

# The Treasury

## Budget 2014 Information Release

### Release Document

#### July 2014

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
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- [11] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [12] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [13] Not in scope
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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.

Chair  
Cabinet Business Committee

## **INLAND REVENUE BUSINESS TRANSFORMATION: DELIVERING THE FIRST STAGE OF NEW ZEALAND'S FUTURE REVENUE SYSTEM**

### **Proposal**

1. I seek consideration of, and a decision on, the next steps of the transformation of New Zealand's future revenue system.<sup>1</sup>

2. As part of Budget 2014, Inland Revenue is seeking<sup>[7]</sup> to:

- complete preparations to bring on board a service provider to deliver detailed design;
- complete the overall design of a revenue system fit for the twenty-first century, including processes, technology and policy;
- advance work to prepare for the integration of legacy and new technology platforms; and
- deliver early improvements to services to encourage digital interactions in support of Better Public Services Results 9 and 10.

3. I am seeking the Committee's agreement to the following:

- additional operational funding of \$19.5 million in 2014/15 to allow Inland Revenue to complete preparations to bring on board a service provider to deliver detailed design, complete negotiations with the selected service provider to deliver detailed design, and progress a number of tactical and foundational initiatives within the scope of Stage 1;
- establishment of a tagged contingency, with draw-down subject to one or more business cases,<sup>[7]</sup> to allow Inland Revenue to complete the design phase, advance platform integration and deliver early service improvements;
- authorisation for Inland Revenue to incur operating expenditure<sup>[7]</sup>

and

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<sup>1</sup> "System" includes the policy, processes and technology used to deliver the taxation and social policies that Inland Revenue administers and the provision of information it collects and disburses to other agencies.

- authorisation for the Minister of Finance and me to approve the issuing of all requests for proposal to prospective vendors for the design phase, and for all foundational and tactical initiatives associated with Stage 1 of the programme.

4. I expect a detailed business case for the solution delivery phase of Stage 1: *Enabling secure digital services* to be prepared once the overall design of the revenue system has been completed. This business case will be submitted [7] It will present options for technology replacement, options for implementation, and revised costs and benefits for the programme. [7]

## Executive summary

5. This paper supports Cabinet’s consideration of, and a decision on, the next steps of the transformation of New Zealand’s future revenue system. As part of Budget 2014, Inland Revenue is seeking [7] to:

- complete preparations to bring on board a service provider to deliver detailed design, complete negotiations with the selected service provider to deliver detailed design, and progress a number of tactical and foundational initiatives within the scope of Stage 1;
- complete the overall design of the changes required to achieve *IR for the Future* and deliver a revenue system fit for the twenty-first century;
- advance work [7] to integrate legacy and new technology platforms to ensure that, during transformation, Inland Revenue can continue to collect revenue and disburse the payments people are entitled to; and
- deliver early improvements [7] to Inland Revenue’s services to encourage digital interactions in support of Better Public Services Results 9 and 10.

6. Inland Revenue proposes to deliver Stage 1 of the transformation programme roadmap, *Enabling secure digital services*, in three work-streams:

- **Strategic** – implementation of new business processes to streamline the PAYE system and improve GST information collection, and delivery of supporting capabilities, including a single source of data across multiple systems and processes.<sup>2</sup>
- **Foundational** – delivery of infrastructure that will support transformation including preparing existing technology platforms to co-exist with new platforms, and preparing customer data for migration.
- **Tactical** – delivery to customers of early improvements including improved web services and new applications for mobile devices, consistent with Better Public Services Results 9 and 10.

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<sup>2</sup> Often referred to as master data management.

7. Delivery of the strategic work-stream will consist of a number of discrete phases, the first of which is design. Design will collect requirements to enable the identification of technology solutions and business processes that best work together across Inland Revenue's entire range of products and services. The aim of this phase is to produce high-level requirements for the complete programme roadmap and detailed requirements for Stage 1. An experienced service provider to deliver detailed design<sup>3</sup> will be engaged prior to the commencement of Stage 1 to assist Inland Revenue with this work.

8. The strategic work-stream also includes policy work to identify any legislative barriers to customers moving to digital channels. Engagement with businesses, software providers and the tax profession will be a key contributor to the design phase. We will also draw on customer insights developed through the Results 9 and 10 work to help shape the design of the revenue system.

9. Work on the foundational work-stream will include preparing data for migration and integrating legacy and new technology platforms, which are typically complex and time consuming activities. This work is required irrespective of the preferred technology solution. It will begin in parallel with the design phase to ensure that, during transformation, Inland Revenue can continue to collect revenue and disburse the payments people are entitled to.

10. The tactical work-stream will deliver improvements to the functionality of myIR (Inland Revenue's secure online service) to provide a more seamless service to customers. It will also remove the need for customers to file a "nil" GST return, thereby reducing their compliance burden, and deliver new applications for mobile devices. These improvements will support Inland Revenue to deliver its business-as-usual activities.

11. The department is progressing a number of initiatives that contribute to Better Public Service Results 9 and 10. For example, Inland Revenue intends to incorporate the New Zealand business number (NZBN) as part of the design of Stage 1, subject to feasibility, planning and timing considerations and the approval of the NZBN business case by Cabinet. In addition, Inland Revenue is working with the Department of Internal Affairs (DIA) to explore possibilities for adopting RealMe, the government's secure online identity verification service, as part of transformation implementation during Stage 1.

12. The next steps, as part of the current mobilisation phase and to prepare for the design phase, are for Inland Revenue to:

- issue a request for proposal (RFP) by 28 April 2014 to select a service provider to deliver detailed design for the strategic work-stream;
- draft a consultative document on digital services for release [7]
- prepare one or more business cases, for consideration by Cabinet [7]  
to confirm the scope of the:

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<sup>3</sup> Both potential service providers to deliver detailed designs have partnered with New Zealand based firms as part of their proposal.

- design phase, subject to the successful conclusion of negotiations with the selected service provider to deliver detailed design;
- foundational initiatives to be advanced once feasibility assessments have been completed;
- tactical initiatives to be advanced once feasibility assessments have been completed; and
- complete negotiations with the selected service provider to deliver detailed design, leading to a contract for the design phase, [7]

13. An Assurance Management Plan is in place for the programme, consistent with and agreed by the Project and Performance Management Function (PPM) in the Treasury and the DIA (the Government Chief Information Officer - GCIO).

14. A sound programme governance structure has been implemented, including existing and new forums within Inland Revenue (with independent as well as internal membership), regular engagement with central agencies, periodic independent quality assurance (IQA) reviews and Gateway reviews.

## **Background**

15. As New Zealand's principal revenue agency, Inland Revenue collects approximately 80% of core Crown revenue (or approximately \$54 billion) and reaches more New Zealanders than any other agency. Inland Revenue also plays an important role in administering a number of income-related social policy products.

16. The department's four-year plan identifies the following areas of focus:

- advancing business transformation;
- delivering Inland Revenue's core business within a constrained environment; and
- delivering Government policy and priorities.

17. Business transformation will enable Inland Revenue to become a modern revenue organisation that is recognised for service and excellence and:

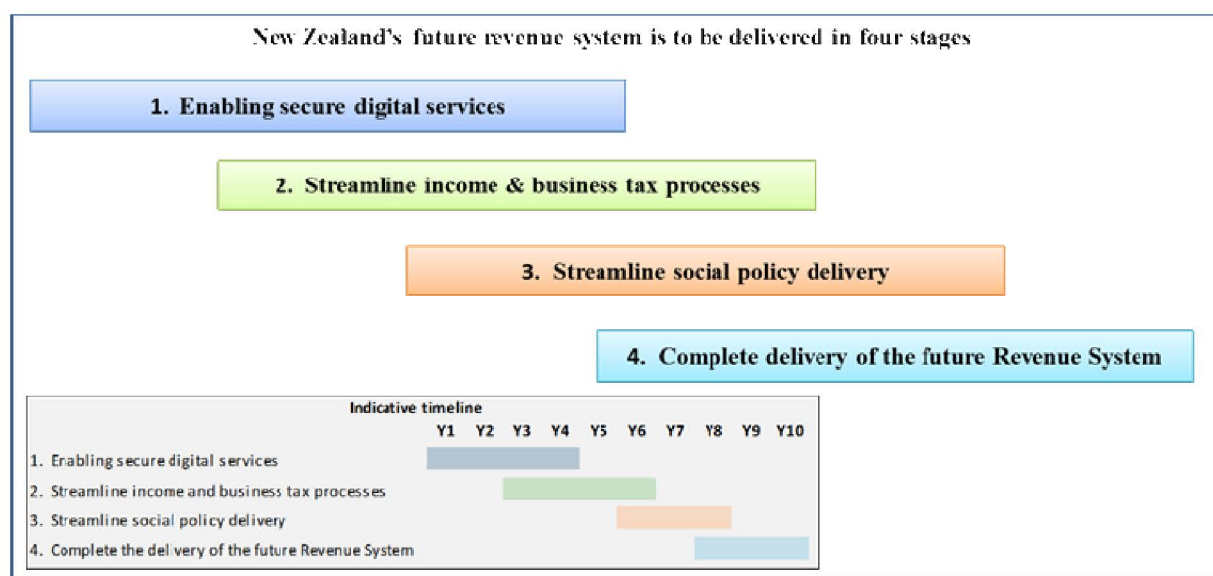
- is agile, effective and efficient;
- enables customers to self-manage with speed and certainty, thereby reducing compliance costs;
- enables the Government to make timely policy changes; and
- works with other agencies to optimise interaction across government.

18. In April 2013, Cabinet agreed the case for change for Inland Revenue's business transformation programme (SEC Min (13) 4/4 and CAB Min (13) 10/4 refer). 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. Ministers also discussed and discounted an option that explored an all-of-government approach to transformation (referred to as Option 3C).

19. *IR for the Future* (referred to as Option 3B) was identified as the department's preferred option in the programme business case. This option focuses on delivery of Inland Revenue's investment objectives while enabling the delivery of broader government objectives by working with other agencies to optimise interactions across government.

20. In September 2013, Cabinet confirmed the programme roadmap, shown in Diagram 1 below, and investment objectives (EGI Min (13) 20/7 and Cab Min (13) 30/6 refer), and directed Inland Revenue to commence development of one or more business cases for Stage 1: *Enabling secure digital services*. Stage 1 will commence [7] once the relevant business case(s) have been approved.

Diagram 1 – Programme roadmap



21. The programme roadmap allows for the programme to be delivered in manageable steps, with frequent investment decisions supported by business cases allowing Government to adjust the pace and scope of the programme according to circumstances.

22. I intend to continue to seek the guidance of the Government ICT Ministerial Group prior to critical decision points, and expect the department to continue to work with central agencies, including the GCIO, to provide appropriate assurance to Ministers. Cabinet's approval will be sought at major milestones, such as the commencement of the build and implementation of products and services.

23. Stage 1 will lay the foundations for future programme stages. It will implement the first stage of improved business processes, data management and organisational capability, together with the first modules of Inland Revenue's modern technology platform. Stage 1 will contribute to Better Public Services Result 9 and Result 10 and to the Government ICT Strategy. Streamlining PAYE and GST and encouraging digital interactions with the department will reduce businesses' compliance burden and drive digital uptake.

24. Organisational capabilities to be delivered as part of Stage 1 will include a single source of data across multiple systems and processes; improved customer management; a

benefits management strategy and realisation plan, and capabilities to realise benefits; and streamlined processes for PAYE and GST.

25. Once Stage 1 is completed, Inland Revenue expects:

- the majority of customers to self-manage and use digital services;
- to have established a digital border (meaning that the majority of work coming into Inland Revenue will be in digital format), which will provide opportunities for two-way interactions between the department's systems and third-party software;
- to have reduced businesses' compliance burden to fulfil their PAYE and GST obligations;
- improved data accuracy and certainty of income tax deductions and social policy entitlements and obligations for individuals, which will have flow-on benefits for other agencies; and
- less processing and fewer customer contacts.

26. Since I last reported to you in September 2013 (EGI(13) 170 refers), Inland Revenue has made good progress preparing itself for transformation including:

- completing the strengthening of governance frameworks;
- acquiring experienced programme and procurement management, including the appointment of a Programme Director with previous experience in large-scale, business-led, technology-enabled business transformation to lead the programme, and procurement management expertise; and
- [7]

27. A sound programme governance structure has been implemented which includes:

- a Sponsors Group to provide visible business support and endorsement for the programme;
- a Programme Steering Committee to provide strategic oversight across the programme; and
- an Investment Board to ensure that Inland Revenue's investment portfolio is aligned to its strategic direction.

28. In addition, the department has made significant headway on the next steps outlined in the September 2013 report back and in completing the current phase of work to bring on board a service provider to deliver detailed design:

- The programme business case has been updated to reflect Cabinet's decisions, and has been confirmed by the Minister of Finance and me.
- Inland Revenue has had a number of discussions with the GCIO in recent weeks about the programme business case. The department has been working closely

and constructively with the GCIO to understand their perspective. The Minister of Finance and I have noted that Inland Revenue and the GCIO intend to resolve all outstanding issues prior to the submission of one or more business cases later this year.

- Engagement with New Zealanders has been advanced through the Transformation Reference Group,<sup>4</sup> the MBIE Small Business Development Group, regular customer focus groups and workshops, and Inland Revenue's on-going relationships with the accounting, tax and payroll professions.
- A simplification panel is being explored to gather, vet and recommend ideas and opportunities for simplification, some of which may be directly relevant to the transformation programme.
- The procurement process for selecting a service provider to deliver detailed design is well underway.
- The first business case(s) to support Stage 1: *Enabling secure digital services* have been scoped and discussed with central agencies; scoping documents for all proposed business case(s) will be completed [7]

29. The department expects to complete preparations for the design phase [7] pending the successful conclusion of negotiations with the selected service provider to deliver detailed design. At that point the department will have:

- agreed the preferred commercial models for delivering the design phase of the programme;
- engaged and contracted a service provider to produce a high-level design for Stages 1 to 4 and a detailed design for Stage 1;
- ensured the organisation is ready to manage and govern ongoing delivery of the programme; and
- scoped a number of tactical and foundational initiatives within the scope of Stage 1.

### **Better Public Services**

30. In line with Cabinet's agreement in principle to a business-led, technology enabled approach to modernising the revenue system, Inland Revenue recognises that it has an important role to play in improving services for New Zealanders. This includes the achievement of Better Public Services, delivery of the Government's ICT strategy and the success of other cross agency initiatives. The department will incorporate its contribution to these into the design and development of the transformation programme where it makes sense to do so.

31. The department is already progressing a number of initiatives that contribute to Better Public Service Results 9 and 10. For example, Inland Revenue intends to incorporate the

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<sup>4</sup> The Transformation Reference Group provides an independent and external voice to assist Inland Revenue to guide the programme. It includes high-profile representatives from business and the community, and operates as a 'sounding board' for ideas and innovation.



NZBN as part of the design of Stage 1, subject to feasibility, planning and timing considerations and the approval of the NZBN business case by Cabinet (CAB Min (13) 30/6 refers). In addition, Inland Revenue is working with DIA to explore possibilities for adopting RealMe as part of transformation implementation during Stage 1.

32. Inland Revenue, working jointly with other agencies, has already delivered a number of enhancements to deliver better service experiences for New Zealanders.

33. To provide New Zealand businesses with a one-stop, online shop (Result 9), Inland Revenue has already:

- enhanced its eGST service. GST returns filed online exceeded paper returns for the first time in October 2013, saving customers time, cost and effort; and
- worked with the Companies Office to provide a new digital service for New Zealand companies. New businesses are now able to register as an employer when they register a company, reducing duplication and enabling start-ups to get on with business faster.

34. Streamlining PAYE and GST is a core deliverable of Stage 1 and will lower compliance costs, by reducing the effort required by businesses to meet their filing and payment obligations.

35. To support New Zealanders completing their transactions with the Government easily in a digital environment (Result 10), Inland Revenue:

- has worked with DIA to enable parents, from July 2013, to register their newborns for an IRD number when they register their birth, making it easier to open a KiwiSaver account for their baby or apply for Working for Families Tax Credits;
- is working collaboratively in service delivery with other agencies in Christchurch, in particular with the Ministry of Social Development (MSD) on co-located premises and social recovery priorities; and with MBIE on business and economic recovery initiatives; and
- is researching new migrants' needs with Immigration New Zealand as the department plans for future secure issuing of IRD numbers at the border via Immigration New Zealand's digital channel.

36. Stage 1 will focus on delivering more secure digital services for customers to make it easier for them to interact with Inland Revenue, and to provide them with confidence that the information they provide to government is secure.

37. As previously advised (EGI(13) 170 refers), in line with Government's ICT Strategy, my default assumption is that common all-of-government ICT capabilities will be adopted by Inland Revenue where they exist. Where they do not, consideration will be given to whether the investment being made in Inland Revenue can be leveraged across government. Inland Revenue officials will continue to work with the GCIO to understand how to best involve them in the design process to achieve these outcomes.

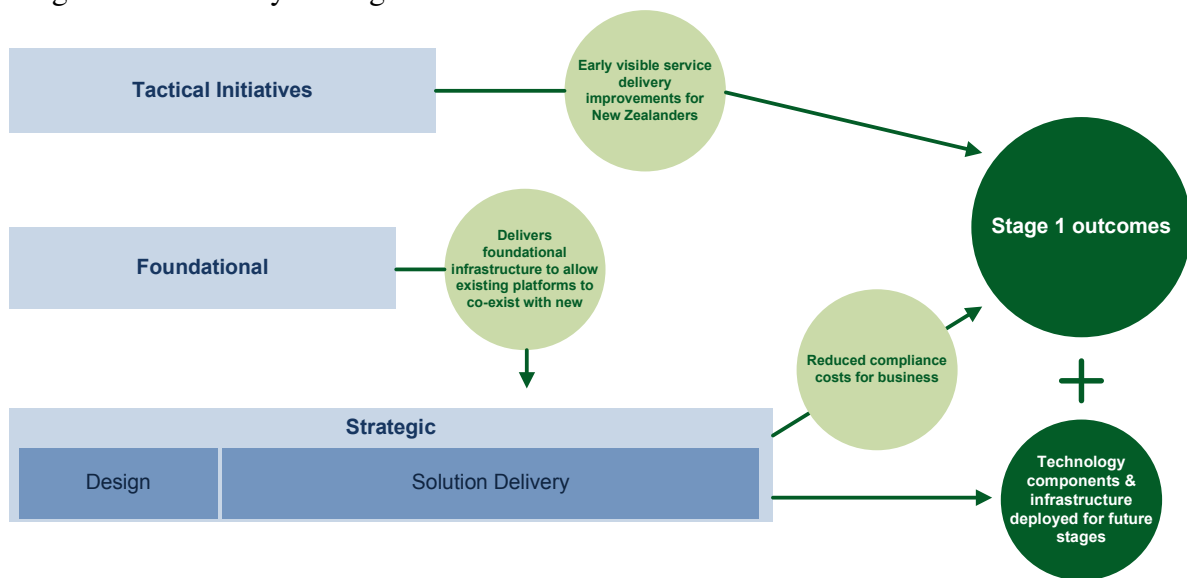
38. The foundational initiatives within the scope of Stage 1 include building the department's business-to-business (B2B) capability. B2B is a gateway that will enable the secure exchange of information between Inland Revenue and third parties, and will support a number of Better Public Services initiatives that rely on the sharing of information.

39. Inland Revenue is also an active participant in Result 9 and 10 governance forums, for example the Deputy Commissioner, Service Delivery represents the department on the Digital Services Council.

### Delivering Stage 1

40. Inland Revenue proposes to deliver Stage 1 in three work-streams as illustrated by Diagram 2 below.

Diagram 2 – Delivery of Stage 1



[7]



*Strategic work-stream*

42. The strategic work-stream will implement new business processes to streamline the PAYE system and improve GST information collection, and deliver supporting capabilities, including a single source of data across multiple systems and processes.

43. It will include the majority of business process and technology changes required to begin to replace FIRST and implement a new fit-for-purpose core tax and social policy technology platform.

44. Implementation of a new technology platform will be a complex and time-consuming process; delivery will consist of a number of phases that will be applied to all four stages of the roadmap as shown in Table 1 below:

Table 1 – Phases of strategic work-stream

<i>Design phase</i>	<i>Solution delivery phase</i>
Develop the revenue system design in enough detail to enable the procurement of technology modules and implementation services.	Procurement of the technology modules, required infrastructure and implementation services required.
Prepare for the solution delivery phase.	Development of the functionality required for each stage.
	Provision of enabling technology, including a single source of data across multiple systems and products, and analytics.
	Go-live of the functionality required for each stage.

45. This approach will enable old and new platforms to co-exist, to ensure that Inland Revenue’s services are maintained during transformation and that implementation risks are effectively managed.

46. The design phase will collect requirements to enable the identification of technology solutions and business processes that best work together across Inland Revenue’s entire range of products and services. The design phase will produce a high-level design for Stages 1 to 4, and a detailed design for Stage 1.

47. The objectives of the design phase for Stage 1 are to:

- develop an overall design for the revenue system in sufficient detail to:
  - enable the selection of an appropriate suite of technology solutions;
  - confirm the delivery approach, including sequencing and migration considerations;
  - identify likely policy and legislative changes; and
  - revise programme costs and benefits.
- engage with stakeholders to ensure that their needs are considered;
- develop a design to improve the collection of PAYE and GST information to enable delivery of Stage 1 outcomes; and

- develop a detailed implementation business case.

48. [7] The department's modelling indicates that the design phase will take approximately and cost [7,8]

49. Officials advise me that this level of effort is consistent with the advice they have received regarding large, technology-enabled change programmes. It is also consistent with one of the recommendations of the Ministerial Inquiry into Novopay – ‘At the inception of major projects, agencies should give consideration to the full range of options for meeting their business needs, including, wherever possible, necessary process simplification and re-design’.

50. In line with my expectations that Inland Revenue engages with New Zealanders to seek their input, there are two planned initiatives on the tax policy work programme to support the design. The purpose of these initiatives is to start engagement to ensure that New Zealanders' needs are fully acknowledged and understood. The initiatives are:

- A tax administration fit for the twenty-first century conference to start the engagement with businesses and individuals on the policy and legislative opportunities that transformation creates to simplify and improve the efficiency of the revenue system; and
- Consultation on Stage 1 of the roadmap to ensure the policy and legislative framework enables the implementation of secure digital services and the streamlining of PAYE and GST information.

51. In addition to this proposed consultation, Inland Revenue will actively consider a number of other opportunities to engage with New Zealanders and New Zealand businesses. As the department expects the first two deployments in the strategic work-stream to involve changes to the collection of information regarding PAYE and GST obligations from employers, there will be a greater focus early in the programme on engaging with employers and employer representative groups. This will enable businesses to help shape the design of the future revenue system, and to be key contributors to Stage 1 in particular.

52. Stakeholder engagement will remain a key and on-going focus for the programme. Diagram 4 on the next page the stakeholders Inland Revenue is engaging with, the objectives of these engagements and the mechanisms already in place or planned.

Diagram 4 – Stakeholder engagement

	Who	Objective	Channels
<b>Stakeholder Engagement</b>	<ul style="list-style-type: none"> <li>Representative groups</li> <li>Customers – both businesses and individuals</li> <li>General public – ‘Mr and Mrs Smith’</li> </ul>	<ul style="list-style-type: none"> <li>Supportive of the programme</li> <li>Understand what will be delivered</li> <li>Receive required information at right time</li> <li>Understand where to get further information.</li> </ul>	<ul style="list-style-type: none"> <li>Tax Policy Conference.</li> <li>NZICA Conference, other NZICA meetings.</li> <li>Transformation Reference Group.</li> <li>MBIE Small Business Development Group.</li> <li>Stakeholder panels.</li> <li>Inland Revenue’s website.</li> <li>Minister-led communications.</li> <li>Inland Revenue communications activity – including the ‘listening to customers’ campaign.</li> <li>Simplification panel.</li> </ul>

53. Inland Revenue is also committed to providing co-design opportunities for businesses as part of Stage 1. Co-design will involve structured sessions to ensure that key contributions are captured and evaluated for inclusion in programme design. Diagram 5 below shows the co-design opportunities the department is currently looking at making available to New Zealand businesses to support Stage 1 of the programme.

Diagram 5 – Co-design opportunities<sup>5</sup>

	Who	Objective	Channels
<b>Co-Design</b>	<ul style="list-style-type: none"> <li>Business software providers</li> <li>Accountants / Tax Intermediaries</li> <li>Banks / financial institutions</li> <li>Government agencies</li> </ul>	<ul style="list-style-type: none"> <li>Provide detailed input into pain points, requirements, design and solutions</li> <li>Understand what the programme will deliver in what timeframes</li> <li>Understand what changes they will have to make</li> <li>Receive required information at right time</li> </ul>	<ul style="list-style-type: none"> <li>NZICA Business Transformation work stream</li> <li>Inland Revenue’s Software Developers Liaison Unit workshop</li> <li>Conference Room Pilots</li> <li>Customer forums</li> <li>Secure engagement website</li> </ul>

54. Inland Revenue’s immediate focus is on defining the mechanisms needed to engage with New Zealanders and New Zealand businesses to help shape Stage 1: Enabling secure digital services. There will be on-going opportunities in later stages for a wider cross section of New Zealanders to participate in the design of their revenue system.

55. A detailed implementation business case for Stage 1 will be prepared prior to the end of the design phase. At this stage, I expect this business case to be submitted by <sup>[7]</sup>

to support a decision to progress solution delivery for Stage 1. It will present options for technology replacement, options for implementation, revised costs and benefits for the programme, and a recommended approach.

56. The programme business case will be updated at the same time to include the confirmed delivery approach, the implementation plan for the programme and the revised costs and benefits.

<sup>5</sup> The high-level objectives of Conference Room Pilots (CRP) are to build a deeper understanding of processes and solutions, including change impacts; prove the viability of transitional solutions and validate deployment assumptions; and identify potential integration or acceptance issues early.

*Procuring a service provider to deliver detailed design for the strategic work-stream*

57. Inland Revenue will be engaging an experienced service provider to assist with the design phase. The department's procurement process, [7] is consistent with Government procurement policy and rules, and ensures that all potential providers are offered a fair and reasonable opportunity to participate.

[7]

58. The market information and expression of interest (EOI) steps have already been completed. [10]

Inland Revenue has shortlisted two firms to participate in competitive dialogue (CD).<sup>7</sup> Both have partnered with New Zealand-based firms as part of their proposal.

59. In January 2014, the department commenced CD to help inform the request for proposal (RFP). At the end of the CD process, Inland Revenue expects to have refined the scope of services to a level of detail that will enable participants to provide a value-for-money offer and price in the RFP. Inland Revenue also expects to have identified potential delivery approaches for the programme.

60. Inland Revenue proposes to release the RFP to the two shortlisted firms on 28 April 2014 to enable the selection of the service provider to deliver detailed design. Officials advise me they expect to conclude contractual negotiations [7]

61. The service provider, once appointed, will:

- validate the current state assessment and transformation approach;
- develop a detailed design for Stage 1 and a high level design for Stages 1 to 4
- estimate the costs of the options to develop and implement the design; and
- assist Inland Revenue to develop the detailed implementation business case for Stage 1, and prepare the organisation for change.

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<sup>6</sup> The minimum capability and experience requirements included previous experience leading and managing the design and implementation of a major transformation costing at least NZ\$100 million for a national tax organisation; and leading and managing a transformation programme for national-level social policy.

<sup>7</sup> Competitive dialogue is only used in exceptional circumstances for 'particularly complex' supply, services and works contracts where it would not be possible to award a contract using the open or other procedures. In particular, it used where the buyer needs the expertise of the market to identify and/or design a feasible fit-for-purpose solution.

62. Following the selection of a service provider to deliver detailed design, but before the execution of any contract, Inland Revenue will report to Cabinet to confirm the scope and funding to fully complete the design phase and develop a detailed implementation business case for Stage 1.

63. Inland Revenue officials advise me that the department will also be going to market for a range of other services at the appropriate times over the coming months, to support the initiatives in the foundational and tactical work-streams.

*Foundational work-stream*

64. This work-stream will deliver infrastructure [7] that will support transformation. This will include rationalising existing technology applications, providing infrastructure for sharing of data in a common format in readiness for major technology change, and improving the digital interface between customers and other agencies by implementing a single B2B gateway for all Inland Revenue interfaces. This gateway will also be used to meet requirements arising from the United States' Foreign Account Tax Compliance Act (FATCA).

65. To reduce implementation risk and allow for the timely delivery of the programme, some foundational work needs to commence in parallel with the design phase. This will ensure that existing technology platforms can co-exist with new platforms over the life of the programme, and will also involve preparing customer data for migration.

66. This work is being advanced because data migration and integrating legacy and new technology platforms are typically complex and time consuming pieces of work that can be commenced immediately. This work is required irrespective of the preferred technology solution selected. Inland Revenue is exploring the feasibility of implementing:

- a gateway to enable third-party software packages to interact with the department's systems;
- an integration layer that will enable existing and new technology solutions to co-exist during transformation;
- an applications consolidation roadmap to consolidate applications down to the fewest necessary to simplify the landscape in preparation for transformation; and
- protection of Inland Revenue's systems to keep customers' and government information safe in a digital environment.

[7]

68. These investments will provide improvements to Inland Revenue's technology environment regardless of transformation.

69. In addition to the technology integration work, Inland Revenue is considering the preparation of customer data for migration. This is consistent with one of the themes



identified in the SSC's latest review of the lessons learned from Gateway reviews,<sup>8</sup> the theme of "Transition into Service". This theme captures the lessons learned from the planning and establishment activities required for successful handover to business-as-usual. One of the findings was that "data migration is always more complex than expected – start planning early".

#### *Tactical work-stream*

70. This work-stream will deliver incremental improvements to customers [7] including improved web services and new applications for mobile devices. These initiatives are consistent with Better Public Services Results 9 and 10.

71. These improvements meets Ministers' expectations of graduated steps in the early period of transformation. Inland Revenue will improve delivery of its services and encourage digital interactions with customers where appropriate. These improvements will assist Inland Revenue to deliver its business-as-usual activities. They include:

- improvements to myIR functionality;
- new applications for mobile devices; and
- encouraging customers to use digital services.

[7,8]

#### **Benefits management**

[7,8,10]

75. Inland Revenue will have a significant focus on benefits management and realisation to ensure that the value from the investment being made in the revenue system is realised. The department will:

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<sup>8</sup> Gateway Review, Lessons Learned Report, December 2013 – published 12 February 2014

<sup>9</sup> Option 3B – *IR for the Future*; Programme Business Case – Business Transformation – 22 October 2013

<sup>10</sup> Programme Business Case – Business Transformation - 22 October 2013

- ensure benefits are identified early, defined clearly and linked to agreed outcomes and investment objectives;
- align benefits with individual work packages and identify roles and responsibilities for achieving benefits as part of effectively managing work packages;
- undertake the level of benefits analysis needed to effectively inform each stage of the Better Business Case process;
- drive the process of realising benefits, including benefit measurement, tracking and recording as they are realised; and
- communicate expected benefits to all programme stakeholders.

76. The department is currently developing a benefits management strategy that will:

- define how benefits will be quantified and measured;
- define the links between benefits, work packages and outputs and how these will be mapped and monitored; and
- detail the processes and controls required to ensure benefits are not double-counted.

77. A programme benefits realisation plan will also be developed by Inland Revenue. This plan will provide a complete view of all the benefits, their dependencies and the expected realisation timescales. This plan will be integrated into the Programme Business Case.

### **Next steps**

78. The next steps, as part of the current mobilisation phase and to prepare for the design phase, are for Inland Revenue to:

- issue an RFP by 28 April 2014 to select a service provider to deliver detailed design for the strategic work-stream;
- draft a consultative document on digital services for release <sup>[7]</sup>
- prepare one or more business cases for consideration by Cabinet <sup>[7]</sup>
  - to confirm the scope of the:
    - design phase, subject to the successful conclusion of negotiations with the selected service provider to deliver detailed design;
    - foundational initiatives to be advanced once feasibility assessments have been completed;
    - tactical initiatives to be advanced once feasibility assessments have been completed; and
- complete negotiations with the selected service provider to deliver detailed design, leading to a contract for the design phase, <sup>[7]</sup>

## **Assurance**

79. In line with government governance processes, and in conjunction with the State Services Commission (SSC), the Treasury and the DIA (GCIO), KPMG has been appointed as the IQA provider for the programme.

80. KPMG has recently completed a baseline review of the programme. Its key findings were that Inland Revenue has established a sound programme governance structure and effective programme management processes, and has implemented practices that align with the New Zealand Public Sector Guidelines for Managing and Monitoring Major Projects. The review concluded that the programme is being well managed, using a methodology which has been tailored specifically to the transformational needs of the programme. Strong sponsorship and appropriate governance are also evident given the current stage of programme establishment. The output from KPMG's Programme Control Strengths tool demonstrates strength of management across most areas.

81. An Assurance Management Plan is in place for the programme, consistent with and agreed by the Project and Performance Management Function (PPM) in the Treasury and the DIA (GCIO).

82. A Gateway review (Gate 0) was undertaken on the programme in December 2012. All key recommendations from the review have been actioned. Inland Revenue expects the next review to be undertaken by 30 September 2014. The timing and level of the review will be agreed with the Treasury.

## **Financial implications**

[7,8,10]

[7,8,10]

85. [7]

86. The department expects to contribute significant internal funding towards the transformation. Given that the transformation will result in changes to Inland Revenue systems, it is appropriate that the department allocates the relevant portion of its available capital reserves, which were set aside for replacement of existing assets, towards the transformation. The department therefore proposes to self-fund the capital component associated with the foundational and tactical work-streams commencing in 2014/15

[7]

87. Inland Revenue is managing significant fiscal pressures out of its existing baseline, so is unable to make a contribution to the transformation programme's operating funding in the first stage of the programme. The department's ability to contribute operating funding to the transformation programme will be regularly reviewed.

*Decisions required in Budget 2014*

88. Through Budget 2014, Inland Revenue is seeking new operating funding

[7]

89. The indicative breakdown of the costs [7]  
are provided in Table 3 on the next page.

Table 3 – Indicative cost break-down by work-stream

<i>Budget 2014 submission- indicative breakdown by work- stream (\$ million)</i>	<i>2014/15</i>		<i>2015/16</i>		<i>Total</i>	
	<i>Capital</i>	<i>Operating</i>	<i>Capital</i>	<i>Operating</i>	<i>Capital</i>	<i>Operating</i>
<i>Costs</i>						
Mobilisation completion	-	19.5	-	-	-	19.5

[7]

90. Inland Revenue requires \$19.5 million of operating funding to complete the mobilisation work to prepare for the design phase as well as to complete feasibility work for tactical and foundational initiatives. The department will seek to have this funding appropriated outright in Budget 2014, to enable the mobilisation work to proceed uninterrupted in the first half of 2014/15.

91. Furthermore, as part of Budget 2014, the department will seek a tagged contingency for operating funding [7] to complete the design phase as well as deliver foundational initiatives and tactical improvements [7]

The drawdown for the contingency will be subject to the approval of one or more appropriate business cases.

92. Costs for the strategic design phase have been modelled using the programme business case cost information. These costs have been verified by comparison with costs for a similar programme’s design phase. Costs for the tactical and foundational initiatives are based on Inland Revenue’s initial estimates.

93. It is prudent for the transformation programme to be able to manage its resources, including budgets, at an aggregate level. This would allow for stream-specific financial pressures to be mitigated through the reassignment of efficiencies from other streams. Appropriate report-back mechanisms, including business cases, will provide oversight to ensure that funding is applied appropriately.

## **Human rights implications**

94. The proposals in this paper have no human rights implications.

## **Legislative implications**

95. Changes to legislation may be needed to support modernisation of the revenue system. Any proposed legislative changes would be reported to Cabinet for consideration.

96. As part of each stage, officials will review the current legislative and policy framework and settings to ensure that they are fit for purpose and support business transformation simplification opportunities, using government's Generic Tax Policy Process (GTTP).

## **Regulatory impact analysis**

97. The proposals in this paper do not require a Regulatory Impact Statement.

## **Publicity**

98. On 3 October 2013 expression of interest (EOI) documentation was posted on the Government Electronic Tenders Service (GETS) to ensure the EOI was open to all service provider to deliver detailed designs. This was supported by advertisements in international publications and presentations in September made by me, the Commissioner of Inland Revenue and the Deputy Commissioner, Change in Auckland and Wellington. The period for receiving expressions of interest ran from 3 October 2013 until 13 November 2013.

## **Consultation**

99. Inland Revenue has consulted with central agencies, including GCIO, during the development of this paper and their comments are included below. You will note that GCIO have made a number of comments pertaining to the level of detail contained in the department's programme business case. [8]

As the Minister of Finance and I have recently noted, my department and the GCIO have agreed a series of steps to resolve outstanding issues prior to the submission of one or more business cases [7]

## ***Central agencies' comment (Treasury, State Services Commission and Department of Prime Minister and Cabinet)***

100. Treasury and SSC support Inland Revenue proceeding towards Stage One of their Business Transformation, including the release of a request for proposal (RFP) in April.

101. Since Cabinet decisions were taken in September, Inland Revenue has: improved programme governance; filled a number of key roles (including Programme Director); developed a set of metrics and targets to measure progress against the investment objectives; and updated the programme business case. KPMG recently completed a high-level IQA

across the programme. They concluded that programme management and governance is generally adequate, but highlighted a number of areas for improvement.

102. We are aware that GCIO still has a few residual concerns about the programme business case. However, we also understand that there is an agreed process to resolve these concerns before Inland Revenue seeks Cabinet's approval to draw-down funding for Stage One design. Process will be in place to ensure that spending on tactical and foundational initiatives are dependent on approval of the necessary Business Cases.

103. Treasury and SSC are supportive of Inland Revenue's request for new funding for Business Transformation through Budget 2014. Treasury has been briefed on the models and assumptions used [7] and consider them credible. The approach proposed by Inland Revenue, with foundational and tactical initiatives being worked on in parallel with the strategic design, appears sensible. This allows for some quick-wins early on, as well as implementing core capabilities that will be required by any choice of technology solution. The cost estimates provided appear appropriate at this stage, and we are assured that the upcoming business cases to support both tactical and foundational initiatives as well as the scope of design, will provide more specific detail and a further opportunity for additional scrutiny.

104. Inland Revenue has indicated a high level of certainty around the \$19.5 million sought for appropriation through Budget 2014, as this funding is to finish the negotiation with potential design partners, and to test the feasibility of tactical and foundational initiatives. This amount has increased by \$6.5 million after taking account of decision making delays attributed to the upcoming election in September. While it is important to maintain the core transformation programme team, it is unclear how much of the work funded from the additional \$6.5 million has merely been brought forward from later in the programme.

105. We will continue to work closely with Inland Revenue as they continue negotiations to bring on-board a design partner, and work towards the next set of business cases. In particular, we will be paying close attention to the wording of the RFP to ensure that all relevant aspects of the "Government ICT Strategy and Action Plan to 2017" are taken into account. Monitoring agencies are keen to see viable, well articulated and realistic off ramp requirements and that benefits delivery is fully understood by the prospective vendors.

***Government Chief Information Officer's comment***

106. GCIO still has a number of concerns about the programme business case, specifically relating to improving the clarity of:

- on/off ramps;
- costs/benefits;
- the capabilities delivered in each tranche;
- the programme level risk view; the ability to leverage Strategic option 3b, where we expect to see alignment, consumption and contribution to All of Government strategy;

- the organisational risk profile; and
- resource profiling.

107. We are working with IR to address these issues. [8]

108. [8]

GCIO supports the establishment of a tagged contingency approach, subject to business cases, as requested in the paper. We agree that it is appropriate for these Business Cases be considered by Cabinet and that the report-back should address costs, benefits and off-ramps, as well as scope. We recommend that the Programme Business Case be updated prior to the [7] submission of these cases in order to clarify the specific investment decision points, the benefits to be delivered as a result of each, and reconfirmed. We are working with IR to understand the overall business case architecture, and ensure it is fit for purpose for a programme of this scale and duration.

109. We also support IR's commitment to contribute to delivery of Government's ICT strategy, and use existing common capabilities. However, we would like to see this approach made more specific. We note that use of RealMe and IaaS have been mandated by Cabinet, so expect to see these capabilities used by IR.

110. In respect of system level assurance, we are working to confirm an agreed assurance approach that will give Ministers confidence over the life of the programme.



## Recommendations

111. I recommend that the Committee:

### *Background*

1. **Note** that in April 2013, Cabinet agreed the case for change for Inland Revenue's business transformation programme (SEC Min (13) 4/4 and CAB Min (13) 10/4 refer). 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;
2. **Note** that 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 Inland Revenue to commence development of one or more business cases for Stage 1: *Enabling secure digital services*;
3. **Note** that Inland Revenue's focus areas over the next four years are its transformation change agenda, delivering and improving its core business, and Government policy and priorities;
4. **Note** that Inland Revenue proposes to deliver Stage 1: *Enabling secure digital services* in three work-streams of initiatives – strategic, foundational and tactical;

### *Fiscal implications*

5. **Note** that, subject to recommendation 18, a tagged contingency, with draw-down subject to one or more business cases, [7]  
is being requested through the Budget 2014 submission for Vote Revenue to allow Inland Revenue to complete the overall design of the changes to the revenue system required to achieve *IR for the Future*, advance work to integrate legacy and new technology platforms, and to deliver early improvements;
6. **Note** that a further \$19.5 million in 2014/15 is being requested through the Budget 2014 submission for Vote Revenue to enable Inland Revenue to complete the current phase of work to bring on board a service provider to deliver detailed design and to progress a number of tactical and foundational initiatives;
7. **Note** that Inland Revenue is forecasting capital expenditure of [7]  
to advance work to integrate legacy and new technology platforms, and to deliver early improvements;

8. **Note** that the forecast capital expenditure will be met from existing Inland Revenue balance sheet reserves, and that no new appropriation will be required to cover the associated depreciation and capital charge;
9. **Note** that no new appropriations will be required for the capital spending, depreciation and capital charge, these amounts will be included in the request for financial delegation;
10. **Note** that as part of the Budget 2014 submission for Vote Revenue, the department will seek authority to incur expenditure on the transformation [7]
11. [7]
12. **Note** that Inland Revenue will manage its resources, including budgets, at an aggregate level to allow for stream-specific financial pressures to be mitigated through the reassignment of efficiencies from other streams;

***Further work***

13. **Note** that Inland Revenue has shortlisted two firms to provide design services for the strategic work-stream and that both have partnered with New Zealand-based firms;
14. **Note** that Inland Revenue proposes to release a Request for Proposal for design services to the two shortlisted firms on 28 April 2014;
15. **Note** that Inland Revenue will also issue Requests for Proposals at the appropriate time for foundational and tactical initiatives associated with Stage 1 of the programme;
16. **Note** that work is being advanced in the foundational work-stream to ensure that existing and new technology platforms can co-exist and to prepare customer data for migration;
17. **Note** that Inland Revenue will implement a series of tactical initiatives to improve myIR functionality, develop new applications for mobile devices and encourage digital interactions with customers where appropriate;
18. **Direct** Inland Revenue to prepare one or more business cases for consideration by Cabinet [7] to confirm the scope of:
  - i. design, subject to the successful conclusion of negotiations with the selected service provider to deliver detailed design;

- ii. foundational initiatives to be advanced, once assessments have been completed;
  - iii. tactical initiatives to be advanced, once assessments have been completed;
19. **Authorise** the Minister of Finance and Minister of Revenue to approve the issuing of all RFPs for foundational and tactical initiatives associated with Stage 1 of the programme;
  20. **Note** that a detailed implementation business case for Stage 1, presenting options for technology replacement, implementation options and revised costs and benefits for the programme, will be submitted [7]
  21. **Note** that I intend to continue to seek the guidance of the Government ICT Ministerial Group prior to critical decision points.

**Hon Todd McClay**  
Minister of Revenue

/ /2014

[7]