

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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# **Budget 2014: Four-year Plan**

**Inland Revenue**

Covering:

**Vote Revenue**

Four-year Plan

13 December 2013

Forwarded by:

**Minister of Revenue**

# MAIN POINTS AND KEY DECISIONS

1. Inland Revenue's priorities over the next four years are to:
  - Deliver our transformation programme
  - Deliver and improve our core business and enhance customer experience to ensure we retain our license to operate
  - Support Government policy and priorities
2. With our current capacity, we can commit to only a limited number of projects over the next four years. Business Transformation is the most critical component of how we will become a modern revenue organisation. It will be resource intensive and will require careful management.
3. The recent *Performance Improvement Framework (PIF) Follow up Review of Inland Revenue* identified that our biggest risk is overcommitting the organisation and its potential impact on our reputation, delivery of core services and the transformation programme.
4. We recognise that we have an important role to play in the achievement of Better Public Services, the delivery of the Government's ICT strategy and the success of other cross agency initiatives. We will incorporate our contribution to these into the design and development of our transformation where it makes sense to do so.
5. [7]

6. We will need to make on-going trade-offs to enable us to optimise our limited resources and avoid risks to the delivery of today's services and our transformation.
7. The capacity and capability of our workforce will need to change as we deliver transformation. This presents some significant challenges for us as we look to recruit, develop and retain key skills that are currently in short supply.
8. As per Four-year Plan requirements, the financial section and supporting annex is anchored to the October 2013 baseline update. On this basis, over the four year period, our departmental baseline will decrease by [7]
9. This reduction includes the cessation of time limited funding received in Budget 2012, along with funding allocated towards implementing specific government legislative changes such as Student Loans and Child Support changes. [7]

10. [7]

Operating

within this baseline will be an on-going challenge due to the dynamic and complex environment in which we operate. Our costs will increase each year as the volumes of digital transactions grow. It will also increase as a result of the need to meet rising public expectations of online availability, functionality and security.

11. In addition to the risk inherent in our forecast, we have to manage the financial implications of any unforeseen or new pressures that arise in the due course of business, such as self-funding policy initiatives. Our track record and our commitment to our change portfolio mean that we are confident of our ability to manage the financial pressures that we face.
12. We have included a number of budget bids aimed at increasing and protecting the government's revenue base and progressing the government's policy agenda. Our workforce may increase depending on the outcome of these bids and the impact of efficiency savings and transformation. [11]

13 [7]

14 [7]

These decisions will determine how we allocate our resources in the medium term and will be reflected in our future plans.

15. Our Four-year Plan includes the following funding requests for Budget 2014, as set out in paragraph 47 of the Executive Summary:

- Business Transformation – [7]
- Government and policy initiatives [7]
  - Foreign Account Tax Compliance Act
  - and Research and Development cashing up tax losses
- [7]

- [7]

- Revenue raising and cash collection bids [7]

- [7]

16. We have also signalled our intent to submit future budget bids for:

- [7]
- [7]

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# 1. 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 over the next four years. It focuses on our Business Transformation, as well as highlighting our contribution to the Government’s priorities

## **Strategic Direction**

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. Much of our work aligns and contributes to the Government’s four priorities. This includes:
  - the administration of the tax and social policy systems for which we are responsible
  - our contribution to the Better Public Services programme and our related work with other agencies, e.g., information sharing to improve compliance
  - our work on the Canterbury Rebuild, which involves work with many other agencies and has enabled us to test new and better ways of providing services to customers
  - our work to develop and promote self-service options to our customers, which make it easier for them to comply with their obligations
  - the tax policy work programme
4. *IR for the future* sets out our high level strategic direction. It outlines the changes we need to make to 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.
5. To achieve *IR for the future* we need to change how we operate, and build the capabilities that will enable the operating model we require in the future. The capabilities we will need in the future are described in our Target Operating Model.
6. Inland Revenue’s key area of focus over the coming years is our Business Transformation programme – a business-led, technology-enabled change programme

to implement the capability and infrastructure that will underpin a modern revenue system by:

- improving agility so that policy changes can be made in a timely and cost effective manner
- delivering more effective services to improve customer compliance and help support the outcomes of social policies
- improving productivity and reducing the cost of providing our services
- improving the customer experience by making it easier and simpler for our taxation and social policy customers
- increasing the secure sharing of intelligence and information across Government to improve delivery of services to New Zealanders and improve public sector performance
- minimising the risk of protracted system outages and intermittent systems failure

The scale and duration of the change is set out in our Programme Business Case.

7. We are finalising our investment portfolio. It brings together the investments we need to make to run and improve our existing business with the investments needed for transformation, and will enable us to make better trade-off decisions.
8. The development of our transformation programme roadmap and our investment portfolio is the subject of regular and on-going discussions with Ministers and Central Agencies. This will continue throughout the period covered by this plan as business cases are developed, funding requested, and projects delivered.

### **Current operating environment and challenges**

9. In considering our strategic direction we take into account our operating environment and the challenges we face. We operate in an environment where domestic and international developments impact our business. Our environment is also shaped by Government priorities. We continually evaluate these impacts to identify existing and emerging trends and risks, which allow us to respond appropriately ensuring successful delivery of our services.

### **Our medium term intentions**

10. In order to advance our strategic direction, our three main focus areas for the next four years are:
  - Our transformation change agenda
  - Delivering and improving our core business, enhancing customer experience (run and improve initiatives) to ensure we retain our licence to operate
  - Government policy and priorities

These three areas will be progressed concurrently as we balance our need to deliver today and transform for tomorrow.

11. Delivery of our transformation change agenda includes: strategic and tactical business transformation projects, which are initiatives that offer both early improvements and longer-term more fundamental change; foundational initiatives

that include building the capability we will need for the future and delivery of foundational infrastructure; and tax policy initiatives that support Business Transformation and the Government's goal of better public services for New Zealanders.

12. We will continue to improve the day to day running of our core business to enhance our customers' experience. We are responding to our customers' changing expectations by implementing a wide range of customer service initiatives, which are designed to make it easier for our customers to comply with their obligations.
13. Our run and improve initiatives identify and implement efficiency improvements in our operations while maintaining performance. We also have a tax policy work programme that 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.
14. Our key roles are to implement policy or legislative work on behalf of the Government, and administer the tax and social policy systems for which we are responsible. This requires significant resources and focus. We are also a major player in achieving the Government's priorities.
15. We are involved in the development of a number of business cases relating to Better Public Services Results 9 and 10 and supporting the development of the Result 9 and 10 Blueprints and the Government ICT Strategy and Action Plan 2017. Once these have been finalised we will build these into our transformational design principles with a view to taking relevant initiatives forward as part of our transformation roadmap.
16. [7,8]
17. We are contributing to innovative and collaborative ways of working with other agencies in delivering services and supporting Canterbury Earthquake Recovery Authority (CERA) recovery activities. Specifically Inland Revenue contributes to CERA's Social, Economic and Leadership and Integration components of the Christchurch Earthquake Recovery Strategy. This includes a focus on protecting the revenue due from the estimated \$40 billion rebuild of Christchurch.

### **Organisational capability**

18. [8]
19. Although the efficiencies that we will deliver will result in a reduced need for staffing levels to deliver our core work, it is clear that delivering Business Transformation will require an increase in staff with large scale systems change and programme management skills and capabilities. [7,11]

[8,11]

20. [11]



## **Fiscal outlook and planning assumptions**

21. As per Four-year Plan requirements, our financial section and supporting annex is anchored to the October 2013 baseline update. On this basis, over the four year period our departmental baseline will decrease b [7]

22. This reduction includes the cessation of time limited funding received in Budget 2012, along with funding allocated towards implementing specific Government legislative changes such as Student Loans and Child Support changes.

23 [7,8]

- [7,8]
- 
- 

24. It is important to note that, although our financial section and supporting annex is based on currently approved departmental appropriations, the main part of the plan reflects the assumptions set out in paragraph 23.

25. Inland Revenue's current operating projections indicate cost pressures growing from [7]

26. Our main cost pressures over the next four years relate to remuneration, efficiency dividend, IT volume related costs and inflationary/ICT contract increases which are driven mainly from existing contractual obligations.

27 [8,11]

28 [7]

These focus on shifting customers to more cost effective options, such as e-channels or automated responses; improving workforce planning and business processes [7,11]

29. [7]

30 [7]

Operating within this baseline will be an on-going challenge due to the dynamic and complex environment in which we operate.

31. Inland Revenue is fully committed to managing our fiscal pressures. [8]

32. Our intention is to continue to improve our service to customers over the next four years whilst also embarking upon and beginning to deliver our Business

Transformation programme. This will require a continual balance of focus and resources across the three priorities set out in paragraph 10.

33. We also administer \$5,923 million of non-departmental expenditure which is forecast to increase to \$6,039 million in 2017/18 based on current policies and settings.

### **Capital expenditure**

34. We manage our capital programme as one investment portfolio to ensure that allocations are optimised between the change, run and improve requirements of the organisation.

35. [7]

36. [7]

37. We will refine our capital intentions profile in due course and will continue to engage with Central Agencies regarding our planned capital expenditure programme.

### **Risks**

38. There are a number of key risks that could impact on the achievement of our Four-year Plan. The risks outlined below take into account the recent *Performance Improvement Framework (PIF) Follow up Review of Inland Revenue*.

39 [8]

40 [7,8,10,11]

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[7]

[7,8,10,11]

41. [7,10,11]

42. [7,10,11]

43. People capability

We have identified a risk associated with not having the right people capability, especially the specialist resources needed for transformation. There is also a risk associated with our ability to backfill successfully and smoothly for people required to assist with significant contributions to our transformation programme. We are mitigating this risk through our people and workforce capability strategy and through seeking suitably experienced transformation service provider(s).

44. [11]

45. As a Service

The move to As a Service (AaS) creates additional operating financial pressures. We are committed to using the AaS model and we have recently signed an AaS contract with Datacom for mid-tier systems and with Unisys for mainframe services. We are mitigating this risk through the use of long term financial management and ongoing discussions with Treasury.

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<sup>2</sup> Refer to section 'Our strategic direction' for impacts

46. Significant loss of data availability, integrity or confidentiality due to a malicious act or system/process failure

Inland Revenue is heavily reliant on systems and data to deliver our core functions. We are mitigating this risk through a comprehensive approach to IT security, Disaster Recovery capability and internal controls.

**Budget bids/Time limited funding**

47. In Budget 2014 we will seek funding for the following Budget bids. Full details of each of these bids can be found in Annex 4.4, and are summarised below (in order of priority).

48. Business Transformation

Stage one of the transformation programme roadmap will contribute to Results 9 and 10, and is aligned with one of the main themes of the Government ICT Strategy: 'Services are digital by default'.

Given our fiscal constraints, we are unable to contribute operating funding towards Business Transformation. However, we expect to be able to contribute up to [7]

We are therefore seeking [7] to complete the mobilisation phase, the detailed design phase, and tactical and foundational activities as part of Stage 1 of our transformation programme. Inland Revenue will fund the indicative capital costs of up to [7] included in the Budget 2014 submission, along with some of the associated depreciation and capital charge. [7]

49. Government and policy

These initiatives contribute to the Government's priorities by: improving current tax settings within a broad-base, low-rate tax framework; progressing international tax reform; implementing our international agreements; and by contributing to the Government's Business Growth Agenda.

- [7]

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<sup>3</sup> The indicative amount signalled in this Four-year Plan will be further refined and confirmed in February 2014

- *Foreign Account Tax Compliance Act (FATCA)*  
We are seeking to appropriate funding to implement the FATCA legislation and Inter Government Agreement (IGA) requirements. Under the IGA, Inland Revenue will act as an intermediary, receiving data from New Zealand Financial Institutions and passing this on to the US Internal Revenue Service. The indicative cost for delivering the preferred solution is \$8 million operating (including depreciation and capital charge) and \$6 million capital over five years from 2013/14 to 2017/18, with an on-going cost of \$2 million operating per annum from 2018/19.
- *Research and Development cashing up tax losses*  
This is a tax policy initiative to reduce tax distortions for start-up firms carrying out research and development. Under this proposal, Inland Revenue would refund tax losses. The estimated cost for 2014/15 is [7]  
There are on-going administration costs of [7]  
and \$16 million in grants per annum to cover refunds for companies from 2015/16, subject to the Better Business Cases process.

50 [7]

51 [7]

## 52. Revenue raising and cash collection opportunities

These offer opportunities to easily scale-up or replicate successful initiatives as they are an increase in current ways of operating and have low demands on management time and minimal systems impact. They are investment ready as they just require recruitment. They contribute to the priority of responsibly managing the Government's finances. This is done by making additional revenue available to fund Government programmes while also improving voluntary compliance and speeding up the process of getting money to custodial parent families. These bids are ranked in terms of return on investment. If the Government wishes to progress these Budget bids, further work will be required to refine them. The current proposals are:

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[7]

- [7]

- *Unfiled returns*

Scale up our success with this initiative to maximise our revenue returns, [7,10]

We request funding of \$49 million over five years. We are expecting this investment to return \$300 million in revenue over five years.

- *Child support compliance*

We will provide education to newly registered custodial and liable parents. This, along with an increased focus on international child support debt and payments, will speed up the process of getting money to custodial parent families.

Proactive calling can also reduce the growth in new debt. We request funding of \$44 million over five years. In relation to the international customer and domestic liable person activity we expect a return on investment of \$3 to \$5 for every \$1 spent.

The operating investment, return, and associated rate of return over the five-year period 2014/15 to 2018/19 are outlined in the table below. These bids are in order of return on investment.

<b>Funding Sought in Budget 2014</b>	<b>2014/15 Investment \$0.0m</b>	<b>2014/15 Return \$0.0m</b>	<b>Total five-year investment \$0.0m</b>	<b>Total five-year return \$0.0m</b>	<b>Rate of return on investment</b>
<b>Revenue raising and cash collection</b>					
[7]					
Unfiled returns (revenue)	9.0	[7]			6:1
Child support compliance (cash)	7.2	28.8	43.6	174.4	4:1
<b>Total revenue raising and cash collection</b>	[7]				

If all of the above investments were endorsed this would result in a [7]

53 [7]

[7]

- [7]

54. Out year funding requests

We are also signalling our intentions for the following out year funding requests:

- [7]

- [7]

55. **Other points to note**

In this Four-year Plan, we have identified a number of areas where decisions are pending that, depending on the outcome, may impact Budget 2014.

- [7]

- *Simplify the Filing Requirements for Individuals (SFRI)*  
In 2012 legislation was enacted to simplify the filing requirements for individuals. These apply from 2016/17 unless an Order in Council is made to bring the provisions into effect earlier. [7]

• [7]

- *Black hole R&D expenditure*  
Under current tax rules, in certain situations, capitalising R&D expenditure may be unable to be deducted or depreciated, which may be having negative effects on businesses' R&D investment incentives. A government discussion document on possible options to address the problem is out for consultation. Preliminary indications are that the proposed policy changes will have tax revenue implications but will have no systems impacts for Inland Revenue, and any increase in administration costs for Inland Revenue would be insignificant and would be funded from existing baselines. The cost / fiscal impact assumptions will be updated early in the New Year.
- *Canterbury Rebuild*  
Inland Revenue involvement in the Canterbury Earthquake Support Co-Ordination Service (\$0.390 million) is subject to CERA/MSD funding as part of CERA's Greater Christchurch Psychosocial Recovery Strategy proposal being considered by Cabinet.

[7]

## 56. **Summary of recommendations**

Note the decisions pending as per paragraph 55.

Note Inland Revenue will seek:

- Business Transformation – [7]

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[7]



- Business Transformation – permission to spend up to [7] of capital funding in 2014/15 and up to [7] in 2015/16 on digital and foundational initiatives from departmental balance sheet reserves<sup>6</sup>
- Funding for the following Government and policy initiatives:
  - [7]
  - Foreign Account Tax Compliance Act – we are requesting \$14 million over five years (\$8 million operating and \$6 million capital) from 2013/14 to 2017/18, with an on-going cost of \$2 million per annum from 2018/19
  - Research and development cashing up tax losses - estimated cost of [7] There are on-going costs of [7] and \$16 million in grants per annum to cover refunds for companies from 2015/16, subject to the Better Business Cases process.
- [7]
- [7]
- Funding for the following revenue raising and cash collection opportunities:
  - [7]
  - Unfiled returns – \$49 million over five years
  - Child support compliance – \$44 million over five years
- Proposals to be confirmed:
  - [7]
  -

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[7]

The following table summarises the operating and capital requirements, in order of priority, for our Budget 2014 bids.

<b>Funding Sought at Budget 2014</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>	<b>2018/19 \$0.000m</b>
<b>Operating</b>					
<b>Business Transformation</b>					
Transformation Mobilisation Programme and Business Transformation (design of Stage 1)	[7]				
<b>Government and Policy</b>					
[7]					
Foreign Account Tax Compliance Act (FATCA)	3.047	1.370	1.318	1.324	1.760
Research and development cashing up tax losses	[7]				
<i>Total Government and Policy</i>	[7]				
[7]					
<b>Revenue raising and cash collection</b> (in order of return on investment)					
[7]					
Unfiled returns	8.991	10.269	10.269	9.536	9.536
Child support compliance	7.227	9.259	9.104	8.979	9.010
<i>Total revenue raising and cash collection</i>	[7]				
<b>Proposals to be confirmed</b>					
[7]					
<i>Total proposals to be confirmed</i>					
<b>Total Operating</b>					

<b>Funding Sought at Budget 2014</b>	<b>2014/15</b> \$0.000m	<b>2015/16</b> \$0.000m	<b>2016/17</b> \$0.000m	<b>2017/18</b> \$0.000m	<b>2018/19</b> \$0.000m
<b>Capital</b>					
<b>Government and Policy</b>					
[7]					
Foreign Account Tax Compliance Act (FATCA)	5.160	0.483	0.000	0.000	0.000
Research and development cashing up tax losses	[7]				
<i>Total Government and Policy</i>					
<b>Proposal to be confirmed</b>					
[7]					
<b>Total Capital</b>	[7]				

The following table illustrates the Budget 2014 revenue impacts.

<b>Budget 2014 - Revenue Impact</b>	<b>2014/15</b> \$0.000m	<b>2015/16</b> \$0.000m	<b>2016/17</b> \$0.000m	<b>2017/18</b> \$0.000m	<b>2018/19</b> \$0.000m
[7]					
Child Support compliance (cash)	29	37	36	36	36
Research and development cashing up tax losses <sup>9</sup>		(16)	(16)	(16)	(16)
Black hole R&D expenditure	(1)	(4)	(5)	(6)	(7)
<b>Total Revenue</b>	[7]				

*Positive numbers represent an increase in cash or revenue.*

<sup>9</sup>In earlier years it is likely to maximise out at \$16 million per year but over time reduces as the timing lag, while not fully eliminated, offsets the transaction at a future point. It is yet to be determined as to whether this will be a Crown payment or a refund.

[7]

Out year funding requests

[7]

[7]

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[7]

## 2. STRATEGIC DIRECTION AND MEDIUM TERM INTENTIONS

### Purpose

Inland Revenue is New Zealand's principal revenue agency and collects over 80% of core Crown revenue. We have an important role in administering social policy programmes, often together with other agencies. Our responsibility to New Zealanders is to maintain the integrity of the tax system and efficiently collect revenue and distribute entitlements. Maximising voluntary compliance is the cornerstone of our approach to achieving our outcomes.

Our mission is to 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 want to make it easier for our customers to comply with their obligations and receive their entitlements by continuing to deliver easier-to-use, joined-up services across government. It is also important that we deliver value for money to the Government and continue to provide the services New Zealanders expect of us in a changing world.

Our three main responsibilities are:

- collecting 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

Our strategic direction has been developed in the context of the Government's priorities for the state sector, which are to:

- responsibly manage the Government's finances
- build a more competitive and productive economy
- deliver better public services within tight fiscal constraints
- rebuild Canterbury

We are already a major player in achieving these priorities, and much of our work aligns and contributes to these priorities. This includes:

- the administration of the tax and social policy systems for which we are responsible
- our contribution to the Better Public Services programme and our related work with other agencies, e.g., information sharing to improve compliance

- our work on the Canterbury Rebuild, which involves working with many other agencies and has enabled us to test new and better ways of providing services to customers
- our work to develop and promote self-service options to our customers, which make it easier for them to comply with their obligations
- the tax policy work programme

## **Our Strategic Direction**

Our organisational strategy, *IR for the future*, describes our vision of being an organisation recognised for service and excellence. Such an organisation would be agile, effective and efficient, enable customers to self-manage with speed and certainty, enable Government to make timely policy changes and work with other agencies to optimise interaction across government.

*IR for the future* presents a strategic view of what will be changed in our working practices, leadership behaviours and the tools used to deliver our services. We have built a strong reputation for successfully delivering the Government's policy priorities however in doing so, layers of complexity and risk have been added to our business processes and technology infrastructure.

To achieve this vision we need to transform the way we do business to one that is supported by a stable technology platform to enable this transformation. We recognise that unless we change the way we do business we will be unable to deliver what New Zealand needs.

[7,8]

Over the coming years Inland Revenue will fundamentally change how we work, including changes to our policies, processes, platforms, people and how we deliver services. To implement the capability and infrastructure that will underpin a modern revenue system we are undertaking Business Transformation, a business-led, technology enabled change programme. It will transform the way we do business, and provide a stable technology platform.

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[7,8]

Delivering our Transformation Programme is our main focus for the coming years as we implement the capability and infrastructure required to modernise the revenue system.

In April 2013, Cabinet agreed (SEC Min (13) 4/4 and CAB Min (13) 10/4 refer) the case for change for the Business Transformation programme. Furthermore, Cabinet approved in principle the overall investment objectives and agreed that modernising the revenue system through business process re-engineering, supported by new technology is the preferred way forward.

In September 2013 Cabinet confirmed the programme roadmap and investment objectives (EGI Min (13) 20/7 and Cab Min (13) 30/6 refer), and directed us to commence development of business case(s) for Stage 1: *Enabling secure digital services*.

Ministers also recognise that Inland Revenue will need to make trade-offs in order to manage the risks<sup>12</sup> to the transformation programme and make more efficient use of our resources.

Throughout the life of the programme New Zealand's revenue system will progressively become more flexible and agile. In addition, Inland Revenue will increasingly be intelligence-led, leaner and more productive, and will have increased inter-operability with other agencies and third parties

Our overall investment objective is to implement the capabilities required to deliver *IR for the future* by:

- improving agility so that policy changes can be made in a timely and cost effective manner
- delivering more effective services to improve customer compliance and help support the outcomes of social policies
- improving productivity and reducing the cost of providing our services
- improving the customer experience by making it faster and simpler for our taxation and social policy customers
- increasing the secure sharing of intelligence and information across government to improve delivery of services to New Zealanders and improve public sector performance
- minimising the risk of protracted system outages and intermittent systems failure

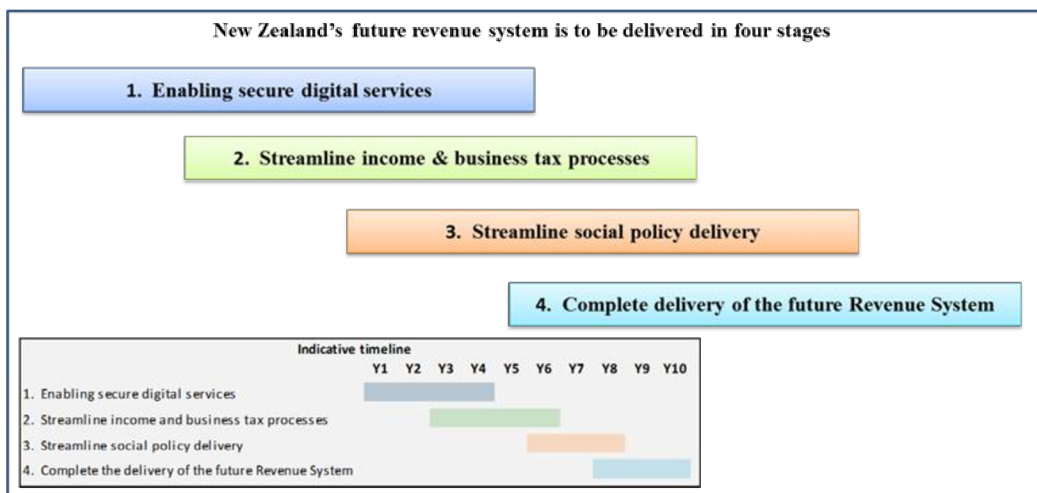
[7]

Our programme roadmap sets out the starting point for the programme and the overall phasing. We propose to deliver the programme in four customer-focused stages [7]

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<sup>12</sup> Refer to section on 'Key operational risks'

- *Stage 1: Enabling secure digital services* to allow the majority of customers to self-manage and reduce businesses' compliance burden in fulfilling their PAYE obligations
- *Stage 2: Streamline income and business tax processes* will leverage the foundations delivered in the previous stage and further reduce businesses' compliance burden to fulfil their tax obligations
- *Stage 3: Streamline social policy delivery* will improve the delivery of the social policies that we administer
- *Stage 4: Complete delivery of the future revenue system* will include transitioning any remaining taxes and social policies to a new platform and de-commissioning technical platforms that are no longer required



Implementing a new platform and processes will be lengthy and complex. [7,10,11]



Inland Revenue is engaged in regular discussions with Ministers and Central Agencies and this will continue throughout the period covered by this plan as business cases are developed, funding requested, and projects delivered.

Overview of stage one key dates of the Business Transformation programme

Indicative Date	What	Decision Supported
Dec 2013	Budget 2014 submission (4YP)	Provide indication of 4 year funding requirements, specifically request appropriation for: <ul style="list-style-type: none"> <li>• 2014/15 funding to complete the current mobilisation phase</li> <li>• tagged funding for detailed design phase in 2014/15 and 2015/16</li> <li>• tagged funding for tactical and foundational activities in 2014/15 and 2015/16</li> </ul>
Feb 2014	Budget 2014 confirmation	Refine amounts for appropriation for: <ul style="list-style-type: none"> <li>• remainder of the mobilisation phase in 2014/15</li> <li>• detailed design phase in 2014/15 and 2015/16 subject to joint ministers report back via a design confirmation business cas [7]</li> <li>• 'quick-wins' and foundational activities funding subject to business case approv [7]</li> </ul>
April 2014	Design business case	Supports consideration by Cabinet of the tagged funding required for detailed design and: <ul style="list-style-type: none"> <li>• the release of a RFP to engage an implementation partner to complete detailed design of Stage One and validation of other stages.</li> <li>• [7]</li> </ul>
[7]		

In Budget 2014 Inland Revenue is seeking funding to complete the current mobilisation phase. We will also be seeking funding for the detailed design phase, tactical and foundational activities as part of stage one of our transformation programme. The indicative amount will be further refined and confirmed in February 2014.

## **Drivers of Change - current operating environment and challenges**

In considering our strategic direction for the coming years, we must also take into account our operating environment and the challenges we face. We operate in a dynamic environment where domestic and international developments impact our business. Our environment is also shaped by Government priorities. 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.

To ensure we retain our licence to operate, our long term strategic planning takes into account the following drivers and challenges:

### ***Scope of our work programme***

We recognise that our work programme over the coming years is substantial and that we face capacity and capability restraints. One of our challenges going forward in this environment is in balancing our need to deliver today and transform for tomorrow. We will need to carefully manage our work programme, including legislative deliverables, in order to ensure progress is maintained on our core business, the Government's priorities and our Business Transformation.

### ***Increased cross-government work to improve services for customers***

There is an enhanced focus on the state sector contributing to more innovative and efficient service delivery in line with the expectations of Government and New Zealanders. The Better Public Services programme developed from the requirement for agencies to collaborate more in the future to improve customer experience and gain efficiencies through re-using common services and technology. We are expected to be major contributors to developing solutions and delivering results for New Zealanders.

Our transformation programme offers a real opportunity to design more integrated approaches that work for customers and support whole-of-government initiatives and the Government's ICT principles. However, the recent *Performance Improvement Framework (PIF) Follow up Review of Inland Revenue* report notes that the integration of Better Public Services thinking and planning with Business Transformation while delivering our core services and keeping financial pressures under control complicates our current situation and will require careful consideration.

While we are moving towards more information sharing across agencies, we must also protect the integrity of the tax system and the confidentiality and privacy of sensitive tax information. We want to be able to leverage the information and expertise we have across the wider public sector.

### ***Customer expectations in an increasingly digital world***

We need to keep pace with rapid technology change, the expectations of our customers, their increasing digital literacy and access to mobile devices. Customers expect to receive services in the same way as they deal with any other institution or service provider. We want to make it easier and less costly for them to receive entitlements and meet obligations. We aim to enable our customers to serve themselves in a more cost-effective way by using digital channels.

The October 2013 *PIF Review* states that service delivery is expected to be enhanced and compliance and administrative costs reduced over the four-year period through measures including better integration of Inland Revenue processes with those of other departments and increasing the use of digital channels. New and emerging risks around information security, privacy and identity authentication will need to be managed.

### ***Change in workforce skills and capability***

We need to understand the implications of our current and future environment for our workforce planning, and ensure that we have the capabilities, skills and organisational culture required to deliver in the future. [11]

A number of large organisations, both private and public, are currently undertaking significant change initiatives. [11]

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

### ***Improving the responsiveness and agility of our business information systems***

Implementing changes in our current system, FIRST, has become expensive, time-consuming and risky. [8]

We also need to develop the ability to rapidly and economically implement policy changes or other priorities for Government. At the same time as we build for our future by progressing our transformation programme we must ensure that our systems and processes continue to effectively deliver the services that maintain Government revenue and our ability to pay out social entitlements.

Advancing our transformation programme will be fundamental to addressing the layers of complexity and risk in our current processes, and improving the way information is managed and analysed.

### ***Maintaining Government revenue in a challenging environment***

To retain the Government's revenue base, we will need to respond to domestic and international threats from tax avoidance and tax evasion. The increased complexity of global business operations will require active involvement in cross-country solutions to protect revenue, e.g. the OECD work on tax base erosion and profit shifting by multinationals. We also help build a more competitive and productive economy by implementing Government policy changes that help support New Zealand's fiscal position and enable New Zealand businesses to compete better internationally.

## **Rebuilding Canterbury**

The rebuilding of New Zealand's second largest city, following the devastating earthquakes of February 2011, is one of the four key priorities that the Government announced in 2012. One of our major challenges is the magnitude, visibility and volume of investment and financial activity in the Christchurch environment. There will be a need to manage a broad range of concurrent interventions, particularly in following the flow of money through all the large organisations and their sub-contractor relationships in both the residential and commercial rebuild. [7]

## **Operating Model**

To address these challenges and achieve *IR for the future* we need to change how we operate, and build the capabilities that will enable the operating model we require in the future. [7]

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The capabilities we require for the future are described in our Target Operating Model (TOM) - refer to Annex 4.1 for a diagram of the TOM. The TOM is a comprehensive description of how Inland Revenue will operate in the future. It was developed on the basis of Inland Revenue's current accountabilities of collecting and disbursing money and providing policy advice, and formalises emerging needs to share services and information with other agencies to improve public services.

## **Our Medium Term Intentions**

In order to advance our strategic direction Inland Revenue's three main focus areas for the next four years are:

1. Our transformation change agenda
2. Delivering and improving our core business, enhancing customer experience (run and improve initiatives) to ensure we retain our licence to operate
3. Government policy and priorities

The three areas are interlinked and we will progress them concurrently as we balance our need to deliver today and transform for tomorrow. Initiatives within these three areas are designed to improve the way we deliver services to customers and to increase the overall customer experience. They will help to progress our transformation programme and deliver improved efficiencies in the day to day running of our business.

Business Transformation will significantly change the way in which businesses, customers and third parties interact with us, and improve the way we deliver services to our customers. Where it makes sense in the context of transformation we will build BPS initiatives or other cross government capability into the design and development of our transformation programme.

We are finalising our investment portfolio which will be governed through our Investment Board. This will ensure we effectively prioritise, design and implement initiatives that will deliver on our mission, improve our capability and deliver Government's expectations [7,8]

The investment portfolio brings together the investments we need to make to run and improve our existing business, as well as those that are fundamental to the transformation programme. [7]

The development of our Transformation Roadmap and our investment portfolio is the subject of regular and on-going discussions with Ministers and Central Agencies and will continue throughout the period covered by this plan as business cases are developed and funding requested.

## **1. Our transformation change agenda**

Delivery of our transformation change agenda will be progressed through our investment portfolio, including initiatives that can deliver early improvements that are consistent with our transformation journey and contribute towards enhancing customer experience. It will focus on initiatives that: improve the service we provide for customers; allow us to share information more effectively; and provide greater insight using improved intelligence.

Our investment portfolio consists of three components that relate to transformation:

- Strategic and tactical Business Transformation projects - both early improvements and longer-term more fundamental change
- Foundational- capability strengthening, IT infrastructure
- Tax policy initiatives supporting Business Transformation

### ***1.1 Strategic and tactical business transformation***

This component consists of the work we will undertake to deliver our transformation programme. We are currently running a procurement process to appoint a transformation services provider(s) to undertake detailed design for Stage 1 of the transformation roadmap and high-level validation of Stages 2 to 4.

The detailed design phase will lay the foundations for more fundamental changes to our processes and systems. In Budget 2014 Inland Revenue is seeking funding<sup>13</sup> to complete the mobilisation phase, and progress the detailed design phase, and tactical and foundational activities as part of Stage 1 of our transformation programme. [7]

Future Four-year Plans will signal the investment required to deliver future changes.

We will design and implement a fundamental shift in how we deliver services. The first steps in Stage 1 of our transformation programme will be to improve the content and access to digital channels, and enable customers to do more with us online. We have committed to incorporate RealMe and New Zealand Business Number into the design of Stage 1 of our transformation programme subject to feasibility, planning and timing considerations.

During the period of this Four-year Plan we will also be focused on quick wins. [7,10]

- [7,10]
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These initiatives will deliver visible change for customers, have a minimal impact on our legacy systems and will help to realise savings that can contribute to managing our baseline pressures and/or enable them to be reinvested while maintaining performance. They also respond to Ministers expectations of small steps in the early period of transformation.

Once Stage 1 is completed we expect:

- the majority of our customers self-manage and use digital services
- to have established a Digital Border
- to have reduced businesses compliance burden to fulfil PAYE and GST obligations
- improved data accuracy and certainty of income tax deductions and social policy entitlements and obligations for individuals
- to undertake less processing and receive fewer customer contacts
- customers to have confidence that their personal information is secure

Over the life of the programme, Ministers will be provided with choices about the level of capability they wish to invest in through a series of business cases (each of which will

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<sup>13</sup> The indicative amount signalled in this Four-year Plan will be further refined and confirmed in February 2014

include a do minimum option). We recognise the need to ensure value for money from any investment in the future revenue system and to not over-invest in the capabilities required to deliver this change.

## **1.2 Foundational**

This component of the investment portfolio includes building the capability we will need for the future and delivering components of the foundational infrastructure needed to support transformation.

Capability strengthening work includes establishing an analytical environment which utilises our intelligence capabilities and creates real time or near real time up-front risk assessment allowing greater personalised/targeted services to customers, and straight through processing. We will also work with the business to identify and implement outcomes that better deploy staff on risk based work, and in the reduction of compliance costs.

[7]

Foundational infrastructure consists of building digital foundations, including an enterprise business-to-business gateway; consolidating, simplifying and rationalising our existing applications integration layers and infrastructure in readiness for major technology change; and a strong focus on ICT security which includes implementation of the recommendations from the GCIO Review of Publicly Accessible Systems, enhancing web services security and the implementation of data loss prevention, cyber intruder detection and security information and event management systems.

## **1.3 Tax Policy initiatives supporting Business Transformation**

Our tax policy development work also seeks to support our Business Transformation programme and the Government's goal of better public services for New Zealanders.

There are two planned work streams on the tax policy work programme directly relevant to transformation. These two initiatives will advance engagement with New Zealanders to ensure that their needs are fully acknowledged and understood, and are a key input into the detailed design phase. The initiatives are:

- Consultation on the first stage of the roadmap: Enabling secure digital services to ensure the policy and legislative framework enables the implementation of secure digital services and the streamlining of PAYE and GST information
- Tax administration fit for the 21<sup>st</sup> century to ensure the policy and legislative framework supports the delivery of Stages 2 and 3 and that opportunities for simplification are identified

## **2. Deliver and improve core business and customer experience (run and improve initiatives)**

We will continue to improve the day to day running of our core business through initiatives that are designed to improve the customer experience. These initiatives are focused on ensuring we continue to deliver our existing services in the most efficient and effective way possible, minimise risks to the revenue base and maintain the integrity of the tax system.

### ***2.1 Deliver our core business***

We aim to maximise Government revenue through our administration of the tax system, detecting and responding to non-compliance, and through the proposed revenue raising budget bids described in the Financial section and Annex 4.4. The budget bids we seek to progress are about scaling up the work we are currently doing. These bids have been developed with business transformation in mind as they are based on low demands on management time and minimal systems impact.

A key aspect of 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.

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. Proactively influencing voluntary compliance, targeting inadvertent non-compliance by providing information, assistance and tools, and detecting and deterring deliberate non-compliance are part of our core services.

Along with focusing on early engagement to help prevent customers from going into debt, we are also working to collect repayments from debtors who have not met their obligations. This debt is typically older and more complex. We received extra funding in Budget 2012 and are using this funding to prioritise high-value cases that have high probability for a cash collection.

We will identify and audit taxpayers with a significant risk of non-compliance by using information and intelligence, including information from external sources such as other government agencies and international organisations. Our priorities include investigating non-compliance in those areas for which we received additional funding in Budget 2010 and 2012.

We will continue to implement initiatives to improve repayment compliance from overseas-based student loan borrowers. These initiatives include contacting borrowers through direct campaigns and online advertising, as well as tracing and debt collection.

Smarter use of data and intelligence will enable us to carry out earlier interventions and increased self-management by customers. For example, GST is now carried out in a near real time environment, speeding up intelligence gathering and its application to the screening of assessments and refund claims. We will develop our compliance intelligence to enable us to provide intelligence-related services to other agencies.



## **2.2 Run and improve initiatives to improve core business and customer experience**

These initiatives are focused on ensuring we continue to deliver our existing services in the most efficient and effective way possible. Our initiatives will identify and implement efficiency improvements in our operations while maintaining performance.

Run initiatives we are progressing include:

- maintaining our existing ICT systems and infrastructure
- business system improvements (BSI) – an ongoing programme of work to oversee and manage the system of improvements to the business needs to be more efficient and effective
- maintaining our property leasehold portfolio

[7,11]

for example through our involvement in the rebuild of Canterbury we are working on the New Zealand Government site to implement phase 2 of Durham Street.

Operations Management is a key toolset that has already made significant productivity improvements, by providing our frontline leaders with new operational skills, tools and processes to effectively manage work. We have established a 'Continuous Improvement Centre of Excellence' to provide tools, methods and frameworks and we will run a number of projects and pilots which will have a strong focus on continuous improvement.

The run and improve initiatives will have a minimal impact on our systems and will help to realise savings that can contribute to managing our baseline pressures and/or enable them to be reinvested to maintain and enhance our performance.

## **2.3 Tax policy initiatives designed to improve New Zealand's tax and social policy system**

We have a tax policy work programme that 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. It sets the overall framework and priorities for tax and social policy development for the next 12 to 18 months. The following two areas focus on:

- *Improving current tax settings within a broad-base, low rate tax framework*

This area is about ensuring that the tax system is well maintained, kept up to date and continually improved. It includes people meeting their social policy responsibilities fairly, whether it is paying child support or repaying their student loan.

- *International tax reform and addressing base erosion and profit shifting*

This is a continuation of the Government's reform of our international tax rules. This contributes to making New Zealand an attractive place to do business and invest in while strengthening our tax rules to ensure that overseas companies pay their fair share of tax in New Zealand. Part of that work will focus on continuing our participation in the OECD-led international response to the global problem of base erosion and profit shifting (BEPS) by some overseas multinational companies.

Our tax policy initiatives are designed to support the Government's economic priorities for growth and productivity, and deliver better public services.

### **3. Government policy and priorities**

Inland Revenue's key role is to implement policy or legislative work on behalf of the Government and this requires significant resources and focus. Initiatives that we have been asked to progress over the period of this plan include:

- *approved policy*- this includes Child Support reform, FATCA, Financial Reporting framework
- *policy work* that is on the Government's work programme which may have significant implications for our organisation. This includes policy initiatives such as R&D cashing up losses, review of rules of closely held companies, mutual recognition imputation credits, GST and online shopping, base erosion and profit shifting, cultural gifting. This component also includes any policy or legislative initiatives that may be proposed in future Budgets. Refer to the Financial section for our proposed Government and policy budget bids.

We help achieve the Government's priorities by administering the tax and social policy systems we are responsible for, contributing to the Better Public Services programme and the tax policy work programme and our role in helping to rebuild Canterbury. We are actively involved in all-of-government banking tender process which may have significant implications for Inland Revenue.

Inland Revenue is involved in the development of a number of business cases relating to Better Public Services Results 9 and 10 and the Government ICT Strategy and Action Plan 2017. We are also supporting the development of the Result 9 and 10 Blueprints which will shape the vision and direction and operating models and principles for achieving the BPS priorities and establish the work programme. Once these have been finalised we will build them into our transformational design principles with a view to taking relevant initiatives forward as part of our transformation programme.

We are contributing to innovative and collaborative ways of working with other agencies in delivering services and supporting CERA's recovery activities. Specifically Inland Revenue contributes to CERA's Social, Economic and Leadership and Integration components of the Christchurch Earthquake Recovery Strategy. This includes a focus on protecting the revenue due from the estimated \$40 billion rebuild of Christchurch.

[7]

The magnitude of the task and complexities for customers and employees living and working in Christchurch are a focus for the organisation. Refer to Annex 4.9.2 on how we are contributing towards the Canterbury Rebuild. We are also working with other

government agencies to pilot different approaches to delivering customer services and achieve collective impact across the public sector.

### **Other points to note**

We have identified a number of areas where decisions are pending that, depending on the outcome, may impact Budget 2014.

[7]

### *Simplify the Filing Requirements for Individuals (SFRI)*

In 2012 legislation was enacted to simplify the filing requirements for individuals. These apply from 2016/17 unless an Order in Council is made to bring the provisions into effect earlier. [7]

### *Black hole R&D expenditure*

Under current tax rules, in certain situations, capitalising R&D expenditure may be unable to be deducted or depreciated, which may be having negative effects on businesses' R&D investment incentives. A government discussion document on possible options to address the problem is out for consultation. Preliminary indications are that the proposed policy changes will have tax revenue implications but will have no systems impacts for IR, and any increase in administration costs for Inland Revenue would be insignificant and would be funded from existing baselines. The cost / fiscal impact

assumptions will be updated early in the New Year – in the meantime the following table summarises the estimated revenue implications associated with this proposal.

	<b>\$m increase / (decrease)</b>					
<b>Vote Revenue</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
<b>Minister of Revenue</b>						
Tax Revenue	-	(1.000)	(4.000)	(5.000)	(6.000)	(7.000)

**Key operational risks**

As well as progressing Business Transformation, we are committed to delivering our core services and contributing to Government priorities. We are also proposing a number of Budget bids which will further stretch our capacity to deliver. Because of this we need to carefully manage our commitments. [8]

In addition to the Business Transformation risks we have previously identified in our Programme Business Case, we are highlighting the following key risks that could hinder or prevent us from delivering our work programme. We also outline the mitigation plans we have put in to place to eliminate or minimise these risks.

The risks outlined below take into account the recent *Performance Improvement Framework (PIF) Follow up Review of Inland Revenue*.

[8]

[7,10,11]

[7,10,11]

[7,10,11]

[7,8,10,11]

People capability

We have identified a risk associated with not having the right people capability, especially the specialist resources needed for transformation. There is also a risk associated with our ability to backfill successfully and smoothly for people required to assist with significant contributions to our transformation programme. We need the right people in the right place at the right time, now and in the future. Other organisations and countries are also transforming. We are mitigating this risk through our people and workforce capability strategy, developed to focus on future needs, and through seeking resources with proven experience in procuring and managing large scale vendor contracts as a transformation service provider.

[7,11]

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<sup>14</sup> Refer to section 'Our strategic direction' for impacts

[7,11]

### As a Service

The move to As a Service (AaS) creates additional operating financial pressures. We are committed to using the AaS model and we have recently signed an AaS contract with Datacom for mid-tier systems and with Unisys for mainframe services. We are mitigating this risk through the use of long term financial management and on-going discussions with Treasury.

### Significant loss of data availability, integrity or confidentiality due to a malicious act or system/process failure

Inland Revenue is heavily reliant on systems and data to deliver our core functions. We are mitigating this risk through a comprehensive approach to IT security, Disaster Recovery capability and internal controls.

### **Resilience**

Regarding Inland Revenue's capacity to manage and respond to risks, it is recognised that the organisation has existing controls, or has accepted the exposure, for all known material risks. Likewise, Inland Revenue's capacity to either manage or respond to unidentified risks, effectively respond to natural hazard events such as earthquakes, and relatively mature internal control and response systems are all considered to be effective.

The organisation is therefore assessed as: *Resilient to most eventualities, mainly within risk appetites.*

### **Risks to the sustainability of the Four-year Plan beyond 2017/18**

The principal risks to the sustainability of Inland Revenue beyond the Four-year Plan relate to the continued implementation and success of Business Transformation. [8]

The risks associated with the Business Transformation[7] the ability to remain focussed on transformation and the move to AaS are expected to continue to be relevant beyond the scope of the Four-year Plan.

Our Enterprise Risk Management approach captures both strategic and enterprise wide operational risks, which are described in Annex 4.7.

## **Organisational capability and workforce**

[11]

[11]



[11]

# 3. FINANCIAL SUMMARY

## Operating – Departmental

### Baseline Funding

In accordance with Central Agency guidelines, our financials for the Four-year Plan are anchored to the October 2013 baseline update and only reflect approved funding from Government. We have not included any funding for Business Transformation and other budget bids sought as part of this Four-year Plan.

Our approved baseline is forecast to reduce from <sup>[7]</sup>

This reflects the completion of time limited funding over this period for projects, such as Child Support reform, Budget 2012 and Student Loans Redesign. Our baseline also includes permanent reductions in funding due to the efficiency dividend required by Government as part of Budget 2011.

[7,8]

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[7]

### Cost pressures

Our cost pressures grow from [7]

The main drivers for cost pressures over this period relate to:

- [7,11]
- Efficiency dividend (Budget 2011 requirement)
- [7,10,11]
- 
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Operating within our existing baseline will be an on-going challenge due to our dynamic and complex environment. Our costs will increase each year as the volumes of digital transactions grow. It will also increase as a result of the need to meet rising public expectations of online availability, functionality and security. This will impact IT infrastructure costs such as the number and type of software licences, storage requirements etc.

[7,10,11]

In addition to the risk inherent in our forecast, we have to manage the financial implications of any unforeseen or new pressures that arise in the due course of business, such as self-funding policy initiatives. Adding further pressure to our baseline will require trade-off discussions.

### Managing our cost pressures

For the purposes of this Four-year Plan, we are only reflecting what we know about future savings as we are still finalising the detailed make up of our investment portfolio. As noted in our Medium Term Intentions section our investments are designed to improve the delivery of core services and enhance the overall customer experience. They will help to progress our transformation programme, deliver improved efficiencies in the day to day running of our business and contribute towards offsetting our cost pressures.

Our current investments will deliver savings of approximately [7,8,11] over the next four years, offsetting [7,8,11] of Inland Revenue's cost pressures over this period.  
[7,8,11]

Our current capacity means that we can only commit to a limited number of projects over the next four years. Projects that are not a part of Transformation will be limited to essential projects that do not add complexity, stress or risk to the Transformation programme. From this list, we will give priority to projects and initiatives that deliver and improve core business and customer experience.

[7]

We will continue to refine our assumptions as our planning evolves. This will be in addition to our continuous review and tightening of operating costs.

We will continue to liaise with Central Agencies and Ministers throughout the development of our Transformation Roadmap and investment portfolio.

[7]

[8]

Given the financial risks involved, our baseline is tight and we have limited ability to self-fund any new initiatives. Any new initiatives, including budget bids, will require external funding to avoid adding further financial stress to our baseline.

	2013/14	2014/15	2015/16	2016/17	2017/18
	\$0.000m	\$0.000m	\$0.000m	\$0.000m	\$0.000m
Current operating expenditure baseline	[7]				
<b>Add</b> any indicative allocation advised of					
<b>Equals</b> Total funding level for planning					
<b>Financial movements</b>					
<b>Add</b> cost of new activity to be funded from current baselines					
<b>Add</b> total cost pressures (cumulative)		[7]			
<b>Subtract</b> significant changes that will generate savings (cumulative)					
<b>Add or Subtract</b> vote transfers					
<b>Subtract</b> any indicative allocation advised of (as above)					
<b>Equals</b> Total funding level for planning	[7]				

## Operating – Non Departmental

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 \$5.9 billion of non-departmental expenditure that we administer on behalf of the Crown.

Of this non-departmental expenditure \$3.7bn (63%) 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.

\$2.2bn (37%) 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).

Refer to Annex 4.4.5 [7]

	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
Current operating expenditure baseline	5,923.054	5,860.444	5,783.744	5,936.04	6,039.31
<b>Add</b> any indicative allocation advised of					
<b>Equals</b> total funding level for planning	<b>5,923.054</b>	<b>5,860.444</b>	<b>5,783.744</b>	<b>5,936.04</b>	<b>6,039.31</b>
<b>Financial Movements</b>					
<b>Add</b> cost of new activity to be funded from current baselines	-	-	-	-	-
<b>Add</b> total cost pressures		-	-	-	-
<b>Subtract</b> significant changes that will generate savings	-	-	-	-	-
<b>Add or Subtract</b> vote transfers	-	-	-	-	-
<b>Subtract</b> any indicative allocation advised of (as above)	-	-	-	-	-
<b>Equals</b> Total Funding level for Planning	<b>5,923.054</b>	<b>5,860.444</b>	<b>5,783.744</b>	<b>5,936.04</b>	<b>6,039.31</b>

## **Capital – Departmental**

Over the next 10 years we are planning to spend [7] on replacing and enhancing our assets. [7]

We fund our asset replacement programme from depreciation and rely on capital injections from the Government for new assets. Over the past few years, we have set aside a portion of our depreciation funding for Business Transformation to help smooth the funding profile in future years. [7]

**Capital – Departmental**

	Increase (Decrease)				
	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
Operating balance funding available	[7]				
<i>Add depreciation funding received</i>					
<i>Add receipts from sale of assets</i>					
<i>Add other (capital injection)</i>					
<i>Equals total baseline funding available</i>					
<i>Subtract capital investments funded from baselines<sup>17</sup></i>					
<i>Equals closing baseline funding available</i>					

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<sup>17</sup> This excludes Business Transformation and other budget bids

## Budget 2014 Total New Funding Being Sought

This section summarises the budget bids that we are seeking from Budget 2014. The details of these bids are contained within Annex 4.4.

As part of this Four-year Plan, Inland Revenue has considered funding requirements for: Business Transformation; Government and Policy; [7]

[7], revenue raising and cash collection opportunities that the Government may wish to pursue.

[7]

Transformation is the main focus for Inland Revenue [7] As a result we do not want to divert significant capacity and resources from that effort. [8]

The scale of the transformation costs greatly exceeds Inland Revenue's capacity to self-fund it. In addition, we are also facing increased cost pressures which mean we do not have the ability to fund the operating costs. [7]

Inland Revenue is already a major player in achieving the Government's four priorities and plays an important role in delivering Better Public Services. The suite of funding requests included in this Four-year Plan will further advance these achievements.

Transformation contributes to the Government's priorities by: effectively and efficiently administering the tax and social policy systems we are responsible for; contributing to Better Public Services and the tax policy work programme; and by helping to rebuild Canterbury. *IR for the future* describes our vision of being an organisation recognised for service and excellence.

The Government and Policy funding requests contribute to the Government's priorities by: improving current tax settings within a broad-base, low-rate tax framework; progressing international tax reform; implementing our international agreements; and by contributing to the Government's Business Growth Agenda.

[7] revenue raising and cash collection funding requests offer opportunities to easily scale-up or replicate successful initiatives as they are an increase in current ways of operating. These are investment ready as they just require recruitment. They contribute to the priorities of responsibly managing the Government's finances and rebuild Canterbury. They do this by making additional revenue available to fund Government programmes while also improving voluntary compliance, speeding up the process of getting money to custodial parent families, and protecting the revenue due from the \$40 billion rebuild of Christchurch.

[8]



The costings and returns on investment given in this Four-year Plan are estimates only. The bids that are preferred and agreed will require further refinement in the New Year.

The budget bids as prioritised for Budget 2014 are:

***Business Transformation***

1. Transformation Mobilisation phase, detailed design Stage 1, and tactical and foundational activities

***Government and Policy***

2. [7]
3. Foreign Account Tax Compliance Act (FATCA)
4. Research and Development cashing up tax losses  
[7]
5.  
[7]
- 6.

***Revenue Raising and Cash Collection Opportunities***  
(ranked in terms of rate of return)

7. [7]
8. Unfiled returns
9. Child support compliance<sup>18</sup>

***Proposals to be confirmed***

10. [7]
- 11.

1. *Business Transformation* (Transformation Mobilisation phase, detailed design Stage 1, and tactical and foundational activities)

[7]

As part of Budget 2014, we are seeking [7]  
to complete the mobilisation phase, the detailed design phase for Stage 1, and tactical and foundational activities as part of Stage 1 of our transformation programme. Refer to Annex 4.4.1 for details.

Inland Revenue will fund the indicative capital costs of [7]  
included in the Budget 2014 submission, along with the associated depreciation and capital charge. [7]

We are also signalling indicative funding requests for Budget 2015 to enable us to complete Stage 1 of the Business Transformation programme. Refer to Annex 4.5 for details.

[7]

## **Government and Policy**

2. [7]

### 3. Foreign Account Tax Compliance Act (FATCA)

We are seeking to appropriate funding to implement the FATCA legislation and Inter Government Agreement (IGA) requirements. Under the IGA Inland Revenue will act as an intermediary, receiving data from New Zealand financial institutions and passing this on to the US Internal Revenue Service. It is critical that we are in a position to carry out these intermediary functions otherwise New Zealand will be in breach of the terms of the IGA. The indicative cost for delivering the preferred solution is \$8 million operating (including depreciation and capital charge) and \$6 million capital over five years from 2013/14 to 2017/18, with an on-going cost of \$2 million per annum from 2018/19.

### 4. Research and Development cashing up tax losses

This is a tax policy initiative to reduce tax distortions for start-up firms carrying out research and development. Under this proposal Inland Revenue would refund (cash up) tax losses.

The estimated cost for 2014/15 is [7] with on-going administration costs of [7] operating and \$16 million in grants per annum to cover refunds for companies from 2015/16, subject to the Better Business Cases process.

[7]

5

[7]

6.

## **Revenue Raising and Cash Collection Opportunities**

7. [7]

[7]

8. Unfiled returns (revenue raising)

Inland Revenue has made significant progress already in relation to reducing the number of outstanding returns and targeting returns that have higher revenue values. The additional funding provided by Budget 2012 has enabled Inland Revenue to collect additional returns with a revenue assessment value of \$47 million for the year ended June 2013; the target was \$7 million. This is equivalent to a rate of return of \$13 for every \$1 spent.

We propose a further revenue budget bid of \$49 million over five years to scale up the success of this initiative and to further maximise our revenue and cash collection results. [7,10]

We expect revenue returns of \$300 million over five years.

9. Child support compliance (cash collection)

Inland Revenue proposes a cash collection bid that will speed up the process of getting money to custodial parent families, particularly those who rely on payments from liable parents for their daily living needs. We intend to do this by providing education to newly registered custodial parents and liable parents, and by increasing our focus on international child support debt and payments. We also intend to leverage off the successful overseas-based borrowers' initiative.

Proactive calling can also reduce the growth in new debt. Currently, 44 percent of child support debt is not under payment arrangement and 80 per cent of New Zealand-based liable parents are salary or wage earners. Our staff will help set up payment arrangements via employer deduction notices.

We propose a bid seeking \$44 million over five years. In relation to the international customer and domestic liable person activity we expect a return on investment of \$3 to \$5 for every \$1 spent.

[7]

10

[7]

11 [7]

The following table summarises the operating and capital requirements, in order of priority, for our Budget 2014 bids.

<b>Funding Sought at Budget 2014</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>	<b>2018/19 \$0.000m</b>
<b>Operating</b>					
<b>Business Transformation</b>					
Transformation Mobilisation Programme and Business Transformation (design of Stage 1)	[7]				
<b>Government and Policy</b>					
[7]					
Foreign Account Tax Compliance Act (FATCA)	3.047	1.370	1.318	1.324	1.760
Research and development cashing up tax losses	[7]				
<i>Total Government and Policy</i>					
[7]					

<b>Funding Sought at Budget 2014</b>	<b>2014/15 \$0.000m</b>	<b>2015/16 \$0.000m</b>	<b>2016/17 \$0.000m</b>	<b>2017/18 \$0.000m</b>	<b>2018/19 \$0.000m</b>
<b>Revenue raising and cash collection</b> (in order of return on investment) [7]					
Unfiled returns	8.991	10.269	10.269	9.536	9.536
Child support compliance	7.227	9.259	9.104	8.979	9.010
<i>Total revenue raising and cash collection</i>	[7]				
<b>Proposals to be confirmed</b> [7]					
<i>Total proposals to be confirmed</i>					
<b>Total Operating</b>					
<b>Capital</b>					
<b>Government and Policy</b> [7]					
Foreign Account Tax Compliance Act (FATCA)	5.160	0.483	0.000	0.000	0.000
Research and development cashing up tax losses	[7]				
<i>Total Government and Policy</i>					
<b>Proposal to be confirmed</b> [7]					
<b>Total Capital</b>	[7]				

The following table illustrates the Budget 2014 revenue impacts.

<b>Budget 2014 - Revenue Impact</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>\$0m</b>	<b>\$0m</b>	<b>\$0m</b>	<b>\$0m</b>	<b>\$0m</b>
[7]					
Child Support compliance (cash)	29	37	36	36	36
Research and development cashing up tax losses <sup>20</sup>		(16)	(16)	(16)	(16)
Black hole R&D expenditure	(1)	(4)	(5)	(6)	(7)
<b>Total Revenue</b>	[7]				

*Positive numbers represent an increase in cash or revenue.*

[7]

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<sup>20</sup>In earlier years it is likely to maximise out at \$16 million per year but over time reduces as the timing lag, while not fully eliminated, offsets the transaction at a future point. It is yet to be determined as to whether this will be a Crown payment or a refund.

[7]

The following table summarises the total FTE resources required (by year) for the Budget 2014 bids, including contractors and consultants. This figure will differ from the FTE figures in the Workforce annex of this Four-year Plan, which captures permanent and fixed term FTEs.  
[7,8,10,11]

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**Summary of revenue raising and cash collection investments**

The operating investment, return, and associated rate of return over the five-year period 2014/15 to 2018/19 are outlined in the table below. These bids are in order of return on investment.

<b>Funding Sought in Budget 2014</b>	<b>2014/15 Investment \$0.0m</b>	<b>2014/15 Return \$0.0m</b>	<b>Total five-year investment \$0.0m</b>	<b>Total five-year return \$0.0m</b>	<b>Rate of return on investment</b>
<b>Revenue raising and cash collection</b>					
[7]					
Unfiled returns (revenue)	9.0	[7]			6:1
Child support compliance (cash)	7.2	28.8	43.6	174.4	4:1
<b>Total revenue raising and cash collection</b>	[7]				

[7]

**Anticipated out year funding requests for Budget 2015**

[7]  
[7]

	[7]			
	[7]			

[7]

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[7]