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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Budget 2013: Four-year Plan

Inland Revenue

Covering:

Vote Revenue

Four-year Plan

20 December 2012

Forwarded by:

Minister of Revenue

Executive Summary	4
Business Transformation	12
1.0 Strategic Direction	19
2.0 Medium-term Intentions	33
2.1 Summary of Medium-term Intentions – Intended Changes.....	44
2.1.1 Summary of financial implications from medium-term intentions – intended changes.....	44
2.1.2 Summary of new funding sought from the centre.....	45
3.0 Organisational Capability and Workforce	46
3.1 Organisational Capability	47
3.1.1 Change leadership	51
3.1.2 Culture	52
3.2 Workforce	53
3.2.1 Workforce capacity and capability impacts – medium-term intentions.....	53
3.2.2 Workforce capacity and capability impacts –whole of organisation.....	54
3.2.3 Capability	57
3.2.4 Capability pressures.....	58
3.2.5 Capacity	59
3.3 Total Workforce Costs	61
3.3.1 Total workforce costs	61
3.3.2 FTE numbers.....	61
4.0 Summary of Total Financial Impact	65
Operating – Departmental.....	65
Operating – Non-departmental	66
Capital	67
5.0 Key Operational Risks	69
6.0 Detailed Activity and Financial Planning.....	73

6.1	Medium-term Intentions – Intended Changes	73
6.2	Fiscal Implications	76
7.0	Savings Ideas.....	85

EXECUTIVE SUMMARY

1. The purpose of the Vote Revenue Four-year Plan is to:
 - Present an integrated view of Inland Revenue's strategic direction, medium-term delivery, financial planning, organisational capability and workforce strategy for the next four years
 - Provide an integrated view of what Inland Revenue intends to achieve and deliver on the government's priorities including our contribution and support towards Better Public Services results
2. Inland Revenue has a responsibility to all New Zealanders to be efficient in the collection of tax revenues and the distribution of entitlements. Our mission is we contribute to the economic and social wellbeing of New Zealand by collecting and distributing money and our success is reflected in our two 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
3. *IR for the future* is our high level strategic document. It presents a strategic view of what will be changed in our working practices, leadership behaviours and the tools we will use to deliver our services. It reflects our ideas about transformation and where we see ourselves in the future – offering greater speed, certainty, compliance and value, and meeting the changing expectations of government and customers.
4. Significant progress towards our future state will be achieved through our proposed business-led and technology enabled transformation programme. Inland Revenue is preparing a Programme Business Case (PBC) which will be submitted to Cabinet in early 2013. Through this programme and our other change initiatives, we will become a customer-focused, world-class revenue organisation recognised for service and excellence.
5. Over the next four years Inland Revenue will contribute significantly to the government's priorities by delivering an effective and efficient tax administration system which supports the government's objectives.

Inland Revenue's priorities for the next four years are:

1. Deliver on our core services, including advising on tax policy

Our ongoing work continues to proactively influence voluntary compliance, to target inadvertent non-compliance by providing information, assistance and tools, and to detect and deter deliberate non-compliance.

Key legislative priorities to be delivered currently include Student Loans, Child Support Scheme Reform, Budget 2010 and 2012 initiatives, Christchurch recovery and Better Public Services. New legislation and the annual budget cycle will provide additional priorities over time.

2. Deliver organisational change to allow Inland Revenue to improve the efficiency and effectiveness of our services

These projects seek to identify and implement efficiency improvements in our services and operations to address our fiscal position while maintaining performance. We will do this by:

- Increasing productivity of our systems and operations - these seek to deliver enhancements to existing business operations and services and to contribute towards government priorities. Projects include operations management.
- Maintaining existing business - these are projects intended to meet our day to day needs and are also designed to improve and identify ways of working to deliver efficiencies in our services and mitigate risks. Work here includes maintaining our property and IT base.
- Delivering the future needs of New Zealanders - this includes our proposed 10 year business-led and technology enabled transformation programme that will comprehensively deliver on *IR for the future* and deliver a new operating model

Our contribution towards government priorities is set out in the table below:

Government Priorities	Our contribution towards Government Priorities
Responsibly manage the government's finances	Deliver government/legislative priorities and advising on tax policy development
Build a more productive and competitive economy	Deliver and progress organisational change to improve the efficiency and effectiveness of the overall tax system
Deliver better public services within tight financial constraints	Deliver core services and BPS result areas 7, 9 and 10
Rebuild Canterbury	Canterbury recovery activity, including joint working and co-location opportunities within Christchurch

6. The Better Public Services Result Areas directly relevant to Inland Revenue's planning and delivery are:

- **Result 7** - Reduce the rates of total crime, violent crime and youth crime (led by the Ministry of Justice)

Inland Revenue is working on a proposal to provide taxpayer information to law enforcement agencies for serious offences.

- **Result 9** - New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business (led by Ministry of Business, Innovation and Employment)

Inland Revenue is one of the participating agencies and is collaborating with other agencies to deliver a substantial improvement in government interaction with business.

- **Result 10** - New Zealanders can complete their transactions with government easily in a digital environment (led by Department of Internal Affairs)

Inland Revenue is one of 18 participating agencies. Among other initiatives, we are delivering three transactions in the digital environment that will help to achieve the target for the Result – filing individual tax returns, paying individual tax, and applying for an IRD number.

7. Key risks that could compromise delivery of our outcomes and strategic priorities in *IR for the future* are:
 - people capability
 - information technology
 - information management
 - financial
 - [6]
 -
 - revenue
 - external interactions
8. Our long term strategic planning takes into account the internal and external factors, drivers and the challenges we face. We will:
 - maintain government revenue in a challenging economic environment
 - work across government to improve services
 - respond to the challenges in an increasingly digital world and make better informed decisions
 - improve the responsiveness and agility of systems that hold and process business information
 - reduce our cost of administration
9. Our operating model needs to be transformed so that we can respond appropriately to the changing nature of our business and new ways of working. It needs to take account of digital and other self-management channels, service delivery through intermediaries, other agencies and private providers, and the ability to share information with other agencies.
10. A Target Operating Model has been developed that provides for these new ways of working. It describes the business capabilities Inland Revenue needs to have in place to deliver on *IR for the future*.

Business Transformation

11. Inland Revenue's proposed ten year business transformation programme is critical to achieving our high level strategic direction. This programme will enable Inland Revenue to better assist in the delivery of the government's priorities.

12. [6]

13.

14. Rationale for, and implications of, business transformation have been included specifically in the following business transformation section and where appropriate throughout the plan. As work is still on-going on the business case the information on business transformation has been kept at a relatively high-level.

15. [6]

16. When decisions are made regarding our transformation programme we will need to reassess our intentions and work programme which could potentially impact on:

- [6]
-
-
-

17. Inland Revenue will balance the need to transform against the requirements of our existing business, while continuing to stabilise and enhance our existing core infrastructure to ensure service continuity and stability.

Fiscal and performance outlook

18. Over the four-year period our baseline will decrease by [6]

19. [6]

20. Inland Revenue's current operating projections indicate cost pressures growing from [6]

21. Over the four-year period Inland Revenue has identified a total of [6] in savings, [6] The level of savings required ranges from [6]

22. [6,7]

23. In support of our contribution towards the Better Public Service Programme we will be required to provide baseline funding towards the running of this programme.

- [6,9]

-

24. The Four-year plan demonstrates that, whilst we will be aiming to maintain our non-financial performance it will be challenging given the fiscal reductions we are facing.

25. We are also developing an integrated channel strategy [6]

26. Inland Revenue administers \$5,882m of non-departmental expenditure which is forecast to increase to \$5,930m in 2016/17 based on current policies and settings.

Capital expenditure

27. In August 2012 Inland Revenue submitted its 10 year Capital Intentions. These intentions were formed from a combination of our current portfolio of investments and our proposed transformation investment. [6]

28. [6]

29. As agreed with the all-of-government approach we are committed to participating in IaaS, [7]

30. In agreement with central agencies our capital profile for business transformation will be updated in March 2013 following the submission of the PBC.

31. As part of the PBC, Inland Revenue will confirm:

- the indicative cost of Business Transformation covering the next ten years
- how much we can contribute from our baseline (capital/operating)
- how much funding we will be seeking (i.e. the potential range of tranche 1 costs with an indication of 2013/14 and 2014/15 requirements)

Fiscal planning assumptions

32. Cost pressures – a number of cost reduction assumptions have been applied in order to reduce/address our fiscal gap. [6,7]

33.

34. Our saving approach includes a number of tactical initiatives designed to deliver operational efficiencies while supporting our strategic direction, [7]

35. [6,7]

36. Inland Revenue is fully committed to managing our fiscal pressures, [6]

Budget bids/Time limited funding

37. [6,9]

38. The Four-year Plan will offer government the option to reinvest the time limited funding that is due to end over the next five years in return for maintaining the additional revenue targets currently being delivered. Examples of this include Budget 2010 (\$6.6m in 2013/14), [6] and Overseas Based Borrowers (\$4.8m in 2013/14).

39. We are seeking to reappropriate \$2.5m of Child Support funding originally received in Budget 2009 for the purposes of an uplift in fee-for-service child support debt cases sent to Australia. Despite reaching a preliminary agreement for the transfer of 4,000 additional cases, the Australian Child Support Agency subsequently advised Inland Revenue that, due to a number of factors it could no longer agree to any increase in the volume of cases collected for New Zealand. It is proposed that the reappropriated funding would be used to enhance child support collection opportunities by alternative means.

Organisational capability

40. To deliver on our areas of focus and make a significant contribution towards government priorities and result areas 7, 9 and 10 we need to ensure we have the right capability and skills to meet changing business requirements along with a culture where high performance is valued.

41. [6,7]

42.

43. [6]

44. Summary of recommendations

Note Inland Revenue is seeking:

- [6]

- Child Support –to reappropriate the \$2.5m funding originally provided in Budget 2009 for the purposes of an uplift in fee-for-service child support debt cases sent to Australia. This funding has been handed back to Government for the last three years as the Australian Child Support Agency has been unable to accept additional cases from New Zealand. It is proposed that the reappropriated funding would be used to enhance child support collection opportunities by alternative means.
- Extension of time limited funding which consists of:
 - Student loans – Funding for the overseas based borrowers initiative ceases on 30 June 2014. It is proposed that this operating funding of \$4.85m per annum is extended.
 - Budget 2010 – Property compliance funding of \$6.6m per annum which ceases in 2013/14
 - [6]

Other points to note:

- Fiscal planning assumptions associated with Inland Revenue's cost pressures and savings initiatives in order to reduce/address the fiscal gap over the next four years
- [6,7]
- The capital intentions profile will be updated in March 2013 following the submission of the PBC to Cabinet
- [6]

BUSINESS TRANSFORMATION

The Government is committed to strengthening the New Zealand economy, returning to surplus and reducing our reliance on foreign debt. Inland Revenue plays an important role in assisting Government achieve these goals.

Inland Revenue is no longer simply a revenue agency administering a number of non-tax, social policy-based products. The infrastructure to administer these products has over the years been bolted on to technology that was fundamentally built for tax administration. The reality that we face today is that our aging technology and complex business processes now mean that our operating model is no longer fit for purpose.

Without a fundamental transformation of our current operating model and core technology platform, we will not be able to deliver what New Zealand needs.

Without transformation we will:

- face increasing levels of risk associated with system reliability and the consequential impacts on revenue collection
- not be able to improve tax collection or social policy disbursement in the future
- not be able to implement policy or operational initiatives in a timely and cost effective way
- face an increased risk that some New Zealanders:
 - will not receive disbursements that they are entitled to
 - may receive disbursements that they are not entitled to
 - will face increased costs of compliance
- have a reduced ability to manage overdue debt levels
- be unable to maintain current levels of outputs without increasing our baseline funding and staffing
- find it difficult and more costly to support Better Public Services
- not be able to achieve our strategic ambition to be a world-class revenue organisation recognised for service and excellence

The strategic response to our challenges is our transformation programme. The specific objectives of the programme are to:

- minimise the risk of protracted system outages and intermittent systems failure
- improve the time to market of policy changes
- have more effective delivery of our services to improve compliance
- have more efficient delivery of our services to improve productivity
- make it easier and simpler for our taxation and social policy customers
- increase sharing of intelligence and information across government

We undertook a transformation planning exercise from January-June 2012. The key outcomes were for Inland Revenue to develop a plan to deliver *IR for the Future*, including crystallising the case for change, identifying areas within its operating model that needed to transform and the benefits of transforming, and to give a high-level view of the activities required. [6,7]

[6]

[6]

[6,7,9]

[6,7,9]

[6,7,9]

As part of the work that is underway for the PBC we will continue to refine our resource and funding requirements to reflect the evolving nature of our change programme and the options around tranching / sequencing of Business Transformation initiatives. The PBC will confirm:

- The indicative cost of Business Transformation covering the next ten years
- How much capital and operating funding we can contribute from our baseline
- How much funding we will be seeking (i.e. the potential range of tranche 1 costs with an indication of 2013/14 and 2014/15 requirements)

1.0 STRATEGIC DIRECTION

Purpose

As New Zealand's principal revenue agency Inland Revenue collects over 80% of core Crown revenue and has an important role in administering social policy programmes.

Inland Revenue has a responsibility to all New Zealanders to be efficient in the collection of tax revenues and the distribution of entitlements. Our mission is *we contribute to the economic and social wellbeing of New Zealand by collecting and distributing money* and our success is reflected in our two 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

We aim to make it easier for our customers to comply with their obligations and receive their entitlements by continuing to focus on delivering better services and value for money to the government. We want to ensure that we continue to provide the services New Zealanders expect of us in a changing world. We aim to maximise voluntary compliance and this is the cornerstone of our approach to achieving our outcomes.

Supporting and contributing to Government priorities and Better Public Services

The Government's four priorities (announced in January 2012) are to:

1. responsibly manage the Government's finances
2. build a more productive and competitive economy
3. deliver better public services within tight financial constraints
4. rebuild Canterbury

Inland Revenue contributes significantly towards priorities one, two and three by delivering an effective and efficient tax administration system which helps supports the Government's objectives. We also contribute towards priority four through our role in helping to rebuild Canterbury.

The Better Public Services programme aims to create a public sector that is more innovative, efficient and focused on delivering what New Zealanders want and expect. We will continue to work with other government agencies such as the Department of Internal Affairs (DIA), Ministry of Business, Innovation and Employment (MBIE) and the Ministry of Social Development (MSD) to deliver better government services for less and improve the overall service for New Zealanders. The Results directly relevant to Inland Revenue's planning and delivery are:

- **Result 7** - *Reduce the rates of total crime, violent crime and youth crime* (led by the Ministry of Justice)

Inland Revenue is working on a proposal to provide taxpayer information to law enforcement agencies for serious offences.

- **Result 9** - *New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business* (led by MBIE)

Inland Revenue is one of the participating agencies and is collaborating with other agencies to deliver a substantial improvement in government interaction with business.

- **Result 10** - *New Zealanders can complete their transactions with government easily in a digital environment* (led by DIA)

Inland Revenue is one of 18 participating agencies. Among other initiatives, we are delivering three transactions in the digital environment that will help to achieve the target for the Result – filing individual tax returns, paying individual tax, and applying for an IRD number.

These result areas will be achieved by working across government and will contribute to a public sector that can respond even more effectively to the needs and expectations of New Zealanders.

Some of the specific work we are undertaking that relates to cross agency, apart from that which directly contributes to Results, includes:

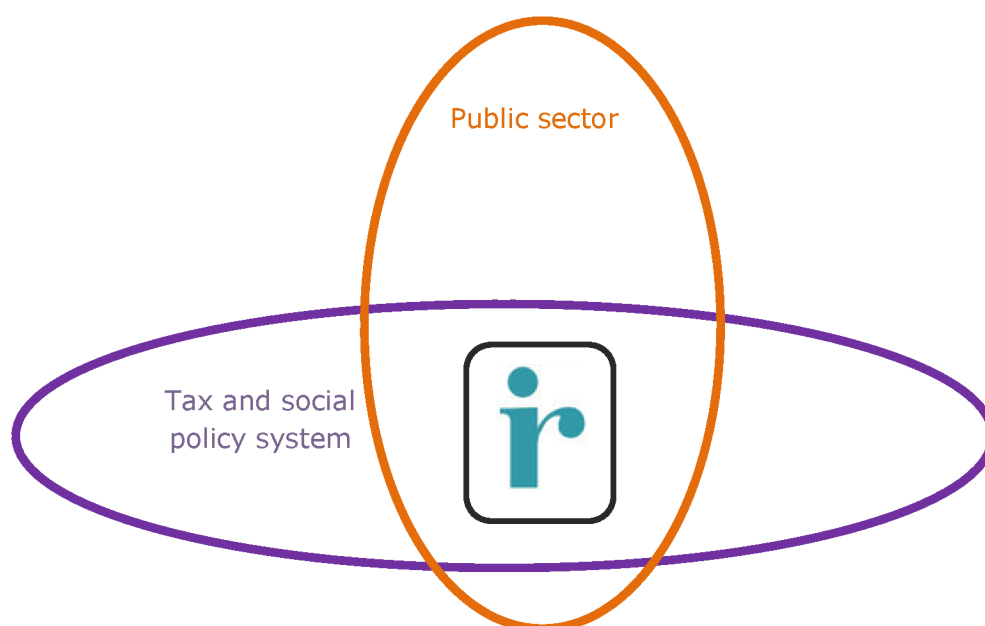
- the tax policy work programme that works to improve New Zealand's tax and social policy legislation. We have a leadership position across government through our legislative advice and development of end-to-end legislative processes (framework). We are also coordinating the legislative process on information-sharing and the implications for the Privacy Act & Tax Administration Act.
- involvement in the DIA-led work around improving the value for money of government information and communications technology.

Inland Revenue's contribution to the rebuild of Christchurch involves a range of focus areas, including:

- rebuilding our long term business operations
- supporting our people in the complex Christchurch environment
- representing Inland Revenue effectively in managing our key stakeholder relationships in what is a highly sensitive and political environment
- contributing to the Government's desire for Better Public Services through initiatives such as Canterbury Government Leaders Group, Recover Canterbury, Service Transformation and Canterbury Innovations Project with State Services Commission
- opening a co-located contact centre with MSD in early 2013, [6]

We are putting significant efforts into cross agency activity to help achieve the Government's priorities. However, we recognise that to adequately address the opportunities presented by Better Public Services, as well as to overcome the constraints within our current operating model we need to adapt and do things differently. Our transformation programme has as one of its aims the building of capability within Inland Revenue to enable inter-operability across agencies and provide a more seamless user experience for individuals and businesses.

Inland Revenue's future vision within the Public Sector



Inland Revenue is part of an integrated and world class public sector that delivers results for New Zealanders. Our vision describes our central place in the delivery of tax and social policy, within a system that encompasses roles for other public sector agencies as well as other third parties. This intersects with our broader public sector responsibilities, which includes information sharing with other agencies.

We meet the expectations of government and citizens by achieving our outcomes as a revenue agency, contributing to the economic and social wellbeing of New Zealand by collecting and distributing money. We also contribute to broader public sector outcomes by working with other agencies, sharing our expertise, capabilities, and information.

We take the leading role across the sector in directing and designing the 'system' for the assessment, collection, and disbursement of products related to tax and social policy obligations and entitlements. [6]

We also play a leading role in the provision of information (income and employment information in particular), and in the provision of expert services.

We take a leading role in the delivery of citizen-centric services, and in ensuring the right settings are in place to enable agencies to work cohesively together.

We ensure that services delivered to individuals and businesses are automated, easy to access, easy to use, and are integrated with all of government services.

Inland Revenue will utilise and leverage off all of government capability in areas like ICT and ensure that our transformation projects supports the development of all of government capability.

We will continue to engage with other agencies as our thinking progresses to ensure that our future cross agency position is achievable and in alignment with our key public sector counterparts.

Our strategic direction and priorities for the next four years

IR for the future is our high level strategic document that outlines our mission, vision, values, and strategic priorities. It reflects our ideas about transformation and where we see ourselves in the future – offering greater speed, certainty, compliance and value, and meeting the changing expectations of government and customers.

IR for the future presents a strategic view of what will be changed in our working practices, leadership behaviours and the tools we will use to deliver our services. It is our high level guide for what we want and need to be as an organisation and how we will get there.

Significant progress towards our future state will be achieved through our proposed business-led and technology enabled transformation programme. Inland Revenue is preparing a Programme Business Case (PBC) which will be submitted to Cabinet in early 2013. Through this programme and our other change initiatives, we will become a customer-focused, world-class revenue organisation recognised for service and excellence.

Over time, our transformation initiatives will bring about significant modernisation in the way we deliver tax and social policy services, making it easier for customers to comply, and delivering on the changing needs of society. Our transformation work will also allow us to make a significant contribution towards achieving the Better Public Services targets.

Our transformation programme will have a significant impact on our work over the next ten years. The work associated with transformation is contingent on the specific approach selected and consequently the level of funding received from government.

[6]

Our proposed transformation programme is the most significant set of activity that will deliver on the future vision contained in *IR for the future* and will lead to:

- *New ways of thinking about information*

When dealing with government citizens want their information to be reused and data to be shared across government agencies within a secure environment that protects their privacy. Our research shows that people's expectations of service are increasing, they want their information to be used more effectively so they do not have to deal with multiple agencies on the same issue. They expect to deal with government in a fast, intuitive, online environment.

We currently measure and demonstrate our progress through our performance measurement framework (PMF). This shows how our resources (our inputs) need to be organised and used (our strategic priorities) to deliver the services that we provide to New Zealanders (our outputs). Through these activities we aim to make a difference by changing customer behaviour (our impacts) and contribute to our overall aims (our outcomes). We also recognise that getting best value for public funds is important. The PMF shows how we carefully consider the relationship between our inputs, outputs and impacts to ensure we stay focused on delivering value for money.

Further information on our PMF (including targets) can be found on page 33.

Over the next four years, Inland Revenue's main areas of activity can be summarised as:

1. Deliver on our core services, including advising on tax policy

Our ongoing work continues to proactively influence voluntary compliance, to target inadvertent non-compliance by providing information, assistance and tools, and to detect and deter deliberate non-compliance. We will continue to invest in analytical capability that helps to identify and target those who choose not to comply, and to do so faster and more effectively.

The tax policy work programme aims to help the government achieve its priorities. As well as major change initiatives noted below, the programme contains remedial and base maintenance items required to protect the tax system and other Budget initiatives as appropriate.

Key legislative priorities to be delivered currently include Student Loans, Child Support Scheme Reform, Budget 2010 and 2012 initiatives, Christchurch recovery and Better Public Services. New legislation and the annual budget cycle will provide additional priorities over time.

2. Deliver organisational change

This priority focuses on a range of initiatives that will enable Inland Revenue to improve the efficiency and effectiveness of services including:

- Increasing productivity of our systems and operations - these projects seek to deliver enhancements to existing business operations and services and to contribute towards government priorities. Projects include operations management.
- Maintaining existing business - these are projects intended to meet our day to day needs and are also designed to improve and identify ways of working to deliver efficiencies in our services and mitigate risks. Work here includes maintaining our property and IT base.
- Delivering the future needs of New Zealanders - this includes our proposed 10 year business-led and technology enabled transformation programme that will comprehensively deliver on *IR for the future* and deliver a new operating model.

In addition, these projects seek to identify and implement efficiency improvements in our services and operations to address our fiscal position while maintaining performance.

While our initiatives have been split into these categories there is overlap and correlation between the groups. Our transformation activity will also contribute towards enabling 'better public services'. Similarly, the 'maintaining existing business' category will be delivered in alignment with our transformation direction. [6]

Our organisational change is dependent on our strategic approach and the level of internal and external funding available, with some projects also being key enablers for our business transformation. [6]

Inland Revenue will balance the need to transform against the requirements of our existing business, while continuing to stabilise and enhance our existing core infrastructure to ensure service continuity and stability.

Our two areas of activity are described in more detail in section two 'medium-term intentions'. Section three also outlines our approach for ensuring that we have the workforce capability and capacity to deliver on these priorities.

Current operating environment and challenges

Inland Revenue operates in a dynamic environment where domestic and international developments impact our business. We continually evaluate the impacts on our operating environment to identify existing and emerging trends and risks, which allow us to respond appropriately ensuring successful delivery of our services.

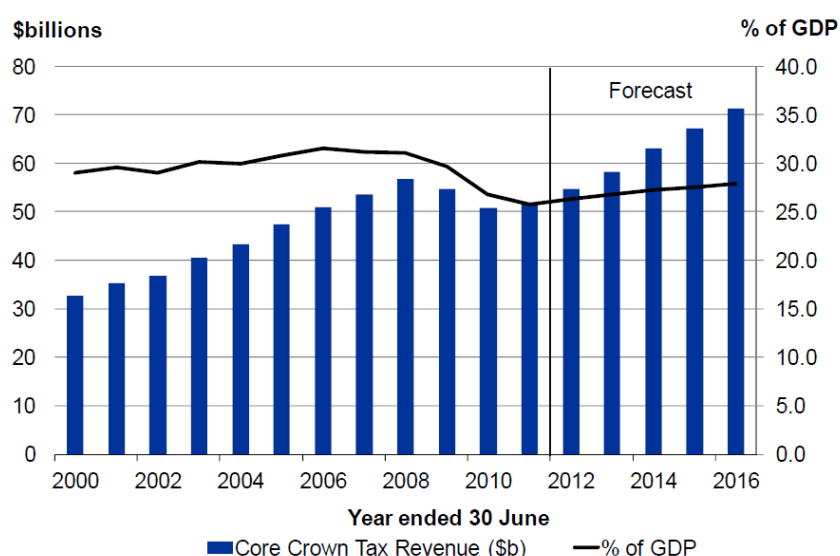
Our long term strategic planning takes into account the internal and external factors, drivers and the challenges we face. These include:

- **Maintain government revenue in a challenging economic environment**

An uncertain global economic outlook presents a key challenge to Inland Revenue's operating environment. Lower than expected global growth will impact the New Zealand economy and its rate of growth which could affect peoples' ability to pay their tax obligations.

The Treasury is forecasting Core Crown tax revenue to increase over the forecast period from 25.7% of GDP in 2010/11 to 27.8% of GDP in 2015/16. The Canterbury earthquakes continue to affect economic growth, tax revenue and debt levels. The rebuilding of Christchurch is expected to be a major driver of economic activity and contribute significantly to economic growth in the next five years.

Figure 2 - Core Crown Tax Revenue



Source: The Treasury – Budget Economic and Fiscal Update 24 May 2012

We will continue to have threats to our revenue base from tax avoidance and tax evasion. Our challenge is to identify and address serious non-compliance and influence social norms to ensure that people increasingly comply with their tax obligations. We have had good results in addressing tax avoidance and tax evasion, particularly in the hidden economy.

- **Work across government to improve services**

Our involvement with cross-agency work is critical to our business as well as achievement of the targets established for result areas 7, 9 and 10. These areas of work will help to create a public sector that is more innovative, efficient and focused on delivering what New Zealanders want and expect.

We are also looking to improve customer services and operational efficiencies through sharing of information with other agencies. This will be done in accordance with the Government's intentions and legislative provisions, which include maintaining the integrity of the tax system and protecting New Zealanders' privacy.

Demand for new customer channels such as the internet and smartphones is increasing, along with a desire to move to near real time transactions. The complexity of our existing mainframe system makes it difficult to respond to these changing needs, including the changes needed to support the Government's more collaborative cross-government approach. Our aim is to replace our existing mainframe system, FIRST, as part of our proposed transformation programme.

We are rethinking traditional agency boundaries to enable cross-government efficiencies and are exploring a range of options on how we can proactively and openly work with other agencies.

- **Respond to the challenges in an increasingly digital world and make better informed decisions**

We are focusing on using electronic products and communication to deliver information and more cost effective services in ways that are easy for customers to use. We are also working on ways to mitigate risks associated with information security, privacy and identity authentication as the use of the internet as a service delivery channel increases.

[6]

As a result of transformation data quality from customers will be complete, correct, and received in a timely way, primarily through our digital channels. [6]

- **Improve the responsiveness and agility of systems that hold and process business information**

Our ageing infrastructure, although still delivering, is constraining our ability to easily and economically deliver system changes to respond to the changing needs of government and citizens for better, smarter and more cost effective services (including digital services).

Our technology system and associated processes were originally designed specifically for tax collection. The addition of changes to Inland Revenue's accountabilities, primarily

through the introduction of social policy products, has resulted in a highly complex and tightly integrated technology embedded with bespoke processes, which are difficult to change easily and cost effectively.

Due to the age and complexity of our technological platform we face an increasing risk of a systems failure that would severely damage our ability to collect and disburse money. Because of the age of our systems and in particular, the underlying, now out-dated, technology it has resulted in it becoming increasingly difficult to recruit appropriately skilled staff, and access to knowledge to resolve system problems.

As well as a new modular and scalable operating platform, transformation will deliver agility through a common business services model. This will enable reuse of processes between products, meaning that changes to products can be more quickly and easily implemented. Critical to delivering these system changes is ensuring we can source the specialist skills and funding for major business transformation projects as we continue to face reducing baselines.

- **Reducing our cost of administration**

Over the four-year period our baseline will decrease by [6] . In addition, looking five years ahead to 2017/18, our baseline will reduce by [6] . To manage our fiscal outlook we are seeking to reduce our costs of administration while also delivering improved services and implementing tax and social policy changes. This will help support the government's fiscal position and its aim to return to surplus in 2014/15.

A substantial portion of our reduced baseline relates to time limited funding that was received in return for generating additional revenue. [6]

Figure 3 - Departmental and non-departmental operating expenditure

Baseline profile – OBU 2012	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating expenditure – departmental	707.9	684.9	[6]		
Operating expenditure – non-departmental	5,882.1	6,011.5	5,942.2	5,835.0	5,929.8

[6]

Figure 5 - Inland Revenue - Time limited funding changes

	Annual Cash \$m	Annual Revenue \$m	Annual FTE's	Time limited funding \$m	Final year of funding	ROI (at the end of the final year of funding)
Budget 2010						
Debt Collection	200.0		[6]	17.7	2019-20	7.5 ¹
Hidden Economy		44.0		8.7	2019-20	5.0
Property Compliance		45.0		6.6	2013-14	6.8
Subtotal	200.0	89.0		33.0		
[6]						
Overseas based borrowers	14.6		60	4.9	2013-14	4.9

¹ ROI for the Debt initiatives for B10 and B12 accounts for the impact impairment has on Crown's financial performance in order to calculate the return on investment.

- **Non-departmental operating expenditure**

One of Inland Revenue's outcomes is ensuring that people receive payments they are entitled to, enabling them to participate in society. This outcome is reflected in the \$5.9bn of non-departmental expenditure that we administer on behalf of the Crown.

Of this non-departmental expenditure \$33.8bn (64%) relates to social policy expenditure (e.g. Working for Families tax credits, KiwiSaver kick-start payments and KiwiSaver tax credits). This expenditure is predominantly demand-driven, with drivers that are largely outside of Inland Revenue's control.

\$2.1bn (36%) of this expenditure relates to the impairment of debt (tax, student loans and child support), bad debt write-offs and the initial fair value write-down of student loans. This expenditure is largely driven by macroeconomic factors (e.g. GDP, average weekly earnings) and legislative settings (e.g. interest and penalty regimes), however there are aspects of this expenditure that can be influenced by operational decisions (e.g. additional investment in debt initiatives can over time reduce the impairment of tax debt).

- **People capability**

Delivering on our medium term intentions and *IR for the future* will require an engaged, capable and productive workforce. [6]

Transformation planning has helped confirm and advance the thinking we had already done about how our culture and people need to change to meet the challenges and opportunities of the future. We have focussed on building capability, and what we need to do to develop a high performing culture. Our change leadership capability is also a feature of the effort that will be placed into ensuring we can advance *IR for the future*. More detail on organisational capability and workforce can be found in section three.

Inland Revenue's operating model

Inland Revenue's current operating model, (which is a description of how Inland Revenue operates, and includes processes, tools and technology, skills, channels, and policies), has been fit for purpose over a number of years for the current tax and social policy 'system'. However, there are issues with the model that mean Inland Revenue is constrained in how we can meet the challenges and opportunities facing us now and in to the future. In summary we are:

- [6,7]
-
-
-

The operating model therefore needs to be transformed so that Inland Revenue can respond appropriately to the changing nature of our business and new ways of working. It particularly needs to take account of digital and other self-management channels, service delivery through intermediaries, other agencies and private providers, and the ability to share information with other agencies.

A Target Operating Model (TOM) has been developed that provides for these new ways of working. It describes the business capabilities Inland Revenue needs to have in place to deliver on IR for the future. [6]

[6]

-
|
(

The TOM also requires a new technology platform. This will consist of discrete, independent modules, so that any module can be modified without affecting other parts

of the system. It will be scalable so that it can be easily expanded to support new products.

[6]

Decision points and trade-offs

A key decision to be reached in the near term is approval of the Transformation Programme Business Case (PBC) in early 2013. The PBC will be seeking Cabinet agreement on: strategic objectives and outcomes; the preferred programme options; timing of the indicative quantum of benefits; and the scale of funding requirements.

As stated earlier our transformation plan will have a significant impact on our work programme over the next 10 years. The work associated with transformation is also contingent on the approach selected and consequently the level of funding required from government.

While our overall strategic direction and priorities will not change, our medium-term intentions outlined in this Four-year Plan do not currently reflect activity that would be funded as a result of the PBC. When decisions are made regarding our transformation programme we will need to reassess our intentions and work programme which could potentially impact on:

[6,7]

Inland Revenue is seeking:

- [6]

- Child Support –to reappropriate the \$2.5m funding originally provided in Budget 2009 for the purposes of an uplift in fee-for-service child support debt cases sent to Australia. This funding has been handed back to Government for the last three years as the Australian Child Support Agency has been unable to accept additional cases from New Zealand. It is proposed that the reappropriated funding would be used to enhance child support collection opportunities by alternative means.

- Extension of time limited funding which consists of:
 - Student loans – Funding for the overseas based borrowers initiative ceases on 30 June 2014. It is proposed that this operating funding of \$4.85m per annum is extended.

 - Budget 2010 – Property compliance funding of \$6.6m per annum which ceases in 2013/14

 - [6]

2.0 MEDIUM-TERM INTENTIONS

Inland Revenue's core business activity

Inland Revenue's three main responsibilities are:

- collecting revenue - we assess and collect over 80% of core Crown revenue
- administering social policy programmes – these include child support, student loans, paid parental leave, Working for Families tax credits and KiwiSaver
- providing policy advice – we provide advice to the government (with the Treasury) on all aspects of tax policy and social policy measures that interact with the tax system, including drafting legislation

We are also developing a broader context of our responsibilities within the Better Public Services programme and this will continue to evolve as the programme progresses.

As outlined in section one the majority of work Inland Revenue does contributes to the Government's priorities, and our tax policy work supports the government's intention to move the economy towards savings, export and investment, and away from borrowing and government spending. With the government committed to building a stronger economy and increasing productivity it is vital that the tax system is as fair and efficient as possible in raising the revenue required to meet the government's needs.

In support of government objectives, our current priorities for the next four years are to deliver an effective and efficient tax administration system. This will be achieved through:

1. Delivering on our core services, including advising on tax policy
2. Delivering organisational change to allow Inland Revenue to improve the efficiency and effectiveness of our services

What we want to achieve

Our performance measurement framework (PMF) illustrates the relationships between our mission, vision and outcomes, the impacts our interventions and outputs have on customers, our strategic priorities and the delivery of value for money.

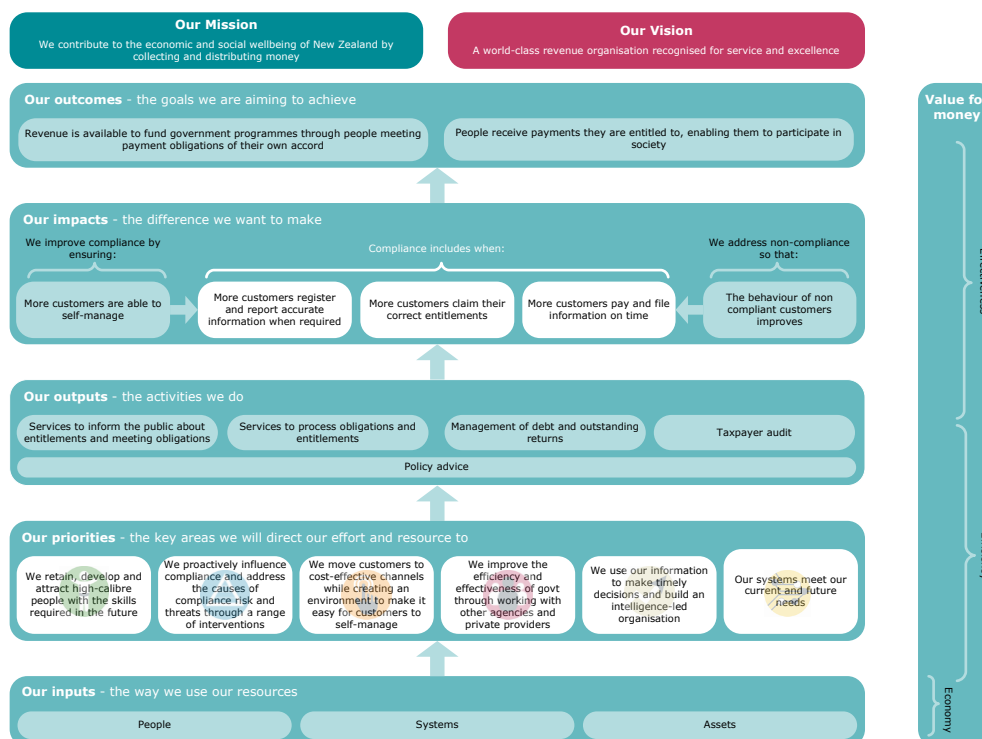
The impacts in our PMF show that we want our customers to:

- be able to self-manage their affairs with us by providing confidence, certainty and the right tools
- register and provide accurate information when required and claim correctly so we receive the right information at the right time and everyone pays and receives the right amount
- pay and file their information on time

- improve their behaviour if they are non-compliant

Our compliance programme of work aims to proactively influence voluntary compliance, to target inadvertent non-compliance by providing information, assistance and tools, and to detect and deter deliberate non-compliance.

Figure 6 - Inland Revenue's Performance Measurement Framework



A set of impact indicators have been developed that show the effect our interventions have on customers' compliance behaviour. We have established baseline data, assessed performance levels and set targets through to 2015. In setting the targets, we have taken into account:

- Inland Revenue's strategic priorities and transformation goals
- our operating environment including government priorities, the economy and changing customer expectations

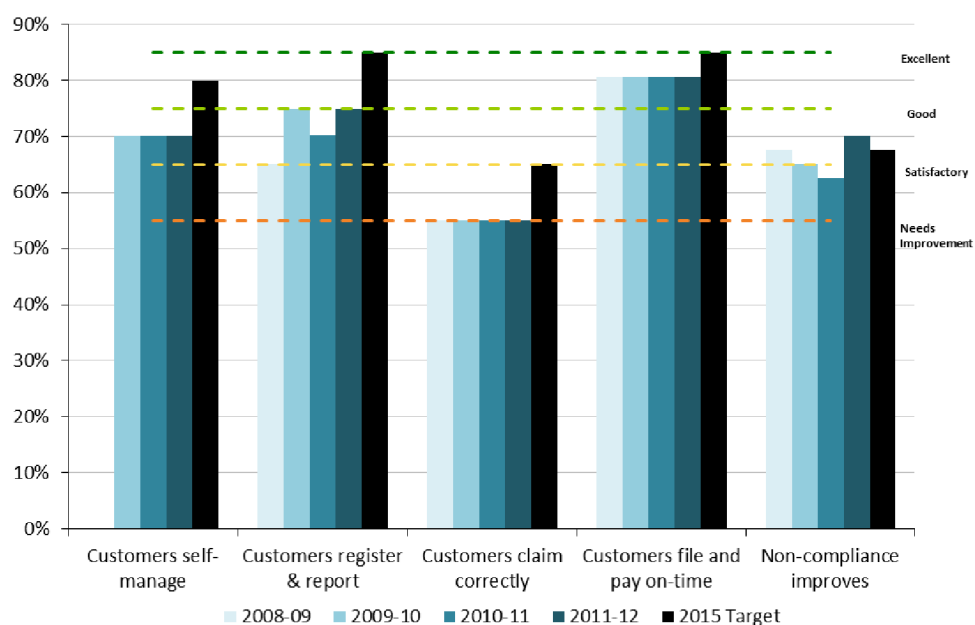
Figure 7 - Inland Revenue's Performance Measurement Framework Impact Indicators

Impact			Indicator	2015 Target
1	More customers are able to self-manage	1.1	% of customers aware of their obligations and entitlements increases	85%
		1.2	% customers who find it easy to comply increases	75%
2	More customers register and report accurate information when required	2.1	% of returns filed with no errors increases	90%
		2.2	% of applications submitted with no errors increases	N/A
3	More customer claim their correct	3.1	% of accurate WffTC payments increases	70%

	entitlements			
4	More customers pay and file on time	4.1	% of returns filed on time increases	85%
		4.2	% of payments made by customers on time increases	90%
5	The behaviour of non-compliant customers improves	5.1	The non-compliance behaviour of those who received an intervention improves	80%
		5.2	Collectable debt to total debt increases	70%
		5.3	Cash collected to collectable debt increases	70%
		5.4	Ratio of collectable debt to revenue assessed decreases	7%

The chart illustrates an aggregated view of how our impact indicators have performed at an impact level and our 2015 impact indicator targets.

Figure 8 – September 2012 Quarter Summary Impact Chart²



Our 2015 impact indicator targets were designed to provide a degree of 'stretch' and took into account our operating environment including government priorities, the economy and changing customer expectations.

Given the significance of our business transformation programme and in light of performance and volumes, we will review the performance measurement framework and the impact indicator targets when we finalise the detailed transformation plan. [7]

² The 2011-12 assessment for the non-compliance impact is affected by the cash collected to collectable debt ratio results in the June 2012 quarter. These were driven by cash collections in the June 2012 quarter via tax pooling being substantially higher than past years, rather than an underlying shift in the behaviour of non-compliant customers.

Inland Revenue's medium-term intentions

1. Deliver on our core services, including advising on tax policy

Helping customers to comply

Our core business is helping to maximise and improve voluntary compliance. We assist customers who are willing to meet their compliance obligations but are unaware or uncertain about how to do so. We support customers to be compliant by helping them understand legislation and how it applies to them. We will take actions to influence customers' compliance behaviour by:

- making customers aware of the compliance risk areas that are published in Inland Revenue's Compliance Focus 2012–13
- educating customers about their compliance obligations through community and business organisations
- publishing industry benchmarks in our tax compliance work, particularly in the hidden economy³
- publicising our successful prosecutions for deliberate non-compliance

We are developing an integrated channel strategy to address customer needs and expectations in an increasingly digital environment. Once this work has been completed Inland Revenue will need to balance our fiscal constraints with our ability to meet customer needs. [7]

Addressing non-compliance

Our customers need to have confidence in our ability and willingness to address non-compliance. This encourages voluntary compliance and maintains confidence in the tax system. We will continue to:

- identify and audit customers with a significant risk of non-compliance
- identify non-compliant customers through a range of information and intelligence, including information from external sources, e.g., international organisations and other government agencies.

Our audit priorities and resources will be allocated to the areas of significant non-compliance identified by our intelligence work. In Budget 2010 and 2012 the government provided additional funding over several years for initiatives to target non-compliance in areas such as the hidden economy, property trading, overdue debt and aggressive tax planning.

³ Industry benchmarks are a tool to help businesses assess and improve their performance by comparing their business with others in the same industry. We use them to identify businesses that may be non-compliant.

Tax policy work programme

Our tax policy work programme aims to improve New Zealand's tax and social policy legislation, to develop policy that will make the tax system fairer and more efficient and to support the Government's priorities.

Factors considered during the development of the tax policy work programme for the next 18 months include a greater emphasis on 'making the system work better'. This is in terms of system coherence and integrity, fiscal constraint and the need for revenue sustainability, administrative efficiency and Inland Revenue's business transformation. There is also an emphasis on inter-agency work, such as information sharing (tax secrecy).

The tax policy work programme includes:

- *Responsibly manage the Government's finance and tax system*
 - Student loans - reviewing the student loan scheme with a focus on overseas-based borrower debt
 - Taxation of foreign retirement savings – review the tax treatment of foreign retirement savings
- *Building a more competitive and productive economy*
 - Imputation credits – seeking mutual recognition of trans-Tasman imputation credits
- *Better public services*
 - Broadening the definition of income for student loan repayment purposes – this would align the definition of income used for student loans with that used for other social policy programmes
 - Legislative changes to improve debt collection – consideration of further policy changes to improve the collection of debt
- *Rebuilding Canterbury*
 - Earthquake issues – resolving issues from the Canterbury earthquakes, this work is ongoing and is largely focused on depreciation issues
- *Budget programme*
 - Our annual budget programme involves developing and implementing initiatives as appropriate. Inland Revenue self-funds approximately \$2m per annum to the tax policy programme, however taking into account the baseline funding for our Policy Advice Division, Government Solutions team as well as our investment portfolio the level of self-funding is in excess of \$10m per annum. Anything over and above this will need to be funded by government.
- *Non-discretionary work*
 - Supporting Ministers, other policy areas, committees and agencies, providing support for the Rewrite Advisory Panel which involves input on tax issues that arise out of non-tax Government priorities, such as flexi-superannuation

- Remedial and other base maintenance items required to protect the tax system are also included in the programme. These are typically policy issues identified by Inland Revenue in the course of delivering services.

Working with other agencies and providers and Better Public Services

Inland Revenue is actively participating in cross-agency work as we look to leverage our organisational strengths and capabilities to provide greater value to government, and make advancements in the area of information sharing with other government agencies.

A key driver for this change is the recognition that by sharing information with other agencies it will make it easier to ensure correct entitlements and obligations of customers are established. These improvements eliminate the need for customers to provide information more than once. For example, the purpose of the proposed information sharing between Inland Revenue and MSD is to enable relevant information to be proactively shared between the two agencies to decrease benefit overpayments and fraud.

We will continue to work with other government agencies and private providers to improve the effectiveness and efficiency of government. Through the Better Public Services programme Inland Revenue is contributing significantly towards the achievement of Results 9 and 10 and is also making a contribution towards Result 7.

The work programmes of both Results 9 and 10 are still in the early stages of being developed, and there is a high level of uncertainty about the scope of a number of the potential initiatives, and therefore our own level of effort.

For Result 9, engagement with business and an inventory of government services has allowed the programme to identify a number of possible initiatives that could be delivered in the coming 6 - 9 months, while medium and longer term work is progressed. Feasibility testing on potential initiatives is underway. The extent of Inland Revenue's involvement in these will be influenced by the scope and nature of the initiatives taken forward.

[6]

Result 10 relates to individuals, with the target being that by 2017 an average of 70% of New Zealanders most common transactions with government will be completed in a digital environment.

Digital uptake is being measured using a 'basket' of New Zealanders' most common transactions that are suitable for transition to the digital environment. Inland Revenue is contributing three transactions to the "basket" of 10 transactions that are currently being measured. These are:

- Filing income tax
- Paying income tax
- Applying for an IRD number

Inland Revenue has already put in place a range of initiatives to support the first two measures and will continue to build on these to increase the proportion of these transactions carried out digitally. The third measure is more challenging as this transaction cannot be carried out digitally at present. [10]

The Result 10 programme has a number of initiatives underway that Inland Revenue is contributing to. These include:

- Contact centre optimisation
- Service delivery performance measurement (also contributes to Result 9)
- Redeveloping nz.govt
- Developing an all of government digital strategy
- Enhancing design capability in the public sector

We are also currently progressing a number of initiatives separate from the programme that contribute to Result 10. These include:

- Front of house (a Christchurch Inland Revenue/MSD co-location initiative which also aims to provide customers with assistance for digital channel shift)
- Apply for an IRD number at birth
- Information sharing with MSD
- Information sharing with DIA around deaths
- [6]

-

In addition, there are a number of initiatives within our existing change programme that support Result 10 outcomes.

An important enabler to Result 10, and to an extent Result 9, is an all-of-Government approach to identity. DIA has established igovt as a single logon that customers can use to access digital services across agencies. DIA is also in the process of putting in place an Identity Verification Service which will provide a secure online way to prove an individual's identity to an organisation. These building blocks are likely to be critical enablers of sharing of authoritative data and/or in providing more seamless and integrated service delivery across government. There is a clear expectation that all agencies will use this all-of-Government capability. Inland Revenue is considering how

these initiatives impact upon our current environment and how we could transition current users to igovt.

For Result 7, our effort is directed towards sharing Inland Revenue's information with law enforcement agencies in relation to serious offences. A formal government discussion document is expected on this in early 2013.

Our transformation programme has been formed with Better Public Services as a key driver. There are three proposed transformation initiatives that have the potential to make a substantial contribution to Result 9 and Result 10, and these are being factored into our planning for tranche 1 of our transformation programme (refer to the Appendix).

As the work programmes of the relevant Results become clearer we will seek to align the opportunities emerging through our participation in Better Public Services and our existing portfolio to identify where we can maximise the potential for government as a whole.

While we are actively contributing to the relevant result areas, we are also in the process of confirming our views on our particular role in the wider cross agency sphere. While delivering on our accountabilities as a revenue and social policy agency, we also see ourselves as a strong leader in the broader public sector.

[6,9]

Child Support Reform

The Child Support Amendment Bill (the Bill) received its first reading in May 2012 and in September 2012 Cabinet agreed to delay the introduction of changes proposed in the Bill by one year and approved Inland Revenue's detailed business case. Therefore the effective implementation dates are:

- Revising the child support formula, effective *from 1 April 2014*, to take into account the cost for raising children, a lower level of shared and regular care and both parents' income
- The compulsory deduction of child support from the employment of paying parents effective *from 1 April 2015*
- Introduction of a two-stage late payment penalty, reduction of the current monthly penalty after a set period and relaxing the circumstances under which debt can be written off, all effective from 1 April 2015

The expected benefits of these changes will:

- provide some improvement in public services for New Zealanders
- [6]
- enable us to streamline some of our business processes

[6]

Student Loans

Recent changes to student loans have been informed by broad analysis of the causes of reduced value in the Student Loan Scheme. The major causes of loss of value are slow repayment by borrowers who get little return from their study (as the time value of money erodes value), non-compliance, and deferred payments (as students may choose to take interest-free, income-contingent loans in preference to family or other sources of financing). Successive Budget changes aimed to increase the performance of student loans by targeting these causes.

Budget 2010, 2011 and 2012 student support policies will help improve the value of lending. Prior to Budget 2010, the cost of lending was 47.39 cents in the dollar. The student support changes (and valuation changes) are estimated to decrease the cost of lending to 39.09 cents in the dollar, [6]

[7]

Increasing collection from overseas-based student loan defaulters will continue to be a focus. This includes:

- Continuing the implementation of the overseas-based borrower compliance initiatives already agreed with Ministers, such as the contracting of private sector debt collection agencies in Australia and the United Kingdom to trace, collect and carry out legal action for borrowers in default.
- The introduction of an information match with the Department of Internal Affairs to receive the contact information of overseas borrowers who renew their passports.

- [6]

Further overseas-based borrower initiatives may be considered as part of the Budget 2013 student loan package.

Inland Revenue considers it can implement and support the new data matching initiative (*PAD2012/247 Overseas-based borrowers – proposals relating to passport renewals refers*) and the further potential communications initiative (*IR2012/140 New Zealand-based communications campaign to improve overseas-based borrower compliance refers*), and support these through to June 2014, from within the existing funding provided for the overseas-based borrowers initiative if they are approved by Ministers.

In doing this Inland Revenue will need to prioritise the activities within the overseas-based borrower programme of activities, whilst remaining committed to delivering on the previously agreed target of [6]

The initial bi-lateral funding for the overseas-based borrowers initiative is only up to 30 June 2014.

Inland Revenue is requesting via this Four-year Plan for the bi-lateral funding of \$4.85m per annum to be extended, and potentially incorporated into our baseline, to enable the continuation of this initiative.

2. Deliver organisational change to allow Inland Revenue to improve the efficiency and effectiveness of our services

With our current resourcing constraints our initiatives aim to be balanced and manageable to deliver on existing ministerial commitments and help us move towards *IR for the future*. Without business transformation funding we will continue to invest in activities to move us towards *IR for the future*. These will be tactical investments and will not achieve the fundamental transformation or address the key challenges of our current operating model. We will seek to improve the efficiency and effectiveness of services through:

- *Increasing productivity of our systems and operations*
Projects include operations management, business system improvements and the procurement improvement programme
- *Maintaining existing business*
These are projects intended to meet our day to day needs and are also designed to improve and identify ways of working to deliver efficiencies in our services. It consists of leasehold improvements and maintaining our IT base.
- *Deliver our future business including transformation*
We are currently investing significant resources and funding to help prepare for transformation. These projects such as Business Transformation phase 4 cluster work, [10] , online services stabilisation and Shape our Future are a combination of transformation enablers and future orientated investment.

[6,10]

2.1 Summary of Medium-term Intentions – Intended Changes

Cut and paste from the templates in Section 6.1 to populate the table below.

Intention (Name and brief description)		Type of Action (New/stop/change)	Success measures (Text)
A	Business Transformation ⁴	New	Success measures will be outlined in the PBC
B	Time limited funding: <ul style="list-style-type: none"> property compliance [6] overseas based borrowers 	Extension	Rate of return: <ul style="list-style-type: none"> Cash collected Revenue assessed
C	Reappropriation of Child Support funding received in Budget 2009	Change	Increased Child Support collection opportunities

2.1.1 Summary of financial implications from medium-term intentions – intended changes

Note that this is a summary of the financial impacts that you identified in Section 6.1.

Financial implications arising from changes to outputs, services or deliveries	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
[6]					
Operating impact – departmental: Budget 2010 Property Compliance			\$6.6	\$6.6	\$6.6
Operating impact – departmental: Overseas based borrowers			\$4.85	\$4.85	\$4.85
Operating impact – non-departmental					
Capital impact – departmental					
Capital impact – non-departmental					

⁴ The PBC, including funding requirements, will be submitted to Cabinet in early 2013.

2.1.2 Summary of new funding sought from the centre

Note that this is a summary of the new funding sought from the centre that you have identified in Section 6.1.

Value of new funding sought	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
[6]					
Operational expenditure – departmental: Budget 2010 Property Compliance			\$6.6	\$6.6	\$6.6
Operational expenditure – departmental: Overseas based borrowers			\$4.85	\$4.85	\$4.85
Operational expenditure – non- departmental					
Capital expenditure – departmental					
Capital expenditure – non- departmental					

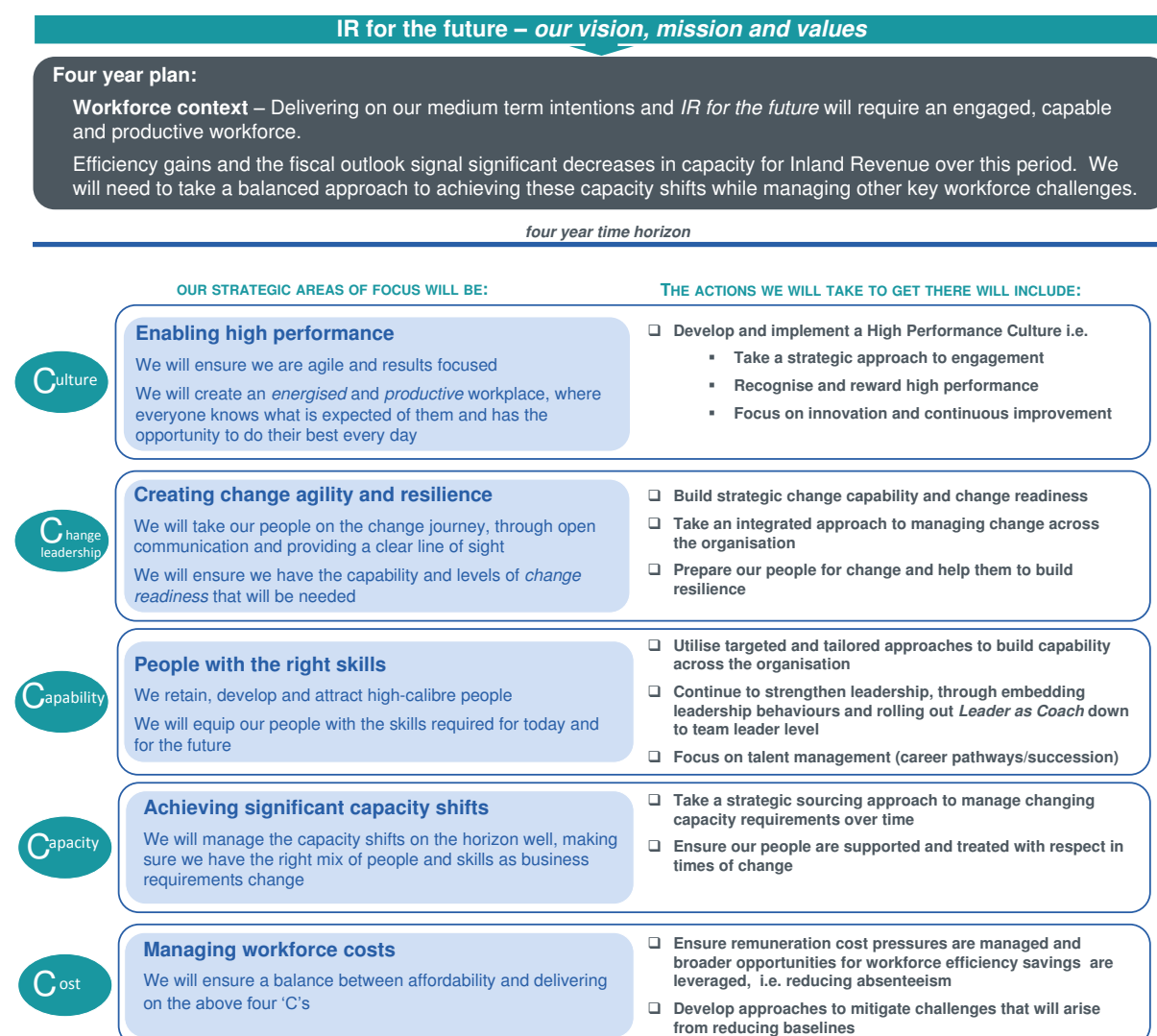
3.0 ORGANISATIONAL CAPABILITY AND WORKFORCE

The purpose of this section of the Four-year Plan is to show a clear organisational development plan and workforce strategy that is integrated with and will support delivery on Inland Revenue's wider business and financial strategy. This section:

- builds a picture of the current status of our workforce and considers the impact of our business strategy on workforce requirements (Section 3.1)
- identifies changing capacity and capability requirements (Section 3.2) and
- examines workforce cost pressures (Section 3.3)

[6]

Overview



These high level actions are supported by further details on recent initiatives and the future focus for each of these areas is provided throughout this section.

3.1 Organisational Capability

IR for the future provides Inland Revenue's strategic context for the future, including outlining six strategic priorities which have been embedded in the Performance Measurement Framework. The *People Priority* is at the heart of our workforce approach.



Delivering on our medium term intentions (Deliver core services, including advising on tax policy and Deliver organisational change) and *IR for the future* will require an engaged, capable and productive workforce.

Our fiscal outlook and *IR for the future* signal significant changes to capacity and capability. Over time we will become a smaller, more highly skilled workforce, needing a different mix of skills to effectively deliver in our new environment. Efficiently achieving these shifts will require good forward planning on our part.

We know the future will be considerably different and that we need to adapt and be active participants in shaping that future. To be successful we need to do things differently.

It is important that we achieve greater organisational agility to be able to meet the expectations of both government and New Zealanders.

Tranche one of our potential transformation programme will be integral to achieving our strategic ambition. Without transformation funding, our ability to achieve our strategic goals will be constrained. Tranche one represents a potentially large-scale change programme for Inland Revenue over the coming years. We are working with our sourcing partner, Ernst & Young, to assess potential partners who have the capability and capacity to assist with the implementation of our transformation plan.

Making Inland Revenue a great place to work - we want to be a great organisation, working to make a difference for New Zealanders. Our people will be the key to making *IR for the future* real and we want them to be active partners in achieving our organisational goals.

We want to create an energised workplace, where everyone knows what is expected of them and has the opportunity to do their best every day. Our 2012 engagement result⁵ suggests we still have a way to go in making this a reality.

⁵ IR's Grand Mean for the 2012 Gallup survey was 3.78 (52nd percentile NZ State Sector)

"We know we're getting it right when people start the day with a sense of purpose and finish it with a sense of achievement. The key to transforming IR is you"

Naomi Ferguson, Commissioner of Inland Revenue, Featured news 6/11/12

To achieve *IR for the future*, we will face significant change over the coming years and we will need to help ensure our people are highly engaged during this time. We will be seeking to learn from leading practice examples of organisations, and highly engaged teams within Inland Revenue, that have been able to increase engagement during times of significant change.

Right people, right place - having the right people in the right place is important to delivering on government and customer expectations. [6]

Our approach is focused on how and where we deliver services to our customers. [6]

Workforce related frameworks and strategies

To deliver on our strategy we have a series of underlying workforce related frameworks and strategies. These include:

ER Framework - IR's Employee Relationship (ER) Framework is built on the principles of:

- a strong relationship between front line team leaders/managers and their staff
- trust and respect, open and honest two way communication, with staff feeling valued for their contribution
- having an environment that supports engagement, productivity and flexibility taking into account affordability
- ensuring that our decisions about what and how we do our work contribute to creating a great place to work

High Performance Culture Framework – we are currently developing a framework to support a high performing culture, with a particular focus on ensuring we are more agile and results focused. This is likely to become the overarching framework that links our workforce frameworks and strategies, ensuring that together they enable high performance.

Leadership and Management Development Framework - the framework was created to build great leadership across IR. Great leadership in turn develops high performing teams. The framework:

- embeds IR's leader expectations
- reinforces development through focused-on-the-job experiences, feedback and coaching as well as formal training opportunities
- provides clarity about roles and transition options
- provides tools and resources to reinforce and enable self-development
- builds opportunity for cross agency partnership and relationship building

Organisational Design (OD) Principles – our OD principles are a simple set of broad principles to provide a guide to how we organise ourselves to conduct our business. They are designed to guide decisions concerning Customers and relationships; Decision-making and Work, job and structure design

Performance and Development Framework - our Performance and development framework integrates business and individual performance and is fundamental to IR achieving its objectives and enhancing its people capability. A key focus of the framework is to support and encourage frequent and regular communication between managers and their staff.

Learning and Development Framework - Learning and development is one way of improving skills and knowledge to match our rapidly changing business and complexity of customers' needs. As our key objective is to equip people to be effective in their work, our learning and development approach focuses on identifying and providing:

- tools and opportunities where people can learn on-the-job
- access to real-time information while interacting with the customer, and
- training that delivers skills and knowledge when needed.

Diversity and Inclusion Framework - the objective of IR's Diversity and Inclusion Framework is to build a culture of inclusion and diversity of perspective by supporting IR leaders to involve our people in achieving IR's vision and business outcomes. The framework aims to:

- promote a greater understanding and awareness of diversity and inclusion at IR
- attract, retain and enable talented people who represent and respond to our diverse range of customer needs

Remuneration Policy – our remuneration approach aims to reward and motivate performance and encourage and support a workforce culture that delivers on business objectives. IR's remuneration system consists of the Banded Pay Structure and the Graded Remuneration Structure. The principles that underpin Inland Revenue's remuneration approach are found in the respective collective and individual employment agreements.

Health and Safety Policy – IR's health and safety policy supports our commitment to:

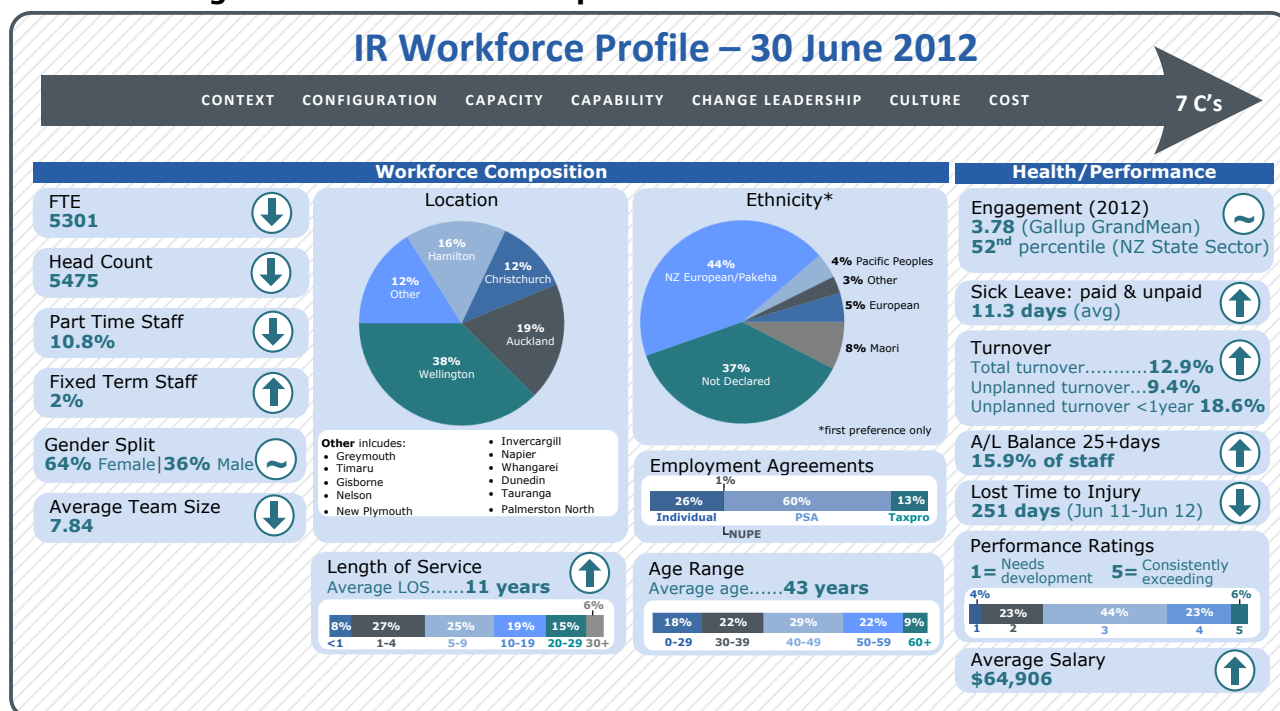
- lead a workplace culture that prioritises health and safety for all our employees
- work in a consultative and collaborative way with our employees and representatives to find solutions to health and safety issues in our workplace that meet our obligations to health and safety legislation, codes of practice, guidelines, and standards

In particular, our Leadership and Employee Relationship Frameworks will be critical enablers of *IR for the future*.

We are currently reviewing our Employee Relationship Framework. The framework will be built around continued and improved engagement, with our people leaders owning the relationship with our people. We will create a positive environment by engaging with our people in open, honest and genuine two-way dialogue to get their views on what impacts or has potential to impact upon them. Key elements of our framework will need to consider our on-going remuneration approach, hours of work, absenteeism and flexitime. We will be entering into bargaining in 2013.

Our leaders play an important role in building and sustaining organisational performance. They are instrumental in creating a purpose for our people to believe in and building the momentum that will be required to realise our goals. They role model our values, coach and develop their people. Their role is even more crucial during times of change. Our Leader Expectations provide clear guidance on the behaviours for our leaders to focus on.⁶

Understanding our current workforce profile



Workforce Composition (Key points)

- Inland Revenue's large size and complexity enables career progression opportunities and allows for diverse and stimulating work, helping us attract and retain high calibre people.
- We have a relatively stable workforce and our average tenure is trending steadily upwards. This ensures a strong knowledge base and institutional knowledge in many areas of our workforce. This stability needs to be tempered with embracing what new people bring to the organisation and being open to innovative ways of doing things.

⁶ IR Leader Expectations: Be clear with your people; recognise, support and make time for your people; Maximise the diversity of people; Create opportunities; Actively share information with your people; Paint the big picture and Build strong relationships

- Only a small portion (2%) of our FTEs is employed on a fixed term basis. This compares to 7.4% in the wider public service. Our lower application may be reflective of our active use of internal secondment as practical development and learning opportunities for our people. As we look for greater agility in our workforce and embark on transformational change, consideration of alternative options to permanent appointment is likely to provide increased flexibility.
- Our average age has been steadily increasing over the last decade and 9% of our workforce is over 60 years of age, twice what it was ten years ago.
- The majority (88%) of our workforce is located in our four metropolitan sites (Auckland, Hamilton, Wellington, and Christchurch).

Workforce Health / Performance (Key Points)

Some workforce indicators have the potential to adversely impact on our performance measures and our desired strategic direction and require active intervention and monitoring going forward.

- Our increasing levels of sick leave impacts on the productivity of our workforce.

Initiatives: Considerable analysis has occurred in recent years to better understanding the continuing upward trend in sick leave. Sick leave is managed on a day to day basis by our people leaders, supported by HR with resources, advice, data and interventions such as return to work interviews, annual influenza vaccinations and an intranet 'Wellness Gateway'. Further work to better understand the many components that contribute to the overall high rate is currently being scoped.

- Turnover under three years of service is high. This comes at a high cost both in terms of initial recruitment and re-rehiring cost, as well as unrealised training investment and lost productivity.

Initiatives: In 2008 we initiated a *Cohort Survey*, a longitudinal study to track the experience of 947 new employees through their first years with Inland Revenue. We have surveyed this group four times since and reported the findings and recommendations (most recently in June 2012). In 2011 we implemented a *New Employee Survey*, which we report on quarterly, to gather the insights from our people in their first three months of employment. Insights support planned initiatives in the areas of induction and on-boarding process enhancements and Employee Value Proposition and Branding refreshes.

- Our employee engagement has remained unchanged in the last three administrations of the Gallup survey (since 2008). With the clear correlation to performance this plateau around the Public Sector 50th percentile is not at the level needed to best support our strategic direction and ensure we make our organisational values real.

Initiatives: With the recent release of the 2012 results, our Senior Management team has signalled their strong desire, and a renewed commitment, to lifting the level of engagement across Inland Revenue. Planning around specific actions is currently underway.

We recognise some gaps in our current workforce data.

- Our current exit data is limited. A low exit questionnaire response rate (less than 20%) restricts our understanding of the key factors driving turnover, and in turn our ability to effectively target interventions to address the drivers.

To address the gap: An initiative is currently underway to refresh the organisations exit questionnaire and the supporting automated process, to markedly increase the response rate and ensure robust and useful information is made available to support informed decision making. This will be place by February 2013.

- We do not currently have a singular lens on organisational capability or a mechanism to capture an organisation wide view of current capability at a detailed level.

To address the gap: We are continuing to explore different mechanisms for effectively capturing this information and have been looking at leading practice from other organisations, including the Australian Tax Office (ATO). Work that we have recently undertaken on our target operating model (TOM) has helped to articulate the high level business capabilities we will need to deliver *IR for the future*, however further work needs to be undertaken to translate this into what it means from a skills and people capability perspective.

We have recently piloted an individual development planning tool with several areas of the business and there is scope to roll this out further across Inland Revenue. Active Operations Management is also providing us with rich information from a capability perspective.

3.1.1 Change leadership

Effective change leadership⁷ will be critical to delivering IR for the future. It will be important for us to anticipate changes in our environment and respond in a quick and agile way.

We anticipate that in the coming years we will be governing and managing a much larger volume and pace of change than previously, meaning that our ability to drive change will be a critical capability both now and for the future.

Transformational change requires leadership with the creative capacity to invent the future and the capability to navigate the delicate balance between short-term business needs and long-term goals. The environment of change over the next five years will have ambiguity, uncertainty, volatility, and even disruption as we change systems, processes and ways of doing things.

Current state

The recent Change Leadership Assessment⁸ aimed to understand the level of change leadership capability of our senior leaders, identifying any gaps and areas of concern.

The assessment concluded that our leadership has strengths in personal commitment, communication skills, painting the big picture, listening and acting on feedback, being open and honest, supporting people through change and embracing change. The assessment saw the biggest leadership gaps as:

- lack of a compelling vision, accountability at senior levels and teamwork and visible leadership, with leaders not “walking the talk”
- working with too many silos and poor prioritisation of work
- a need for stronger decision-making; making hard and timely decisions
- a need for more unity within the senior team

The assessment concluded that more focus was needed on appropriate role modelling, setting of expectations, feedback and coaching, and holding leaders accountable for their responsibilities to drive effective leadership behaviour.

Recent Initiatives

- *The development of a change management toolkit, which we are continuing to enhance over time*
- *Earlier this year we offered Change Leadership Special Interest Groups (SIG)s which were attended by managers and team leaders from across the country*
- *Making refinements to our Organisation Impact Assessment (OIA) methodology*

Future focus – creating change agility and resilience

Our change leadership approach is on ensuring that we have the appropriate level of change readiness and the strategic change capability we will require, this includes ensuring that we have a future focused organisational and governance construct.

We are currently undertaking a future change capability and needs analysis, a high-level view on key risks and opportunities and a high-level change impact assessment of identified initiatives. These findings will inform an integrated Strategic Change Capability Plan⁹.

It will be important for us to strengthen resilience and ensure our people continue to have a sense of optimism about the future as they move through change.

⁷ **Change leadership** refers to the organisation’s approach to change and how it intends to lead and manage change to achieve the results it is seeking to achieve (Source: SSC guidance)

⁸ Stage 2 Change Leadership Assessment

⁹ Phase 4 Work Cluster Plan: Change Management

3.1.2 Culture

We will need a high performing culture in order to deliver IR for the future; an organisation where accountability, achievement and results are highly valued.

Inland Revenue's aspiration is to be a world-class revenue organisation recognised for service and excellence with a healthy culture which our people value and thrive in.

In 2011 we agreed the values and underpinning behaviour that we need to deliver IR for the future: Trust and Integrity, Valuing people, Innovating to make a difference and Working together. These values support a culture based on clear accountability, good relationships, continuous improvement, and collaboration, so that we can achieve our performance goals. Our Leader Expectations were introduced as a key mechanism for embedding our desired culture.

Creating a highly-engaged workforce continues to be a key goal and a means by which we will achieve greater efficiencies and ensure that Inland Revenue continues to be a great place to work. A diverse and inclusive workforce will also be critical to our success.

Current state

During October and November 2011 we held Making it Real workshops and our people gave us clear feedback on what we were doing already to support our new culture, things that were barriers and ideas for the future. The biggest feedback came in the areas of Valuing people and Working together.

A recent assessment, as part of our business transformation planning¹⁰, found that while we have made some progress in shaping our culture, we have some way to go. In particular, we need to continue our Public Service and Support focus while moving away from a culture of Uncertainty, Avoidance, Control, and Silos to a culture of Accountability, Collaboration, Contribution and Bravery.

Recent Initiatives: the *Shape our future* project has been focusing on embedding *IR for the future*. Initiatives have included:

- *Making it real Network* – with a focus on sharing insights and ensuring that Inland Revenue for the future maintains momentum, this network is emerging as an important source of feedback and a good channel of communication.
- *Leader discussions* – a number of focus groups looked at how discussions between senior managers and local leaders might be developed effectively.
- *Site leadership review* – looking at the best way to support our people from sites outside Wellington

Future focus – developing and implementing a high performance culture

Our focus will be on building a high performing culture¹¹, in particular on ensuring that as an organisation we are more agile and results focused. We recognise the importance of ensuring that our people processes and practices are integrated and complement each other and that we fully understand how one part of the system influences another.

We will be taking a more strategic approach to engagement and ensuring that our workforce has energy and vigour, enabling us to optimise our productivity.

Our leaders will continue to play a pivotal role in embedding our culture. Rolling out our Leader as coach programme down to team leaders will be instrumental in achieving this.

¹⁰ Stage 2 Culture Diagnostic, Business Transformation Programme

¹¹ We are in discussions with the Government of South Australia about adapting their High Performance Framework for use within Inland Revenue, with a particular focus on the people and culture aspects that contribute to a high performing culture

OUR PEOPLE





3.2 Workforce







As we respond to changes in our environment it is expected that workforce capability¹² and capacity¹³ requirements will continue to change in the medium term.

We will need greater capability/levels of expertise in some areas, while we will require less capacity in other areas. Our concept of 'workforce' will continue to evolve as we increasingly utilise different arrangements in addition to permanent employees (FTEs).

Our Target Operating Model (TOM) as explored in section 1 describes business capabilities Inland Revenue needs to have in place to deliver on *IR for the future*, however its implementation is contingent on the level of business transformation funding received.

3.2.1 Workforce capacity and capability impacts – medium-term intentions

Capacity Change	Capability Change	Context	Change in Capability
1. Deliver on our core services, including advising on tax policy 		<p><i>Transforming how services are delivered, with an increase in self-management, less paper, processing and voice contact</i></p> <p><i>Working with others to deliver better services to New Zealanders</i></p> <p><i>All parts of Inland Revenue have a role to play in influencing compliance</i></p> <p><i>Utilising Intelligence led, evidence based approaches</i></p> <p><i>Systems that support collaboration, integration and knowledge management and help generate productivity improvements</i></p> <p><i>Need for greater speed and agility</i></p>	<p>Skills and capabilities that will be required more include:</p> <ul style="list-style-type: none"> Analytical and critical thinking skills 'Whole of system' thinking Decision making Stakeholder and Relationship Management Influencing Collaboration <p>Overall our changing environment will require us to:</p> <ul style="list-style-type: none"> Be open to new ways of working and trying innovative approaches Learn from experience and adapt Deal with ambiguity and change Being 'e' savvy
2. Deliver organisational change 		<p><i>Inland Revenue's investment portfolio is focused on:</i></p> <ul style="list-style-type: none"> <i>Productivity improvements- including projects such as operations management(which is being progressively rolled out across the business)</i> <i>Maintain existing business – these projects include projects such as maintaining our property and IT base</i> <i>Deliver future business – includes initiatives such as our proposed 10 year transformation programme</i> 	<ul style="list-style-type: none"> Active Operations Management provides managers with new skills around making fact based decisions. It will also require a culture/ mind set shift to adapt to working in different ways. Portfolio resourcing constraints


Capacity Change			Capability Shift		
					
Neutral	Decrease	Increase	High	Medium	Low

Key

¹² **Workforce capability** refers to the mix of people knowledge, skills, attributes and behaviours the organisation requires to deliver its business results (SSC guidance)

¹³ **Workforce capacity** refers to the total available workforce (or subsets of this), typically people numbers by hours of work (SSC guidance)

3.2.2 Workforce capacity and capability impacts –whole of organisation¹⁴

Capacity Change	Capability Change	Context	Change in Capability
		1. Customer Service Channel shift impacting capacity requirements; Increased use of on line services Seek to eliminate, automate and delegate enquiries before customers need to contact us More customer-centric services with end to end processes; Expected reduction in incoming calls, although calls likely to be longer as primarily resolving exceptions Productivity improvements through the use of Active Operations Management (AOM)	<ul style="list-style-type: none"> • Ability to use real time analytics to tailor customer interactions • Increased analytical skills, sound judgement, enquiring mind • Problem solving at a more complex level • An increase in technical knowledge • Ability to promote products and services, understand customer preferences. • Ability to communicate through a variety of channels, such as voice, online chat or skype • Influencing others (considering own role in voluntary compliance) • Adapting to new ways of working (such as AOM)
		2. Customer Relationship Roll out of the community compliance model to the large sites Greater focus on influencing compliance through education and stronger relationships in the community Delivering a combination of lower level enforcement and relationship building, encouragement and promotion	
		3. Investigator Concentrating on the 'top of the triangle' Intelligence-led, evidence based approaches utilised to prioritise work New tools will allow for targeted effort	<ul style="list-style-type: none"> • Greater capability in commercial awareness, political savvy and critical thinking • Ability to understand the environment and customer behaviour • Greater need for self-motivation and excellent interpersonal skills and having an enquiring mind
		4. Compliance Intelligence Using intelligence, research and evaluation to inform our decisions Identifying and addressing the causes of compliance risk and treat through a range of interventions Greater use of external sources and information	
		5. Professional – Legal & Tax Technical excellence supporting the performance goals of speed, certainty, compliance and value Effective management of the tax policy work programme Move towards more general policy and cross-government work (focus is no longer exclusively on tax) Proactively providing indicative views to remove barriers to compliance	<ul style="list-style-type: none"> • Increased maturity in developing approaches to improve compliance and promote channel shift • Analysis of data to spot trends and anomalies will become increasingly important • Greater social science skills (statistics, modelling, economics, sociology) and marketing • Being able to apply problem solving techniques • Wider breadth of technical knowledge • Ability to articulate insights to a variety of audiences
		Technical excellence supporting the performance goals of speed, certainty, compliance and value Effective management of the tax policy work programme Move towards more general policy and cross-government work (focus is no longer exclusively on tax) Proactively providing indicative views to remove barriers to compliance	

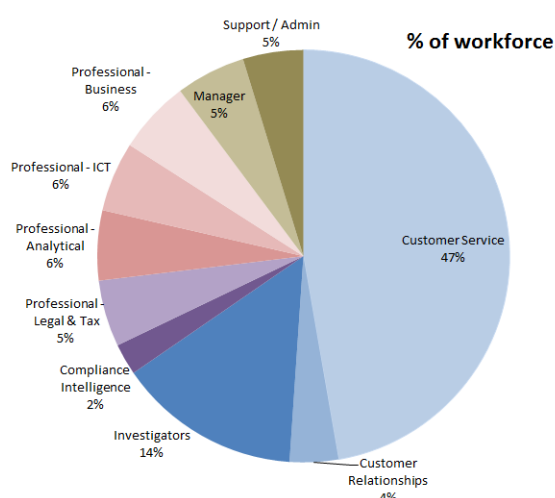
¹⁴ANZSCO (Australia and New Zealand Standard Classification of Occupation) codes, which are allocated to every job expectation, have been used to efficiently segment the IR workforce into these broad capability groupings. This is the first time we have used ANZSCO codes in this way and further data cleansing and refining of these groupings will be needed.

6. Professional – Analytical		<p><i>Designing different types of solutions, including ones that support Better Public Services and greater utilisation of third party providers</i></p> <p><i>Ensuring consistent Inland Revenue messaging and tone across channels, including correspondence, voice and web</i></p> <p><i>Pressure of managing our portfolio of change initiatives, including resource pressures and competing priorities</i></p>	<ul style="list-style-type: none"> Increased knowledge and skills of how design methodologies support self-service, compliance and emerging channels Ability to plan/design across organisations; Ability to work with, influence and persuade multiple stakeholders Capability to manage channel development and delivery through these channels, while having an end user perspective Greater need for programme management skills - managing multiple projects, making necessary trade offs Creative thinkers, able to envisage innovative solutions utilising emerging channels Increases skills in business case writing, service design
7. Professional - ICT		<p><i>Greater complexity due to an increasingly broad array of systems</i></p> <p><i>Greater cross government collaboration for ICT services</i></p> <p><i>Introduction of new service management methodology as a tool to enable focused and consistent levels of service</i></p> <p><i>Blurring of distinction between back / front end IT as more services are delivered on-line</i></p>	<ul style="list-style-type: none"> Supporting an 'e' environment; skills to support the use of social media Increase in both capacity and capability for business rules Systems transformation will result in the need for different skills in some areas i.e. configuration and integrating packages Less capacity will be required to design and building in-house solutions Increased capability and capacity to manage external partners, skills such as influencing, persuasion, stakeholder management
8. Professional - Business		<p><i>Assumption that Inland Revenue continues to operate an internal shared services model</i></p> <p><i>Possibility of greater sharing of back office functions across government</i></p> <p><i>Need to ensure that we have strategic resources available to support transformation</i></p>	<ul style="list-style-type: none"> Likely to be more joined up, working across disciplines, need for broader skill sets Future capabilities include building strategic relationships, skills to cope with increased complexity; improved planning and prioritising capability Enhancement of capability to support organisation change initiatives; particularly expert level/experience Greater analytical capability i.e. cost benefit analysis for complex business cases Greater need for senior/expert capability
9. Manager		<p><i>Creating a vision for people to believe in, motivating, role modelling</i></p> <p><i>Leading during times of significant change</i></p> <p><i>Working in a more complex environment, being a leader in a more joined up state sector</i></p> <p><i>Utilising new management systems, such as Active Operations Management (AOM)</i></p>	<ul style="list-style-type: none"> Greater collaboration, especially cross agency Decision making, in an increasingly complex environment with multiple stakeholders and managing trade offs Capability to identify emerging opportunities for Inland Revenue to partner with others Greater ability in establishing and maintaining strategic relationships, requiring skills such as conflict resolution, negotiation and facilitation skills Greater change leadership ability Stronger focus on people leadership skills, including creating an engaging environment; motivating others, providing clear direction and driving results; ability to coach others Communication skills New planning and reporting skills provided by AOM, coupled with adjusting to new ways of working
10. Support / Admin		<p><i>Possibly of greater sharing of back office functions across government</i></p>	<ul style="list-style-type: none"> For some roles the number of people required will be directly influenced by changes in the rest of the organisation E savvy, able to use technology as a key enabler

Key

Capacity Change			Capability Shift		
Neutral	Decrease	Increase	High	Medium	Low

Summary of key demographic information by capability grouping



Capability Groupings	Change	Average Age (Yrs)	Average Length of Service (Yrs)	Turnover %	% > 60 yrs	Average Annual Salary
Customer Service	↓ M	41.1	9.0	16.9	9.3	46,948
Customer Relationships	⇔ M	46.1	15.9	6.9	10.1	64,225
Investigators	⇔ M	44.8	14.9	8.0	8.9	72,327
Compliance Intelligence	⇔ M	42.2	10.4	14.2	4.4	79,952
Professional - Legal & Tax	⇔ L	44.4	13.3	11.8	11.5	87,539
Professional - Analytical	↑ H	41.6	12.0	6.0	4.5	74,161
Professional - ICT	⇔ H	46.3	12.7	19.6	9.4	81,966
Professional - Business	↓ M	43.8	8.9	13.7	8.2	86,337
Manager	⇔ H	47.8	15.6	15.3	3.8	137,948
Support / Admin	↓ L	46.6	10.8	17.4	14.1	53,533
Total	↓ M	43.1	11.1	12.9	8.9	64,907

Key points:

- A large proportion (47%) of the workforce are in the Customer Service grouping (including Customer Service Specialists, Revenue Assessment Officers and Collections Officers)
- Longer length of service is associated with the Customer Relationships, Investigators, Professional-Legal & Tax and Manager Groupings; areas where the workforce has a depth of tax and institutional knowledge
- Customer Relationships, Support / Admin and Professional – Legal & Tax have an aging workforce, with more than 10% of employees being over 60 years of age. For the Professional – Legal & Tax grouping, in particular, knowledge transfer has been identified as being important.
- The groups which signal a decrease in capacity tend to have lower average salaries i.e. Customer Service, compared to groups which are likely to increase. This wage variation is an important consideration when managing baseline pressures from an overall FTE lens.

3.2.3 Capability

Our approach for achieving capability shifts will be targeted and tailored depending on the identified need. Approaches will include:

- **Targeted recruitment** – we will utilise targeted and innovative recruitment strategies to address particular capability pressures. We have recently had success in recruiting procurement specialists from the UK and produced a video which helped us attract a good pool of senior HR candidates. Our recruitment team is increasingly utilising social media e.g. Linked in.
- **Building capability** – providing on-the-job learning opportunities for our people is not only essential to ensuring we have the capability we require, but provides career progression opportunities for our people. Two specific approaches are:
 - **Leadership and Management Development** – continuing to strengthen our leadership capability will be critical for our future success. Our focus for leadership development is on supporting leaders to demonstrate effective leadership behaviours through our in-house *Leader as coach* programme; encouraging our leaders to undertake 360 surveys and the wide range of development opportunities offered as part of our Leadership Framework.
 - **Accelerating Capability Development Project (ACDP)** – Phase 1 of this project is providing a targeted approach to resolving a number of on-going capacity and capability pressures in Information, Design and Systems (IDS). The approach includes focusing on high potential capability and capacity for key roles; providing rapid development to high levels of performance and retention in high-value roles.¹⁵
- **Sharing capability** – we will contribute to growing capability across the state sector, either through sharing expertise e.g. recent work with DIA to strengthen state sector service design capability or through interagency secondments which provide development opportunities for our people. Collaboration through the Christchurch Recovery efforts is another example of capability building across the system.
- **Growing our own capability** – has been a successful approach to alleviating known and potential capability pressures in areas such as:
 - **COBOL programmers** are a pressure point for Inland Revenue. COBOL is an ageing technology and these skills are in scarce supply in the market. While we will be moving away from this technology in the future, it is important that we ensure the right capability and capacity is available until the system is retired. We have recently taken on new staff in this area to bridge the gap, providing a dedicated 8-week training and support programme to quickly get them up to speed.
 - **Policy Analysts** are difficult to source at the experienced level. An approach that has been successful over a number of years has been to develop our own graduates, rather than looking to source experienced analysts.
 - **Business Rules Analysts** have been developed in house to support our new approach to business rules. Our skills in this area are now being recognised internationally.
- **Supplementing our own capability** - For example, our partnership with international firm CapGemini has allowed us to benefit from their extensive experience in transformation planning, while further developing our own capability. Making skills transfer part of the contractual arrangements helps ensure that capability building is a key deliverable.

¹⁵ This project aims to address Inland Revenue's Performance Improvement Framework (PIF) review finding that there are inherent weaknesses with resource capacity leading to a heavy reliance on a few critical resources, triggering overload.

3.2.4 Capability pressures

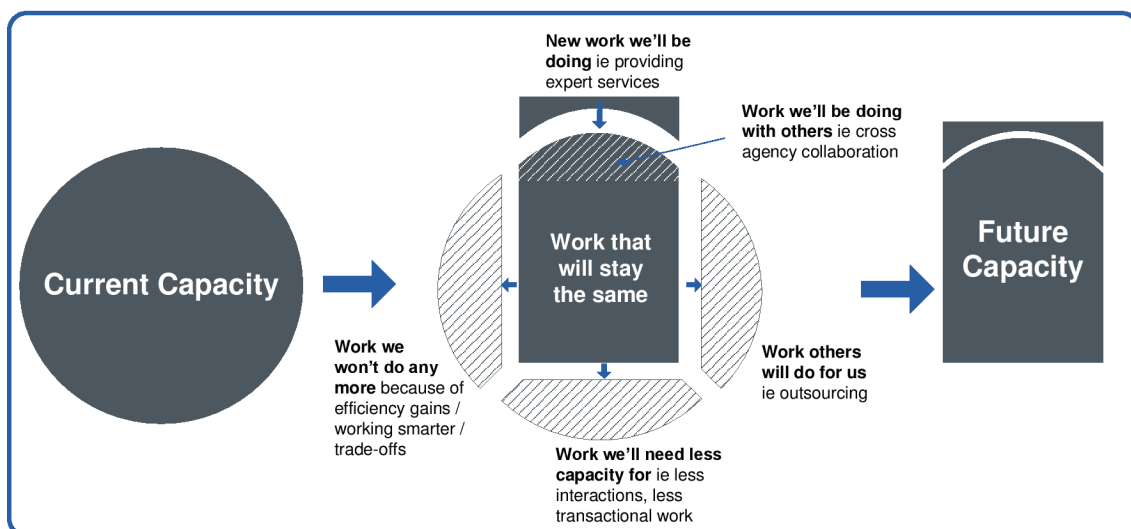
Capability pressures are currently being experienced for senior specialist /professional roles, such as IT, Communications, HR and Procurement.

Capability Gap/Pressure	Reason for capability gap/pressure
Enterprise Solutions Architects	Skills in short supply in Wellington market, particularly for more senior architects. Demand for these skills is growing across both the public and private sector.
Cobol analyst programmer	Difficult to source these senior IT specialists (see above).
Business Designers/ Design Lead (Service Design)	Growing and retaining capability in this area to meet the increasing demand for service design skills, a capability that is not generally available in the market.
Programme management	People with skills in managing complex programmes are in demand in the market
Software Development (Senior)	We have a limited number who can operate at the high/senior end (e.g. QA, understanding interdependencies).
Senior Specialists (i.e. Communications, HR, Procurement)	Difficult to source permanent employees at the senior/expert level, as many at this level choose to move into contracting. Salary expectations of candidates are not always realistic/affordable.
Commercial (contract) negotiation skills	Skills in short supply, specialist area.
Business analysts, Advanced analytical skills (i.e. SAS, Data Warehouse)	As we move to an intelligence-led organisation these skills are in greater demand across the organisation.
Managing large external providers	New capability requirement to meet changing business needs, i.e. managing vendors who we outsource services to, managing relationships with large providers e.g. transformation partner.

3.2.5 Capacity

[6]

Inland Revenue's changing capacity requirements



Examples of changing capacity requirements include:

- **Work we won't do any more** – all business areas are actively looking at ways to make on going efficiency gains. [6]
- **Work we'll need less capacity for** – in some areas we will need less capacity as a result of our strategic priorities. As we increasingly move to providing 'e' services the volume of transactional work with less. The roll out of Active Operations Management (AOM) across several business units, including Customer Services and Collections, will further reduce capacity requirements over time.
- **Work others will do for us** – in some cases we will need less capacity due to different ways of working, [6]
- **Work we'll be doing with others** – Better Public Services initiatives will see us increasingly working closer with others, which may mean looking at opportunities to share resources ('Front of House' initiatives) or sharing expertise (supporting DIA with service

design expertise). In some cases this may result in an increase in capacity requirements and in others a decrease. More and more of this approach will see Inland Revenue and other agencies taking a 'whole of system' view of people capability.

- **New work we'll be doing** – one of the key accountabilities of our target operating model is the provision of expert services. This could see us undertaking work that we are expert in on behalf of other agencies, for example, providing debt collection services.
- **Work that will stay the same** – as well as these changing capacity requirements, a substantial portion of the work we currently do will fundamentally stay the same as we continue to deliver our core services.

[6]

However, there is an expectation that on-going efficiency gains will be found from across the business and will result in a smaller workforce over time.

Approaches for achieving capacity changes

Changing capacity requirements will be a feature of our workforce over the coming years, with increases in some areas and decreases in others. We will need to carefully manage the size of our workforce to match these changing requirements and ensure on-going affordability. We will need to think strategically, particularly around recruitment decisions.

[6]

It is not expected that there will be a strong correlation between the skills and capabilities of people where we will require less capacity in the future and the skills and capabilities required in the areas that will be growing. However, as much as possible we will make the most of people's transferable skills.

Where possible we will use attrition to manage down the size of our workforce, this approach is easier in areas that tend to have a high turnover, such as some Customer Service roles (i.e. contact centres) and Professional – Business roles.

[6]

Having a good understanding of our workforce is essential and our on-going strategic workforce planning will help to inform this. In particular, continuing to gain greater insights into the dynamics of our workforce i.e. where are we hiring new people, where is turnover problematic, who is nearing retirement, internal movements, what is happening in different regions etc. These insights will inform our decisions and in turn shape our future workforce.

Please note: Inland Revenue's workforce capability and capability requirements will be impacted by the outcome of the Transformation Programme Business Case (PBC) due for submission in early 2013. Further planning will be undertaken following the outcome.

3.3 Total Workforce Costs

3.3.1 Total workforce costs

[6,10]

3.3.2 FTE numbers

[6]

(See 3.2.2 for anticipated capacity shifts by capability grouping).

3.3.3 Managing workforce costs

Clearly workforce costs, which make up approximately 57% of total operating costs, are a key area from which we need to identify saving opportunities and ensure we optimise efficiency. However, workforce costs are directly associated to our key resource (our people) and it is essential that we carefully manage and understand the impact, risks and trade-offs of any actions we are taking to manage within reducing baselines.

[6]

These actions are supported by the maintenance of robust remuneration practices and controls. For example, clear processes are in place requiring Deputy Commissioner level sign off for setting job sizes and salary ranges.

A robust approvals process is also required for the annual one-off performance payment round, with all payments considered and approved by the whole Senior Management Team. This results in a very limited number of payments being awarded. In 2011/12, 26 one-off performance payments were awarded (0.47% of permanent staff), at a total cost of \$89,000¹⁶.

Hiring managers assess each vacancy that arises to determine the appropriateness of replacing in an environment where our baselines and staff numbers are reducing. A framework is in place requiring all new hires to be appointed within the agreed salary ranges, and any movement above the range requires Deputy Commissioner approval.

We implement two-phase moderation around our annual end of year salary review processes to ensure accurate and consistent performance measurements and ratings which then allow us to manage costs in line with modelling.

We recognise our current remuneration approach is unsustainable going forward and the remuneration assumption (that we can negotiate more affordable annual remuneration increases in 2013) is pivotal to addressing our shortfall over the next four years.

Our approach to remuneration needs to be determined with our union partners as part of a bargained outcome and we are fully aware of the complexity and challenge involved, and the potential for employment relations unrest with associated negative impact on business operations. We will work with SSC on our bargaining approach and alignment with government fiscal expectations.

Should the reduced annual remuneration increases not be achieved, then Inland Revenue will have to manage the cost pressures this creates elsewhere, for instance re-examining staff numbers and the associated service trade-offs.

Should we successfully negotiate the desired annual remuneration increases in 2013, we recognise this too can create some key workforce challenges which we will need to actively manage.

Key workforce challenges heightened by a decreasing baseline include:

- **Meeting service demand and service levels** – Some of the workforce savings will be achieved by efficiency gains (i.e. AOM, channel shift, working with others). [6]
- **Attraction and retention** - To deliver on our strategic priorities we need to attract, and retain, great people and great leaders with the specialist skills that are particularly important as we look to transform and operate differently in the future. Competitive remuneration is a key part of that equation.

¹⁶ 30 June 2012 HRC Survey notes 12% of public sector staff received performance payments and notes the use of practices such as 'Productivity dividend payments'.

- **Capability shift** – As our workforce profile changes to a smaller and proportionately more highly skilled workforce, we expect our average salary to increase in line with this. The reduction in customer service role types will be offset by the higher salaries required to attract and retain the greater numbers of professionals and knowledge workers that our changing business needs will require.
- **Managing the expectations of our people** -We need to engage with our people to ensure they understand the practical baseline pressures we are managing and what that means for them at an individual level. We also need to engage unions in this discussion.

The following table looks to provide a high level overview of the cost pressures we are currently facing, our committed spend and our projected position. The historic lens provides some context to the journey and shows some of the significant progress already made in actively utilising the various levers we have at our disposal to manage our personnel costs (i.e. considerable FTE reductions since the cap was put in place, restricted remuneration rounds in 2009 and 2010 etc.).

Remuneration Cost Pressures:

	PREVIOUS	CURRENT (11/12 year)	FORECAST
Remuneration systems	Prior to the implementation of the Graded Remuneration Structure (GRS) and Banded Pay Structure (BPS) we operated a 'pay for points' system with direct market linkage and each job sized using the Hay system. A variety of 'market' remuneration lines were used.	We now operate two 'banded' remuneration systems that replaced 'pay for points', meaning each job is now allocated to one of a finite set of 'bands' based on job size. These are: <ul style="list-style-type: none"> The GRS for roles not under collective coverage, covering approximately 430 staff. Implemented between 2005 and 2011. The BPS, covers approximately 5100 staff, implemented in 2011. Includes 2% steps from 85% to 101% of the salary range. The number of these steps a person can progress each year is determined by their performance level and position in range. 	We will be seeking to amend the current approach going forward in order to fit within profiled budgets, align with government expectations and better support a high performance culture. At this stage the changes required are not clear; however it is unlikely we will depart from 'banding' as a structural concept. We will explore the most effective balance between base pay costs and one off performance payments, that best recognises and rewards performance.
Contractual commitments	Remuneration was outside of collectives until 2011.	For roles under collective coverage, the remuneration system is embedded in the collective agreements until 30 June 2013. [6]	All three of our Collective Agreements expire on 30 June 2013. The bargaining process will be tightly aligned to our employment relations strategy and this Four-year Plan.
Overall Total Base Salary costs movement	Salary and wages movements (as per annual report) from 2009 to 2011 show a total increase of 2.6%% (approx. \$9m). This was achieved through reducing FTE numbers and restrictive 2009/2010 measures including 'nil' salary range movement.	Our total salary and wages costs for salary and wages was \$354.5m for 11/12 and total personnel costs were \$409.7m (as per annual report).	[6]
Annual average base salary increase	The implementation of restrictions to remuneration increases in 2009 and 2010 played a significant role in minimising remuneration cost increases. Prior to this the combined costs of performance-based progression and midpoint adjustments for the remuneration system that applied to roles under collective coverage varied between approximately 4 and 8%.	[10]	
Link to the market	The old 'pay for points' system used a direct link, with market movements applied to midpoints each year. The Inland Revenue benchmarking policy was the Public Sector base salary median for most roles. Prior to 2009 Hay market data for the Public Sector base salary medians were directly applied to salaries. Since 2009, market data has been a source of information only when considering remuneration movement.	The previous direct link to the market was unaffordable and was replaced with negotiated 'range updates' (1.5%) for the new BPS, covering roles in the collectives. For our GRS we review market movement annually and reflect a portion of that in the available increases placed into the 'link to pay matrix' each year. In both pay systems we are behind the current public sector medians by more than 5%.	It is unlikely we will return to direct linkage to the public sector median. Market and HRC data has become a source of information only which we can use to inform remuneration decisions going forward, given budget constraints and government expectations on settlements.

4.0 SUMMARY OF TOTAL FINANCIAL IMPACT

Operating – Departmental

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
<i>Current operating expenditure baseline</i>		[6]			
Financial Implication of Planned Changes and Cost Pressures					
Financial implication arising from changes to outputs, services or deliveries (copy from table in Section 2.1.1)	-	-	-	-	-
Direct employment cost pressures (copy from table in Section 6.2.1.1)	-	[6]			
Operational cost pressures arising from capital (copy from table in Section 6.2.1.2)	-				
Other operational operating cost pressures (copy from table in Section 6.2.1.3)	-				
<i>Total of all changes and pressures on operating expenses</i>	-				
Funding for Changes and Cost Pressures Available F					
Operational efficiencies/reprioritisation (copy from tables in Section 6.2.2.1)					
Changes to third-party revenue (copy from table in Section 6.2.2.2)	-				
Transfers to/from other Votes (copy from table in Section 6.2.2.3)	-				
<i>Total funds available</i>	-				
Savings required but not yet identified	-				
Savings required as % of baselines	-				
New Funding Sought from the Centre					
Total new funding sought ¹⁷ (copy from table in Section 2.1.1)	-				
<i>Savings required if new funding received</i>	-				

[6]

Operating – Non-departmental

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
<i>Current operating expenditure baseline</i>	5,882.132	6,011.544	5,942.244	5,835.044	5,929.844
Financial Implication of Planned Changes and Cost Pressures					
Financial implication arising from changes to outputs, services or deliveries (copy from table in Section 2.1.2)	-	-	-	-	-
Direct employment cost pressures (copy from table in Section 6.2.1.1)	-	-	-	-	-
Operational cost pressures from capital (copy from table in Section 6.2.1.2)	-	-	-	-	-
Other operational operating cost pressures (copy from table in Section 6.2.1.3)	-	-	-	-	-
Total of all changes and pressures on operating expenses	-	-	-	-	-
Funding for Changes and Cost Pressures Available from					
Operational efficiencies/reprioritisation (copy from tables in Section 6.2.2.1)	-	-	-	-	-
Changes to third-party revenue (copy from table in Section 6.2.2.2)	-	-	-	-	-
Transfers to/from other Votes (copy from table in Section 6.2.2.3)	-	-	-	-	-
Total funds available	-	-	-	-	-
Savings required but not yet identified	-	-	-	-	-
Savings required as % of baselines	-	-	-	-	-
New Funding Sought from the Centre					
Total new funding sought (copy from table in Section 2.3)	-	-	-	-	-
Savings required if new funding received	-	-	-	-	-

Capital

In August 2012 Inland Revenue submitted its 10 year Capital Intentions.

Our investment plan covered:

1. *Business Transformation* - a 10-year plus programme of transformational change, including both business and technology
2. *Transformation enablers* - this included the stabilisation of e-platforms, the upgrading of supporting mid-tier platforms [10] and improvements to our e-services and internal organisational changes to improve efficiency
3. *Base infrastructure upgrades*– this included replacement and upgrade of current assets including the mainframe and other IT assets and leasehold improvements
4. *Government priorities/legislative* – this covered work on Student Loans and Child Support reforms and on-going work on tax and social policy changes

[6,7,9]

Departmental Expenditure	Increase/(Decrease)				
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Opening balance funding available	[6,9]				
Depreciation funding					
Sale of assets					
Capital injections/withdrawals					
Total baseline funding available (a+b+c+d)					
Capital investments funded from baselines [6,9]					
Capital investments funded from baselines [6,9]					
New capital funding sought from the centre (copy from table in Section 2.1.2)					
Closing baseline funding available					

[6,9]

Non-departmental

There are no capital appropriations for non-departmental expenditure.

5.0 KEY OPERATIONAL RISKS

Inland Revenue's key risks are profiled as those that will compromise our delivery of our outcomes and strategic priorities in *IR for the future*. Risk themes identified are:

People capability; identifying and understanding what skills and staff are needed in the future are identified through our workforce planning efforts. We have identified future capability gaps and appropriate approaches are being developed to ensure that we can continue to deliver our services.

To assist in identifying gaps in our organisational capability the following treatments are in place:

- Consolidated resource reporting requirements are completed on a fortnightly basis which helps to identify capacity and capability gaps for our investment portfolio
- Using subject matter experts from external partners in the business transformation programme
- Accelerated capability development project seeks to resolve ongoing capacity and capability pressures in Information, Design and Systems

We also need to ensure our organisational 'readiness' to adopt and absorb the scale of change that will occur over the next 10 years. To prepare ourselves for business transformation and the required capability and capacity requirements work is being undertaken on a people and change cluster and a strategic change capability work package.

Our capability and capacity requirements are outlined in the organisational capability and workforce section of this Four-year Plan.

Transformation implications: business transformation objectives may not be clear or supported. To mitigate this risk a PBC case is currently being developed for approval by Cabinet in early 2013. Ernst & Young are our sourcing strategy partner and will help Inland Revenue develop a strategy so we can assess potential partners who have the capability and capacity to assist with the implementation of our transformation plan.

Information technology - the consequences of an ageing technology system are that we will not be able to improve tax collection or social policy disbursement without significant improvements to our systems and processes (including our business operating model). To mitigate potential system failure we continue to refresh and update our IT strategy. Detailed plans are in place to ensure that we continue to receive hardware and software support and manage our forecast demand for increased IT capacity. Our transformation programme will include the modernisation of our IT infrastructure and systems.

To minimise our technology investment risk the following mitigation strategies are in place to ensure we have adequate investment in appropriate technologies:

- 3-5 year infrastructure plan
- IT Governance controls
- IT Services Management controls

- IT Asset Management controls
- IT Capability and Supply controls

We have the following treatment plans/mitigation strategies in place to address complete or partial technology failure:

- IT Ops and Services disaster recovery plan
- IT Ops and Services and enterprise business continuity plans
- IT Ops and Services Management controls
- 3-5 year infrastructure plan

Information management - without reliable data and effective management information systems and processes we are unable to make informed decisions. To address this risk a comprehensive strategic response plan has been developed. The phasing of implementation of the plan in conjunction with business transformation planning and prioritisation processes will be assessed. An Information Management Strategy with phasing of implementation will be detailed in the Business Transformation PBC.

Financial - to continue to deliver on our priority areas and to manage our decreasing baseline we have strong financial management practices in place. Endorsed by our auditors we look for ways to ensure future capital investment and operational funding is sufficient in order to provide services now and in the future. Our investment decisions are tested regularly, expenditure is monitored and regular reporting is carried out. We also ensure that options for proposed policy changes are presented with clear financial implications.

We have a financial model which is regularly updated to inform and drive multi-year discussions to effectively manage within our limited resources. Organisational performance (financial and non-financial) is reviewed regularly to ensure performance is on track. We will also ensure we deliver baseline efficiency savings while concurrently managing:

- business as usual
- legislative deliverables
- infrastructure improvements
- strategic initiatives
- transformational work

[6,10]

[6]

FTE reductions – a key planning assumption is that we will achieve the required FTE reductions through attrition. We have not provisioned for redundancy as our plan assumes that we will achieve the required FTE reductions through attrition. If our attrition levels are lower than forecast it will create a financial risk.

Revenue - we need to administer all tax and social policies to optimise revenues and disbursements to support government objectives. Policy changes are identified and implemented to improve the fairness of the tax system and ease of compliance. We have an ongoing focus on addressing non-compliance through our hidden economy, debt and property initiatives. Our compliance priorities and risk areas are set out in our annually published Compliance Focus. Our business transformation programme will also help optimise our tax and social policy administration.

External interactions - Inland Revenue interacts with more New Zealanders than any other government agency. As our work with administering social policy programmes and cross-agency work in support of Better Public Services continues we need to ensure that our interactions are managed more effectively and strategically. This will ensure that our competing priorities are managed well when working together with other agencies and private providers. We are planning further work to ensure that we lead and support interactions with others and we also have representation on appropriate cross-agency steering groups to ensure our commitment is manageable and trade-offs are understood.

[6,7]

[6,7]

6.0 DETAILED ACTIVITY AND FINANCIAL PLANNING

6.1 Medium-term Intentions – Intended Changes

Intention name: **Business Transformation Programme**

Note strategic outcome(s) related to this intention:

Business Transformation is a business led, technology enabled change programme to:

- provide a stable, scalable taxation and social administration system that allows Inland Revenue to continue to collect taxation revenue and distribute social policy entitlements;
- allow the implementation of policy and government changes in a more agile and cost effective manner;
- enable improved taxpayer compliance and allow Inland Revenue to improve the proportion of the taxation base that it collects;
- improve services to customers with an emphasis of improving support for and greater use of intermediaries and providing integrated interactive digital tools that enable customers to manage their own affairs with speed and certainty;
- increase the sharing of expertise and information across government to improve public services; and
- reduce the compliance costs faced by New Zealanders and New Zealand businesses in meeting tax and related obligations

Type of action

(Insert : New/stop/change)

New

Motivation for change (circle)

Generating funds for reprioritisation

Seeking greater efficiency/performance from current spending

Responding to government priorities

Other:

Our core system FIRST has become increasingly complex as more initiatives and functions have been added. As a consequence FIRST has become difficult to maintain and making changes have become risky, time-consuming and costly.

Describe the intended change including timeframes of the intended implications:

A phased approach over ten years is being proposed to deliver the Business Transformation programme to ensure that our core functions can continue to be delivered and other government priorities, such as the Child Support reforms, can be met.

Describe and quantify the financial impacts of the intended change:

[6]

Financial impact of intended change

**2012/13
(\$0.000m)**

**2013/14
(\$0.000m)**

**2014/15
(\$0.000m)**

**2015/16
(\$0.000m)**

**2016/17
(\$0.000m)**

Operating impact – departmental	[6,9]				
Operating impact – non-departmental	-	-	-	-	-
Capital impact – departmental	-	-	-	-	-
Capital impact – non-departmental	-	-	-	-	-
<p>If this intention requires new funding from the centre, please:</p> <ul style="list-style-type: none"> • explain why the activity cannot be funded from within existing baselines or balance sheets • refer to the 'New Funding' information at the bottom of this section, and • complete the following table. 					
Value of new funding sought from the centre	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating expenditure – departmental	[6,9]				
Operating expenditure – non-departmental	-	-	-	-	-
Capital expenditure – departmental	-	-	-	-	-
Capital expenditure – non-departmental	-	-	-	-	-
<p><i>Describe any implications for workforce capacity and capability of the intended change:</i> To be confirmed in the PBC</p>					
<p><i>Describe any other significant capability implications of the intended change (e.g., IT):</i> To be outlined in the PBC</p>					
<p><i>Describe how the success of the intended change will be known or measured, including the value of spending:</i> To be outlined in the PBC</p>					

<p><i>Intention name:</i> Reinvestment of time limited funding – Budget 2010: Property compliance [6] Student loans: Overseas based borrowers</p>	
<p><i>Note strategic outcome(s) related to this intention:</i> The reinvestment of time limited funding will allow Inland Revenue to continue to contribute:</p> <ul style="list-style-type: none"> • towards responsibly managing the Government's finances; and • building a more productive and competitive economy <p>We will be able to continue to generate additional revenue for the government, uphold the integrity of the tax system and ensure compliance levels increase.</p>	
<p><i>Type of action</i> <i>(Insert : New/stop/change)</i></p>	<p>Extension</p>

¹⁹ Indicative only, funding requirements will be confirmed in the PBC

<i>Motivation for change (circle)</i>	Generating funds for reprioritisation				
	Seeking greater efficiency/performance from current spending				
	Responding to government priorities				
	<i>Other:</i> Reinvestment of time limited funding that will cease within the next four years. This relates to: <ul style="list-style-type: none"> Property compliance ceases in year end 2013/14 Student loans overseas based borrowers ceases in year end 2013/14 [6] Budget 2010 funding for debt collection and hidden economy initiatives will receive their final year of funding in 2019/20.				
<i>Describe the intended change including timeframes of the intended implications:</i> If the time limited funding was reinvested by government it is anticipated that the funding would be 'rolled over' in the year it would expire. For example, property compliance funding would be 'rolled over' and recommence in 2014/15.					
<i>Describe and quantify the financial impacts of the intended change:</i> [6]					
Financial impact of intended change	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating impact – departmental	-	-	\$6.6 \$4.85	\$6.6 \$4.85	\$6.6 \$4.85
Operating impact – non-departmental	-	-	-	-	-
Capital impact – departmental	-	-	-	-	-
Capital impact – non-departmental	-	-	-	-	-
If this intention requires new funding from the centre, please: <ul style="list-style-type: none"> explain why the activity cannot be funded from within existing baselines or balance sheets refer to the 'New Funding' information at the bottom of this section, and complete the following table. 					
Value of new funding sought from the centre	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Operating expenditure – departmental	-	-	\$6.6 \$4.85	\$6.6 \$4.85	\$6.6 \$4.85
Operating expenditure – non-departmental	-	-	-	-	-
Capital expenditure –	-	-	-	-	-

departmental					
Capital expenditure – non-departmental	-	-	-	-	-
<p><i>Describe any implications for workforce capacity and capability of the intended change:</i> Reinvesting the time limited funding will allow us to retain skilled staff within the Audit and Debt collection area.</p>					
<p><i>Describe any other significant capability implications of the intended change (e.g., IT):</i></p>					
<p><i>Describe how the success of the intended change will be known or measured, including the value of spending:</i> It is anticipated that the retention of time limited funding will increase revenue and cash collected for the government.</p>					

6.2 Fiscal Implications

6.2.1 Cost pressures

In Budget 2013 Inland Revenue is only requesting funding for business transformation. In addition we are seeking the reinvestment of current time limited funding that comes to an end during and after this four-year period.

Over the next four years our baseline will decrease [6] Current operating projections indicate cost pressures [6]

Over the four-year period the level of savings required ranges from [6]

However, we are confident in our ability to deliver savings to manage our cost pressures.

[6]

As part of our efforts to improve productivity and manage growth in demand for our services, we have sought to invest in technology that allows us to manage interactions more effectively and efficiently. [6]

We are developing an integrated channel strategy [6]

The majority of our financial pressures relate to standard cost pressures associated with remuneration, IT infrastructure (including a range of business improvement activities, base infrastructure and risk mitigation activities) and volume related increases. We are also self-funding the tax policy work programme which is approximately \$2m in operating funding per annum, in addition to our resources within the Policy Advice Division and the Government Solutions team. This is in excess of \$10m per annum.

[6,9]

As agreed with the all-of-government approach we are committed to participating in IaaS, however it will result in significantly increased operating costs and will require a change in funding from capital to operating. Therefore this will create a further cost pressure.

Currently we are forecasting cost pressures of [6] over the four-year period. [6]

We are continuing to investigate and implement initiatives to help close out this gap in the outer years. [6,7]

6.2.1.1 Direct employment costs

Summary of direct employment cost pressures (summary of white boxes below)

[6,10]

6.2.1.2 Operational cost pressures arising from capital

Summary of capital/property-related cost pressures (summary of white boxes below)

6.2.1.3 Other cost pressures

Summary of other operating cost pressures (summary of white boxes below including residual box)

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
[6]					

[6]

Cost pressure as a result of: **Efficiency dividend**

The pressure in 2013/14 is the continuing result of the efficiency dividend from the 2012/13 year. Although savings have been identified to mitigate the majority of this pressure, further savings are still required. The 2014/15 pressure relates to the additional efficiency dividend for which savings have not yet been identified.

Value of cost pressure	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	-	3.3	6.3	-	-
Non-departmental	-	-	-	-	-

[6]

6.2.1 Cost pressures – non departmental

The following table sets out the current appropriations for non-departmental 'Benefits and unrequited expenses' that were forecast as part of HYEPU 2012. These appropriations will be updated as part of BEPU 2013 in line with updated macroeconomic forecasts and assumptions at that time.

Benefits and unrequited expenses – non-departmental					
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
KiwiSaver: Kickstart Payment	195	138	100	93	90
KiwiSaver: Interest	7	8	12	14	15

KiwiSaver: Tax Credits	508	556	584	614	643
Child Support Payments	231	242	253	265	277
Family Tax Credit	2,062	2,037	1,993	1,961	1,976
Minimum Family Tax Credit	12	12	13	13	14
Child Tax Credit	1.6	1.3	1	0.8	0.6
Parental Tax Credit	17	15	14	13	12
In-Work Tax Credit	541	511	493	483	479
Paid Parental Leave Payments	163	170	178	194	195
Payroll Subsidy	3	3	4	4	4
Total	3,740.6	3,693.3	3,645	3,654.8	3,705.6
Cost pressures	unknown	unknown	unknown	unknown	unknown

The following table sets out the current appropriations for non-departmental 'Other expenses' that were forecast as part of HYEPU 2012. These appropriations will be updated as part of BEPU 2013 in line with updated macroeconomic forecasts and assumptions at that time. We are currently developing our debt strategy and consequently we will update any related changes in March 2013.

Other expenses – non-departmental					
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Impairment of Debt Relating to Student Loans	110	110	110	110	110
Impairment of Debt	246.5	266.2	185.2	193.2	193.2
Impairment of Debt Relating to CS	296	392	408	226	252
Bad Debt Write-Offs	894	931	968	1,007	1,007
Initial W/D - Student Loans	586	610	617	635	653
Total	2,132.5	2,309.2	2,288.2	2,171.2	2,215.2
Cost pressures	unknown	unknown	unknown	unknown	unknown

The following table sets out the current appropriations for non-departmental 'Borrowing expenses' that were forecast as part of HYEPU 2012. These appropriations will be updated as part of BEPU 2013 in line with updated macroeconomic forecasts and assumptions at that time. We currently do not anticipate any material movements in these appropriations.

Borrowing expenses – non-departmental					
	2012/13 (\$0.000m)	13/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Income Equalisation Interest	7	7	7	7	7

Adverse Event Interest	0.01	0.01	0.01	0.01	0.01
Environmental restoration	2	2	2	2	2
Total	9.01	9.01	9.01	9.01	9.01
Cost pressure	0	0	0	0	0

6.2.2 Offsetting operational funding from reprioritisation/third-party revenue/vote transfers

6.2.2.1 Reprioritisation

Summary of funding available from reprioritisation (summary of white boxes below)

	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.00m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total departmental reprioritised funding		[6]			
Total non-departmental other operating cost pressures					

1. Reappropriation of Child Support funding received in Budget 2009

Reprioritised funding available as a result of: **Reappropriation of Child Support funding received in Budget 2009**

In 2009 Inland Revenue sought and received \$3.118m as part of Budget 2009 bilateral to transfer an additional 4,000 debt cases to the Australian Child Support Agency (ACSA) for collection and to manage the associated Inland Revenue activity required to support the ACSA with enforcement (9 FTEs).

Despite reaching a preliminary agreement for the transfer of 4,000 additional cases, the ACSA subsequently advised Inland Revenue that, due to a number of factors it could no longer agree to any increase in the volume of cases collected for New Zealand. It is proposed that this reappropriation be applied to international and domestic cases.

Inland Revenue is seeking to reappropriate the \$2.519m funding originally provided in Budget 2009 for the purposes of an uplift in fee-for-service child support debt cases sent to Australia. This funding has been handed back to Government for the last three years as ACSA has been unable to accept additional cases from New Zealand. It is proposed that the reappropriated funding would be used to enhance child support collection opportunities by alternative means.

In order to maintain the integrity of the Child Support scheme this funding will be utilised to achieve the original intent by tackling additional off-shore Child Support cases using New Zealand based staff and off-shore contractors. In addition, this investment will focus on New Zealand based debtors which continues to show significant growth. It is proposed that an initial focus on 40,000 Child Support cases utilising the processes and learning from our Campaign activity, successfully implemented with tax debt and Budget 2010, to bring them to resolution. A solely "case managed" style is impractical and further tools need to be deployed.

Value of available reprioritised funding	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	[6]				
Non-departmental	-	-	-	-	-

A key component of our organisational change portfolio is dedicating resources to implementing productivity/efficiency improvements that will generate savings to assist in closing our fiscal shortfall. However our ability to deliver these savings is dependent on the level of transformation activity and resource availability. Consequently we will need to revisit our change portfolio once the preferred option for transformation has been selected and funding agreed to.

[6]

3. Operations Management

Reprioritised funding available as a result of: **Operations Management Project**

This project is about implementing the Operations Management system further across IR. Options include extending to Investigations and Advice, Contact Centres, IT and parts of Corporate Services. This system promotes the use of a robust methodology that includes a toolset to support the effective management of workforce planning and performance monitoring. This will result in:

- increased productivity
- increased utilisation of staff by focussing them on core tasks
- less rework and reduction of internal errors by implementing and managing a robust quality framework
- increased skills – embed operational skills for all leaders to sustain operational excellence
- clear accountabilities and deliverables at all levels providing visibility and transparency

of results <ul style="list-style-type: none"> consistent performance across business units to ensure service levels are achieved or plans are in place to mitigate any performance gaps 					
Value of available reprioritised funding	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	[6]				
Non-departmental	-	-	-	-	-

[6]

5. Better management practices

Reprioritised funding available as a result of: Better management practices					
This initiative comprises a number of internal projects aimed at improving the way that we manage our internal resources. This includes management actions such as improved project management, reducing travel costs, better management of annual leave and absenteeism, process improvement, and further centralisation of support services.					
Value of available reprioritised funding	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Departmental	[6]				
Non-departmental	-	-	-	-	-

In addition we are also exploring the application of Inland Revenue's Compliance Management Environment (CME) across further compliance areas. This involves better targeting of resources and will result in increased revenue for the Crown.

6.2.2.2 *Third-party revenue*

Inland Revenue does not have any third party revenue.

6.2.2.3 *Transfers from/to other votes*

[6,9]

	\$m Increase/(Decrease)				
	2012/13 (\$0.000m)	2013/14 (\$0.000m)	2014/15 (\$0.000m)	2015/16 (\$0.000m)	2016/17 (\$0.000m)
Total transfers	-	-	-	-	-

7.0 SAVINGS IDEAS

The nature of Inland Revenue's core business means there is very limited potential to reduce or cease any of its current programmes and reprioritise without negatively impacting on compliance, the revenue base and/or people's access to entitlements.

As outlined in section 6 we have identified [6] in savings to meet our cost pressures of [6] over the next four years.

Based on our 2013/14 baseline of \$685m a 5% saving equates to \$35m, [6]

A significant proportion of the \$685m baseline in 2013/14 is made up of fixed costs that cannot be reduced and are unavoidable costs over the period of this plan. These include depreciation, capital charge, and rental and information technology costs [6]

We are also contributing funding and staff towards result areas 9 and 10.

An additional 5% saving on the organisation would divert valuable effort, attention and limited resources away from our strategic priorities and also take the focus away from business transformation. It would also pose an unacceptable level of service risk failure. Our key priority remains business transformation which will deliver 'substantial' benefits in the longer term.

[6,7]

[6,7]

Inland Revenue has already delivered savings to government as outlined in our successful efficiency appeal. We continuously look for efficiencies and improvement within our activities and programmes of work. This culture has resulted in the lower priority areas where efficiency savings could be made have already been embedded.

We have a strong track record of delivering significant value for money savings to the government. In order to continue to deliver savings to the government and to manage core cost pressures Inland Revenue may need to reconsider future service standards to achieve savings. As government's core revenue collection agency upholding the integrity of the tax system and ensuring the highest levels of compliance is an ongoing priority.

[6,7]