 1 megacity. The Auckland-Hamilton-Tauranga area has more than half of NZ's total population, but this is equivalent to one quarter of one megacity.

MATURING DIGITAL ECOSYSTEM

Cloud, social networks, mobile, big data have created a maturing digital ecosystem. This is transforming every other sector. Work can be done anywhere. More professions will be automated.

EMPOWERED INDIVIDUALS

The digital world has produced empowered citizens connecting directly with each other instead of through institutions. They are using new forms of exchange such as bitcoin.

DISRUPTIVE TECHNOLOGY

Technology will keep changing the game in ALL INDUSTRIES. 3D printing is disrupting manufacturing. Drones may deliver goods instead of drivers. We've made lab-grown meat.



Our strategic direction: IR for the future

The main components of *IR for the future* are given on the next page. The poster version below is available at www.ird.govt.nz/aboutir/reports/business-plan/irftf-2016/.

IR for the future
Te Pae Tawhiti

OUR PURPOSE

Our mission and vision guide our direction.

- Right from the start compliance approach
- Clear and calm of conduct
- Treaty of Waitangi responsiveness.

We're also guided by our:

- Integrity
- Digital from the start compliance approach
- Charter and code of conduct
- Treaty of Waitangi responsiveness.

OUR MISSION

What we are here for

We contribute to the economic and social wellbeing of New Zealand by collecting and distributing money.

We achieve our mission when we deliver our outcomes:

- Revenue is available to fund government programmes, through people meeting payment obligations of their own accord
- People make payments they are entitled to, enabling them to participate in society
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment.

OUR VISION

What we want to be

A world-class revenue organisation recognised for service and excellence.

As a world class revenue organisation we will deliver our outcomes and live our culture and values.

OUR STRATEGIC FOCUS

The strategic objectives are the key areas we've chosen to focus on to achieve our mission, vision and outcomes. The revenue strategy provides more information about what we'll do over time and how we'll do it.

Our Business Transformation programme is a critical part of working towards our strategic objectives and corporate strategy.

OUR STRATEGIC OBJECTIVES

What we want to achieve

- Grow voluntary compliance by making it easier for people to get it right
- Reduce customer compliance costs
- Make government policy changes faster and more cost effectively

OUR CORPORATE STRATEGY

Inland Revenue creates value and better outcomes for New Zealanders through successfully implementing our strategy.

The strategy has six strands:

- **Customer** - Putting the Customer at the centre of everything we do.
- **People** - Working as part of IR's unique working, learning and career enhancing.
- **Operational Collaboration** - We work with external partners to increase government efficiency and social outcomes.
- **Information and Intelligence** - Our decisions and actions change our future - and our customers' too.
- **Policy Agility** - Policy change is faster, cheaper, and easier for a changing world.
- **Digital** - We fully embrace our place in the digital connected world.

OUR BUSINESS TRANSFORMATION

We're making it simpler, more open and certain for New Zealanders to pay their taxes and receive their entitlements.

OURSELVES

Our culture is what makes us IR. It dictates how we work together - our beliefs, values and ways of behaving. This culture is the foundation for everything we do: our relationships, our work with customers, the decisions we make and the actions we take.

OUR CULTURE

What's important to us in how we work

- **Customer centric** - Together we understand the needs influence on each customer, and decide how we will work with them to get the best outcomes for New Zealand.
- **Intelligence led** - We consistently make good decisions based on quality information and analysis. We continually learn and learn to know what the best approach will be.
- **Agile** - We work in pace, pulling together the right people to make good decisions quickly focusing on the things that matter most.

OUR VALUES

These values underpin the culture that will enable IR to be customer centric, intelligence led, and agile.

- **Great and energetic** - We all work together, business and professionals.
- **Innovating to make a difference** - We keep finding new ways to fit our performance and compliance roles.
- **Working together** - We work together and with our organisations to deliver better services and value.
- **Working together** - We work together and with our organisations to deliver better services and value.

IR for the future

Our mission: What we are here for

We contribute to the economic and social wellbeing of New Zealand by collecting and distributing money

Our vision: What we want to be

A world-class revenue organisation recognised for service and excellence

Our strategic objectives: What we want to achieve

- Grow voluntary compliance by making it easier for people to get it right
- Reduce customer compliance costs
- Make government policy changes faster and more cost-effectively

Our strategic objectives are the key areas we've chosen to focus on to achieve our mission, vision and outcomes.

Our **corporate strategy** shown on the next page provides more information about what we'll do over time and how we'll do it.

Our Business Transformation programme is a critical part of working towards our strategic objectives and corporate strategy.

Our outcomes

- Revenue is available to fund government programmes through people meeting payment obligations of their own accord
- People receive payments they are entitled to, enabling them to participate in society
- New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment

We achieve our mission when we deliver our outcomes.

What's important to us in how we work

Our culture

- **Customer-centric:** Together we understand the many influences on each customer, and decide how we will work with them to get the best outcomes for New Zealand.
- **Intelligence-led:** We're confident we make good decisions based on quality information and analysis. We continually test and learn to know what the best approaches will be.
- **Agile:** We work at pace, pulling together the right people to make good decisions quickly, focusing on the things that matter most.

Our values

- **Trust and integrity:** We act with integrity, honesty and professionalism.
- **Innovating to make a difference:** We keep finding new ways to lift our performance and make compliance easier.
- **Valuing people:** We treat each other and our customers with respect.
- **Working together:** We work together and with other organisations to deliver better services and value.

Our corporate strategy

Our corporate strategy is part of *IR for the future*. It is made up of six interconnected strands that set out our long-term ambitions and provide us with overall direction as we transform. The ambitions for each strand are summarised below.



Customer: Putting the customer at the centre of everything we do

- We anticipate and proactively support key events in our customers' lives at the right time.
- We use customer insights to inform activities.
- Our services are seamless, and tax and social policy are integrated into customers' lives.
- We partner with others to deliver service excellence to customers—from policy design, to education, to audit.
- We make it easy for customers to get it right and we reduce compliance costs and effort.



People: Working as part of Inland Revenue is unique, exciting, fulfilling and career-enhancing

- We value individuals and diversity of thought and capability.
- We find, develop and deploy people on the basis of their capabilities, which are a mix of skills, knowledge, experience and attitudes.
- We design roles to be adaptable, interesting and empowering.
- We recognise and measure performance through behaviours and individual and team contribution to outcomes.
- We work with other organisations to develop fulfilling career journeys in, through and beyond Inland Revenue.



Digital: We fully embrace our place in the digitally connected world

- As part of the digital world, we make it easy to collaborate with customers, agencies and others.
- Our culture and flexible systems mean we design and make changes quickly.
- Our customers can easily access secure digital services anywhere, any time.
- We use the digital environment to help generate actionable insights.
- We encourage, empower and upskill our people to make best use of digital ways of working.
- We strategically manage digital opportunities and disruptions.



External collaboration: We work with external parties to innovate, gain insight, and achieve wider government economic and social outcomes

- We will build internal capability as part of our capability uplift, which also supports external collaboration.
- We co-create efficient and effective services, adapting our business model where appropriate.
- Collectively we leverage our information assets and expertise to create mutual benefits.
- We share information and resources using appropriate safeguards.



Policy agility: Policy change is faster, cheaper and better—fit for a changing world

- Our policy design is proactive, coherent and integrated, from idea generation and advice, through to implementation.
- We implement policy decisions speedily and smoothly.
- We deliver high quality advice that is future focused, realistic about the impacts and based on good information and analysis.
- We are a trusted and credible voice that shapes and delivers government and system outcomes.
- We use innovative, flexible and creative practices to design policy, supported by strong economic frameworks and broad consultation.



Information and intelligence: Our decisions and actions—for delivering today and shaping our future—are intelligence-led

- We understand information we collect and the insight and intelligence we generate through the knowledge and experiences of our people is a strategic asset that needs to be managed and shared appropriately.
- We use information and insights to create actionable intelligence.
- Intelligence drives our strategic and tactical decision-making, including knowing where and when to direct resources to realise value for customers, Inland Revenue, and the Government.

The strands of our corporate strategy provide high-level information about how we will achieve our strategic objectives, outcomes and impacts. A range of underlying functional strategies provide more detail on planned activity.

Our multi-year Business Transformation programme, described in more detail on pp. 21–23, is a key enabler of our corporate strategy.

Understanding our performance

Our Performance Measurement Framework

Our recent changes to our Performance Measurement Framework (see the next page) show our shift in focus from outputs—what we produce or provide—to the outcomes and impacts we want to achieve.

The Framework shows the connections between what we are aiming to achieve, what we are doing to achieve this, and how we are working toward wider outcomes. Three perspectives are used—that of the customer, as the consumer of our services, that of the Government, as the investor, and that of ourselves, as the stewards of our performance and of the tax system.

We recently introduced a new outcome to our Performance Measurement Framework, to show how we are contributing to broader outcomes for New Zealanders through collaborating externally with the public and private sector.

Underpinning the whole framework is our commitment to protect the integrity of the tax system.

Our evolving measures

Our Performance Measurement Framework, our transformation, and our greater focus on outcomes and impacts have implications for how we measure our performance.

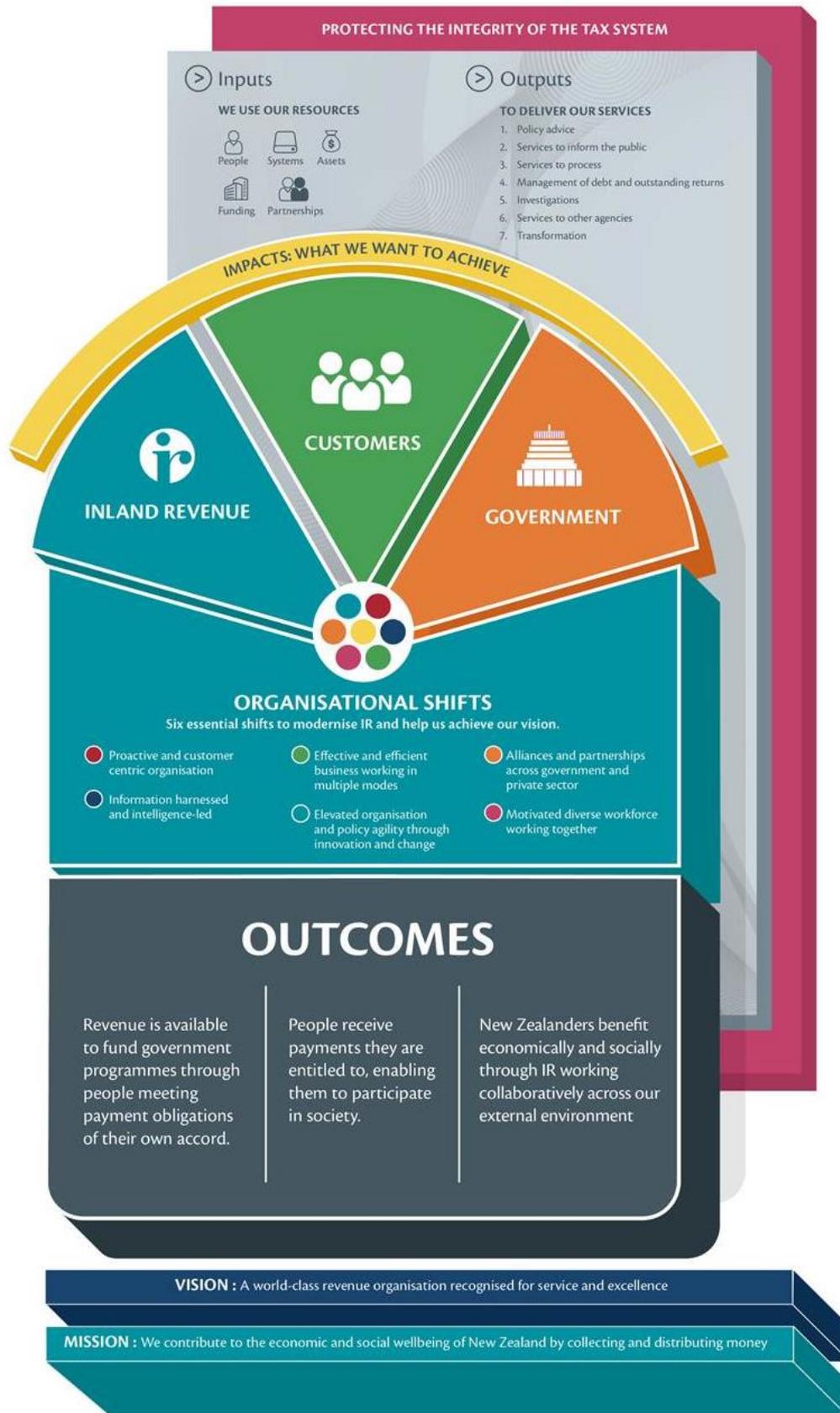
We have developed outcome and impact measures that align with our strategic direction. The tables in Appendix 1 show our primary outcome and impact measures, which our Annual Report for 2016–17 will report on. We also have a set of secondary measures that we use for internal management.

We are using our outcome and impact measures to track progress towards successfully implementing our corporate strategy. We are working to further refine measures and milestones for the corporate strategy, and the updated Four-year Plan that we will submit in May 2017 will give a clearer view of how progress towards the intentions set out in the corporate strategy will be measured and tracked over time.

We continue to develop measures for reporting in 2017–18. This work may include recommendations for changes to our appropriations to align with our organisational transformation, as discussed in more detail on p. 47.

We made some changes to our output measures for 2016–17 to make them more representative of what we want to achieve with the funding in each appropriation rather than what we are doing with the funding. We introduced nine new output measures, and some measures that were previously included in the Vote Revenue Estimates of Appropriations became internally monitored management information. The 2016–17 Estimates of Appropriations are available at www.treasury.govt.nz/budget/2016/estimates/.

Our Performance Measurement Framework



Reporting on our performance

We report regularly on our activities and initiatives to our Strategic Governance, Business Performance and Investment Boards, to the Minister of Revenue, and to other external stakeholders.

We are continuing to improve the quality and timeliness of our performance information. To ensure visibility, our performance is displayed on our Business Performance Measures wall in Wellington, which can be visited by staff and interested external parties. To meet our leaders' needs for easy, digital access to performance information, we are working to provide this information through our intranet.

Monthly reports to our senior leaders provide an overview of our financial and non-financial performance to allow monitoring throughout the year.

Reporting on our Business Transformation programme

Given the scale and significance of our Business Transformation programme, we provide monthly reports to the Ministers of Finance and Revenue and six-monthly progress updates to Cabinet. These updates are the key way that we report our progress in realising agreed benefits and seek Ministers' agreement to any material changes to scope, sequencing, timings, costs, benefits, risks and impacts on customers. All of these updates are published on our website.

For 2016–17, six milestone measures specific to the Business Transformation programme (see the table below) are included in the Estimates of Appropriations at www.treasury.govt.nz/budget/2016/estimates/. These will be reported on in our Annual Report.

Target	2016–17 milestone
By 30 April 2017	<ul style="list-style-type: none">• GST end-to-end processes implemented in the new computer system (START)• Deliver new functionality to allow customers (or their agents) to self-manage their GST obligations• Enable immigrants to digitally register for an IRD number when they apply for a visa• Customers will be able to identify themselves to Inland Revenue using a New Zealand Business Number
By 30 June 2017	<ul style="list-style-type: none">• Customers will be able to use their RealMe logon to access Inland Revenue online services• Complete the detailed design for Stage 2 of the Business Transformation programme

Part 2

Our plans

A transforming organisation

The world is changing, with huge improvements in ways of doing business. To protect the Government’s ability to keep providing services, it is important that New Zealand’s revenue system keeps up with change. This requires a fundamental shift in the way Inland Revenue thinks, designs and operates.

Our transformation journey will touch on all parts of our organisation and give New Zealand a modern revenue system. We will reshape how customers interact with us and wider government, including improvements to policy and legislative settings.

We will fundamentally transform how we work and how we deliver services to our customers, which means changes for our people, policies, processes and platforms. As a truly customer-centric organisation, we will put our customers at the centre of everything we do and help them to get it right from the start.

Our strategic planning principles

We have clear strategic planning principles to guide our medium-term planning and operational decision making in this time of change. We have re-tested our planning principles and updated them.

Strategic principle	Implications for our medium-term planning
<i>IR for the future</i> and the corporate strategy tell our core story about becoming increasingly customer-centric and delivering greater value for the people of New Zealand.	<i>IR for the future</i> sets the vision for IR. The IR corporate strategy outlines our strategic intent and how we will become a sustainably successful organisation that is customer-centric, intelligence-led, and agile.
Our focus is on delivering our agreed outcomes with Government and delivering our business transformation.	We will positively manage the customer experience through change while meeting our agreed outputs with Government. Our resources will be allocated to delivering our outcomes, our business transformation and as directed by Government. Collection of Crown revenue should not be compromised.
Our transformation is a significant contribution to public-sector reform.	As we transform, we will be better placed to contribute to the broader public service, supporting Better Public Services outcomes and the wider Government Direction and Priorities for System Stewardship.
Throughout the change journey, we must protect the integrity of the tax system.	We must consider the implications of any change as it applies to the integrity of the tax system. The Tax Administration Act 1994 provides a definition of integrity, which includes Trust, Confidence, Consistency and Beyond Reproach.

Strategic principle	Implications for our medium-term planning
<p>There will be significant changes in the capability and size and profile of our workforce.</p>	<p>In the next four years, Inland Revenue becomes a smaller organisation with different skills and different ways of working.</p> <p>Our culture will shift to be more customer-centric, intelligence-led and agile, with a highly knowledgeable workforce that comfortably works with a wider group of business partners in order to deliver.</p> <p>We will have a wider range of employment relationships.</p> <p>The majority of individuals who make up our workforce will experience organisational change (including formal change processes) over the coming years.</p>
<p>We will take a holistic and transparent approach to apply our funding to achieve our outcomes and support delivery of our change programme.</p>	<p>Our long-term finance strategy is to operate within our funding appropriations. We will take a collective view of our funding to enable the business to make good decisions at the right time.</p> <p>We will need to find savings to fund real cost pressures including CPI and remuneration-related cost increases, in addition to the administrative savings agreed to in the Business Transformation Business Case.</p>

A key enabler: Our Business Transformation programme

Our multi-year, multi-stage Business Transformation programme is one of the key mechanisms through which we will deliver our transformation.

Our transformation aspirations, desired outcomes and benefits have been well defined and communicated internally, with Ministers and with external stakeholders. The business cases approved by Cabinet are published on our website at www.ird.govt.nz/transformation.

Our Business Transformation roadmap

The Business Transformation roadmap on the following page outlines our current view of the programme's sequence and outcomes for our customers, for the Crown, and for us. This sequence aligns with the Government's priorities, balances delivery risk and impacts on customers, and allows us to deliver benefits and outcomes as soon as practical. We expect delivery of the future revenue system to be complete in 2021, which is ahead of our original timeframe.

Throughout the journey, we will continue to communicate often with Ministers to ensure that we understand Government priorities and that no decisions close off future policy options or opportunities.



Key outcomes for customers:

- The majority of customers self-manage and use digital services
- Businesses' compliance burden to fulfil GST obligations will be reduced
- Customers will have confidence that their personal information is secure

Key outcomes for the Crown:

- Confidence in Inland Revenue's ability to deliver
- GST compliance improves

Key outcomes for Inland Revenue:

- Fewer processing and customer contacts for GST
- Digital border established

Products transitioned:

- GST

Key outcomes for customers:

- Compliance burden to fulfil tax obligations will be further reduced
- More accurate and timely calculation of obligations
- Customers will have confidence and certainty that they have met their obligations

Key outcomes for the Crown:

- Increased reliability and flexibility (including policy agility) for taxes
- More revenue collected more quickly

Key outcomes for Inland Revenue:

- Fewer processing and customer contacts for income and business taxes
- Compliance assurance activities will be intelligence-led

Products transitioned

- Income tax – businesses (including provisional tax) and individuals (including personal tax summaries)
- Company imputation
- PAYE information collection
- Employer superannuation contribution tax
- Fringe benefit tax
- Resident withholding tax
- Non-resident withholding tax
- Dividend withholding tax
- Portfolio investment entity tax
- Approved issuer levy
- Donations tax credit
- Resident land withholding tax
- Gaming machine duty

Key outcomes for customers:

- Social policy processes will be digital and streamlined
- Accurate and timely social policy payments
- Customers will have confidence and certainty they are receiving the correct entitlements

Key outcomes for the Crown:

- Current operational risk will be predominantly mitigated
- Full policy agility

Key outcomes for Inland Revenue:

- Fewer processing and customer contacts for social policy
- Enforcement activities are more focused and require fewer resources

Products transitioned

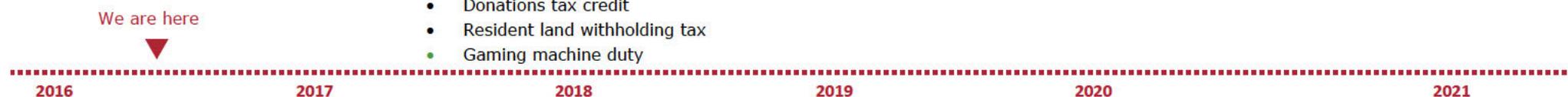
- PAYE processing
- Working for Families
- Child Support
- Student Loans
- KiwiSaver

Key outcomes of programme:

- Revenue system will be flexible, resilient and cost-effective
- Government has policy agility
- Compliance will be higher
- Increased integration with other parties

Products transitioned

- Paid Parental Leave
- Duties and Reserve schemes
- Unclaimed monies
- All other taxes and duties



Preparing to implement Stage 1

Preparations are well in hand for implementation of Stage 1 by the end of April 2017. Development of the new system, START, is on track. The two new data centres supporting START are up and running, and changes have been made to the existing system, FIRST, so that the two systems can co-exist. We have had positive results from our rigorous testing.

We have developed a comprehensive and robust approach for determining readiness for implementation of Stage 1. Our business readiness framework uses checkpoints to assess readiness across three major areas:

- customer readiness—are customers ready for Stage 1?
- Inland Revenue readiness—is the business ready to receive Stage 1?
- programme readiness—is the Business Transformation programme ready to deploy Stage 1?

At a more detailed level, we will assess the readiness of data, processes, infrastructure, applications, policy, quality assurance, support and deployment.

Preparing for Stage 2

Stage 2 is significantly bigger in scope and complexity than Stage 1, as it involves the majority of tax products. Significant customer and stakeholder engagement is required.

We are planning and progressing the law changes that will support and enable Stage 2, including consulting with New Zealanders through *Making Tax Simpler* discussion documents. (See p. 33 for more information on *Making Tax Simpler* consultations.)

We have started workshops on the design of the new accounting income method for calculating provisional tax, with participants including software developers, small business accountants, and Chartered Accountants Australia and New Zealand.

Programme benefits

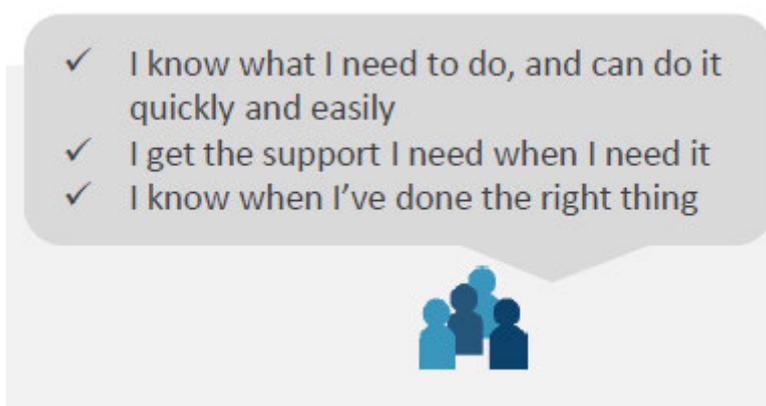
The programme's expected benefits are detailed in the November 2015 *Programme Update and Detailed Business Case*, which is available at www.ird.govt.nz/transformation, under 'Reports and publications'. This *Business Case* includes measures and targets for each of the programme's investment objectives and an expected benefits profile over the life of the programme.

In March 2017, we will ask Cabinet to confirm the scope of Stage 2 and note the estimated costs and benefits. We will be able to reflect this information and its implications for our customers and our organisation in an updated Four-year plan in May 2017. We will also be able to provide an update on Stage 1 implementation and preparation for Stage 2.

Making it easier for customers

Through transformation, we are on our way to becoming truly customer-centric, putting our customers at the centre of everything we do.

The modern, digital revenue system of 2021 will make paying tax and receiving entitlements simpler and more certain. Revenue processes will fit seamlessly into people's lives, meaning that around 90% of customers will find it easier to get it right from the start. It will also be harder for anyone not to comply.



The future revenue system will enable customers to manage their tax and social policy matters with speed and certainty through digital services. Most customers will not need to contact our staff directly, as is already the case for many people earning a single salary or wage. Our systems will be largely automated 'straight through' processes that take less time and are more efficient. Businesses' compliance costs will be reduced. Greater integration between Inland Revenue and other agencies will mean that people only need to provide the public service with their information once.

Policy changes will be needed across a number of areas to simplify requirements for customers. Improvements to the collection of PAYE and investment income information will provide the basis for ensuring that accurate entitlements are paid when they are needed, regardless of which agency administers them.

We are continuing to work with government agencies such as the Ministry of Business, Innovation and Employment and the Department of Internal Affairs to better understand and respond to customers' circumstances and needs. Working together will help us to find opportunities to improve outcomes for New Zealanders. As part of Stage 1 of our Business Transformation programme, we will work with these agencies to:

- enable businesses to use their New Zealand Business Number (NZBN) to identify themselves to us
- enhance the range of services available through the Companies Office
- enable new immigrants to digitally register for an IRD number
- make RealMe available as an option for customers to authenticate their identity to Inland Revenue.

Making it easier for our GST customers

Stage 1 of our Business Transformation programme focuses on implementing GST in START, our new system. GST is our starting point because it is a relatively simple tax but is big enough to provide us with experience and deliver benefits to our customers.

Implementing GST in START is a significant first step in delivering a digitally based, highly automated revenue system that fits seamlessly into people's lives. This will change how customers interact with the revenue system.

Ahead of Stage 1 implementation, we have already made it easier for GST customers by integrating tax into their business processes. Together with accounting software providers MYOB and Xero, we have introduced a service that lets customers file their GST returns with us through their accounting software. Other providers will be able to offer this service from early 2017.

Customers are saying that using their accounting software to manage their GST is saving them time and reducing errors. One commented, '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.'

In addition to being able to file GST returns through their accounting software, once GST is implemented in START in early 2017, customers will be able to:

- file their GST from any device with a single, seamless process
- 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
- track their GST payments and refunds
- identify themselves to Inland Revenue as a GST customer using their NZBN
- receive customised messages and information from us.

Tax agents will be able to file clients' GST returns in our online services (myIR) in bulk.

We originally estimated that small and medium businesses would spend nine fewer hours a year on GST compliance by 2023–24 as a result of the changes being introduced in Stage 1. The steps we have taken over the last year have already significantly changed customers' perceptions of the time, cost and effort of meeting their GST obligations, broadly in line with this estimate.

We have just completed our 2016 compliance cost survey. The surveyed group of just over 4,000 small and medium businesses estimated that the time spent meeting their GST obligations was 14 hours a year. This is down from the estimate of 24 hours in the 2013 survey. Overall, these customers felt that compliance costs have reduced because of better service from us, less paperwork, a move to digital filing and improved online services.

Becoming customer-centric

Being customer-centric requires us to organise activities around customers and outcomes, rather than products and services. It means truly understanding our customers and how our decisions affect them.

Our 'right from the start' approach is about providing customer experiences that are positive, personalised, timely and seamless. It involves:

- making it easier for customers to comply and creating an environment where people are able to get things right upfront—through, for example, building tax obligations into customers' existing business processes
- acting in real-time and upfront, often before the customer has filed a return, rather than once issues arise
- focusing on end-to-end processes from a customer point of view, and looking at customer lifecycles rather than Inland Revenue cycles
- actively involving customers and other stakeholders in the design of our systems and processes
- using tailored interventions.

We are embedding the 'right from the start' approach in our ways of working, supported by practical examples, tools, training modules, and coaching.

We made a significant shift to becoming more customer-centric by introducing our new compliance model in 2015. The model, shown on the following page, guides our understanding of customers—their environment, the drivers of their behaviour, and their life events and needs—rather than focusing just on influencing their attitudes to compliance.

Becoming customer-centric requires a holistic view of our customers within the context of the broader government and private system. The revenue system interacts with social policy, business, education, justice, and other sectors. Our customers have multiple touch-points with multiple organisations across these systems.

Many customers belong to multiple segments at one time, and their situation is seldom static. A holistic view of customers helps us to recognise and support their needs, much earlier than is currently possible. For example:

- Mary is a company director who is paying child support, and not yet meeting her full obligations to pay tax on local and overseas earnings.
- Grant is a new business owner and employer who has not yet fully understood his tax obligations. He is also repaying a student loan.
- Adam works two part-time jobs and is on the wrong tax code, so is not paying enough tax. He does not yet know that he qualifies for Working for Families Tax Credits.

Our compliance model



Our ability to positively influence customers' personal and social norms and their trust in the revenue system is essential for achieving compliance. We will continue to work to understand the drivers of customer behaviour, and the impacts of decisions on customers, through simple and complex research and evaluation. Our staff are working together in multi-disciplinary teams to discover ways to make it easier for customers, informed by real-time customer feedback.

Online surveys and digital monitoring will help us to get real-time customer feedback. For example, we will continue to monitor customer responses to our social media marketing campaigns.

Involving customers and other stakeholders in our transformation

Involving customers and other stakeholders in proposed changes to the revenue system is a key factor in the success of our transformation. This will support better-informed decisions, retain their trust, encourage understanding and adoption of changes, and ensure that changes have the intended impacts for customers.

Throughout our transformation, we will continue using a range of channels to seek input and provide information about the changes we are making. For example:

- We will send tailored information to specific customer groups through direct communications, such as emails.
- Public relations, media, radio and digital communications (including social media) will be used to build awareness and support direct communications.
- Our www.ird.govt.nz website will keep providing simple, clear information to help people understand changes. For those who want more detail, we will keep using our website to publish Business Transformation programme documentation, including review and quality assurance findings, business cases, programme updates, speeches and presentations.
- Our business and industry relationship managers will keep talking to customers individually and through conferences and webinars.
- Our Changing for You website, www.changingforyou.ird.govt.nz, discusses ideas about changes for business and gives customers the opportunity to rate and comment on these ideas.
- Customers will be involved in testing of services. We are asking agents and business customers to test the new GST services that we will be offering in 2017 through START.

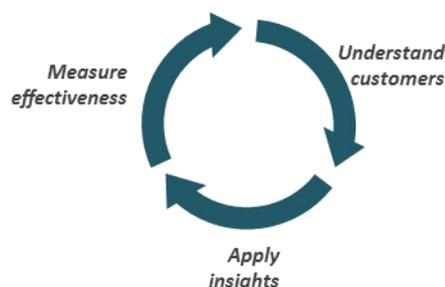
We have three external advisory groups that represent the views of customers and industry and provide us with independent advice and insights:

- the Commissioner’s Transformation Reference Group, which provides perspectives from individuals and the business and tax communities to inform our transformation programme
- the Taxpayers’ Simplification Advisory Board, an independent voice to challenge our thinking and look at ways to improve services to customers, particularly individuals and people who run small and medium enterprises
- the Information and Communications Technology Reference Group, which brings a sector-wide perspective to our transformation, focusing on infrastructure and technology.

Improving value from customer insights

We are significantly improving our ability to target resources to the right areas. This involves learning through action and then adapting quickly to improve results or stop activity that is not creating enough value.

Customer insights will increasingly inform our investment decisions and activities—from policy design to customer education to audit.



To create value from customer insights and unlock the value of Inland Revenue's information, we will trial new approaches with specific customer segments. The initial focus will be tertiary students and small-to-medium businesses. Customer mapping will help build an understanding of:

- the journey of students from tertiary education to employment and how this affects their borrowing behaviour, loan repayments and earning potential
- the factors that contribute to poor regulatory compliance among start-up businesses.

The maps are likely to show how customers can be supported right from the start.

We are in the early stages of determining how best to measure the value we create for customers and government based on our insights. This involves restructuring existing information around customers and outcomes, and shifting away from the current emphasis on outputs, products and services. An enterprise customer measurement programme will be in place at the end of the four-year period. By then, we will already have improved customer experiences and reduced their compliance cost and effort.

Being intelligence-led and sharing information

An intelligence-led approach recognises information and intelligence as strategic assets, essential to optimising value for customers and government. These assets will, where appropriate, be shared across government to support collective outcomes for New Zealand.

Customers want to provide the public service with their information only once, and they expect us to provide intuitive and personalised services. Government has responded through its Better Public Services priorities and through supporting the sharing of agencies' information across government and New Zealand.

To help us become intelligence-led, we will be lifting our analytics capability, as discussed on p. 41. Our future analytics will help us to give direct, personalised support to customers. They will allow us to predict customer preferences and behaviour, and respond to their needs in real-time.

Over the next four years, the quality, timeliness and accuracy of the information we collect will improve, and we will identify more opportunities to share information. In the future, information will be shared in real-time and will be exchanged with government and non-government agencies using the data highway that the Social Investment Unit is establishing.

We will need to ensure that we can access and provide data as and when required, with appropriate approvals and consents in place. Collaborating with partners in New Zealand and overseas will continue to be essential for secure and appropriate sharing of intelligence and information.

As part of our work to modernise the Tax Administration Act (see p. 33), we are looking at updating the framework for sharing information with other agencies for the provision of public services. An updated framework would provide greater flexibility, cohesion and transparency.

As part of Stage 2 of our business transformation programme, we are considering an automated solution, integrated with START, to support the approved information-sharing agreement we have with the Ministry of Social Development. We will have an interim solution in place by mid-2017 to enable implementation of the agreement.

Delivering Better Public Services

Our contributions to the delivery of Better Public Services support the achievement of the *Direction and Priorities for System Stewardship* vision of joined-up services that put the current and future needs and wellbeing of New Zealanders at the heart of the operation of the state sector.

Our contribution to Better Public Services (BPS) is through our transformation.

Through sharing information, we are contributing to **BPS Result 1**: Reduce the number of people who have been on a working age benefit for more than 12 months.

We are a partner agency in delivering:

Result 7: Reduce the rates of total crime, violent crime, and youth crime.

Result 9: Business gains value from easy and seamless dealings with government.

Result 10: New Zealanders can complete their transactions with government easily in a digital environment.

We contribute to BPS Results 1, 7, 9 and 10. We will continue to:

- identify opportunities to modernise the legislation we administer to support the sharing of information across government (Results 1, 7, 9 and 10).
- contribute to the Gang Intelligence Centre in support of Result 7 (reduce the rates of total crime, violent crime and youth crime)
- find ways to make it easier and simpler for businesses to interact with us and meet their tax obligations (Result 9)
- collaborate with other agencies, primarily the Ministry of Business, Innovation and Employment and the Accident Compensation Corporation, on implementation of the New Zealand Business Number (Result 9)
- work across agencies and with the private sector to improve customer interactions with government through designing services around customers and their life events (Result 10).

We are on track to recognise New Zealand businesses by their NZBN by 2017. We are also sharing information to help other agencies meet their NZBN requirements. Working with the Ministry of Health, the Department of Internal Affairs and the Ministry of Social Development, we have created the first service offering based on customers' life events—a product designed around the birth of a baby. We expect to release the first iteration of this product, which is for use on digital devices, to expectant parents in December 2016.

Delivering digital services to our customers

People expect to receive and provide information online, at any time and from any place. More and more of our customers are going online to access their details, file their returns and make their payments. In addition to the new services that will become available once Stage 1 of our Business Transformation programme is delivered in early 2017, we will continue to:

- improve our website, online services and other digital tools to meet customers' expectations and save them time and money
- promote our online services
- use online media to inform people about their obligations and entitlements and help them understand what they need to do
- encourage people to share their views through online consultations.

Stage 2 of the programme will include enhanced online services for customers for the products in scope (as listed in the roadmap on p. 22) and some new contact options for customers.

The Government ICT Strategy, which was reviewed in 2015, provides new opportunities to support Better Public Services and agencies' transformations by putting people and businesses at the centre of design and delivery of digital services.

The ICT strategy has five key focus areas: Digital Service, Information, Technology, Investment and Leadership. These focus areas are managed through the ICT Partnership Framework, with Inland Revenue being a member of the four working groups as well as the strategic leadership group. Our contribution to the delivery of the Strategy includes our work to develop and promote self-service and integrated options to customers.

Providing policy advice to the Government

Inland Revenue is responsible for providing advice to the Government on all aspects of tax policy and social policy measures that interact with the tax system. Our policy advice aims to ensure that the tax system is coherent, consistent, simple and internationally competitive.

The Government's Tax Policy Work Programme is developed with the Ministers of Revenue and Finance. It plays an important role in helping to meet Government priorities of building a more productive and competitive economy, responsibly managing the Government's finances and delivering better public services within tight financial constraints. The Work Programme will deliver the policy changes that will support and realise the benefits of our transformation.

Inland Revenue delivers credible and effective policy advice by applying the highly regarded Generic Tax Policy Process. This process involves extensive public consultation and early consideration of all aspects—and likely impacts—of proposals.

We are engaging with the Policy Project, led by the Head of the Policy Profession, to keep improving our policy capability. We are also exploring how to better support the whole of our department to implement Government policy decisions.

Guided by the policy agility strand of our corporate strategy, we will ensure policy change is more efficient and effective—fit for a changing world. Lifting our policy agility involves shifts in capability, approach and process. This includes investing further in our external relationships, using intelligence better, and taking a learning approach to design and implementation. Policy quality and agility is one of the people capabilities we are prioritising for uplift, as detailed on p. 52.

Regulatory stewardship

The tax system is one the biggest regulatory interventions in the economy. It is critical that it operates effectively and stakeholders are well informed about changes. Our regulatory stewardship goal is to have regulatory systems that are well designed, well understood, well operated and fit for purpose. This is achieved mainly through the Tax Policy Work Programme, which is our plan for the development, management and delivery of regulatory change.

On our tax policy website, www.taxpolicy.ird.govt.nz, we publish information on:

- our regulatory management, including the regulatory regimes for which Inland Revenue is responsible or delivers a significant policy and operational function, the fitness-for-purpose of those regimes, and an explanation of how the Work Programme works
- the projects in the Work Programme
- routine regulatory changes, such as regular changes to interest rates used or tax credit amounts.

The present Tax Policy Work Programme

The Tax Policy Work Programme is refreshed on an 18-month cycle. However, our operating environment is evolving, and good tax policy is not set in stone. The Work Programme will at times need to be updated within the 18-month cycle to ensure that emerging pressures are responded to appropriately.

The Work Programme was last updated in September 2016 and focuses on:

- business transformation and Better Public Services
- international tax and New Zealand's response to the OECD's base erosion and profit shifting recommendations (discussed in more detail on pp. 36–37)
- enhancing tax policy within a broad-base, low-rate framework
- social policy administered by Inland Revenue

These themes are likely to continue to underlie the Work Programme as it is refreshed over the next four years. However, it is impossible to maintain a good tax system through a set of static rules. As other countries change their tax rules, questions will arise as to whether New Zealand should make similar changes. Changes in business practice, legal interpretation, taxpayer behaviour, stakeholder concerns or government priorities can all provide reasons for tax policy and legislation changes. Future events will determine priorities and the projects we take on beyond the current work programme's 18-month period.

Our transformation combined with the implementation of Budget 2016 measures and other initiatives, such as base erosion and profit shifting, will mean a significant amount of change for customers, stakeholders and staff. Our focus on transformation means that capacity to take on new policy projects is limited. Should new projects emerge, there will be a need to prioritise these against existing commitments and to consider potential impacts on our customers.

Supporting transformation

The Tax Policy Work Programme will frame and support the design and implementation of our business transformation by simplifying and modernising the current policy and legislative settings relating to tax administration. Overall this should reduce compliance cost and effort for taxpayers, reduce administration costs for government, and improve the efficiency of tax administration.

The focus will include:

- modernising and simplifying business tax, including addressing concerns about the calculation of provisional tax, the imposition of late payment penalties and business compliance costs more generally
- modernising the Tax Administration Act so that it is more fit-for purpose
- providing for better administration of PAYE and GST and the collection of information on investment income, such as resident withholding tax
- modernising individuals' taxation and how individuals interact with the tax system
- simplifying the administration and delivery of social policy programmes, including student loans, Working for Families Tax Credits, child support and KiwiSaver
- looking at possible legislative changes to address technical issues as we transition to the new infrastructure or supporting the design of the new infrastructure.

More timely collection of income information during the year would create opportunities to rethink the delivery and administration of our social policy programmes, such as Working for Families Tax Credits, so that delivery is based on customers rather than on the income tax system. It would also allow us to be more proactive in helping people ensure they are using the right tax codes.

In April 2016, the Government announced a range of business tax proposals designed to make tax simpler for businesses. These proposals require significant changes to our systems and processes.

The business tax focus will support businesses gaining value from easy and seamless dealings with government (BPS Result 9). Modernisation of the Tax Administration Act will support New Zealanders being able to complete their transactions with the Government easily in a digital environment (BPS Result 10).

The Government's *Making Tax Simpler* series of discussion documents is a key means for getting public feedback on options for simplifying and modernising New Zealand's tax administration. The sixth in this series of online consultations, *Making Tax Simpler—Investment Income Information*, was released in July 2016. Coming consultations will look at individuals' interactions with Inland Revenue and at improvements to social policy.

Enhancing tax policy within a broad-base, low-rate framework

There is high public support for New Zealand's general tax structure, with its broad-base, low-rate tax settings. These settings involve taxing a very broad range of consumption through GST and a very broad range of business and personal income through income tax at low or moderate tax rates.

The Work Programme contains a balance of projects—some enhance tax policy settings within the broad-base, low-rate framework, while others respond to remedial issues as they arise, ensuring that the tax system operates as intended.

Protecting New Zealand's revenue

To achieve our outcomes—in particular revenue being available to fund government programmes—we must protect New Zealand's revenue. To do this, we provide our customers with information, assistance and tools so that it is easy for them to get it right and difficult to get it wrong.

Our proactive, intelligence-led approach involves gaining insights from customer information and applying smart analytics to identify risk areas. We provide customers with early support, investigate more serious non-compliance, and prosecute a small minority as a last resort. We also help by providing certainty on the tax implications of specific transactions before a customer takes a tax position. Our marketing campaigns improve customer behaviour in areas where not complying has become the norm.

Addressing compliance risks

We constantly look for opportunities to reduce non-compliance and apply international best practice. Protecting New Zealand's revenue and the integrity of our tax system benefits all New Zealanders.

Investigation activity, including technical advice and tailored services to customers, plays an important role in protecting the integrity of the tax system. We received time-limited funding in Budgets 2012 and 2015 to increase investigations activity in the areas of property compliance, complex technical issues and hidden economy and fraud. We expect the success of our Budget-funded investigation work to continue over the next four years from 2016–17, generating \$913.7 million additional revenue.

We are spending more time discussing tax matters with large corporates, many of which are international, so that we are able to resolve complex issues quickly and cooperatively. This is reflected in the increase in advance pricing agreements, which are ahead-of-time agreements with our customers on the prices set for the transfer of goods, services and intangibles between associated parties. We will continue to look for such opportunities.

Property tax compliance

Our Property Compliance Programme monitors and improves the compliance of residential property speculators and dealers. Through this programme, we have identified discrepancies of \$291.3 million over the last six years to 30 June 2016 (discrepancies being the differences between the tax position filed by a taxpayer and the position determined by our investigations).

With Budget 2015 funding over the next four years from 2016–17, we plan to generate \$181.5 million additional revenue. We will continue to focus on:

- monitoring speculative activity in and around new residential developments, particularly in Auckland
- reviewing property titles traded within one year and working with property developers with overdue tax returns
- monitoring regions and suburbs with the highest turnover of properties to identify levels of risk and to ensure speculators and developers are paying the right amount of tax.

We are using our compliance model and 'right from the start' approach in activities, which includes using proactive and preventative interventions as part of the design of campaigns. Our educational material, such as our online property tax decision tree, is helping customers understand new property compliance obligations.

Complex technical issues

We continue to work on complex technical issues, including aggressive tax planning and issues relating to multinationals. Since starting in 2012, our Budget-funded work examining complex technical issues has resulted in additional revenue of \$1,018 million to 30 June 2016 (against a target of \$323 million). This result is the most significant contribution to additional revenue generated from our Budget-funded programmes.

As part of Budget 2015 we received funding over five years for work relating to international issues, including transfer pricing and associated specialised areas such as the valuation of financial instruments. From 2016–17 onwards, we plan to generate \$579 million additional revenue through this activity.

Our work to counter tax avoidance methods continually evolves to keep up with legislative changes, judicial decisions and arrangements we identify.

Areas of focus for the years ahead include:

- high-income people, including new immigrants
- inappropriate transfers of value from companies during amalgamations, liquidations or strike-offs.

As discussed on the following page, we will continue to focus on profit shifting by multinationals and applying best international practice. We will also continue to work closely with tax treaty partners, leveraging their intelligence on new and emerging risks and implementation of policy solutions tailored to the New Zealand business environment.

Hidden economy and fraud

People operate in the hidden economy by intentionally not declaring or accurately reporting business transactions. We will address activity in a range of at-risk industries within the hidden economy. To date, this work has focused on the construction and hospitality industries.

We have identified discrepancies of \$967 million over the six years to 30 June 2016 in the hidden economy and fraud area.

We have a multi-year research and evaluation programme to understand how to stop people entering the hidden economy and find those who are already taking part in it.

This intelligence-led approach helps us to determine the best ways to improve customer compliance and influence community norms. It allows us to both respond to emerging risks and keep addressing older risk areas.

Our aim is to create a level playing field for businesses by shifting norms about the hidden economy and taking a tough stance on non-compliance.

We will continue our marketing campaign aimed at tradespeople in the building industry and develop a similar campaign for the hospitality sector. Through this marketing, we send a clear message that undeclared cash jobs are a crime and remind people to do the right thing.

Over the next four years, we plan to identify and address more fraudulent activity with funding received in Budget 2015, especially in relation to organised attacks on the tax administration and its systems. We continue to address fraudulent activity as part of wider government initiatives, such as efforts to target organised crime.

Helping Canterbury customers get it right

Rebuilding Christchurch remains a priority for Government. As Canterbury moves from recovery to regeneration, we will continue protecting the revenue due from the estimated \$40 billion rebuild. Our research indicates that compliance behaviours of small-to-medium businesses in Canterbury have greatly improved since the earthquakes in 2010–11. GST filing and paying and adherence to debt arrangements are now at similar levels to the rest of New Zealand. Our Canterbury compliance work has now been incorporated our wider programmes of work.

Addressing international tax issues

The increasing complexity of global business requires us to be actively involved in international solutions to protect revenue. We are participating in the response led by the Organisation for Economic Co-operation and Development (OECD) to the global issue of 'base erosion and profit shifting', which involves taking advantage of the interaction between the tax rules of different countries to pay little or no tax. We are considering measures to address this issue while also contributing to the Business Growth Agenda goal of ensuring New Zealand is an attractive place to do business and invest.

We are focusing on reforming rules for the taxation of cross-border flows of income from inbound and outbound investment, including:

- maintaining tax treaties
- implementing the most relevant aspects of the of the OECD's Action Plan on Base Erosion and Profit Shifting
- implementing the recommendations from the Inquiry into Foreign Trust Disclosure Rules
- developing our treaty model to address the treaty policy and transfer pricing developments at the OECD.

Strategy and intelligence in action

Our International Strategy and Intelligence programme will continue to focus mainly on 'significant enterprises', which currently are defined as taxpayer groups with turnover in excess of \$80 million. Approximately half of the significant enterprises we look at are foreign-owned, and a further quarter are involved in international operations.

All significant enterprises are asked to submit a 'basic compliance package' annually. This package includes the group structure, financial statements and tax reconciliations. We review this information along with the information we already hold and give each group a risk rating. A further review or in-depth audit may follow.

Based on the amount of tax they pay, the top 50 taxpayer groups will be account-managed on a one-to-one basis.

We have been monitoring 600 significant enterprises, and we are now expanding our coverage by lowering our threshold for all foreign-owned corporates from \$80 million annual turnover to \$30 million. This means we will be covering nearly 900 significant enterprises through our annual monitoring plan.

We are also working with corporate groups to develop a tailored product that reflects our cooperative relationship.

In addition to our focus on significant enterprises, we will be:

- ensuring New Zealand's compliance with OECD standards by implementing country-by-country reporting, exchanging cross-border rulings and unilateral advance-pricing agreements, and providing additional guidance on the resolution of double taxation disputes
- leading New Zealand's response to the Global Forum on Transparency and Exchange of Information for Tax Purposes peer reviews, which look at countries' implementation of exchange of information on request
- working with the major trust and company service providers to implement the new foreign trust disclosure rules
- preparing for peer review of our use of the Mutual Agreement Procedure, which looks at the resolution of international tax disputes where the same income or profits have been taxed in two countries
- ensuring that New Zealand signs up to the OECD's multilateral instrument that will amend our network of tax treaties to help eliminate opportunities for base erosion and profit shifting
- supporting the Ministry of Foreign Affairs and Trade's free trade agreement programme
- supporting New Zealand's participation at the OECD Centre for Tax Policy and Administration
- supporting and guiding the New Zealand delegation at the United Nations on tax matters
- contributing to the Joint International Taskforce on Shared Intelligence and Collaboration, especially on the 'Panama Papers' project

- contributing to the Study Group on Asian Tax Administration and Research (SGATAR), including as a member of the Taskforce, which acts as an administrator for the Group.

Global Automatic Exchange of Information

Automatic Exchange of Information (AEOI) is an international initiative to counter tax evasion and recover tax revenue lost to non-compliance. The initiative will establish a common reporting standard to increase the transparency of international financial transactions.

We will implement a secure platform for receiving financial account information from financial institutions and exchanging it with other tax authorities. This will be delivered as part of Stage 2 of our Business Transformation programme, using START. We have been consulting with financial institutions and industry bodies on AEOI.

Dealing with unfiled returns and overdue debt

We want people to pay on time to prevent them getting into debt. We look for ways to make it easier for customers to get it right from the start so that they avoid getting into debt with us. When our customers do get behind on payments, we take action to manage and collect their debt.

We received time-limited funding for unfiled returns and outstanding debt in Budgets 2012, 2014 and 2015 to increase our ability to contact people and businesses who have not filed and/or paid on time.

We reduced the number of outstanding returns in 2015–16 by 17%. We also increased the amount of new debt resolved within six months (from 81.7% in 2015–16 to 82.4% in 2015–16, despite there being more debt cases in 2015–16). This early intervention focus is starting to change the priority that our customers give to paying tax and is helping us to educate them about their obligations.

Our debt strategy aims to achieve a smaller, less impaired debt book. We have seen success to date, with total debt as at 30 June 2016, excluding child support, falling by 5.4% from 2014–15.

We expect debt to keep falling at a similar rate. Potentially debt could fall faster as new payment default rules and other debt strategy initiatives begin to take effect.

We will continue to enhance our effectiveness by:

- progressively scaling up campaigns to cover more customers with outstanding returns across a wider range of return types
- placing greater focus on preventative actions (such as contacting customers through various channels to remind them of due dates that are coming up)
- making full use of our debt write-off appropriation to write off irrecoverable debt earlier
- using intelligence-led and tailored interventions—such as behavioural messaging, contacting customers through mixed channels, and identifying customers who are filing unnecessarily.

Increasing child support compliance

In Budget 2014, we received funding over a five-year period to educate people who are newly registered for child support and to increase our focus on collecting debt from both New Zealand and overseas liable parents. We are helping people to pay on time by contacting them early—at the point of registration and then again to remind them of when their first payment is due. We are selecting new debt cases each month to work on, aiming to close at least 75% of new debt cases within 12 months of opening. For 2015–16, we closed 78.9% of new cases within 12 months.

On 1 April 2016, the child support penalty rates decreased and the write-off rules for penalties relaxed. This has led to greater customer engagement and payment of outstanding child support. Through using relief provisions, negotiating lump-sum payments and agreeing on sustainable payment arrangements, we are achieving positive outcomes for both receiving carers and non-custodial parents.

The make-up of our debt book will change over the next four years. The amount of penalty debt on our books will decrease, and the value of the debt book will be made up primarily of assessment debt. As we continue with our work plan to attach an order to people's wages as soon as they come into arrears and our legacy debt is cleared from our books, we will be able to focus on cases in which customers have made a decision not to pay their child support and in which we cannot find a source of income.

Our work with parents based in Australia is supported by our strong ongoing relationship and Reciprocal Agreement with the Australian Department of Human Services. To date the Department of Human Services has collected \$417 million in child support for us. We have also sent around 15,000 cases to third-party providers in Australia and the United Kingdom so that they can help us find liable parents.

Reducing overdue student loan debt

We jointly administer student loans with the Ministry of Education and the Ministry of Social Development. Inland Revenue is responsible for collecting student loan repayments and ensuring borrowers meet repayment obligations.

An ongoing initiative is ensuring we have correct contact details for student loan customers so that we can help them to better understand and manage their repayment obligations. The aim is to increase the number of customers who let us know they are leaving New Zealand before they depart and to increase payments from overseas.

We have also been using new interventions made possible by legislative changes, including the ability to arrest serious loan defaulters at the border.

We are increasing our focus on preventative work such as educational marketing. We will continue our marketing campaign to remind overseas-based borrowers about payment due dates (in September and March), and we will keep reaching customers through our recently launched student loans Facebook page.

In both 2014–15 and 2015–16 we saw 17% increases in total annual repayments from overseas-based borrowers, arising from initiatives and campaigns over the last three years. We are looking to increase our activity for collecting overdue student loan debt and, in particular, looking to increase repayments from borrowers with their first overseas-based assessment due.

Borrowers who are in hardship can apply for temporary relief from making loan repayments. We are looking at whether we can apply this relief automatically if it is clear that a borrower has little or no income.

Managing ourselves well

Managing ourselves well ensures we continue to responsibly manage the Government's finances, build a more productive and competitive economy, and deliver better public services within tight financial constraints.

We are changing the ways we work to become more efficient and more effective. This involves taking advantage of new technological possibilities and increasing our collaboration with partners from both the public and private sector.

Our governance system, which ensures robust oversight and guidance for our activities, continues to evolve to meet the needs of our transforming organisation.

Transforming our technological capabilities

As part of our transformation, we are implementing a modern technology platform that is digitally based and highly automated. As the basis for this platform, we have selected a commercial-off-the-shelf software package for tax and social policy. As mentioned earlier in this Four-year Plan, we are calling this new software START.

START will give us a single view of the customer—accounts, history, connections, feedback and more—in close to real-time. This will help ensure customers get the information and assistance they need when they need it.

In addition to replacing our heritage system (FIRST) with START, we are putting in place the technology enablers needed for successful implementation, including new data centres, networks, identity and access management systems and security information management.

In line with the Government's ICT Strategy, we continue to use all-of-government common capabilities and shared services where they are available and fit for purpose. We have implemented 'infrastructure as a service' solutions and we will continue to work with the Government Chief Information Officer to ensure all-of-government as-a-service offerings meet requirements and can be leveraged.

Meeting the challenges of managing co-existing systems

One of our main challenges will be managing the co-existence of FIRST and START during the transition between the two, as customer information will be split across both systems until all tax and social policy products are administered in START. This is a key transformation risk, and it is important that we complete the transition as quickly as possible to limit the time that the two systems need to co-exist.

We are taking an innovative approach to addressing this risk. We have partnered with the company Accenture, as its global network can provide significant capacity in the critical coding resources needed to make changes in FIRST. As well as New Zealand-based resources, Accenture is providing resources in Manila. This allows us to scale work up and down as required and lets us take advantage of different time zones to expand the working day.

Ensuring that the impacts on customers are minimised and maintaining service levels while delivering the programme are key planning considerations.

Improving our analytics and information management capabilities

Our ability to create better value from intelligence and information relies on an analytics capability that can tailor activities and target resources to the right areas, based on an excellent understanding of customers.

We are developing plans for advanced analytics capability that will help us to make sense of increasing volumes of data—and process that data quickly and efficiently. This capability will include people with the skills required to work in the advanced analytics environment.

It is important that we maintain the trust and confidence of customers and stakeholders who rely on us to use and protect their information appropriately. All staff have a role in using intelligence and information as a strategic asset that needs to be available to the right person, when required. Our continued efforts to build good information management practices will help staff to understand their responsibility to authenticate, protect, and manage information appropriately.

Our information management practice needs to be supported by robust information management systems. We are piloting a new enterprise content management system to support more reliable and efficient information storage and retrieval.

Extending our culture of continuous improvement

We are extending our culture of continuous improvement across Inland Revenue to support our vision of being recognised for delivering service and excellence for our customers and to help us manage our financial pressures.

In a continuous improvement environment, teams continually identify, test and implement improvement ideas that create more value for customers. Principles, behaviours and tools help us to maintain business performance in a time of transition, make performance data visible so that improvement opportunities can be identified, and create efficiencies. The drivers for continuous improvement over the next four years are:

- *Leadership and culture*

We are focussed on shifting leadership behaviours to create an environment in which we truly understand our customers' needs, are highly collaborative and continuously improve processes.

- *Change readiness*

Continuous improvement thinking and capability will help prepare our people and many of our processes for transformational change.

- *Maintaining and improving today's business performance for customers*

While we transform, we will keep building continuous improvement capability in our frontline teams to help us maintain and improve our performance for our customers. Any internal benefits will be re-invested to improve other customer-facing processes, support Business Transformation deliverables or manage our financial position.

We will continue to undertake process improvement initiatives to optimise areas that are not subject to transformation within 18 months. Over the next two years, these initiatives will focus on:

- *Customer-facing social policy processes*

Child support and Working for Families Tax Credits are included in Stage 3 of our Business Transformation programme. In the meantime, we can gain significant benefit and improve the customer experience in these areas.

- *Internal-facing support processes*

Our support services will be addressed at various stages of transformation. We will focus our continuous improvement efforts on the areas that provide short-term efficiencies and extra capacity to help our leaders support their people through transformational change.

Becoming truly collaborative

Increasingly the outcomes of our plans, and of wider state sector's plans, depend on collaboration with partners from both the public and private sector. One of our outcomes is that New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment. The external collaboration strand of our corporate strategy will guide us in working with others inside and outside of government.

Throughout our transformation, we will keep working with other agencies—including the Ministry of Social Development, the Ministry of Business Innovation and Employment and the Department of Internal Affairs—to improve services for customers.

With the Department of Internal Affairs, we are exploring enabling digital registration and maintenance of customer information for individuals, including birth, marriage, name change and death.

Our contribution to progressing Better Public Services is discussed on p. 30, in the 'Making it easier for customers' section.

Inland Revenue will continue to be the principal steward of New Zealand's revenue system. However, as we transform, we are moving towards a culture of collaborating and partnering with external parties in the administration of the revenue system and the delivery of services. Inland Revenue does not need to—and in the future will not—deliver everything itself. Where it makes sense, there will be much greater involvement from other government agencies, not-for-profits, the private sector and overseas agencies.

Procurement and working with private-sector delivery partners

We have centralised our procurement and commercial activity into one function, which will provide us with increased support, particularly for our transformation. Our enhanced capability and oversight in this area will support delivery of *IR for the future*. It will also allow the organisation to work towards longer-term goals such as maintaining competitive and efficient supply markets, realising value for money and encouraging supplier improvement through our supplier management strategies.

We have a long-term strategy to 'buy not build' and to use the as-a-service model as we transform. Private-sector partners are critical to successful implementation of our transformation, and partner management is a strength of the transformation programme.

We spend on average \$250 million per year with our suppliers, including one-time projects. Our top areas of spending are consultancy services, facilities, IT infrastructure, software and software maintenance, and telecommunications. Within these categories, we have identified the critical service providers that we rely on to deliver our outcomes. We have management plans in place to measure and monitor the performance of these critical suppliers. We also have a supplier segmentation model that provides high-level strategies for managing critical suppliers and markets.

To make it easier for small businesses to engage with us, we have developed a supplier panel covering a number of the professional services that we are likely to need repeatedly. This panel is open and allows suppliers to register their interest at any time.

We continue to take part in cross-government procurement activity, including providing other agencies with procurement assistance, sharing lessons about partner management with other agencies (for example, the Treasury, the Accident Compensation Corporation and Land Information New Zealand), and participating in cross-agency procurement advisory groups.

We will continue to sign up to all-of-government contracts where they are available, support the delivery of our business outcomes and are cost-effective, and we will continue to work with the Government Chief Information Officer to ensure all-of-government as-a-service offerings meet requirements.

All-of-government banking services

In October 2015, the Ministry of Business, Innovation and Employment announced the selection of six providers for all-of-government banking services, across four subcategories: transactional banking services, foreign exchange services, payment services and card services.

Westpac NZ was awarded the contract for transactional banking services. This has delivered significant savings for Inland Revenue and the wider public sector. We have been working with Westpac to align our transactional banking services with START,

Key transformation partnerships

- We will continue to work with FAST, the supplier of our new software, throughout the programme.
- To help us address co-existence risks, we have partnered with the professional services company Accenture, which can provide significant capacity, through its global network, in the critical coding resources needed to make changes to FIRST.
- 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.
- Both FAST and Accenture have recruited locally to supplement the international skills they have assigned to the programme.
- In February 2016, we chose Revera, a subsidiary of Spark, to supply two new data centres and provide support to store and backup customer data and keep it secure.

including developing direct-debit functionality that will enhance payment options for customers.

In April 2016, we completed a second selection procurement process for the other subcategories. ASB Bank will provide merchant payment services, and Citibank will provide foreign exchange and departmental card services. We have been working with both of these providers to develop innovative customer-focused solutions, including enhanced payment options for customers and new ways for us to make payments to overseas customers.

Sharing our approaches and thinking with other agencies

Our innovative approach to developing and testing system changes is relatively new to the public sector, and we are keen to share it with other agencies. It is an iterative, continuous development approach in which building, testing and releasing software happens quickly, frequently and reliably. We have hosted the New Zealand Qualifications Authority, the Ministry of Justice and the Ministry of Social Development in our testing centre to demonstrate this approach in action.

We are also actively involved in sharing risk thinking and practices with other agencies. We are one of the thought leaders—along with the Ministry of Business, Innovation and Employment, the New Zealand Police, the Department of Corrections and the Department of Internal Affairs—developing the all-of-government Enterprise Risk Maturity Assessment Framework.

As the lead agency for the establishment of an all-of-government Public Sector Risk Forum, we facilitate monthly discussions on risk engagement, practices and implementation in and across the public sector.

Managing our property

We are contributing towards and supporting the Government's property functional lead agency, the Government Property Group (GPG), which is working to establish best property-management practice for office accommodation across the public sector.

We continue to provide resources for work on the GPG initiatives and participate in the GPG working groups. We were one of four pilot agencies for developing new modules within the Government Property Portal, which is an integrated property management system. The GPG will encourage agencies to use these new modules unless they have a suitable alternative system—space management, asset management and facilities management service management.

We will retain the nine existing sites that we share with other government agencies and negotiate more co-locations with compatible agencies as opportunities arise. We expect to be sharing a new site in Tauranga with the Housing New Zealand Corporation from December 2016.

We will continue working towards the long-term accommodation solution for our Hamilton staff. Negotiations and planning is underway for longer-term accommodation for our Palmerston North staff.

Over the next four years, as we transform, it will be important to have flexibility in our accommodation solutions. All of our recently signed leases have options to give up or

reduce space. As at June 2016 our property footprint was 13.96m² per person, which means we have achieved our target of 14.0m² per person by 30 June 2017.

Managing our risks

We are continuing to improve our organisational risk maturity. Our approach includes mapping our organisational risks against the outcomes and impacts they relate to, and assigning an inherent risk rating (that is, the state of the risk before applying controls), a current risk rating (that is, the state of the risk after applying controls), and a target risk rating. We use our risk mapping as a basis for discussion about what our responses to the risks should be.

At a high level, effective implementation of our corporate strategy is the key way that we will mitigate our risks.

Business Transformation programme risks and dependencies

Given the Business Transformation programme's scale and complexity, it is inherently high risk. We have put considerable emphasis on developing the processes and capabilities we need to manage and mitigate risks. The programme's management of risk was recognised as 'an exemplar' in a September 2015 Treasury-facilitated Gateway review. The following table gives a high-level summary of key risks and their mitigations.

Area of risk	Mitigation
Timeframes and costs, particularly regarding the co-existence of old and new technology platforms, may change as Inland Revenue begins implementation.	Regular reviews and check-in points with Ministers, and active scope management
Government may not be easily able to implement significant policy proposals at short notice, as we may not easily be able to accommodate sudden changes in sequencing and priorities.	Ongoing dialogue so that changes in priorities are understood and any implications for costs, benefits or risks are highlighted
Continuing to recruit and retain experienced resources of the right calibre will be critical to success.	Effective retention strategies and succession plans
Customers and staff must embrace change for the expected benefits to be realised.	Ongoing awareness and education campaigns for customers and proactive change management processes for staff.

Another key risk is the need for the systems START and FIRST to co-exist for some time. This is discussed on p. 40.

The programme's key dependencies are that:

- Inland Revenue and government commitment is maintained over the life of the programme.
- Inland Revenue may be dependent on other agencies that are delivering cross-government capabilities or services.

- The private sector, either locally or globally, has the skills and expertise we require.
- Legislation changes that may be required to support Inland Revenue’s future operating model are made.
- The current tax and social policy framework does not significantly change.

Ensuring good governance

Our governance system provides holistic oversight and direction for Inland Revenue. It ensures robust and timely governance of our strategic, investment and performance activities, focusing on transformation but also ensuring we are meeting the needs of today.

Membership is based on having the right people on the right boards, with a mix of Executive Leadership Team members, senior leaders and external members where appropriate.

The governance system consists of the:

- Strategic Governance Board—governs our strategic direction
- Business Performance Board—governs the realisation of benefits and our performance in line with our strategic direction
- Investment Board—responsible for prioritising investment activity and ensuring alignment with our strategic objectives and policies, as well as government policies
- Portfolio Governance Board—governs all existing programmes and projects within our single portfolio to ensure they are managed well and remain healthy
- Risk and Assurance Committee—provides independent advice to the Commissioner on her governance responsibilities and accountabilities.

We will continue to review and update our governance system over time to ensure it remains fit for purpose.

In addition, we have other governance groups and committees to provide oversight and direction and to make sure we manage our Business Transformation programme well.

Health and Safety legislation and the role of officers on the governance boards

In accordance with the Health and Safety at Work Act 2015, Inland Revenue’s executive governance structure includes members who are ‘officers’ under the Act. These officers must exercise due diligence to ensure Inland Revenue complies with that duty or obligation.

Project and programme governance

The Investment Board and the Portfolio Governance Board govern projects and programmes through the Change Initiative Lifecycle.

The Investment Board reviews all investment proposals and makes decisions before funding is allocated to support a project or programme, which is then overseen by the Portfolio Governance Board.

The Portfolio Governance Board meets twice a month. It provides a governance function for all established projects and programmes within Inland Revenue's single investment portfolio.

Through this approach, every project has a benefits owner with accountability throughout the whole lifecycle. Benefit management and realisation plans are reviewed and updated at the end of every project phase.

The Business Performance Board oversees the benefits realisation and monitoring once a project or programme is delivered.

Simplifying our appropriations

We currently have seven departmental appropriations, and for each we have performance targets to monitor our effectiveness in using resources to deliver our outcomes.

The Public Finance Act 1989 allows government departments to have multi-category and multi-year appropriations. These can give departments increased flexibility in the way they manage their finances within agreed parameters with the Minister and avoid the need for Cabinet approval to move funds between appropriations and/or years.

Our key activities are collecting and distributing money and, as well as that, over the next four years we will be undergoing a major transformation to help us become the world-class revenue organisation we strive to be. We are talking to the Treasury about the concept of multi-category appropriations for some of our departmental appropriations and a multi-year appropriation for our Business Transformation programme. The changes to the way our organisation is structured, the holistic view we take of our customers and the scale of the Business Transformation programme mean that it is practical to have flexibility in the way we manage our finances to achieve our overall goals. Multi-category appropriations would also improve our ability to respond to opportunities to work collaboratively with other government agencies.

There are specific deliverables for each stage of the transformation programme, and the total investment set out in the business case has been approved by Cabinet. In addition we have recently completed Treasury's Investor Confidence Rating assessment and were awarded an 'A' rating across eight elements of organisational performance and maturity.

Having this increased flexibility over our programme will allow us to make better business decisions and therefore provide a positive impact for our customers.

We are engaging with the Minister of Revenue and Minister of Finance in November 2016 with a view to approving a change to simplify our appropriations from 2017–18.

Part 3

Our people

Our people: The basis of our success

This section describes what we aim to achieve over the next four years for our people and outlines our approach to managing our capability and workforce. As we transform, there will be changes to the skills and attributes we need, how we are structured, and how we provide our services. The 'People' strand of our corporate strategy sets out our vision that working as part of Inland Revenue is unique, exciting, fulfilling, and career enhancing.

The way we view and value our people, and how our people behave, are key to achieving our desired culture—customer-centric, intelligence-led and agile. We will need to ensure we can support customers and meet their needs wherever they are, using digital technology and a permanent or mobile physical presence. Our workforce will need to be supported to use information and insights so that they can help our customers get it right from the start and benefit from the tax and social policy system. Our people and workforce management practices will need to focus on ensuring that we quickly and efficiently match people with the right capabilities to changing work demands.

As we transform, we will enable our people to better deliver services to our customers. This will include simplifying how we deliver our services and ensuring that our people are well prepared in the lead-up to business process change.

Our success is based on our people. Our future workforce will be a mix of employees, independent contractors, and those who work for a range of partner organisations. We anticipate people will want more options for how they interact with us as a source of work. By evolving our workforce management approach to provide a range of choices, we will maximise our access to people with the capabilities we need. This will also increase the diversity of our workforce, reflecting the evolving diversity of our customers and sustaining our performance.

The next four years will include significant change for our people. We are working to ensure that we have mechanisms and processes in place to support them through these changes. This includes an extensive communications and engagement process. We will support our leaders to work with all of our people to ensure there is a shared understanding of the changes and the appropriate support in place through the change process. We will continue to engage with our three unions on our organisational and people change.

Organisation design and capability

In 2015, we developed an organisation design blueprint that outlines the key organisational shifts we need to make and the capabilities we will need in the future. At that time, we identified six organisational capabilities. Since then, the design has evolved into seven organisation capabilities, as described in the diagram over the page.

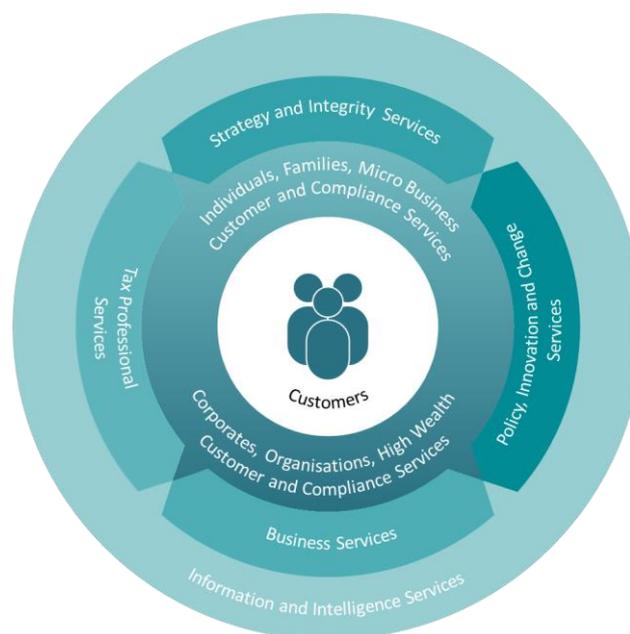
We have undertaken the first phase of detailed organisational design for three of the capabilities:

- Customer Services—Individuals and Families
- Customer Services—Business and Organisations
- Information and Intelligence Services

The detailed design of these first three organisational capabilities includes new ways of working, accountabilities, types of roles and geographic considerations. We expect to be able to communicate about the detailed design by April 2017 and will therefore be able to provide more detail in an updated Four-year Plan for submission in May 2017. During 2017 we will complete our consultation and transition planning activities. The design of the other capabilities will come later. These four capabilities are:

- Business Services
- Strategy and Advisory Services
- Policy, Innovation and Change Services
- Tax Professional Services.

The organisational capabilities are shown in the diagram below.



Transforming our workforce

Our transformation will mean significant change for our organisation and people over the coming four to six years. It is important that our people are equipped with the right skills, knowledge, experience and attitudes and that we have mechanisms and processes in place to support our people through these changes.

People capability

We need to ensure our people have the right capabilities to support delivery throughout our transformation and beyond. This means having the mix of skills, knowledge, experience and attitudes required to achieve our outcomes.

We have identified 12 people capabilities for uplift and have developed a roadmap for the specific activities that will achieve this uplift. These 12 are not the only capabilities we need, but are the ones we have prioritised for targeted attention. We already have

significant expertise across these 12 capabilities, and we will achieve uplift through building on our current workforce and acquiring new capabilities through recruitment, partnering or outsourcing. The 12 people capabilities are described in more detail in the following table.

Capability	Capability definition and value statement
<p>Business Acumen and Partnering</p> 	<p><i>Capability to effectively understand and manage interactions with external third parties, partner agencies and service providers; optimising performance, ensuring effective service integration and achieving innovation through collaboration.</i></p> <p>Importance: An increasing need for Inland Revenue to collaborate with external partners to streamline and manage delivery of services. Inland Revenue recognises it plays a part in a wider system, and a good proportion of the workforce will need to work with and through third parties and other government agencies.</p>
<p>Change Management</p> 	<p><i>Capability to effectively design, plan, manage and integrate change across any organisational dimension (people, platform, policy, process and customer).</i></p> <p>Importance: Change needs to be championed and well managed in order for Inland Revenue to achieve better outcomes. Change will need to become a key part of Inland Revenue’s business-as-usual in order to evolve to reflect and cope with environmental and customer change. A good proportion of the workforce will be required to manage change.</p>
<p>Complex Compliance Management</p> 	<p><i>Capability to utilise a full range of non-compliance deterrent techniques and legislative scope to identify potential compliance issues, assess levels of risk and apply the most appropriate treatments.</i></p> <p>Importance: Inland Revenue needs a broader, more customer-focussed approach to compliance to achieve greater efficiency and better outcomes. Compliance across all customer segments remains a pivotal part of Inland Revenue’s core role, and Inland Revenue needs to ensure it maintains its world-leading status.</p>
<p>Customer Advisory</p> 	<p><i>Capability to provide high quality information, advice and services to internal and external customers by understanding each customer and providing proactive and tailored responsiveness to their needs.</i></p> <p>Importance: The ability to understand complex situations and work with customers through their life-cycles will enable Inland Revenue to be truly customer centric for both external and internal customers. Customer focus will include devolved decision-making to allow for exercise of judgement for each customer.</p>

<p>Data Analytics and Insights</p> 	<p><i>Capability to effectively use data and information to develop insights that inform and drive high quality decision making.</i></p> <p>Importance: In order to be intelligence-led, Inland Revenue needs people whose talents bridge the disciplines of data, analytics and business decision-making. Decision-making will be devolved as close to internal and external customers as possible, requiring capability uplift across a significant proportion of the workforce.</p>
<p>Digital Literacy</p> 	<p><i>Capability to operate comfortably in a digital environment and to support customers to be digitally self-managed.</i></p> <p>Importance: Inland Revenue’s workforce needs to be digitally savvy to enable the organisation and our customers to operate effectively and efficiently in a digital world. With significant focus on digital capability, Inland Revenue can ensure its internal landscape reflects the external world which impacts on customer and workforce behaviour.</p>
<p>ICT Design and Integration</p> 	<p><i>Capability to work with internal customers and external partners to shift between designing and delivering solutions for service integration and management.</i></p> <p>Importance: There is a need for greater integration of digital and ICT services across agency and sector boundaries to enable Inland Revenue to operate effectively and efficiently in a digital environment. Capability will need to reflect the changing digital and technological environment, and the ability of Inland Revenue to utilise other providers.</p>
<p>Information and Knowledge Management</p> 	<p><i>Capability to develop, manage and secure our knowledge as a key organisational asset; sourcing, capturing, securing, sharing and effectively utilising information.</i></p> <p>Importance: Our systems and people need to support information sharing, knowledge and data to enable Inland Revenue to make informed decisions and the best use of resources. Knowledge, human intelligence and collaboration will become critical in maintaining performance and agility, within a wider, more connected system; by creating an agile, self-learning organisation.</p>
<p>Leadership</p> 	<p><i>Capability to motivate and empower people to deliver, adapting style and approach across multiple types of leadership (people, thought, strategic, technical).</i></p> <p>Importance: Future Inland Revenue leaders need to shift their thinking beyond their own functional areas and collaborate across the organisation and wider. Self-awareness and reflection will be critical to demonstrate the right leadership type and style for each situation, and the agility to switch between them.</p>

<p>Policy Quality and Agility</p> 	<p><i>Capability to use legislative and policy parameters to quickly and proactively meet the needs of ministers, customers and the organisation.</i></p> <p>Importance: Policy needs to be highly responsive and flexible to enable Inland Revenue to keep pace with a changing landscape and customer needs. Policy development needs to consider implementation feasibility and change management. While this targets a small proportion of the workforce, this capability is pivotal for the organisation.</p>
<p>Quality Decision Making</p> 	<p><i>Capability to use the right information and insights in the right context, at the right level and pace; making effective decisions considering impacts and independencies.</i></p> <p>Importance: The ability to use new sources of information, identify insights and to make informed decisions is critical to enable Inland Revenue to achieve better outcomes. Decision-making will be devolved as close to internal and external customers as possible, requiring capability uplift across a significant proportion of the workforce.</p>
<p>Workforce Management</p> 	<p><i>Capability to determine the most appropriate source and timing of workforce capability, matching skills to opportunities across multiple deployments, and managing performance and improvement of internal capability.</i></p> <p>Importance: Inland Revenue needs to effectively and efficiently deploy and develop its current and future workforce in order to achieve its business outcomes. Workforce management incorporates sourcing, deployment, people management and development—and extends to leaders of temporary teams.</p>

The 12 capabilities work together in complementary sets. For example, one of the capabilities is ICT Design and Integration. This capability is complemented by the Information and Knowledge Management, Change Management, and Quality Decision Making capabilities.

Over the next 12–18 months, we are focusing on:

- designing an initial organisation-wide uplift approach for four of our people capabilities, seen as foundational for all staff—Customer Advisory; Data, Analytics and Insights; Quality Decision Making; and Change Management
- designing uplift approaches for the remaining eight people capabilities during 2017
- reviewing our leadership capability to determine what uplift we need, in particular to support transition to the new organisation
- designing an organisation-wide approach to people capability assessment across the employee lifecycle (for example, recruitment, development, deployment)
- ensuring we describe our people capabilities in future role descriptions, and analysing the extent of people capability uplift activity that may be required between current and future roles

- undertaking a stocktake of existing learning and development offerings to support people capability uplift, and developing a plan to support people capability uplift journeys
- rolling out communications and engagement to ensure organisation-wide awareness and understanding of the people capability approach and supporting activities.

The people capabilities are developing alongside other transformation activity. For example, alongside the development of our ICT people capability, our Technology Strategy and Operations function is undergoing a significant and multi-stage change programme. This will include transforming our approach to technology design, build, integration and management. We will increasingly using commercial 'off-the-shelf' applications and purchase ICT services rather than owning, building and operating our own ICT solutions. As part of uplifting our ICT capability, we are designing digital, technical and information-focused roles that align with our organisational design blueprint.

People transition

We have identified four transition pathways for our people during our transformational change. It is likely that most of our people will go through at least one change pathway during the next four to six years. These pathways are summarised in the diagram below.



Our leaders will continue to lead the change within their business areas and make decisions about their people. However, we recognise that additional support will be needed to assist decision making and ensure our people receive a consistent experience throughout the change period.

We have created a People Transition Hub to coordinate and facilitate transition. The People Transition Hub plays a key role in liaising with the unions. This engagement has been very positive to date.

Workforce planning and recruitment

We have recently developed a revised set of workforce management principles. We need to continue to manage our workforce and simultaneously progress with our detailed organisation design and deployment in the next few years. The principles focus on managing the significant reductions in our numbers while we maximise opportunities for existing staff and develop the right people capabilities for the future.

Our workforce management plans include exploring our changing workforce demographics, such as greater ethnic diversity and an aging workforce. They also recognise the need for us to reflect the diversity of New Zealand and the communities we support. We expect that career mobility will increasingly be an important part of

workforce planning. As we progress with our transformation, our recruitment will focus on selecting people with capabilities fit for the future organisation.

Performance and remuneration

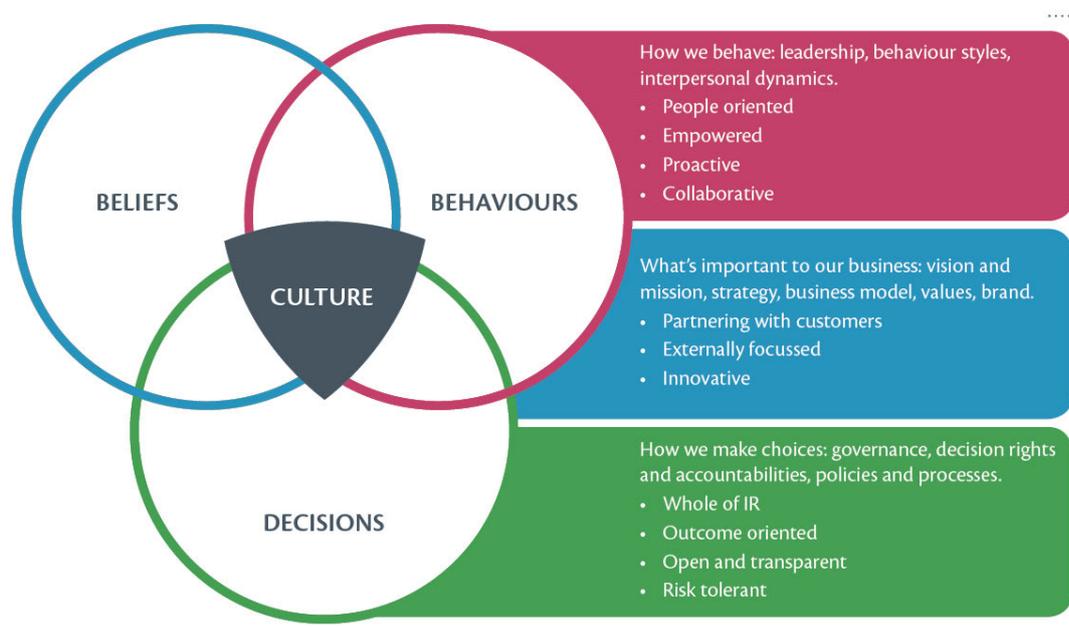
Inland Revenue is changing, so our performance, remuneration and recognition practices and systems must change too. We are reviewing our performance, remuneration and recognition approaches to ensure we achieve our desired culture and attract, develop and retain the workforce we need. During 2017 this will include:

- engaging with our people to contribute to the design of our organisational performance, remuneration and recognition approaches
- working with our unions to design, develop and implement the performance, remuneration and recognition approaches for positions under collective coverage.

We expect to implement changes from 1 July 2017. Implementing the remuneration aspects of this work will be a significant and critical component of our collective bargaining in late 2017. The anticipated financial impact of this is discussed in the cost pressures section of Part 4: Our finances.

Organisational culture

Our beliefs, how we behave and the decisions we make help us achieve the customer-centric, intelligence-led, agile culture we are aiming for.



We already have a number of activities focussed on shifting our culture and lifting engagement. Future activities will include:

- helping our people leaders to support their teams to lift engagement and understand how their day-to-day activities can shape our culture positively
- ensuring that our organisational design and future ways of working reinforce the culture we want

- ensuring our people practices and processes support our desired culture and ways of working
- ensuring that our people can contribute to the culture change journey and lead their own initiatives
- continuing to communicate with our people about Inland Revenue’s purpose and values.

We will measure our culture shift and engagement frequently through organisation-wide and targeted surveys over the next five years, focusing on:

- understanding what drives culture and engagement
- asking our people what matters to them
- understanding the impact of change on our people, including their wellness and resilience
- sharing our positive experiences and understanding what desirable behaviours look like
- celebrating our progress.

Leadership

Leaders play a critical role in maintaining business performance while leading culture change and transforming Inland Revenue. We have a three-year People Leadership Strategy with four key priorities:

- embedding our Leadership Dimensions
- renewing the people leadership development offering
- encouraging leadership collaboration
- building people leadership bench-strength.

Leadership Dimensions and the Leadership Success Profile

Our Leadership Dimensions shown below are based on the State Service Commission’s Leadership Success Profile, are the elements that are particularly important for our leaders to demonstrate as we transform.

These leadership dimensions have been embedded through:

- leadership development—our Te Kōhure suite of new and refreshed leadership development programmes is available for aspiring and experienced leaders
- recognition—we are embedding the Leadership Dimensions into the Commissioner’s Leadership Award
- performance management—people leaders are able to use the Leadership Dimensions to set the behavioural component of their performance objectives
- business-led activity—many of our leadership teams have run conferences or away-days based on the Leadership Dimensions.

Deliver
Accountable | Measurable
 Leaders deliver value through others. Value comes from being accountable for commitments made and measuring our work.

Clear
Priorities | Expectations
 Clarity is the starting point for delivering value. Leaders are clear about our values, priorities and expectations.

Collaborate
Lead | Follow
 Collaboration involves building high-performing teams. It also means being a good follower, someone committed to both colleagues' and IR's success.

Connect
People | Future
 Connecting others with a compelling and realistic vision of the future is at the heart of what leaders do. That means investing in productive relationships and staying up-to-date with what is happening across IR and engaging others with our future.

Curious
Composed | Inquiring
 A curious leader seeks to understand other people's ideas and thinking. They are positive, open to feedback, inquisitive about other's perspectives, and sensitive to how their behaviour is perceived by others.

Following the launch of the State Services Commission's Leadership Success Profile, we have committed to using it for all sector-wide leadership initiatives.

We are looking at options to replace our internal Leadership Dimensions with the Leadership Success Profile by 2018. We will develop a plan that will meet both State Services Commission and Inland Revenue needs.

Talent management

As we transform, having a common understanding of our most talented employees and consciously helping them to manage their development and careers will help us retain and make good use of people who are critical to our future success. This is our first priority.

Our wider objective is to implement consistent talent management practices. This will in time integrate with our wider people and business practices. As part of our focus on talent management we have:

- regular Executive Leadership Team discussions about how to retain and develop our talent while using our talent most effectively to deliver our critical initiatives

- participated in sector talent activity through State Services Commission Career Boards to support movement of senior leaders across government and help Inland Revenue access and provide development opportunities across the sector.

Over the next 12–18 months, our work to implement consistent talent management practices will include identifying where our people are in their career—their interests, strengths and development needs. We will also be developing plans to help people be successful in their job and develop analytics so we can better understand our people’s strengths, development needs and aspirations.

Diversity

We continue to look for ways to better understand and respond to the diversity of our people and customers. This includes an emerging focus on understanding and addressing the implications of New Zealand’s diversity.

We are continuing to develop our approach to managing diversity and inclusion. We have established an executive-level Diversity and Inclusion Champion and are looking to introduce a Diversity and Inclusion Reference Group to provide guidance and advice on longer-term diversity issues.

Gender issues are included as part of our overall diversity and inclusion approach. When calculating the average salary across all roles, we have a 20% variance in pay between genders. Although this is the case when looking at averages across Inland Revenue, when the comparison is made between similar roles the differences are much smaller. However, we have fewer female managers in senior leadership roles (27.5%) or other complex, higher paying jobs.

It is important that we continue to attract and retain women and to ensure that a diversity of views are represented at every level of the organisation. We have an active women’s network that provides support, coaching and encouragement for the development of our women as current and future leaders. We have a joint working group with the Public Service Association and Taxpro. This focuses on pay and employment equity, examining the extent of the gender pay gap and looking to understand its drivers and potential solutions.

Understanding New Zealand’s diversity

We recognise New Zealand, and therefore our customer base, has a diverse population, and people will have different needs in relation to our services and products. We are developing an approach that will help us to understand and leverage these differences so that we can improve our services and products to produce better outcomes for New Zealanders.

We gather information about our customers either directly from them or through our research. We also know that our people can help us to build an understanding of the needs of our diverse customers.

In the coming years, we will look for ways to engage our people and access their knowledge of the communities they are closely associated with. This knowledge will help to inform the design and delivery of services and products for our customers and ultimately, improve compliance.

Other key activities include:

- using internal communications to raise our people’s awareness of the diversity in our workforce and customer base, including sharing stories about our employees
- reviewing our demographic statistics to understand where our focus should be
- building a set of measures that we will use to ensure we are maintaining our diversity and increasing our inclusive culture.

Diversity networks

Our diversity networks help the development of our diverse workforce to support our people’s needs and aspirations. Many of these networks organise cultural activities, such as cultural sports days, the celebration of various language weeks and other cultural festivals (Diwali, for example). The networks often get involved in fundraising to support various charities and international disaster collections.

As part of our wider diversity and inclusion focus, we recognise that our diversity networks views reflect the needs of their respective communities. We are looking for opportunities to better engage with our diversity networks so we can improve our understanding of their communities and how to best respond to their needs.

This requires us to engage with diversity networks in a more consultative way to understand the issues most important to them. During the year, we will be talking to the diversity networks about what we can change to best achieve this and will be looking to implement the changes over the coming year.

Safety and wellbeing

The safety and wellbeing of our people is crucial to our continuing success. We have implemented a number of initiatives in accordance with the Health and Safety at Work Act 2015, building on our previous practices. We have established governance and mechanisms to highlight health and safety risks, including Health and Safety Site Committees and a National Health and Safety Governance Committee.

Our Officers have been trained to ensure they can fulfil their duties under the new legislation. In addition they are provided with reporting showing our areas of risk and how these risks are being mitigated or eliminated. We continue to proactively encourage worker participation. This happens primarily through our site Health and Safety committees, of which there is one in place for all our locations.

We will keep working to ensure safety and wellbeing is fully embedded in our culture.

Workforce forecasts

Our workforce is expected to be significantly smaller by the end of 2021. This is based on work, which considered, at a high level, the potential impact from Business Transformation, including the co-existence impact, natural attrition, redundancy and sourcing of new skills. We have also taken into account the end of existing time-limited funding, which will result in a reduction in workforce numbers.

We will be able to give more detail on workforce forecasts and assumptions when we provide an updated Plan in May 2017, after further organisational design work has taken

place and after we have confirmed our Business Transformation Stage 2 cost and benefit estimates.

Over the next four to six years, we will continue to undertake detailed stage-by-stage analysis to profile the impacts of our transformation by year and by business area to incorporate change management process decisions. As part of this analysis we will update our staff position numbers and workforce cost forecasts accordingly.

Organisational capacity

Our forecast has taken into account both the effect of our Business Transformation work and the reduction we will see in time-limited funding. Our forecasted departmental position numbers on a full time equivalent basis are shown in the following table.

	2016–17	2017–18	2018–19	2019–20	2020–21
Position numbers*—departmental	5,647	5,600	5,450	4,100	3,700
Vacant positions	91	200	200	200	200
Total position numbers	5,738	5,800	5,650	4,300	3,900

* Out-year numbers rounded to nearest 50

Although our total position number is not expected to change significantly year-on-year until 2019–20, a large number of staff will be impacted by change and will progress through one or more of the transition pathways as shown in the diagram on p. 54.

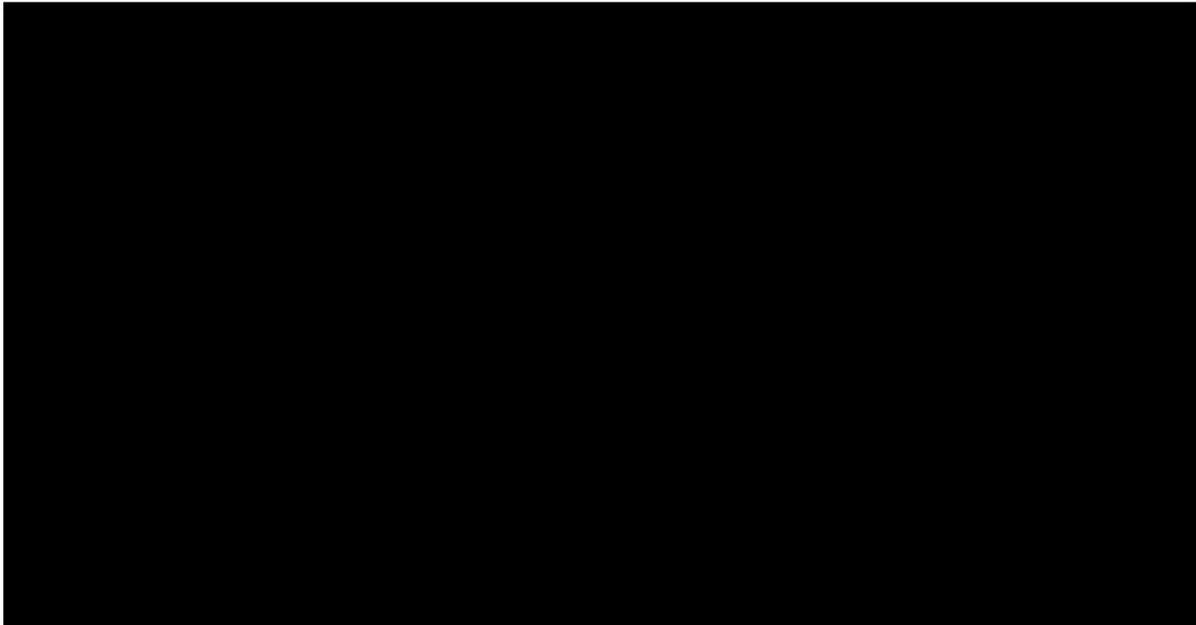
Forecast workforce capacity is based on the following key assumptions:

- Business Transformation will deliver administrative savings of up to \$580 million (cumulative) for the period of 2014–15 to 2023–24. This will be achieved mainly through a reduction in the size of our workforce.
- There may be an increase in average salary costs as a result of requirements for higher capability levels. As the composition of our workforce changes and becomes more knowledge-based, we will establish new roles requiring new capabilities. In many cases we will be able to reskill or up-skill existing staff; in other cases we will need people with new or higher level capabilities.
- Reduced overall time-limited funding will result in a reduction in workforce. Time-limited funding for Budget 2014 initiatives will end in June 2019, and funding for Budget 2012 and Budget 2015 revenue investment will end in June 2020.
- Resourcing of Business Transformation is not expected to increase the direct workforce capacity. Existing project resources will be directed towards Business Transformation rather than other initiatives. Any additional resources engaged for Business Transformation will likely be contractors.
- Workforce management principles will be used to guide decisions on filling of vacancies as they arise. This means the future workforce costs might differ from our current forecast in the following section.
- The increase to operating costs as a result of remuneration increases are partially met through a reduction in FTEs to stay within baseline funding.

Workforce costs

Workforce costs over the next four years are expected to vary depending on the degree of change in our workforce capacity and capability and how this then drives changes in total remuneration at an organisational level.

In addition to the workforce capacity assumptions listed above, the following remuneration assumptions have been used to derive the overall workforce costs forecast:



	2016-17	2017-18	2018-19	2019-20	2020-21
1. Total direct employment costs – Departmental (\$ and % change)	\$404.6m	\$423.5m	\$417.9m	\$370.2m	\$310.0m
		4.7%	(1.3%)	(11.4%)	(16.3%)
Components					
2. Position number change (# and %)	5,647	5,600	5,450	4,100	3,700
		(0.8%)	(2.7%)	(24.8%)	(9.8%)

Part 4

Our finances

An integrated view of our finances

Inland Revenue receives departmental funding through seven appropriations as well as capital injections. Focussing on how we will achieve our Corporate Strategy guides how we apply our funding and how we achieve our vision of being a world-class revenue organisation recognised for service and excellence, and provide increasing value to customers and government.

Managing ourselves well means that we take an integrated view of:

- our sources of funding
- our uses of funding
- our benefit management approach
- the financial impact of our transformation.

The information contained in this Four-year Plan through to 2019–20 is anchored to Budget 2016, without considering any impact from the October Baseline Update, in line with Central Agency guidelines. An indicative baseline for 2020–21 has been included to provide a view across the next four years. A summary of the changes we propose making through the October Baseline Update is included towards the end of this section.

Our sources of funding

Operating—Departmental

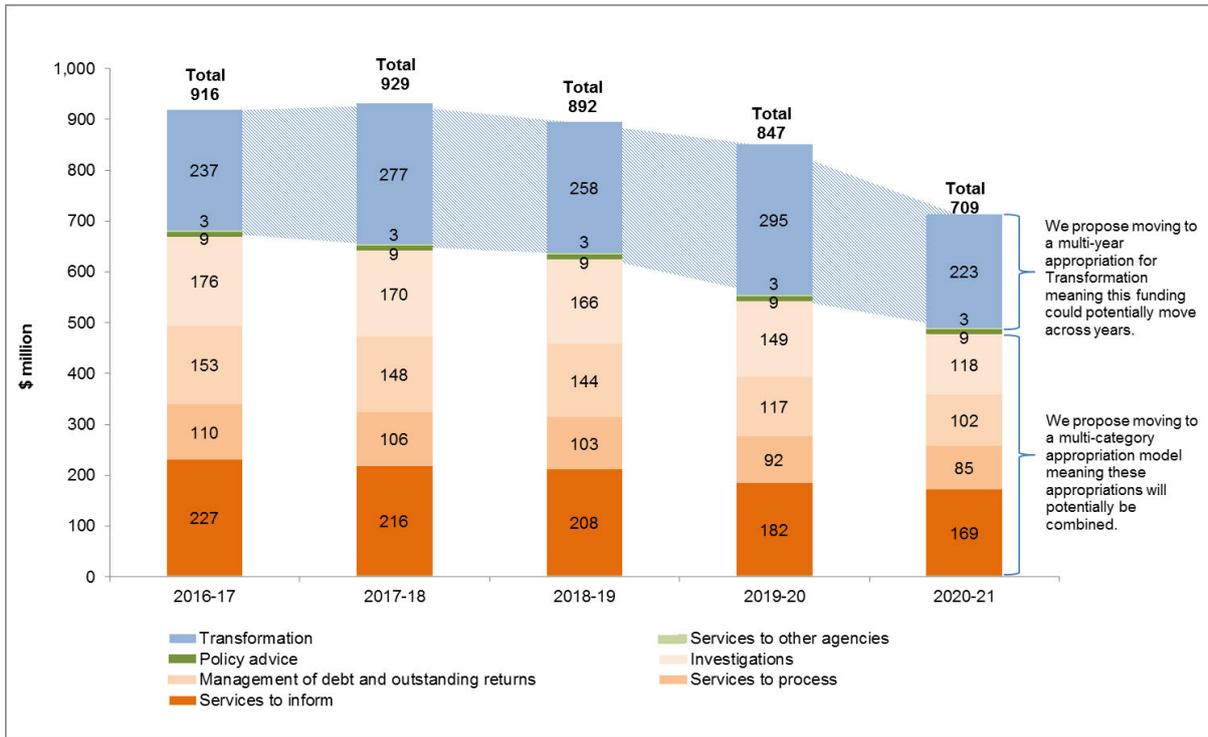
We receive operating funding for our core business activities, the Business Transformation programme and time-limited activities through seven appropriations.

Our baseline for 2016–17 is approximately \$916 million. Our baseline will increase to \$929 million in 2017–18 as we continue to receive Crown funding for Business Transformation, before reducing from the 2018–19 financial year. Between 2016–17 and 2020–21, we expect our total baseline to reduce by \$207 million as time-limited funding ends and the Business Transformation programme draws to a close.

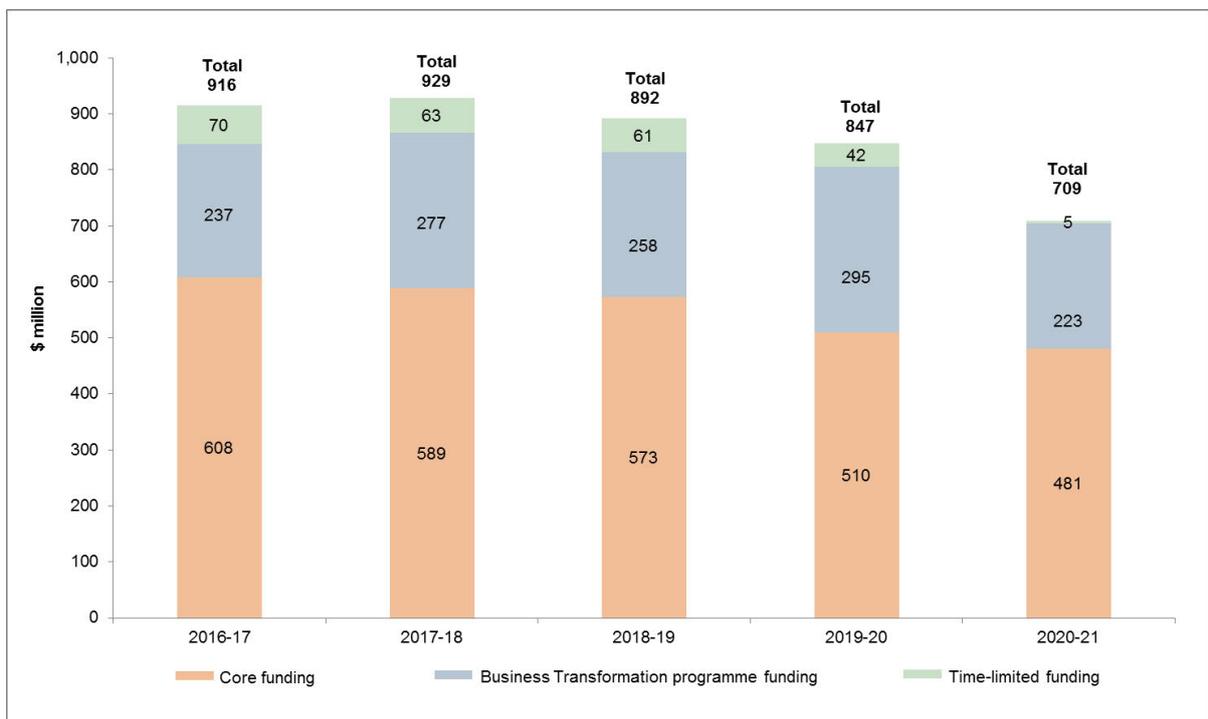
We have seven departmental appropriations. Changes to the way our organisation is structured and the way we work with our customers, and the scale of the Business Transformation programme, mean that there is value in having increased flexibility to manage our finances to achieve our overall goals. We will therefore be discussing the concept of multi-category and multi-year appropriations with Treasury and will provide an update in our May 2017 submission.

The following pages give a summary of our current appropriations and our forecast baseline profile, together with a breakdown of funding for Business Transformation and time-limited funding.

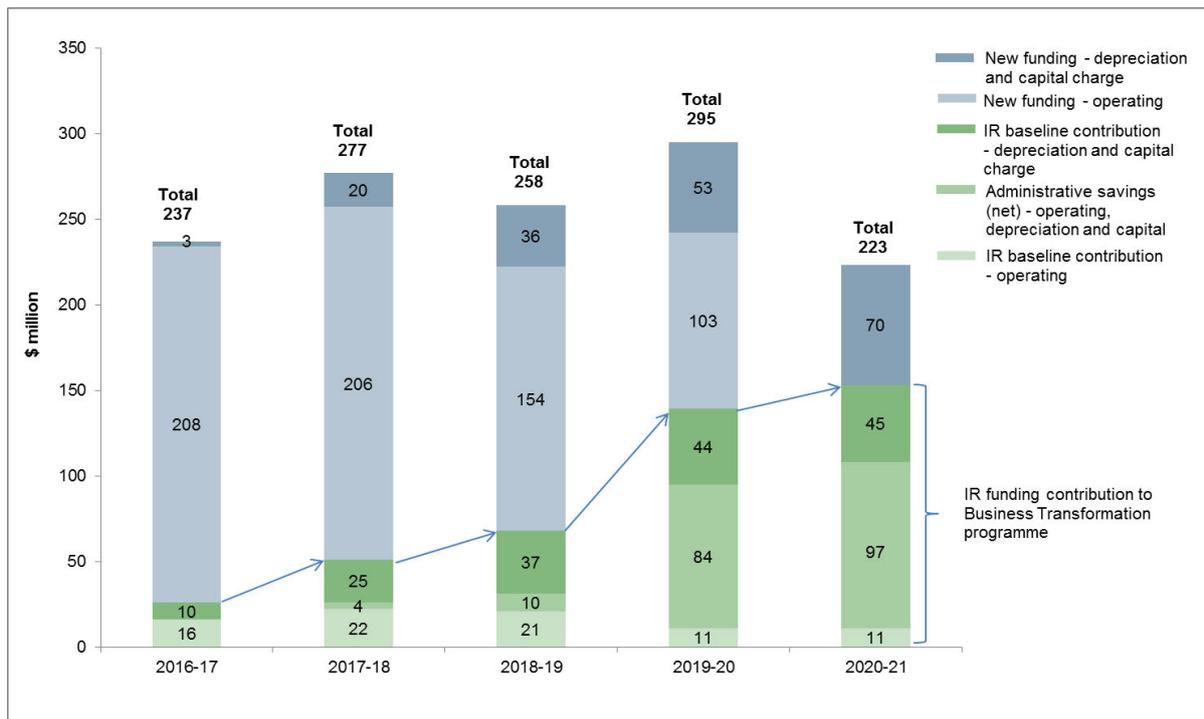
We receive operating funding through seven appropriations



Our core funding reduces over time

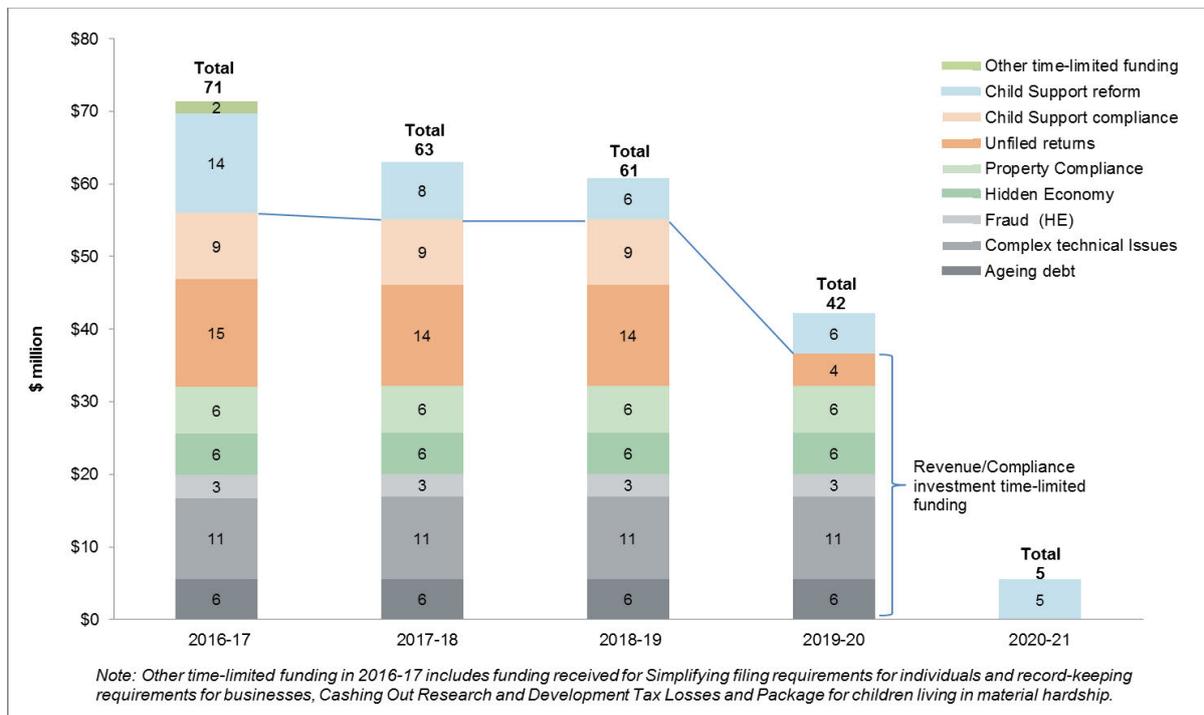


Funding for business transformation is made up of a number of related components



Business Transformation is being funded through a mix of new funding and a baseline contribution in 2016–17, with the first administrative savings contribution required from 2017–18. The reinvestment of administrative savings is relatively small in the coming two years but climbs to more than \$80 million in 2019–20 and to nearly \$100 million in 2020–21.

We receive time-limited funding to enable us to deliver a number of specific initiatives



Note: Other time-limited funding in 2016-17 includes funding received for Simplifying filing requirements for individuals and record-keeping requirements for businesses, Cashing Out Research and Development Tax Losses and Package for children living in material hardship.

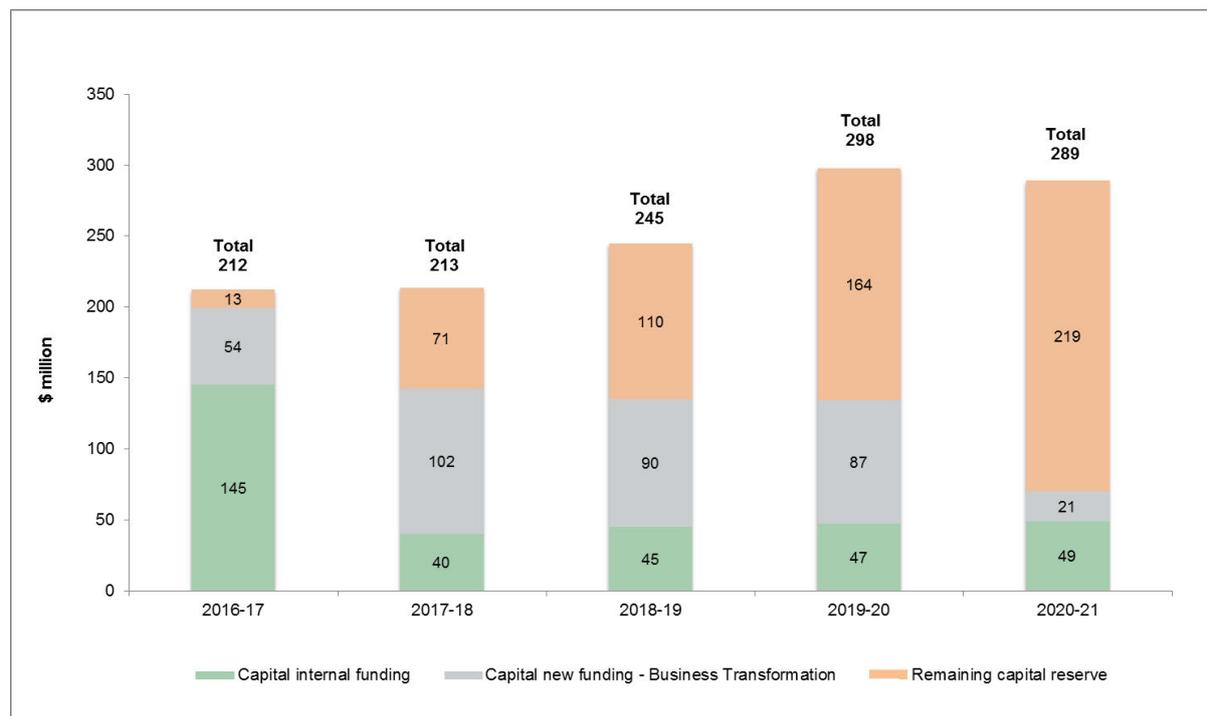
Time-limited funding is reducing significantly. However, as we transform we will become more agile and should not be reliant on receiving funding to target specific policy needs. We understand our return on investment from time-limited activities and are working to understand opportunities in other areas, and to be able to reprioritise existing effort in the changing compliance environment if needed.

Capital—Departmental

The capital funding presented in this Four-year Plan is anchored to Budget 2016, in line with Central Agency guidelines. Our capital funding includes a mix of new funding for Business Transformation and internal funding through our existing capital reserve (from new depreciation each year).

As shown on p. 68, we are planning to spend up to \$481 million on replacing and enhancing our assets over the next four years. Our contribution is possible because of the conservative approach we have taken to capital management in recent years. With significant transformation pending, we have delayed the replacement of technology-related assets. This strategy, along with the transition to 'as a service' contracts for previously capital-intensive infrastructure such as desktop, storage and mainframe computing, has resulted in an accumulation of capital reserves. We will contribute these capital reserves, to the extent that our depreciation funding allows, toward our investment portfolio as detailed in the graph below.

Our capital funding



Our uses of funding

As noted in our strategic planning principles in Part 2, we take a holistic and transparent approach to apply our funding to achieve our outcomes and support delivery of our change programme.

Operating—Departmental

We know the broad areas where we spend money, and we know that we will continue to spend money in these areas in future but that our spending patterns will change as we transform. For example, as we become a smaller organisation, our spending on staff costs, premises and rental is likely to reduce.

The table below sets out our current spending breakdown and gives a high-level indication of the future. This is based on historical spending patterns and incorporates what is known about the impact of our transformation. The total baseline expenditure is in line with Budget 2016 baselines and reflects that we will manage cost pressures internally.

The proportions within this breakdown will change as we finalise the costs and benefits for Stage 2, with the next update available in May 2017 after we have reported to Cabinet on Stage 2 impacts.

Our indicative spending profile

Expenditure groups	2016-17 \$m	2016-17 %	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Direct employment costs	405.7	44%	423.5	417.9	370.2	310.0
Other personnel costs	10.9	1%	18.5	10.7	28.7	45.4
Contractors	154.9	17%	125.3	107.7	94.0	57.2
Total personnel	571.5	62%	567.3	536.3	492.9	412.6
Premises and rental	43.8	5%	44.3	44.1	39.2	35.5
Depreciation	61.0	7%	74.0	83.0	101.0	104.2
Capital charge	21.9	2%	26.2	34.3	41.5	48.5
IT and other operating costs	217.3	24%	216.9	194.0	172.4	108.2
Total operating	344.0	38%	361.4	355.4	354.2	296.4
Total baseline expenditure	915.5	100%	928.7	891.7	847.1	709.0

Capital—Departmental

A sustainable approach to capital management continues to be a focus, which is reflected in the 'A' rating we recently achieved in the Government's Investor Confidence Rating (ICR) Framework introduced by the Treasury in July 2015.

The ICR gives stakeholders confidence that Inland Revenue has the capability to effectively implement change, and has the systems and processes in place to plan for our future organisational requirements over the medium to longer term. Our rating also means that while we remain accountable through ongoing transparency, we have more flexibility and responsibility regarding decision rights, including financial delegations, reporting and assurance protocols.

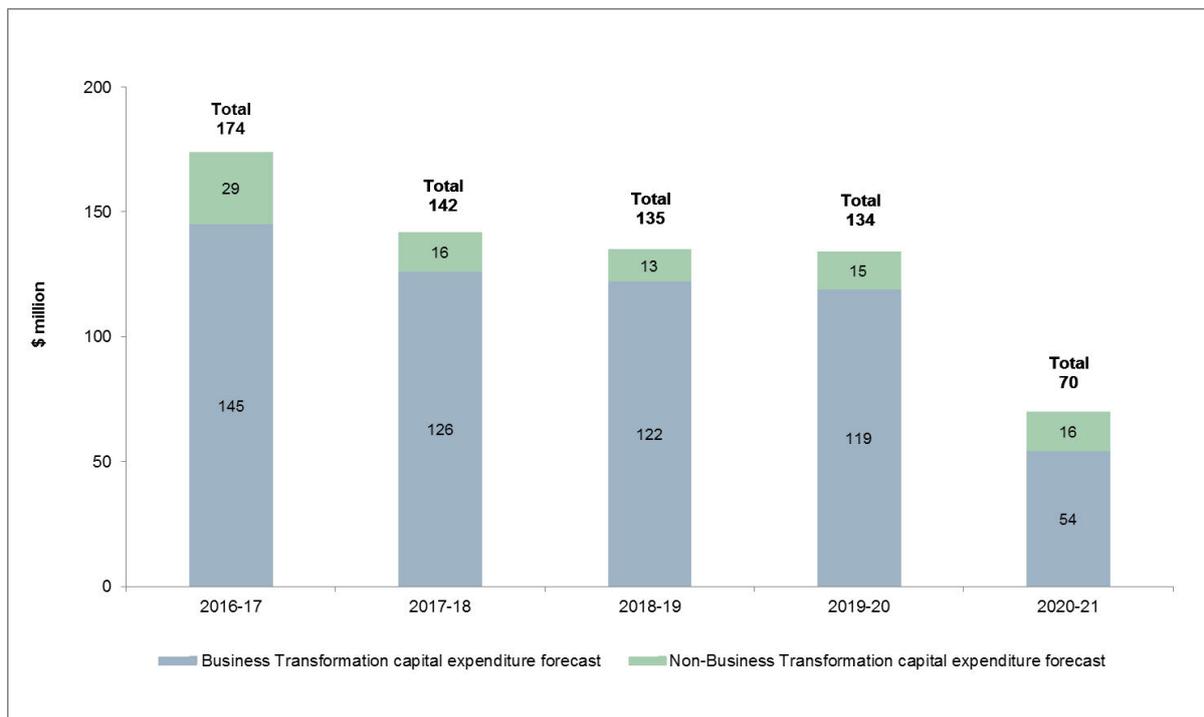
The following table provides a breakdown of our capital forecast for coming years.

Capital—Departmental

	2016-17	2017-18	2018-19	2019-20	2020-21
	\$m	\$m	\$m	\$m	\$m
Opening balance of funding available	96.7	37.7	71.7	109.7	163.7
Add depreciation funding received	61.0	74.0	83.0	101.0	104.2
Add receipts from sale of assets	0.0	0.0	0.0	0.0	0.0
Add other (Capital injection from Crown)	54.0	102.0	90.0	87.0	21.0
Equals total balance of funding available	211.7	213.7	244.7	297.7	288.8
Subtract capital investments funded from baselines	174.0	142.0	135.0	134.0	70.0
Equals closing balance of funding available	37.7	71.7	109.7	163.7	218.8

We are planning to spend \$481 million on replacing and enhancing our assets over the next four years, with the majority of this expenditure (\$421 million including contingencies) relating to Business Transformation activity as shown below.

Our capital expenditure



We have completed a detailed spending profile for Business Transformation Stage 1 and will complete the detailed design for Stages 2 and 3 over the next two years. Our expenditure estimates will be revised as work progresses. At this stage we have made assumptions about which services will be funded through capital and which will be provided through 'as a service' contracts or leases. These assumptions will be firmed up

as we move through detailed design and associated cost updates, and any change will impact on both the capital and operating spending picture detailed above.

We have contributed a significant amount of capital funding towards our transformation from existing capital reserves and will set aside the majority of our newly accumulated capital reserves (from new depreciation each year) until 2020–21 towards Business Transformation activity. Non-Business Transformation capital requirements will be limited to:

- enabling critical infrastructure—essential replacement of technology, including ensuring the heritage environment continues to function
- managing the annual returns cycles
- committed property-related leasehold improvements
- essential maintenance and replacement of property, plant and equipment, with a particular focus on the maintenance of critical facilities.

There will be increasing levels of risk and resource constraints as we transition from our heritage environment to our transformed state over the next four to six years. Even with additional funding for new activity, we would need to consider the likely impact and our ability to deliver additional change over and above Business Transformation.

Our challenges

As acknowledged throughout this Plan, we are going through significant change. At the same time as we transform, time-limited funding is reducing and we are facing a number of other pressures and enterprise considerations. We recognise that our challenges are connected and that the decisions that we make today will have an impact on the future.

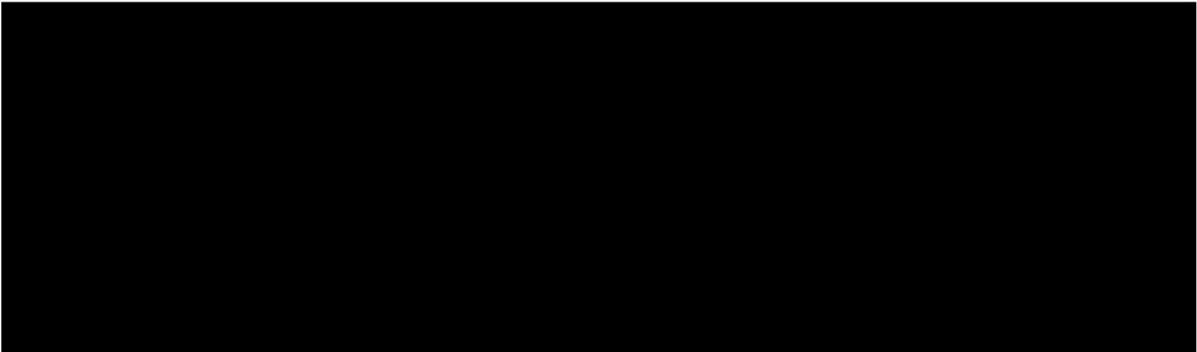
Cost pressures

As noted when discussing our sources of funding, our total baseline will increase from \$916 million in 2016–17 to \$929 million in 2017–18 as we receive funding for Business Transformation. Our baseline will begin falling from 2018–19 and will have reduced by \$207 million to \$709 million by 2020–21 as the Business Transformation programme draws to a close.

We will continue to manage and monitor cost pressures and make decisions through reprioritising baseline funding to balance performance through a time of significant change.

Our planning assumptions are based on forecast workforce capacity changes and salary growth as detailed in 'Organisational capacity' in Part 3:

- Our workforce is expected to be significantly smaller by 2020–21.
- We expect average salary costs to increase as capability levels rise.

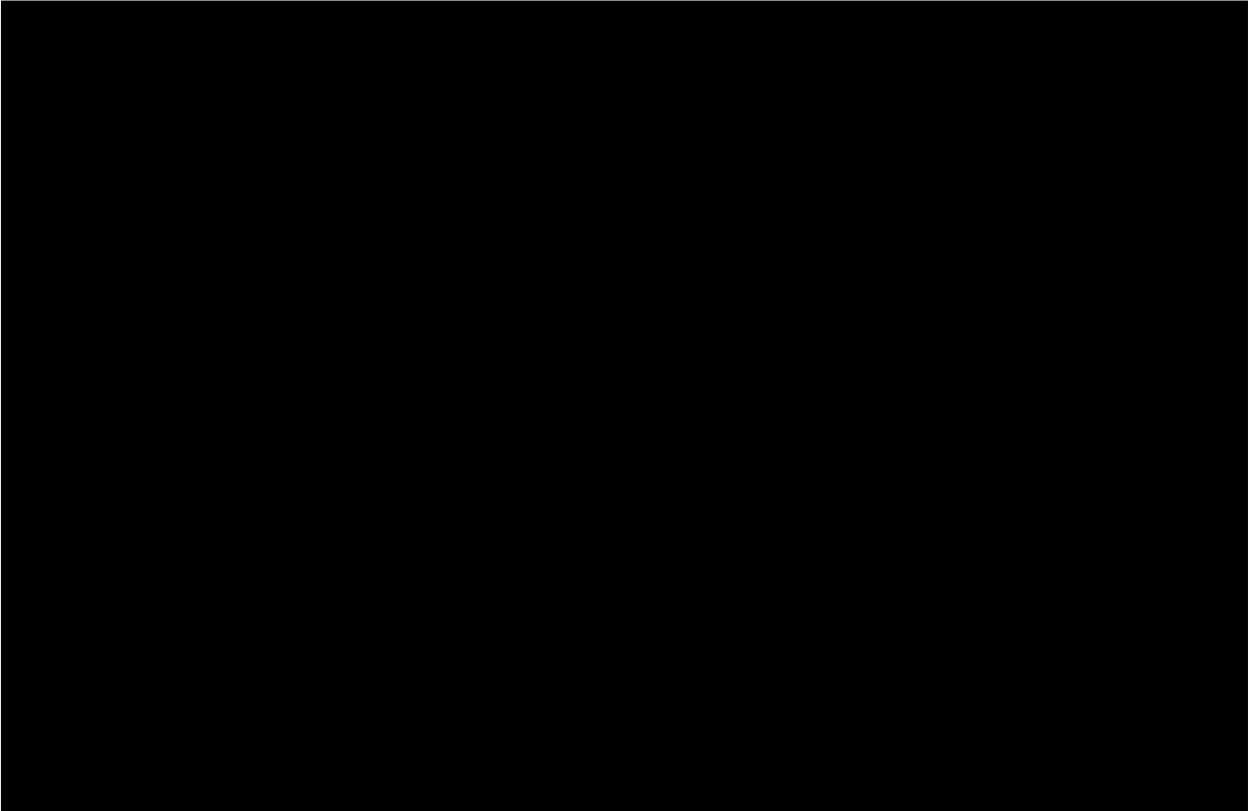


Other enterprise considerations

In addition to the cost pressure detailed above, we are facing a number of other enterprise considerations in coming years. These are not true cost pressures, but form part of our integrated thinking to achieve the best outcomes.

- We will contribute between 40% and 50% of the programme cost over the life of the Business Transformation programme, which is significantly more than indicated in the Programme Business Case submitted in 2013. We will remain focused on our core activities in order to deliver the required contribution. When considering the reinvestment of administrative savings, we need to be aware of the gross level of savings required and recognise that anything that increases costs will need to be offset by corresponding additional savings.
- We have a strong culture of making process improvements that benefit our customers and deliver realisable financial benefits. As our Business Transformation programme progresses, it is important that we have an integrated view of benefits across Inland Revenue and that we are clear about which benefits can be reinvested and which should be banked.
- As part of our contribution of funding for Business Transformation described above, we contributed \$10 million in operating funding in 2015–16 and \$16 million in 2016–17 and will contribute approximately \$20 million in 2017–18 and 2018–19. We will manage this through re-prioritising baseline funding and redirecting the majority of our improvement funding towards transformation.
- Total time-limited funding will fall from \$71 million in 2016–17 to \$5 million by 2020–21.
- Our baselines are not adjusted for inflation. Each year we will become more efficient to cover inflationary cost increases.
- Our baselines are not adjusted for increased customer demand as a result of population growth. We will find ways of managing this growth internally.

The following graph shows the collective financial impact we are facing in coming years through costs we will incur, savings we will find and time-limited funding that will cease. These are the cumulative savings that we will achieve by each year shown. This information is displayed on our performance wall. We are aware that the decisions we make now will have an impact on what is required in future.



Our financial position and managing our overall enterprise considerations

Our remuneration pressure means that we are showing a \$20 million deficit in 2017–18, which will increase to a cumulative fiscal gap of \$39 million by 2020–21. We are committed to achieving our strategic intentions within existing baselines; to do this we will take strategic action and make trade-off choices to manage both our cost pressures and the other enterprise considerations detailed above.

We will continue to monitor our out-year financial position through our organisational planning process as well as ensuring that the collective impact of our cost pressures and other considerations (as seen in the graph above) are known and factored into decision making across the organisation.

We will manage our overall position by:

- regularly reviewing our multi-year budget model to help us monitor financial performance and allow our governance boards to prioritise initiatives based on alignment with our strategic objectives
- maintaining organisational visibility of efficiency savings—project-related and through continuous improvement activity—to ensure that organisation consideration is given to how savings are best re-invested to improve customer-facing processes, support transformation deliverables or manage our financial position
- undertaking transformation impact assessment work, which looks at the financial impact of our transformation and helps us understand the potential impacts on performance and people within our core business; we will use this to manage the impacts and decide whether any trade-offs are required

- challenging new recruitment and applying deliberate workforce management principles when managing vacancies throughout our time of change
- making trade-off decisions as required.

We have a framework for quarterly escalation of cost pressures at an organisational level. We have taken a collective view and will 'run hot' and prioritise resources. We have agreed a set of escalating options for managing risks and pressures. If we are facing fiscal risks or pressures within an acceptable range we will:

- enter the year 'running hot' and with the expectation that business groups will return funding as they identify efficiencies
- make trade-off decisions by prioritising activity across the organisation if we still have a shortfall.

Proposed changes through the October Baseline Update

As noted at the start of this section, the information contained in this Four-year Plan through to 2019–20 is anchored to Budget 2016 in line with Central Agency guidelines, with an indicative baseline included for 2020–21.

A revised financial picture will be presented in May 2017 to incorporate changes. The following table gives a summary of the changes being proposed.

Baseline change proposed through the 2016 October Baseline Update

Baseline changes increase / (decrease)	2016-17 \$m	2017-18 \$m	2018-19 \$m	2019-20 \$m	2020-21 \$m
Operating baseline changes:					
Return of savings to the Crown					
Child support reform programme	(2.6)	(0.8)	(0.5)	(0.7)	(0.6)
Cashing out research and development tax losses	(0.4)	(0.4)	(0.6)	(0.6)	(0.6)
Parental tax credit and paid parental leave payments	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Cabinet decisions					
Automatic Exchange of Information (AEOI)	1.7	2.6	3.3	2.7	2.4
Business tax package	2.7	1.5	1.0	-	-
Confirmation of in-principle expense transfer					
Business Transformation programme	13.5	-	-	-	-
Technical adjustments					
Capital charge rate reduction from 8% to 7%	(2.7)	(3.3)	(4.4)	(5.3)	(6.1)
Total operating	11.6	(0.9)	(1.6)	(4.4)	(5.5)
Capital baseline changes:					
Return of savings to the Crown					
Cashing out research and development tax losses	(2.0)	-	-	-	-
Business tax package	-	-	-	(1.1)	-
Cabinet decisions					
Automatic Exchange of Information (AEOI)	3.0	5.8	-	-	-
Business tax package	1.1	-	-	-	-
Total capital	2.1	5.8	-	(1.1)	-

Operating—non-departmental

[The numbers below are based on Budget 2016 with 2020-21 a preliminary forecast. This forecast, is still being worked through by Treasury and will change. We will have the final number for 2020-21 when we submit our plan on 30 November.]

One of our outcomes is ensuring that people receive payments they are entitled to, enabling them to participate in society. This outcome is reflected in the \$5.1 billion of non-departmental expenditure for the year ending 2015-16 that we administer on behalf of the Crown.

Of this, non-departmental expenditure of \$3.5 billion (65%) relates to social policy expenditure (for example, Working for Families Tax Credits and KiwiSaver tax credits). This expenditure is predominantly demand-driven, with drivers that are largely outside of our control.

A total of \$1.9 billion (35%) of this expenditure relates to the impairment of debt and debt write-offs (tax), impairment of debt (student loans and child support), and the initial fair-value write-down of student loans. This expenditure is largely driven by

macroeconomic factors (for example, nominal GDP, average weekly earnings, discount rates) and legislative settings (for example, interest and penalty regimes); however, there are aspects of this expenditure that can be influenced by operational decisions, particularly in respect of overdue debt.

Note: This section has been updated based on the Budget Economic and Fiscal Update 2016 that was published on 26 May 2016. The 2020–21 forecast is based on the preliminary Half-year Economic and Fiscal Update 2016 numbers and is subject to change.

Operating baseline—Non-departmental

	2016–17 forecast \$m	2017–18 forecast \$m	2018–19 forecast \$m	2019–20 forecast \$m	2021–22 forecast \$m
Forecast operating expenditure baseline	5.4	5.4	5.5	5.6	5.6
Equals total funding level for planning	5.4	5.4	5.5	5.6	5.6

All known cost pressures have been built into the forecasts (baseline).

Appendix 1: Our primary outcomes and impacts—Measurement and alignment with the strands of our corporate strategy

Outcomes	Strands	Primary measures	Description
Revenue is available to fund government programmes through people meeting payment obligations of their own accord		<ul style="list-style-type: none"> • Distribution of total system revenue • % system assured revenue • % intervention revenue • % of assessed revenue paid out on time 	Revenue collected separated into three categories and shown as percentages: <ul style="list-style-type: none"> • System assured revenue (third-party assured tax)/total revenue • Self-assessed revenue (all other non-intervention revenue)/total revenue • Intervention revenue (revenue collected through activities such as debt collection, audit and litigation)/total revenue.
		\$ value of revenue assessed, paid on time	The dollar value of revenue, paid on time (includes partial payment).
People receive payments they are entitled to, enabling them to participate in society		% of tax refunds paid to customers that are both accurate and on time	This percentage is reported for two segments: <ul style="list-style-type: none"> • % of income tax refunds that we pay accurately and on time • % of GST refunds that we pay accurately and on time.
		% of social policy customers receiving payments that are both accurate and on time	The percentage of social policy customers receiving payments which are both accurate and on time is reported for three segments: <ul style="list-style-type: none"> • Working for Families Tax Credits • Child support • Paid parental leave payments.

Key to corporate strategy strands:



Customer



Information and intelligence



Digital



Policy agility



External collaboration



People

New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment		Services integrated around external events (milestones or case study) and delivered in conjunction with other parties e.g. digital registration of immigrants	Using case studies of particular services, which are designed around the life events of our customers and delivered in conjunction with other parties, to improve ease of access to Inland Revenue's services.
		Better Public Services Result 9 measures (reduced costs to business in dealing with Government)	<i>Currently under development/review within Result 9 programme.</i>

Impacts	Strands	Primary measures	Description
Customers have easy access to our services		% of customers who find it easy to comply	<p>The percentage is derived from Inland Revenue's Customer Satisfaction and Perceptions survey. This is a composite measure covering responses to questions relating to the following:</p> <ul style="list-style-type: none"> • Easily access Inland Revenue • Systems, processes, procedures effective and efficient • Inland Revenue makes it easy to get it right • Easy to use (online) • Accessibility and convenience (overall).
		Average customer time spent on tax compliance activities	<p>Customer hours spent on tax annually. This covers the following customer segments (two surveyed per year):</p> <ul style="list-style-type: none"> • Small-medium enterprises (Year 1) • large enterprises (Year 1) • Not-for-profits (Year 2) • Individuals (Year 2)

Customer effort is reduced over time		% of customers satisfied with Inland Revenue's 'overall accessibility and convenience'	The percentage is derived from Inland Revenue's Customer Satisfaction and Perceptions survey. This is a composite measure covering responses to questions relating to the following: <ul style="list-style-type: none"> • Contacted Inland Revenue in way wanted • Convenient contact time • Satisfied with time taken to answer phone • Service easy to access • Satisfied with amount of time • Knew I could contact Inland Revenue for help.
Customers get it right from the start		% of customers who perceive Inland Revenue makes it easy to get it right	The percentage is derived from Inland Revenue's Customer Satisfaction and Perceptions survey.
		Case study—filing GST returns through accounting software	<i>Currently under development</i>
We use information and insight to improve potential future revenue		Case study—Return on investment of targeted interventions	Case study or studies highlighting return on investment of targeted campaigns.
Our business is run effectively and efficiently		Expenditure incurred against departmental appropriations	Total expenditure plus Total departmental capital expenditure against Departmental appropriations.
		Overall Investor Confidence Rating	The Investor Confidence Rating (ICR) is a rating given by Treasury of an agency's investment management environment.
		ICT system availability	System availability of our core systems (eChannel, FIRST, Voice, Back Office).
The policy change process is of high quality, fast and cost-effective		<i>To be developed</i>	The development of these measures to be completed in 2016–17 in conjunction with the policy agility strategy progression. The measures are likely to reflect quality, cost, timeliness and ministerial satisfaction.

We collaborate with other agencies and the private sector both domestically and internationally to create cost and/or productivity savings		Outcomes of information sharing—to be developed	<i>Currently under development</i>
Our workforce is highly-skilled, motivated and diverse		Workforce capability	Workforce capability measure to be developed. High individual performance would be the outcome of effectively matching individuals to roles based on required capabilities, and motivating and empowering people to perform towards a common goal for Inland Revenue.
		% of staff engagement	The overall engagement score from Inland Revenue’s staff survey on engagement and culture, conducted by AON Hewitt (external provider).

Integrity	Strands	Primary measures	
We protect the integrity of the tax system and our stakeholders and the public have trust and confidence in us	     	% of customers who have trust and confidence in Inland Revenue	The percentage is derived from our Customer Satisfaction and Perceptions survey. This is a composite measure covering responses to questions relating to the following: <ul style="list-style-type: none"> • trust in Inland Revenue • confidence that Inland Revenue does a good job • confidence that Inland Revenue takes appropriate action against those who do not comply.
		Public sector reputation index score	This is Inland Revenue’s score from the annual Colmar Brunton report on public sector reputation. The Index benchmarks 31 national public sector organisations against the four pillars of reputation: leadership and success; social responsibility; trust; and fairness, with each entity’s reputation indexed against the others.

Key to corporate strategy strands:



Customer



Information and intelligence



Digital



Policy agility



External collaboration



People

Appendix 2: Glossary

Term	Definition (glossary terms are in red)
Action Plan on Base Erosion and Profit Shifting	The Organisation for Economic Co-operation and Development's plan for addressing base erosion and profit shifting in a coordinated and comprehensive way. It identifies the actions needed, sets deadlines to implement these actions, and identifies the resources and methods for implementation. The Plan was agreed in 2013 by member countries, and final reports on the actions in the Plan were finalised in 2015. For more information see www.oecd.org/ctp/BEPSActionPlan.pdf
appropriations	<p>To 'appropriate' money is to set it aside for a particular use. Parliament authorises the Government to spend public money (that is, to incur expenses or capital expenditure) through appropriations. Each appropriation has a clear type, amount, scope and period, and you cannot spend money from an appropriation outside of those limits. Appropriations are approved by an Act of Parliament and are usually only for one year, though multi-year and permanent appropriations are possible. We have appropriations for:</p> <ul style="list-style-type: none"> • our departmental output expenses • our Business Transformation programme • our departmental capital expenditure • non-departmental benefits (mainly payments such as tax credits and child support) • non-departmental borrowing expenses • non-departmental other expenses (mainly for impairment and write-off of debt) <p>For more information, see the Treasury's <i>Guide to Appropriations</i> at www.treasury.govt.nz/publications/guidance/planning/appropriations/guide</p>
as a service	If something is supplied 'as a service', it is managed and hosted by an external provider and can be bought on demand. The as-a-service approach, which saves departments from investing in infrastructure and having to maintain it, is a key objective of the Government ICT Strategy . We use 'infrastructure as a service'—for example, Unisys hosts and supports our mainframe services. This can include hardware, software, and personnel.
Automatic Exchange of Information (AEOI)	Refers to the new global Standard for Automatic Exchange of Financial Account Information in Tax Matters, which aims to fight offshore tax evasion. AEOI involves financial institutions collecting details of financial accounts held by non-residents and passing that information to us so that we can then pass it on to the relevant country.
base erosion and profit shifting (BEPS)	Refers to when multinational organisations avoid tax by using gaps and mismatches in different countries' tax rules to shift profits to countries where they have little or no tax to pay.
baseline	An organisation's total funding for a given year.

benefit management	Identifying, planning, tracking, realising and reporting benefits, both financial and non-financial. Benefits could be, for example, reduced costs, improved revenue or better services.
Better Public Services (BPS)	A programme launched by the Prime Minister in 2012 as part of the Government's public-sector reforms. BPS is about getting the public sector to deliver better results and improved services, and it involves working more closely together to achieve targets in 10 priority 'results'. For more information, see www.ssc.govt.nz/better-public-services
Better Public Services result lead	A chief executive who leads a Better Public Services result and is accountable for showing progress against that result. For example, the Chief Executive for the Department of Internal Affairs is the result lead for Result 10, 'New Zealanders can complete their transactions with the Government easily in a digital environment'.
broad-base, low-rate	Describes New Zealand's tax settings, which involve taxing a very broad range of spending through GST and a very broad range of business and personal income through income tax at low or moderate tax rates. Keeping bases broad means that tax rates and compliance costs can be kept low.
Budget	The process through which the Government prepares and documents its economic policies and spending plans each year. The Budget process leads to the Government introducing an Appropriation Bill and the Minister of Finance delivering the Budget statement (speech) in Parliament on 'Budget day' in May. For more information, see http://www.treasury.govt.nz/budget
Business Growth Agenda	The Government's programme for growing competitive businesses. It focuses on building investment, export markets, innovation, skilled and safe workplaces, natural resources and infrastructure. The Ministry of Business, Innovation and Employment and the Treasury are working alongside other agencies to coordinate the Business Growth Agenda and ensure businesses can more easily get the advice and support they need from government agencies.
Cabinet	The group of Government Ministers who make the Government's significant decisions. Cabinet is chaired by the Prime Minister.
capital expenditure	Spending on buying or upgrading assets or undertaking new projects.
capital injection	When the Crown gives the department capital funding. Capital injections are authorised under an Appropriation Act.
capital reserves	Capital funding held in 'reserve' for future needs.
Career Boards	Career Boards are made up of state services chief executives. The three sector Career Boards and the System Career Board meet up to three times a year to discuss development of the state services' senior leaders and succession planning for key positions.
co-existence	Refers to the period in which we will be using both our new system, START, and our existing system, FIRST. Co-existence will be challenging, as we will need to support and operate two systems, with data and functions spread across both.

Consumers Price Index (CPI)	Statistics New Zealand's official index to measure the rate of change in prices of goods and services bought by households.
cost pressures	Expected expenses that will exceed an organisation's baseline for a given year and which need to be managed through reprioritisation or savings. For example, if an organisation anticipated \$105 million of expenditure but only had a \$100 million baseline, it would need to manage a \$5 million cost pressure.
Crown	All Ministers and all departments, the state as a whole.
data highway	A data access service to enable easier information sharing between government agencies and with non-governmental organisations.
depreciation	Many assets wear out or lose value ('depreciate') over time. Funding is allocated as an expense over the estimated useful life of each asset and built up to replace the asset when needed.
Direction and Priorities for System Stewardship	A set of priorities and principles agreed by the state services chief executives in March 2016. This is a commitment to put the current and future needs and wellbeing of New Zealanders at the heart of the state services' operations and take collective responsibility for them. For more information, see www.ssc.govt.nz/direction-and-priorities-system-stewardship
discrepancies	The differences between the tax position filed by a taxpayer and the position determined by our investigations.
Estimates of Appropriations	Detailed documents in which the Government sets out its spending plans for the coming financial year. The Estimates are presented to Parliament, which then approves them through an Appropriation Bill. (Full name: Estimates of Annual Appropriations for the Government of New Zealand.) For more information, see www.treasury.govt.nz/budget/2016/estimates
FIRST	Our existing computer system, which is made up of a core mainframe; satellite systems that support services such as online filing; and an integration layer, which links the core to the satellite systems.
functional lead	A chief executive who drives performance across the state services in a key area. There are currently three, for ICT, procurement and property. Functional leadership is aimed at creating efficiencies, improving services and developing capability across departments.
Gateway review	An independent review process that looks at programmes and projects at key decision points to make sure that they can move successfully to the next stage. Cabinet requires Gateway reviews for departments' high-risk capital projects and programmes. The Treasury facilitates the Gateway process, and a review team is made up of people from the public and private sector who can provide expert and independent advice.

Generic Tax Policy Process (GTPP)	<p>A process that ensures better, more effective tax policy development through:</p> <ul style="list-style-type: none"> • encouraging early consideration of proposals' key policy elements and trade-offs, such as their revenue impact, compliance and administrative costs, and economic and social objectives • providing opportunities for substantial external consultation • clarifying the responsibilities and accountabilities of participants in the process, particularly those of the Inland Revenue and the Treasury. <p>For more information, see http://taxpolicy.ird.govt.nz/how-we-develop-tax-policy</p>
Global Forum on Transparency and Exchange of Information for Tax Purposes	<p>A forum of 137 countries that ensures implementation of internationally agreed standards of transparency and exchange of information in the tax area. Through an in-depth peer review process, the Global Forum checks that its member countries fully implement the standard they have committed to. Its secretariat is based in the OECD Centre for Tax Policy and Administration. For more information, see www.oecd.org/tax/transparency/</p>
Government ICT Strategy 2015	<p>The Government's strategy for ICT-enabled transformation of public services. It involves seeking opportunities to:</p> <ul style="list-style-type: none"> • use emerging technologies • unlock the value of information • leverage agency transformations • partner with the private sector. <p>For more information, see www.ict.govt.nz/strategy-and-action-plan/strategy/</p>
Government Property Group	<p>The Government Property Group (formerly the Property Management Centre of Expertise) is part of the Ministry of Business, Innovation and Employment. It helps government agencies meet the goals set by the Government for efficient and effective management of the property that those agencies own or lease. For more information, see www.mbie.govt.nz/info-services/nz-govt-procurement-and-property/government-property-group</p>
head of profession	<p>A chief executive or other senior leader who is responsible for building state service capability in a key profession.</p>
impacts	<p>The differences that our activities make, or the effect they have, for New Zealanders.</p>
Inquiry into Foreign Trust Disclosure Rules	<p>A Government inquiry prompted by concerns about the disclosure rules for foreign trusts registered in New Zealand. The inquiry noted that foreign trusts are legitimate and that New Zealand's tax treatment of foreign trusts is appropriate. However, it also recommended disclosure arrangements should be strengthened. For more information, see www.treasury.govt.nz/publications/reviews-consultation/foreign-trust-disclosure-rules</p>

integrity of the tax system At all times, we need to make sure we are protecting the integrity of the tax system, which section 6(2) of the Tax Administration Act 1994 defines as follows:

(2) Without limiting its meaning, the integrity of the tax system includes—

- (a) Taxpayer perceptions of that integrity; and
- (b) The rights of taxpayers to have their liability determined fairly, impartially, and according to law; and
- (c) The rights of taxpayers to have their individual affairs kept confidential and treated with no greater or lesser favour than the tax affairs of other taxpayers; and
- (d) The responsibilities of taxpayers to comply with the law; and
- (e) The responsibilities of those administering the law to maintain the confidentiality of the affairs of taxpayers; and
- (f) The responsibilities of those administering the law to do so fairly, impartially, and according to law.

Investor Confidence Rating (ICR) A Treasury-led assessment of government agencies' investment and asset management. The ICR shows the level of confidence that investors (such as **Cabinet** and Ministers) can have in an agency's ability to deliver an investment result. It also shows where investment management capability and performance can be lifted. The ICR uses a rating scale from A to E. For more information, see www.treasury.govt.nz/statesector/investmentmanagement/review/icr

IR for the future Our strategic direction, including our purpose, our strategic focus, and how we work.

Joint International Taskforce on Shared Intelligence and Collaboration Brings together 36 countries that have committed to more effective and efficient ways to deal with tax avoidance. It enables collaboration through effective conventions and tax information exchange agreements. For more information, see www.oecd.org/tax/forum-on-tax-administration/ftajitsicnetwork.htm

Labour Cost Index Measures changes in changes in salary and wage rates across the total population.

Leadership Success Profile A model of leadership that defines what effective leadership looks like across the state sector.

<i>Making Tax Simpler</i>	<p>The Government’s public consultation series, seeking feedback on idea to change and simplify the way people and businesses manage their tax. The consultation documents released so far are:</p> <ul style="list-style-type: none"> • Green Paper on Tax Administration (2015) • Better Digital Services (2015) • Towards a New Tax Administration Act (2015–16) • Better Administration of PAYE/GST (2015–16) • Better Business Tax (2016) • Investment Income Information (2016) <p>Future consultations are:</p> <ul style="list-style-type: none"> • Individuals’ Interactions with Inland Revenue • Social Policy <p>For more information, see http://makingtaxsimpler.ird.govt.nz.</p>
multi-category appropriation (MCA)	<p>A single appropriation made up of multiple categories (which can be different types of expenditure, including output expenses, other expenses and non-departmental capital expenditure) that all contribute to the same overarching purpose. MCAs allow great flexibility.</p>
multi-year appropriation (MYA)	<p>Gives authority to spend money for up to five years, rather than the usual one year for an appropriation. These are used when outputs or capital expenditure fall across two or more financial years but the timing between the years is uncertain.</p>
New Zealand Business Number (NZBN)	<p>A unique 13-digit number given to a New Zealand business. NZBNs will in time become the main way for businesses to identify themselves when dealing with others and will help to reduce the time and energy businesses spend providing government with the same information in different ways. For more information, see www.nzbn.govt.nz</p>
October Baseline Update	<p>Twice a year, in March and October, departments ask their own Minister and the Minister of Finance to approve changes to their baselines for the current and coming years. This involves making changes to the baseline because, for example, money that is no longer needed for a particular programme is being given back to the Crown; money is being given to us for a new programme; or money given to us for use on a programme in one year will instead be used in another year.</p>
OECD Centre for Tax Policy and Administration	<p>The centre of the OECD’s work on tax (see ‘Organisation for Economic Co-operation and Development’). It focuses on matters such as base erosion and profit shifting, exchange of information between tax authorities, tax havens and developing the Convention on Mutual Administrative Assistance in Tax Matters. For more information, see www.oecd.org/ctp</p>
operating funding/expenditure	<p>Ongoing funding/spending for the day-to-day running of our business and activities—for example, paying our people and paying for our office space.</p>
Organisation for Economic Co-operation and Development (OECD)	<p>Provides a forum in which the governments of 34 member countries can work together to share experiences and seek solutions to common problems. Promotes policies that will improve the economic and social wellbeing of people around the world. For more information, see www.oecd.org</p>

organisational capability	The organisation's functions that deliver services to customers and contribute to the achievement of the organisation's target state.
outcomes	The broad goals that we want to achieve for New Zealand. We have three outcomes: <ul style="list-style-type: none"> • Revenue is available to fund government programmes through people meeting payment obligations of their own accord • People receive payments they are entitled to, enabling them to participate in society • New Zealanders benefit economically and socially through Inland Revenue working collaboratively across our external environment
outputs	The goods or services that we provide. We have seven outputs: <ul style="list-style-type: none"> • Policy advice • Services to inform the public about entitlements and meeting obligations • Services to process obligations and entitlements • Management of debt and outstanding returns • Investigations • Services to other agencies • Transformation
people capability	The skills, knowledge, experience and attributes required to achieve our outcomes.
Policy Project	A whole-of-government project led by the Department of the Prime Minister and Cabinet, aiming to build a high-performing policy system that supports and enables good government decision making. It helps the policy community to: <ul style="list-style-type: none"> • identify and share good practice • build collective ownership of the policy system, and a programme of improvement activities • encourage and facilitate collective approaches to improving performance or policy capability where it makes sense • develop new products, tools and resources to improve the performance of the policy function and quality of policy advice across government.
public service	The departments of the government (including those that do not have 'department' in their name, such as the Crown Law Office and the Ministry of Health). Excludes other public-sector agencies such as Crown entities, state-owned enterprises and local authorities.
RealMe	A secure service that people use to prove who they are when online and to log into many New Zealand sites and services. For more information see www.realme.govt.nz
Reciprocal Agreement with the Australian Department of Human Services	The Reciprocal Agreement between Australia and New Zealand has been in place since 1 July 2000. It allows one country to refer the collection of child support to the country the liable parent lives, and sets out rules for assessing child support when one parent lives in the other country.

START (Simplified Tax and Revenue Technology)	The name we have given to our new system for administering tax and social policy. It is a commercial software package for tax and social policy, developed by FAST Enterprises LLC, that we are configuring for our needs.
Study Group on Asian Tax Administration and Research (SGATAR)	An annual forum at which tax administrators from 17 countries discuss tax administration issues. It looks at aiding administrative reform through sharing information and insights about tax issues and at aligning tax systems in the Asia-Pacific region to support trade and investment. For more information see https://sgatar.org
time-limited funding	Money given to departments by the Government for particular programmes for a set period.
Vote	A grouping of one or more appropriations that are the responsibility of one or more Ministers and are administered by one department. Inland Revenue administers Vote Revenue, which is the responsibility of the Minister of Revenue.
workforce management principles	The principles we use to guide our decisions as our workforce size, capability and diversity changes.