

# The Treasury

## Budget 2014 Information Release

### Release Document

### July 2014

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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.

# 4. ANNEX

## Contents

**4.1 Target Operating Model ..... 60**  
**4.2 Workforce Capability, Capacity and Costs Information ..... 62**  
 [11]

**4.3 Supporting Financial Information ..... 76**  
 4.3.1 New Activity that will be funded within current baselines .....76  
 4.3.2 Costs Pressures .....77  
     4.3.2.1 *Cost pressures arising from increased service demand.....77*  
     4.3.2.2 *Cost pressures arising from direct employment costs.....78*  
     4.3.2.3 *Operational cost pressures arising from capital planning .....80*  
     4.3.2.4 *Other cost pressures .....80*  
 4.3.3 Changes that will generate savings .....80  
 4.3.4 Vote transfers .....83  
**4.4 Budget Initiatives ..... 84**  
 4.4.1 Business Transformation .....84  
 [7]  
 4.4.3 FATCA project .....90  
 4.4.4 R&D tax losses .....93  
 [7]

4.4.8 Unfiled returns ..... 106  
 4.4.9 Child support compliance ..... 108  
 [7]

<b>4.5</b>	<b>Anticipated out-year funding requests .....</b>	<b>114</b>
<b>4.6</b>	<b>Capital intentions .....</b>	<b>117</b>
4.6.1	Current State .....	117
4.6.2	Trends.....	118
4.6.3	Potential for private sector investment .....	119
4.6.4	Existing balance sheet .....	119
4.6.5	Major capital decisions/challenges.....	120
4.6.6	Strategy for managing capital.....	120
<b>4.7</b>	<b>Risks.....</b>	<b>121</b>
4.7.1	Strategic & Operational Risks .....	121
4.7.2	Resilience .....	123
4.7.3	Risks to the sustainability of the Four-year Plan beyond 17/18 .....	123
<b>4.8</b>	<b>Government ICT Strategy and Action Plan to 2017 – Alignment of agency ICT Strategies to Destination 2017.....</b>	<b>124</b>
<b>4.9</b>	<b>Government priorities.....</b>	<b>127</b>
4.9.1	Delivering Better Public Services.....	127
4.9.2	Canterbury rebuild .....	132
4.9.3	Building a more productive and competitive economy.....	138

#### 4.1 Target Operating Model

The Target Operating Model comprises of five layers, as illustrated in the diagram below

[7.8]

The diagram below describes the changes that Business Transformation will make by each Target Operating Model layer

[8/8]

**4.2 Workforce Capability, Capacity and Costs Information**

[11]

[11]

[11]



[11]

[11]









[11]

[11]



[11]

[11]

[11]

### 4.3 Supporting financial information

#### 4.3.1 New Activity that will be funded within current baselines

[7]

Given the

scale of transformation that we are committing to, and its associated risks, we do not have the capacity to take on new activities within our current baseline.

#### Departmental - Operating

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
<b>Total</b>					

#### Non Departmental - Operating

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
<b>Total</b>					

#### Departmental - Capital

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
<b>Total</b>					

#### Non Departmental - Capital

Intention Name and Brief Description	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
<b>Total</b>					

### 4.3.2 Cost Pressures

Remuneration is the single largest cost pressure facing the organisation in the next four years. The remaining cost pressures relate mainly to Information Technology contract increases for existing commitments and volume driven pressures due to the shift of customers to other channels and the digitisation of our environment.

#### Departmental

<b>Summary Table of Total Operational Cost Pressures (Cumulative)</b>	<b>2013/14</b> <b>\$0.000m</b>	<b>2014/15</b> <b>\$0.000m</b>	<b>2015/16</b> <b>\$0.000m</b>	<b>2016/17</b> <b>\$0.000m</b>	<b>2017/18</b> <b>\$0.000m</b>
From Increased Service Demand		[7]			
From Direct Employment Costs		[7]			
From Capital Planning		[7]			
From Other		[7]			
<b>Total</b>	<b>[7]</b>				

#### Non Departmental

<b>Summary Table of Total Operational Cost Pressures</b>	<b>2013/14</b> <b>\$0.000m</b>	<b>2014/15</b> <b>\$0.000m</b>	<b>2015/16</b> <b>\$0.000m</b>	<b>2016/17</b> <b>\$0.000m</b>	<b>2017/18</b> <b>\$0.000m</b>
From Increased Service Demand					
From Direct Employment Costs					
From Capital Planning					
From Other					
<b>Total</b>					

#### 4.3.2.1 Cost pressures arising from increased service demand

Cost pressures resulting from increases in service demand account for approximately [7] for the next four years. The on-going growth in digital literacy of the New Zealand public is constantly increasing the volume of digital interactions experienced by Inland Revenue. [7]

. These costs include the following:

- Increased requirements across the ICT infrastructure due to growing volumes of customer interactions in the digital channel. [7,10,11]
- [7,10,11]
- 
-

**Departmental**

<b>Cost Pressures arising from increased demand on service delivery and short description (Cumulative)</b>	<b>2013/14</b> <i>\$0.000m</i>	<b>2014/15</b> <i>\$0.000m</i>	<b>2015/16</b> <i>\$0.000m</i>	<b>2016/17</b> <i>\$0.000m</i>	<b>2017/18</b> <i>\$0.000m</i>
[7]					
<b>Total</b>		[7]			

**Non-Departmental**

<b>Cost Pressures arising from increased demand on service delivery and short description</b>	<b>2013/14</b> <i>\$0.000m</i>	<b>2014/15</b> <i>\$0.000m</i>	<b>2015/16</b> <i>\$0.000m</i>	<b>2016/17</b> <i>\$0.000m</i>	<b>2017/18</b> <i>\$0.000m</i>
<b>Total</b>					

**4.3.2.2 Cost pressures arising from direct employment costs**

Due to the nature of our business, personnel costs are our largest single expense item and also our most critical. [8]

[8,11]

<b>Cost Pressures arising from Direct Employment Costs (Cumulative)</b>	<b>2013/14</b> <i>\$0.000m</i> %	<b>2014/15</b> <i>\$0.000m</i> %	<b>2015/16</b> <i>\$0.000m</i> %	<b>2016/17</b> <i>\$0.000m</i> %	<b>2017/18</b> <i>\$0.000m</i> %
Departmental cost pressures		[8]			
Anticipated % change		[11]			
Non- Departmental cost pressures		-	-	-	-
Anticipated % change					
<b>Total</b>		[8,11]			

[8,11]

### 4.3.2.3 Operational cost pressures arising from capital planning

In recent years we have had to delay capital expenditure while we worked through the implications of Business Transformation, 'As a Service' and 'All of Government' strategies. Over the next four years we are forecasting increased levels of capital expenditure and as a result we are expecting to incur higher depreciation costs.

Cost Pressures arising from Capital Planning (Cumulative)	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
[7]					
<b>Total</b>				[7]	

### 4.3.2.4 Other cost pressures

The main drivers for other cost pressures over the next four years are contractual in nature or unavoidable.

#### *Contract increases*

This pressure relates to committed increases embedded within existing fixed-term contracts for ICT equipment and software, and property leases. These increases are based on inflation. [7,10,11]

#### *Efficiency Dividend*

In Budget 2011, Government announced that it would require an efficiency dividend from agencies effective from Budget 2012. The efficiency dividend requirement of \$19 million has been spread out over three years, with the remaining instalments reflected in 2014/15 and 2015/16. This permanently reduces our baseline by \$19 million.

Cost Pressures arising from Other (Cumulative)	2013/14 \$0.000m	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
[7]		[7]			
Efficiency dividend		6.300	6.800	6.800	6.800
<b>Total</b>		[7]			

### 4.3.3 Changes that will generate savings

We have a number of initiatives which will generate savings for future years to help offset our cost pressures. These are described below.

#### *Operations Management*

Our biggest area of saving is from improvements in the way that we deliver our customer facing services such as call centres, investigations etc. Our operations management initiative is about rolling out a system that helps us to improve our workforce planning and performance monitoring. The system helps us to optimise available resources by improving our management of peak periods, reducing overtime, having staff with wider skill sets so they can work across more areas, common processes and language, reducing re-work/double handling and identify on-going opportunities for improvement.



[11]

*Shift to more cost effective channels*

These initiatives focus on reducing the processing cost per unit by moving customers from traditional channels to more cost effective options, such as paperless and third party. Despite the lower processing cost, our overall savings are reduced as volumes grow. However, this is still a more cost-effective option when compared with the cost of processing a similar volume using a traditional channel.

[7,11]

*Better Public Services / All of Government*

This grouping covers savings from initiatives where we work with other agencies to improve our services to customers. Examples are the savings that we are generating from our IRD number for new-borns and National Front of House initiatives.

*Depreciation*

Over the past few years, we have delayed decisions on some capital projects as we awaited decisions regarding Business Transformation and as we worked through the implications of 'As a Service' and the various 'All of Government' strategies. [7,8]

*Operational Efficiencies*

This comprises a number of organisational wide initiatives aimed at reducing our administration and internal costs. This includes actions such as improved project management, reducing travel costs, better management of annual leave and absenteeism and process improvement.

**Future Savings Initiatives**

[7]

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

**Departmental**

Intention Name and Brief Description (Cumulative)	2013/14	2014/15	2015/16	2016/17	2017/18
\$0.000m	\$0.000m	\$0.000m	\$0.000m	\$0.000m	\$0.000m
[7,11]					

**Non Departmental**

<b>Intention Name and Brief Description</b>	<b>2013/14 \$0.000m</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>Total</b>					

**4.3.4 Vote transfers**

<b>'From' or 'to' and name of agency on other side of transfer</b>	<b>2013/14 \$0.000m</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>Total</b>					

## 4.4 Budget Initiatives

### 4.4.1 Business Transformation

Initiative Name	Vote	Department	Contact Person
Business Transformation Programme	Revenue	Inland Revenue	Ron Grindle

*Describe what this funding request is for and what the expected results from this spending are.*

In Budget 2014 we will seek appropriation to:

- complete the current mobilisation phase of our Business Transformation programme
- complete Stage 1 detailed design phase in 2014/15 and 2015/16
- make initial investment in digital and foundational capabilities in 2014/15 and 2015/16

*Describe how the expected results will be measured.*

The appointment of a transformation services provider(s) to validate the transformation programme roadmap, undertake detailed design for Stage 1 of the transformation roadmap and high-level validation of Stages 2 to 4.

[7]

### Budget 2014

Funding Sought at Budget 2014	2014/15 \$0.000m	2015/16 \$0.000m	2016/17 \$0.000m	2017/18 \$0.000m
<b>Operating</b>				
Operating funding sought	[7]			
<b>Capital</b>				
Capital funding sought	0.000	0.000	0.000	0.000

Please note the operating funding includes depreciation and capital charge.

The capital funding sought is net of capital investment that Inland Revenue is expected to self-fund from its balance sheet.

[7]

[7]

*Describe how, if the funding sought represents the total amount required for the initiative - and if not, what the total is and where the additional funds are coming from:*

Business Transformation is expected to be a [7] delivered over four roadmap stages. [7]

[7]

[7]

Budget 2014 includes an estimate of the funding required to complete the mobilisation phase of the transformation, carry-out detailed design for Stage 1, as well as deliver some early capabilities through tactical digital and foundational initiatives. We will refresh the estimates of Stage 1 costs early in 2014. Costs beyond 2014/15 will be subject to estimation through detailed business cases.

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

*Describe if this initiative might require additional funding in future years:*

Business Transformation is a business-led, technology-enabled change programme to implement the infrastructure and capability that will enable Inland Revenue to deliver a modern revenue system. We propose to deliver the programme in four customer-focused stages [7]

Inland Revenue will contribute funding from its own baseline and capital reserves; however it is likely that a significant portion of the funding will have to be provided by the Crown over the life of the programme.

Decisions will be presented to Ministers through a series of business cases where direction and funding are required.

*Describe how this new funding request supports the Governments priorities:*

The Transformation objectives are to:

- Improve agility so that policy changes can be made in a timely and cost effective manner
- Minimise the risk of protracted system outages and intermittent systems failure
- Improving the customer experience by making it easier and simpler for taxation and social policy customers
- Deliver more effective services to improve customer compliance and help support the outcomes of social policies
- Increase the sharing of intelligence and information across government to improve delivery of services to New Zealanders and improve public sector performance
- Improve productivity and reducing the cost of providing Inland Revenue's services

All these objectives contribute to the Government's priorities by:

- Effectively and efficiently administering the tax and social policy systems we are responsible for
- Contributing to the Better Public Services programme and the tax policy work programme
- Our role in helping to rebuild Canterbury

*Describe how this new funding request aligns with your Strategic Direction and delivery thereof, as described in your 4YP:*

Our organisational strategy, *IR for the future*, describes our vision of being an organisation recognised for service and excellence. To achieve this vision we need to transform the way we do business, supported by a stable technology platform.  
[7]

*Describe why this new initiative cannot be funded within baselines:*

The scale of the transformation greatly exceeds Inland Revenue's capacity to self-fund it. Over the next four years, we do not have the capacity to fund operating. We are better placed to make material contributions towards the capital funding. In both instances, however, the majority of the funding will have to be sourced from the Crown.

*Describe what other activities are already being undertaken, either within your agency or across the State sector, to address the issue this new funding will look to address:*

Not applicable.

*Describe the implication if this funding is not approved:*

The longer a decision to invest is delayed, the greater the likelihood that a substantial change effort will be required while managing large operational difficulties at the same time. Furthermore the ability of Government to implement any policy change requiring system change will become further constrained.

*If partial funding of this initiative is an option, please describe how partial funding might work:*

We will provide Ministers with investment choices throughout the life of the programme informed by a series of business cases, each of which will include a 'do minimum' option, to allow the pace and scope of the programme to be adjusted according to circumstances.

[7]

[7]



[7]

**4.4.3 FATCA project**

<b>Initiative Name</b>	<b>Vote</b>	<b>Department</b>	<b>Contact Person</b>
Foreign Account Tax Compliance Act (FATCA)	Revenue	Inland Revenue	David Chan

*Describe what this funding request is for and what the expected results from this spending are.*

[7,8]

The Taxation (Annual Rates, Employee Allowances, and Remedial Matters) Bill was introduced on 22 November and includes rules for allowing people to comply with "foreign account information-sharing agreements" (such as a proposed intergovernmental agreement with the United States).

*Describe how the expected results will be measured.*

New Zealand financial institutions are expected to start reporting to Inland Revenue from April-May 2015 as per draft legislation. Under the IGA Inland Revenue will be reporting to the IRS in the United States by 30 September 2015.

**Budget 2014**

<b>Funding Sought at Budget 2014</b>	<b>2014/15</b> <b>\$0.000m</b>	<b>2015/16</b> <b>\$0.000m</b>	<b>2016/17</b> <b>\$0.000m</b>	<b>2017/18</b> <b>\$0.000m</b>
<b><i>Operating</i></b>				
Operating funding sought	1.171	0.557	0.161	0.167
Depreciation and Capital Charges	0.271	0.813	1.157	1.157
Operating Contingency	1.605			
Total operating funding sought	3.047	1.370	1.318	1.324
<b><i>Capital</i></b>				
Capital funding sought	3.607	0.483	0.000	0.000
Capital Contingency	1.553			
Total capital funding sought	5.160	0.483	0.000	0.000

*Describe how, if the funding sought represents the total amount required for the initiative - and if not, what the total is and where the additional funds are coming from:*

Requesting Cabinet funding through Treasury Single Stage Business Case.

The funding sought in 2014/15 includes the funding for both capital and operating to be incurred in 2013/14 (as set out in the Cabinet paper) as follows:

Operating \$0.576 million

Depreciation and Capital Charges \$0.014 million

Operating Contingency \$1.605 million

Capital \$2.122 million

Capital Contingency \$1.533 million

These operating and capital costs incurred in 2013/14 need to be drawn down in the current year, Treasury are supportive of this.

*Describe if this initiative might require additional funding in future years:*

Inland Revenue is requesting \$1.760m (including depreciation, capital charge and contingency) for the outer years from 2018/19 onwards.

*Describe how this new funding request supports the Governments priorities:*

Government is entering into an IGA and associated legislation that would be enacted by 1 July 2014.

*Describe how this new funding request aligns with your Strategic Direction and delivery thereof, as described in your 4YP:*

It does not contribute in the short term to *IR for the future*; however, it might in the medium term once the IRS reciprocates and shares information it has on New Zealand citizens and longer term if the European Union adopt the same protocols.

*Describe why this new initiative cannot be funded within baselines:*

FATCA is a new product and service that Inland Revenue is required to implement under the IGA and Legislation changes. Our main cost pressures over the next four years relate to remuneration, efficiency dividend (Budget 2011 requirement), IT, and inflationary pressures which are driven mainly from existing contractual obligations. We need to generate savings to manage these cost pressures and that will reduce our ability to divert funds to additional activity. We are also contributing resources to Better Public Services.

*Describe what other activities are already being undertaken, either within your agency or across the State sector, to address the issue this new funding will look to address:*

Treasury have been closely involved over the last five months in the preparation of the Single Stage Business Case. These have been endorsed by Treasury and the OEGI Committee.

*Describe the implication if this funding is not approved:*

If this funding is not approved then the costs already incurred in 2013/14 by Inland Revenue to ensure that the initiative can be implemented within the expected

timeframe, based on the expectation that they will be funded by the Crown, will need to be absorbed by Inland Revenue meaning a lost opportunity to fund other initiatives more aligned to its ongoing business.

The Government will also not be able to achieve its treaty obligation under the IGA.

*If partial funding of this initiative is an option, please describe how partial funding might work:*

Inland Revenue is already facing a number of cost pressures and part-funding this initiative would divert resources that could go to Transformation.

**4.4.4 R&D tax losses**

<b>Initiative Name</b>	<b>Vote</b>	<b>Department</b>	<b>Contact Person</b>
Research and Development cashing up tax losses	Revenue	Inland Revenue	David Carrigan

*Describe what this funding request is for and what the expected results from this spending are.*

[7,8]

The final implementation and administration process will be discussed and costed as part of a Business Case, [7,8]

Revenue administration. This policy is on a Budget 2014 track but no decision has been made by Ministers whether the final policy will be announced at Budget 2014.

In the meantime, the policy has been refined following consultation. Administration and policy (fiscal) costs may change as a consequence of this, subject to approval by Ministers. The administration cost of the scheme for out years is estimated to be [7]

The annual value of the scheme is expected to be \$14 to \$16 million and will be dependent on the number of companies who take up the policy and are paid grants. This funding request is for the fixed costs (capital) and operating costs for implementing and administering the R&D tax losses policy within Inland Revenue. The fixed costs cover: IT changes and testing as required to implement the initiative, creation of education and communication packages and costs associated with [7]

The operating costs cover the administration of the regime (which includes Inland Revenue costs for assessing applicants' eligibility for the policy and the provision of education and guidance material, as well as an increased audit process) and also the cost of the estimated grants to be paid out to eligible applicants undertaking R&D activity.

The funding will reduce compliance costs for applicants through the provision of resources that will enable applicants to comply with the eligibility requirements more easily than otherwise. An increased auditing process will reduce fiscal risk.

*Describe how the expected results will be measured.*

[8]

[8]

**Budget 2014**

<b>Funding Sought at Budget 2014</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
	<b>\$0.000m</b>	<b>\$0.000m</b>	<b>\$0.000m</b>	<b>\$0.000m</b>
<b>Operating</b>				
[7]  Estimated payout value for the out years based on the uptake of policy at the upper end)	[7]  0.000		16.000	16.000
<b>Capital</b>				
[7]	[7]			

*Describe how, if the funding sought represents the total amount required for the initiative - and if not, what the total is and where the additional funds are coming from:*

This funding will cover the total amount required for the initiative; that is implementation costs and ongoing administration costs which includes the payment to the R & D Company if they qualify. The annual value of the scheme is expected to be \$14 to \$16 million. This payment will be made earlier than under the existing rules for the offset of losses.

The policy is intended to be fiscally neutral and provides a timing benefit to eligible R&D companies; the losses which are cashed out will repaid through future tax payments. The applications are anticipated to maximise out at \$16 million per year, but will be reduced by the timing lag. It is likely that the mechanism to provide these cashed out losses will be by way of a Crown payment.

*Describe if this initiative might require additional funding in future years:*

There will be ongoing annual administration costs for the policy.

*Describe how this new funding request supports the Governments priorities:*

The policy is part of the Business Innovation initiative within the Government's Business Growth Agenda.

*Describe how this new funding request aligns with your Strategic Direction and delivery thereof, as described in your 4YP:*

The initiative was introduced as part of Budget 2013 and Inland Revenue has followed up as part of this process.

*Describe why this new initiative cannot be funded within baselines:*

If the policy is funded within existing baselines then Inland Revenue will minimise the administration costs for the policy because of competing resources. Minimal education and guidance will be provided, creating compliance difficulties for applicants. This will reduce uptake of the policy.

This policy proposes refunding tax losses to certain taxpayers, rather than requiring tax losses to be carried forward to deduct against income derived in the future. [8]

*Describe what other activities are already being undertaken, either within your agency or across the State sector, to address the issue this new funding will look to address:*

This is a specific issue related to the tax treatment of losses incurred by R&D-intensive start-ups. No other work is being done in this specific area.

*Describe the implication if this funding is not approved:*

As the initiative requires some capital expenditure, it will be subject to the Business Case process. Funding will be required to implement, however there are options for how Inland Revenue may administer the initiative without additional ongoing administration costs. If no additional administration funding is approved then the policy is likely to have a limited uptake from R&D start-ups. [8]

*If partial funding of this initiative is an option, please describe how partial funding might work:*

Partial funding is an option, provided the implementation costs are met. Inland Revenue would cover basic administration costs from within baseline funding. This however is not preferable.

[7]



[7]

[7]

[7]

[7]

[7]

[7]

[7]

[7]



[7]

**4.4.8 Unfiled returns**

<b>Initiative Name</b>	<b>Vote</b>	<b>Department</b>	<b>Contact Person</b>
Unfiled returns	Revenue	Inland Revenue	Richard Philp

*Describe what this funding request is for and what the expected results from this spending are.*

Inland Revenue has made significant progress already in relation to reducing the number of outstanding returns and targeting returns that have higher revenue values. For example, with the additional funding provided by Budget 2012 has enabled Inland Revenue to gather in for the year ended 30 June 2013 additional returns with a revenue assessment value of \$47.115 million (target was \$7.031 million). This equated to a rate of return of \$12.6 for every \$1 spent.

We propose a further budget bid of \$49 million over five years to scale up the success we have achieved with the Budget 2012 funding which will further maximise our revenue and cash collection results. [7,10]

*Describe how the expected results will be measured.*

We expect revenue returns of \$300 million over five years. As a result of more filed returns, we would also expect to see minimum growth in new debt that is not under a payment arrangement.

**Budget 2014**

<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>					
Operating funding sought	8.991	10.269	10.269	9.536	9.536
<b>Capital</b>					
Capital funding sought	0.000	0.000	0.000	0.000	0.000

	<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>Total</b>
Additional Revenue	-\$31.500	-\$70.000	-\$70.000	-\$70.000	-\$56.000	-\$297.500
Operating costs	\$8.991	\$10.269	\$10.269	\$9.536	\$9.536	\$48.600
Impairment Cost	\$8.864	\$19.698	\$19.698	\$19.698	\$15.758	\$83.717
ROI (Revenue/ Operating Costs)	\$4	\$7	\$7	\$7	\$6	\$6

*Describe how, if the funding sought represents the total amount required for the initiative - and if not, what the total is and where the additional funds are coming from:*

This bid is for the total amount required over five years

*Describe if this initiative might require additional funding in future years:*

Not applicable

*Describe how this new funding request supports the Government's priorities:*

This bid contributes to government priority 1:

- Responsibly manage the Government's finances. (It does this by ensuring revenue is available to fund government programmes through people meeting payment obligations of their own accord)

*Describe how this new funding request aligns with your Strategic Direction and delivery thereof, as described in your 4YP:*

This bid also contributes to the following Inland Revenue strategic priorities:

- Proactively influence voluntary compliance
- Improve the efficiency and effectiveness of government

*Describe why this new initiative cannot be funded within baselines:*

Our main cost pressures over the next four years relate to remuneration, efficiency dividend (Budget 2011 requirement), IT, and inflationary pressures which are driven mainly from existing contractual obligations. We need to generate savings to manage these cost pressures and that will reduce our ability to divert funds to additional activity. We are also contributing resources to Better Public Services.

*Describe what other activities are already being undertaken, either within your agency or across the State sector, to address the issue this new funding will look to address:*

[7,8]

*Describe the implication if this funding is not approved:*

Inland Revenue will not be able to generate the increased level of assessment value and cash collection from currently unfiled returns, nor educate customers to promote an enduring future on-time filing and paying outcome.

*If partial funding of this initiative is an option, please describe how partial funding might work:*

Not applicable

**4.4.9 Child support compliance**

<b>Initiative Name</b>	<b>Vote</b>	<b>Department</b>	<b>Contact Person</b>
Child Support Compliance	Revenue	Inland Revenue	Richard Philp

*Describe what this funding request is for and what the expected results from this spending are.*

Inland Revenue proposes a budget bid that will use child support staff to provide education for:

- newly registered custodial parents
- newly registered liable parents
- advice of change of circumstances

This, along with an increased focus on international child support (debt and payments plus further leveraging off overseas-based borrowers initiatives), would 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.

At present, 73 percent of liable parents <sup>[7]</sup> do not make their first payment on time

[7]

[7] 44 percent of child support debt is not under payment arrangement [7]

We propose a cash collection 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-\$5 for every \$1 spent.

*Describe how the expected results will be measured.*

Custodial parents will receive their payments in a shorter time frame giving them more confidence and certainty about their ability to address their immediate financial needs.

Early interventions with an educational focus for custodial and liable parents followed and supported by visible compliance will improve the percentage of on time payments and speed up the process of getting payments into the hands of custodial parent families who are not supported by being on a benefit.

Inland Revenue's transformation goals will be better supported including an increased uptake of self-management options through more proactive customer engagement.

### Budget 2014

<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>					
Operating funding sought	7.227	9.259	9.104	8.979	9.010
<b>Capital</b>					
Capital funding sought	0.000	0.000	0.000	0.000	0.000

*Describe how, if the funding sought represents the total amount required for the initiative - and if not, what the total is and where the additional funds are coming from:*

This bid is for the total amount required over five years

*Describe if this initiative might require additional funding in future years:*

Not applicable

*Describe how this new funding request supports the Government's priorities:*

This bid contributes to Government priorities 1 and 3:

- Responsibly manage the Government's finances  
(It does this by ensuring revenue is available to fund government programmes through people meeting payment obligations of their own accord)
- Deliver better public services within tight financial constraints  
(Result area 9 - improving interaction with government: New Zealander's can complete their transactions with the Government easily in a digital environment)

*Describe how this new funding request aligns with your Strategic Direction and delivery thereof, as described in your 4YP:*

This bid also contributes to the following Inland Revenue strategic priorities:

- Proactively influence voluntary compliance
- Improve the efficiency and effectiveness of government

*Describe why this new initiative cannot be funded within baselines:*

Our main cost pressures over the next four years relate to remuneration, efficiency dividend (Budget 2011 requirement), IT, and inflationary pressures which are driven mainly from existing contractual obligations. We need to generate savings to manage these cost pressures and that will reduce our ability to divert funds to additional activity. We are also contributing resources to Better Public Services.

*Describe what other activities are already being undertaken, either within your agency or across the State sector, to address the issue this new funding will look to*

*address:*

[7]

. Rather we are proposing a bid that focuses on using staff to educate liable and custodial parents, increase the focus on international child support thereby minimising the growth in new debt, particularly given the disproportionate level of international debt when compared to the total debt outstanding.

*Describe the implication if this funding is not approved:*

There will be no improvement in the number of child support customers paying on time to custodial parents and to the Government.

Inland Revenue will not be able to manage or contain the growth in the international child support debt book or minimise the growth in new debt.

*If partial funding of this initiative is an option, please describe how partial funding might work:*

Not applicable

[7]

[7]





**4.5 Anticipated out-year funding requests**

[7  
]



[7]

[7]

## 4.6 Capital intentions

### 4.6.1 Current State

#### IT Assets

As at 30 June 2013, Inland Revenue's IT assets had a net book value of \$128 million (acquisition cost of \$681 million) made up of \$117 million of computer software (including licences) and \$11 million of computer hardware.

Inland Revenue currently owns the majority of all tangible and intangible technology assets with the exception of telecommunications equipment and mainframe.

The main computer asset is the FIRST system comprising a mainframe computer, associated disk storage and both in-house developed and commercial software. We have recently decided to replace our mainframe computer with an 'As a Service' solution with Unisys. The second tier of Inland Revenue systems are comprised of Windows and Unix servers, which also have associated disk storage and both in-house developed and commercial software. The majority of Inland Revenue staff now use 'thin client' devices at their desks rather than personal computers.

FIRST has been identified as nearing its useful life and is assessed as being unable to meet the Government's expectations for complex or major policy change in a cost effective and timely way.

Our Business Transformation programme will replace FIRST with a modern revenue and social policy administration system that will continue to meet the expectations of Government and needs of our customers. The sequencing of this programme of work will have significant effects on how we invest and manage our IT assets going forward. Successfully delivering Business Transformation will consume a significant amount of Inland Revenue's resources and management bandwidth [7]

We will need to carefully balance the need to transform, with the on-going need to maintain, stabilise and enhance our existing core infrastructure to ensure business system availability, security and continuity.

#### Facilities Assets

As at 30 June 2013, Inland Revenue's Facilities assets had a net book value of \$43 million (acquisition cost of \$92 million) which is predominately made up of leasehold improvements (\$31 million).

Inland Revenue's accommodation portfolio encompasses 26 leased buildings in 17 cities and towns around New Zealand providing a total of 94,233m<sup>2</sup> of office space for an approximate headcount of 5,900.

Our property portfolio has been assessed to be in relatively good health, following recent property upgrades (including planned work for improve Jepson Grove, AIA House, Dunedin, Invercargill, Takapuna and Rotorua in the current year). The property portfolio will continue to require future investment to ensure that it maintains this status.

[7,11]

[7,11]

### **Asset management**

Inland Revenue manages its capital programme as one investment portfolio to ensure that allocations are optimised between the change, improve and run requirements of the organisation. The Investment Board maintains oversight of this portfolio and approval from this board is required before expenditure on major assets can proceed.

To strengthen our asset management, Inland Revenue is in the process of updating and consolidating its various asset planning policies and documents into an AMP for IT assets and another for our facilities assets. These will be summarised into one consolidated AMP for the organisation. The AMPs will provide a refreshed 10 year investment outlook for Inland Revenue's major assets.

#### **4.6.2 Trends**

##### *Growth in online services*

The movement to online services channels, specifically the e-Services channel and KiwiSaver, has accelerated the need for investment in public facing systems and data storage. This growth is expected to continue throughout the next 10 years.

##### *As a Service*

'As a Service' solutions have been mandated by the GCIO in a number of technology areas, such as storage. Inland Revenue will look to adopt 'As a Service' where this is cost effective.

We are committed to utilising the 'As a Service' model and will consider this option when renewing assets, e.g. we have recently signed a contract with Datacom for mid-tier storage systems and with Unisys for mainframe services. [8]

The 'As a Service' model provides many opportunities going forward including:

- Increased transparency between asset utilisation and the cost of that asset over its life
- Avoiding the upfront commitments of purchasing an asset and the implicit requirement to purchase growth in advance, i.e. only paying for capacity and services as and when needed
- Our assets are up to date and fully supported
- Use market capability for ICT commodity services

The shift to 'As a Service' will expose us to contract and vendor risk. This risk, along with the shift from asset ownership to service model, will need to be carefully managed and will have funding implications.

#### *All of Government*

Government have indicated its desire for greater collaboration in the sector and a more results focussed approach to the delivery of services by agencies. Opportunities such as shared accommodation and call centre services, website hosting and information sharing will influence how we manage, share and invest in our assets going forward.

#### *Government demands for increased agility*

Inland Revenue has a strong reputation for delivering high-levels of customer service and strongly contributing to Government's priorities. However, our business systems are ageing, the costs to support them continue to increase, and our ability to meet Government's expectations of speed to market for legislative change, and deliver better public services for same or fewer resources is declining.

Investment in our Business Transformation will be key to improving significantly our agility and responsiveness, of both our systems and processes in order to deliver on Government policy priorities.

### **4.6.3 Potential for private sector investment**

We have not identified any opportunities for private sector investment, i.e. Public Private Partnership Opportunities, given the sensitivity of the information and service that we provide to New Zealanders. [7,10,11]

### **4.6.4 Existing balance sheet**

Overall, our balance sheet is [8] based on our current needs to replace assets; however, we do not have the capacity to fund transformation of our business.

As at 30 June 2013 Inland Revenue has taxpayer funds totalling [7] and a net book value of assets totalling [7] This leaves capital reserves totalling approximately [7]

We have set aside [7] from our capital reserves for Business Transformation [7]  
The remaining [7] will be used to replace our current asset base.

Inland Revenue actively manages its capital programme to ensure that our spend is allocated to its highest value use and leverages opportunities available within the programme, i.e. sequencing of IT asset replacement to leverage opportunities from Business Transformation. [8,10,11]

We have chosen to delay spending in some areas of our asset replacement programme as we await decisions regarding the detailed Business Transformation programme. [8]

#### **4.6.5 Major capital decisions/challenges**

[7]

We have discussed the challenges with Business Transformation in earlier sections of the Four-year Plan. Going forward we will need to ensure that we are able to deliver Transformation in sustainable way, i.e. balanced against the requirement to stabilise and enhance our existing core infrastructure.

[7]

#### **4.6.6 Strategy for managing capital**

Over the next 10 years the majority of our capital expenditure will be on replacing and enhancing our assets. Our asset replacement programme is funded from depreciation and capital reserves.

[7]

Our intent is to allocate [7] of our annual depreciation towards Business Transformation, [7]

[7]

This represents the estimated cost of transformation with external funding required for the balance.

We will allocate the remaining [7] of our annual depreciation towards replacing assets, improvement projects aimed at enhancing customer service, supporting government priorities and self-funding legislative changes when required.



## 4.7 Risks

### 4.7.1 Strategic and Operational Risks

Inland Revenue utilises an Enterprise Risk Management approach which captures both strategic and enterprise wide operational risks. The approach also captures operational risks within each of the business units.

The significant enterprise risks that may have a fiscal impact over the four year time horizon of the Plan have been identified as the following:

#### **Conflicting priorities between Inland Revenue and other agencies**

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[7,8]

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[8]

As mentioned in the 'Drivers of change' section, the recent *PIF Review* notes that our current situation is complicated with Better Public Services requiring cross-government thinking and planning to be integrated with managing our Business Transformation and delivering our core services, while keeping financial pressures under control. [7]

The current level of risk is considered acceptable.

#### **Ineffective procurement and contract management**

[7,8]

Should Inland Revenue procure services and assets, or manage contracted services ineffectively the additional costs to the organisation could be material. This risk is particularly relevant to the Business Transformation Programme.

The current level of risk is considered acceptable.

**Significant shift in Government investment strategy**

[7,8]

A significant shift in investment strategy is considered a possibility in the event of a major policy change by Government. The risk principally applies to the Business Transformation Programme. The impacts could include both the failure to realise operational efficiencies and additional costs associated with exiting commitments.

The current level of risk is considered acceptable.

**Insufficient people capability to deliver business outcomes**

[7,8]

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.

The current level of risk is considered acceptable.

[11]

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

[7]

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Inland Revenue is heavily reliant on systems and data to deliver our core functions. The assessments reflect this reliance.

The current level of risk is considered acceptable.

**4.7.2 Resilience**

In assessing 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. In assessing Inland Revenue's capacity to either manage or respond to unidentified risks Inland Revenue's effective response to natural hazard events such as earthquakes and relatively mature internal control and response systems are considered to be effective. The organisation is therefore assessed as:

*Resilient to most eventualities, mainly within risk appetites.*

**4.7.3 Risks to the sustainability of the Four-year Plan beyond 17/18**

The principal risks to the sustainability of Inland Revenue beyond the Four-year Plan relates to the continued implementation and success of the Business Transformation Programme.

Should the Business Transformation Programme be reduced in scope the projected efficiencies for Inland Revenue as an organisation will be placed at risk.

There is a risk that the costs of the various stages of Business Transformation are significantly different from that currently envisaged. There are mitigating actions in place including the use of relevant internal and external expertise, effective planning processes and the use of best practice procurement methodologies.

[7,8]

. We are mitigating this risk through the management and governance structures that have been put in place in the organisation and the regular and on-going engagement we are having with Ministers and other government agencies.

The move to AaS creates additional financial pressures on the organisations baseline. We are committed to utilising 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.

#### **4.8 Government ICT Strategy and Action Plan to 2017 – Alignment of agency ICT Strategies to Destination 2017**

The Government ICT Strategy and Action Plan aims to deliver a 21<sup>st</sup> century public sector that is capable of responding to New Zealanders increasing use of technology to communicate, interact and transact with government, whilst delivering to government \$100 million per year in sustainable savings.

Inland Revenue has provided two responses to the GCIO on the strategy (March and May 2013), noting a number of concerns and signalling areas that are of interest to Inland Revenue. The position that Inland Revenue has expressed to GCIO and Ministers is that we will use government services where they are available and fit for our purposes. Where those services are not available, consideration will be given to whether the investment in our transformation can be leveraged for wider government [*EGI (13) 170 refers*].

GCIO understand that the extent and nature of Inland Revenue's contribution to the strategy depends upon the decisions Ministers make around our transformation. Cabinet has endorsed the development of a detailed business case and has directed Inland Revenue to provide Ministers with investment choices, including minimum options [*EGI Min (13) 20/7 refers*].

Subject to these decisions we consider there may be opportunities for Inland Revenue to progress the strategy in the following areas:

##### **Supporting Government to Provide Services Digitally by Default**

Enabling secure digital services is a cornerstone for Inland Revenue and the focus of the first phase of the department's transformation. Inland Revenue has the following activities underway that may be able to be leveraged in support of the strategy:

- Through our transformation programme and broader channel work we aim to optimise channels, improve collection of information from business and improve intelligence interventions.
- We will incorporate RealMe and NZBN into the design of Stage 1 of our transformation, subject to feasibility, planning and timing considerations [*EGI Min (13) 20/7 refers*].
- [7]

##### **Supporting Government to Manage Information as an Asset**

Optimising the use of Inland Revenue information, whilst assuring its management and security, is a cornerstone for Inland Revenue and underpins our transformation. Inland Revenue has the following activities underway that may be able to be leveraged in support of the strategy:

- [7]
- Our information sharing programme is Inland Revenue's response to government expectations around information sharing and greater collaboration, and our approach allows the most sensitive taxpayer information to be kept confidential whilst enabling

greater information sharing where greater economic or societal benefits exist.

Current and planned information exchanges will deliver real value to government:

- Exchanges with MSD have resulted in the cancellation of benefits to ineligible recipients, [7,8]
- Exchanges with DIA now mean parents can register their newborn at birth, simplifying the process for our customers [7]
- In support of open and transparent government, [7]

. The end goal is to enable New Zealand citizens and businesses a greater level of participation in shaping government decisions, and tailoring government's services to meet their needs

- [7] re-shaping compliance management at Inland Revenue, and are key enablers of our shift towards an intelligence-led organisation. We have developed our proactive intelligence and automated risk-profiling capability [7]

### **Common Government ICT Services**

Government common ICT capabilities are ICT 'services' that can be shared at an All of Government level. [7]

- [11]

- [7]

### **Leading Enabling Information Sharing (Data Integration as a Service)**

Inland Revenue has been nominated to lead developing capability to simplify the future management and control of agency data interconnections. [7]

### **Leading a Government Payment Service**

As a major operational department that collects the vast majority of government revenue, Inland Revenue has been nominated to lead the development of a standard solution and approach to payment collection and disbursements made available as an all of government managed service.

[7]

**Sharing Business Rules Experiences and Learnings**

This activity aims to strengthen Business Rules capability across government, and Inland Revenue will support this activity by sharing its Business Rules expertise and frameworks.

## **4.9 Government priorities**

### **4.9.1 Delivering Better Public Services**

[7]

Inland Revenue is involved in the development of a number of business cases relating to 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.

Where appropriate, we will incorporate initiatives that relate to Better Public Services and the Government ICT Strategy within our Business Transformation programme. Where the timing, focus or approach does not align, we recognise that trade-off conversations will be required to minimise the risk to transformation while at the same time contributing to government priorities.

Inland Revenue has developed a Cross Agency Strategy that helps guide our Better Public Services activities. Its vision is that Inland Revenue is part of an integrated, innovative and responsive public sector that delivers results for New Zealanders.

[7]

## Current Initiatives

As of October 2013, Inland Revenue has seven initiatives that have been allocated funding and approximately 40 FTE people working on them. Inland Revenue is working with MBIE, MSD, DIA, ACC, Customs, MPI, NZTE, Statistics and the Callaghan Institute to deliver on the BPS priorities. The seven initiatives are:

- (1) NZBN Integrated Employer Registration (Result 9)

Inland Revenue and MBIE (Companies Office) are working together to implement the ability for companies registering for the first time to also register as employers and for FBT via the companies office portal. Companies can already register for IRD numbers and GST through this mechanism. This is due for release in February 2014. This is a tactical delivery for the NZBN programme of work (see 2).

- (2) New Zealand Business Number (Result 9)

Inland Revenue is working with the R9 Programme and R9 agencies (MBIE, ACC, Customs, MPI, NZTE, Statistics and Callaghan Institute) to determine approaches to the design and development of the New Zealand Business Number. This includes supporting the R9 Programme in the development of the business directory; the business case for a single integrated registration service for businesses; the development of the policy and legislation changes to enable the application of the NZBN to non-registered entities; and development of the NZBN operating model.

Cabinet has noted that Inland Revenue intends to implement RealMe and NZBN as part of Stage 1 of our transformation programme, subject to the NZBN business case and to feasibility, planning and timing considerations. (EGI Min (13) 20/7 and Cab Min (13) 30/6 refer).

- (3) Integrated Digital Services for Business (One Stop Online Shop) (Result 9)

Inland Revenue is supporting the R9 Programme to determine approaches to design of integrated digital services for business. [7]

Once the roadmap for R9 has been developed further integrated digital services will be described.

[7]



[7]

- (5) Durham Street – Front of House Phase II (Result 10)

On the 18th February 2013, the first co-located New Zealand Government site was opened at Durham Street in Christchurch - this was Phase I of the project. Two agencies consisting of five service lines are currently working alongside and working together in a joined up shared Front of House (FoH) offering. Over the past eight months Durham Street has been successfully used as a test bed environment to trial a shared FoH service offering included new roles and combined digital self-service and messaging.

Phase II will result in a Strategic Case that provides recommendations on the components that have been successfully proven in Durham Street that could be rolled out and provide valuable insights that can be fed into other cross-agency initiatives going forward. Phase II is expected to be completed by June 2014.

[7]

[7]

### **Roadmaps/Blueprints**

The draft Result 10 Blueprint identifies 10 priority actions that will help move towards the vision.

A number of the blueprint actions align closely with our Channel strategy and current transformation plans. However, in some cases further clarification on the scope and detail is required before Inland Revenue can commit to the implementation of the Actions within a specific timeframe. In addition Inland Revenue needs to consider the sequencing of Actions such as the adoption of RealMe as part of our overall transformation roadmap.

The Result 9 Future State Service Model describes four types of services offered by government to business customers. These are:

- Universal Services – where only one instance of a capability exists across government for business customers
- Functional Clusters – where there are a few clusters offering similar services
- Agency Specific Services
- Value Added Services – where third parties use government data to add value to services to business customers

The development of the Result 9 roadmap that describes how this capability is designed and delivered is currently underway with the first draft being presented to the Result 9 Chief Executives Group in November for initial endorsement. Work done to date suggests that there is close alignment between the roadmap and the Inland Revenue transformation programme as well as Result 10 blueprint and the ICT Strategy and Action Plan.

### **Emerging Initiatives**

[7]

[8]

[7]

We are improving services by sharing information and identifying opportunities to work more closely with other agencies as required by Government, while maintaining the integrity of the tax system and protecting New Zealanders' privacy. We will ensure that competing priorities are managed when working together with other agencies and private providers.

### 4.9.2 Canterbury Rebuild

[7]

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 26 January 2012. Inland Revenue has since been a significant contributor to the public sector work focused on the rebuild.

Inland Revenue has engaged with CERA to ensure clarity of each other's requirements and Inland Revenue's contribution as requested in CERA CE Roger Sutton's letter to CE's of September 2013. Inland Revenue continues to have a team dedicated to this Government priority with an external focus and co-ordination role across Inland Revenue.

Inland Revenue is currently contributing specifically to three of CERA's recovery components which are Social, Economic, and Leadership and Integration. Our involvement in contributing to these areas is outlined below.

#### **Social Recovery:**

Inland Revenue contributes to social recovery in a number of key areas, with supporting our people post-earthquake as a major focus. Working closely with CERA, Inland

Revenue is now contributing to wider cross-agency work sharing best practices and supporting agencies in their delivery of wellbeing and resilience programmes. Key initiatives Inland Revenue are involved in include:

#### Supporting our People

Inland Revenue has a small team on the ground in Christchurch with a specific focus on supporting Inland Revenue people leaders and teams for the foreseeable future. They are linked in closely with CERA's Social and Cultural Recovery team, developing cross agency relationships with others in similar roles and have a representative on the Greater Christchurch Psychological Recovery Committee.

To support our people through this challenging period, Inland Revenue has a number of on-going initiatives underway. At this point in time, three years into recovery, our support and initiatives are targeted and tailored to meet specific needs with everyone at different stages of recovery dealing with a broad range of issues. These initiatives are funded from current baseline budgets. Examples of initiatives include:

- Targeted workshops facilitated by external preferred suppliers Synergy Health, Workplace Support, EAP, Westpac and The Building Intelligence Group (TBIG).
- The TBIG residential support programme aimed at providing expert advice on a range of EQC and insurance related issues.

#### Working with CERA Social and Cultural Recovery Team

Inland Revenue is working closely with CERA across a variety of cross Government initiatives. Inland Revenue is represented on the Greater Christchurch Psychological Committee that has developed a three year psychosocial strategy titled 'Community in Mind' to be implemented in 2014. As part of this development, Inland Revenue has provided feedback on the proposed strategy and related cabinet paper. Inland Revenue is represented on the governance group for the Public Sector Organisational Resilience Team (PORT) and heavily involved in leading, co-ordinating and facilitating a number of joint agency initiatives. Examples are:

- Monitoring and maintaining a data and evidenced based awareness of the public sector workforce resilience and wellbeing
- Presenting and sharing wellbeing best practices across Government agencies
- Working with other government agencies to facilitate research, sharing of information and resources, promoting self-care strategies and providing cross-agency support
- Identification of opportunities to support cross Government initiatives such as working with the Canterbury Integrated Government Accommodation (CIGA) project team to put in place strategies to support Government workers moving back into the CBD.

#### Earthquake Support Co-ordination Service

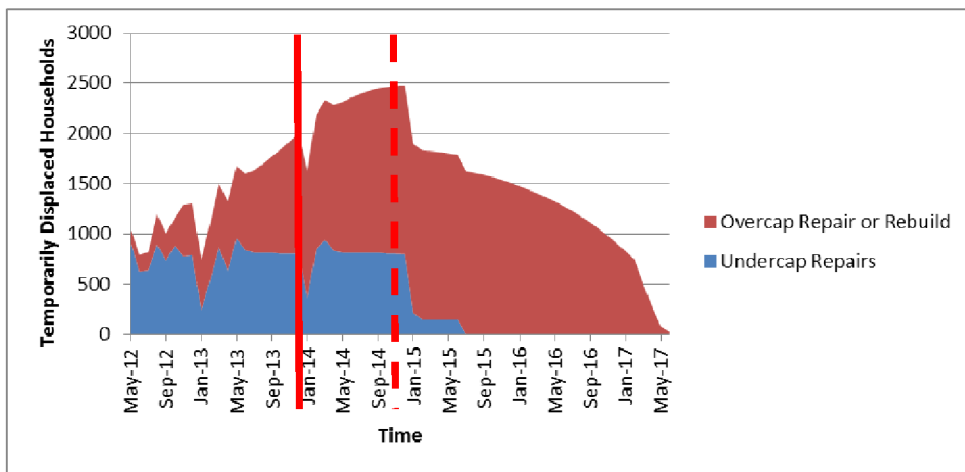
Inland Revenue is working collaboratively with CERA, MSD, TPK, Ngai Tahu and the NGO sector to deliver this support service to the families and individuals most affected by the

earthquakes. For the last three years a small team has been funded from Inland Revenue’s baseline, with funding expiring in June 2014.

[7]

These resources are specifically deployed in the Canterbury Earthquake Temporary Accommodation Service and demand for this service will increase given the residential repair and rebuild programme, both over and under cap, is not yet at its peak. Insurance and EQC repairs in 2014 onwards will involve increasing complexity, longer temporary accommodation requirements and increased numbers of repairs and rebuilds.

### Household displacement



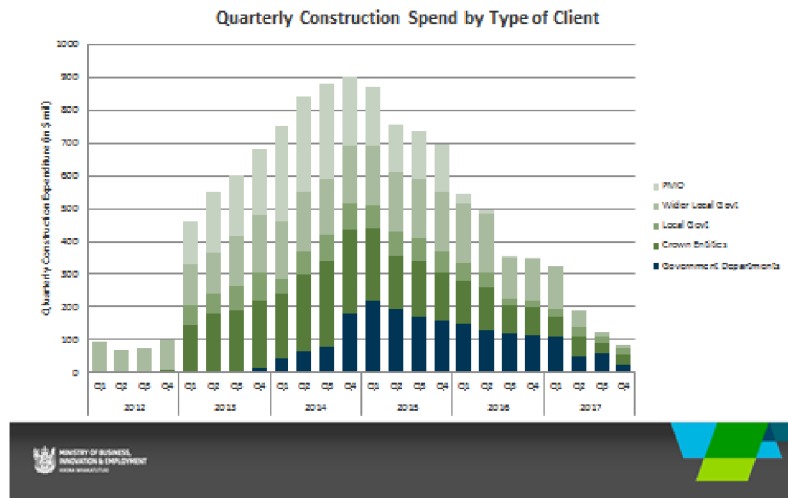
[8]

### Economic Recovery:

Inland Revenue is contributing to the economic recovery strategy through ensuring the Crown receives all revenue it is entitled to from investment in the Christchurch rebuild. Government contribution to the rebuild of Christchurch is forecast to be \$15 billion and Government will focus on protecting the revenue due from the estimated \$40 billion total rebuild investment.

The Government procurement requirements for the Christchurch rebuild are expected to exceed the national procurement spend of \$300 million per quarter in the construction sector during 2014/15 peaking at \$900 million. Private sector procurement will be on top of the indicative Government procurement illustrated below.

## Pipeline by proximity to Central Government



Inland Revenue is also the Government agency with the most regular interaction with New Zealand businesses and has a key role in ensuring financial integrity in all aspects of the rebuild.

While the compliance risks in the rebuild are not new one of the major challenges for Inland Revenue 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]

[7]

**Leadership and Integration:**

Inland Revenue will continue to contribute to leadership and integration through a variety of rebuild initiatives including many cross-agency groups in both Wellington and Christchurch. Inland Revenue is committed to assisting with leadership and integration where required and is currently involved in the following rebuild groups:

- Leading and administering the Canterbury Government Leaders' Group
- Member of Canterbury Earthquake Recovery Senior Officials' Group (Wellington based)
- Chairing the board of the Earthquake Support Coordinators involved in CETAS
- On the steering committee for the Canterbury Integrated Government Accommodation project and providing change and service design capability
- Actively contributing to CERA's Effective Government Services programme (part of the Christchurch Recovery Strategy)
- Representative on the Greater Christchurch Psychosocial Committee and the Public Service Organisational Resilience Team

CERA - Effective Government Services

Inland Revenue is committed to supporting the CERA EGS programme of work, in particular the transformation of service delivery models and rethinking the definition of 'best practice' to deliver better public services in rebuilding the public service locally.

Christchurch provides an opportunity to pilot innovative, clearly scoped initiatives that may be transportable to the wider public sector nationally.

The Effective Government Services Programme will be informed by Government departmental commitments in their four year plans and was communicated by CERA Chief Executive Roger Sutton in his recent letter to CE's.

Examples of initiatives that Inland Revenue are contributing to include:

- Durham Street Phase 2 - NZ Government Site (MSD)
- Joined up engagement and communications across Government in the Christchurch environment (CERA)
- Earthquake Support Co-Ordination Service and other psychosocial recovery initiatives (CERA/MSD/TPK/NGO's)
- Public Sector precinct - exploring opportunities for innovation cross Government service delivery options, optimising the opportunities from having 20 Government agencies relocating back into the CBD in purpose built premises (PMCoE/ CERA)
- Working collaboratively to strengthen the wellbeing and resilience of the Christchurch public sector workforce (CERA, CDHB, MSD)



- Inland Revenue are working with MBIE on a number of joint initiatives including Government procurement, Immigrant registration processes and proactive compliance initiatives with business.

#### Canterbury Integrated Government Accommodation Project (CIGA)

Inland Revenue returned to the CBD priority retail area in May 2013 and is part of the CIGA project and represented on the steering committee providing learnings from Inland Revenue's leadership and support to our teams in returning to the CBD.

Inland Revenue is working closely with CERA's GM Effective Government Service (EGS) team in conjunction with the CIGA project to explore what opportunities there are to improve and develop joined up cross-agency service delivery, optimising the unique opportunity from having 20 agencies in a purpose built Government precinct.

CERA EGS has requested access to Inland Revenue service design capability to support this initiative. The requested service design capability is intended to identify, scope and deliver design solutions to improve and join up cross-agency customer services within each agency cluster, and possibly across clusters. In addition, technology-based self-service options would be prevalent in any solution (aligning to BPS R9 and R10).

[7]

The final outcome would be to deliver a significantly improved customer experience for customers engaging with agencies in a small number of identified points of pain or collaborative opportunities from a process or service offering perspective. Any joined-up service will also likely deliver measurable benefits to the agencies involved, through efficiencies gained by designing and delivering joined up services and processes.

Other than CDHB, Inland Revenue is the only Government department with professional service design capability based in Christchurch through our Service Design and Implementation team. They have successfully contributed to the design of Recover Canterbury services and the NZ Government shared front of house in Durham Street.

### 4.9.3 Building a more productive and competitive economy (Business Growth Agenda work-stream)

	2012/13	2013/14	2014/15	2015/16
Resources committed				
Resources reallocated across agencies				

A number of aspects of the tax policy work programme promote the Government's business growth agenda – in particular in the area of "building capital markets". This includes on-going engagement by Inland Revenue and Treasury officials to advance the work on mutual recognition of imputation and franking credits. We are also continuing work on investigating differences in the tax treatment of different forms of savings. The project on scoping the tax treatment of annuities is an example of this.