The Treasury

Budget 2016 Information Release

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Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
[4]	to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial	6(c)
[11]	to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.	6(e)(vi)
[23]	to protect the privacy of natural persons, including deceased people	9(2)(a)
[25]	to protect the commercial position of the person who supplied the information or who is the subject of the information	9(2)(b)(ii)
[26]	to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied	9(2)(ba)(i)
[27]	to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest	9(2)(ba)(ii)
29]	to avoid prejudice to the substantial economic interests of New Zealand	9(2)(d)
[31]	to maintain the current constitutional conventions protecting collective and individual ministerial responsibility	9(2)(f)(ii)
[33]	to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials	9(2)(f)(iv)
[34]	to maintain the effective conduct of public affairs through the free and frank expression of opinions	9(2)(g)(i)
[36]	to maintain legal professional privilege	9(2)(h)
[37]	to enable the Crown to carry out commercial activities without disadvantages or prejudice	9(2)(i)
[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
[39]	to prevent the disclosure of official information for improper gain or improper advantage	9(2)(k)
[s18(c)(i)]	that the making available of the information requested would be contrary to the provisions of a specified enactment	
[40]	Not in scope	

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Reference: T2015/2688 SH-13-5-5

Date: 17 November 2015

To: Minister of Finance (Hon Bill English)

Cc: Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: 8:30am 18 November
(if any)

Aide Memoire: SEC Briefing for Business Transformation

This note briefs you on *Implementing New Zealand's Future Revenue System* ahead of its consideration at SEC on Wednesday 18 November.

Purpose

1. *Implementing New Zealand's Future Revenue System* seeks Ministers' approval to proceed with the implementation stages of Inland Revenue's Business Transformation. This entails replacement of Inland Revenue's legacy system and re-engineering of its business processes, such that the organisation will be substantially different upon the programme's completion in 2023/24.

Comment

2. The paper seeks $1,380 million in Crown funding ($1,026 million in operating and $354 million capital) between 2015/16 and 2023/24. Of this $145 million ($111 million operating and $34 million capital) will be held in tagged contingencies to be drawn down by Joint Ministers. The paper proposes that the total funding requested be a pre-commitment against the Budget 2016 operating and capital allowances. Treasury supports this approach.

3. Although the paper seeks $1,380 million in Crown funding, the total cost of the programme is $2,610 million. Inland Revenue (IR) expects to meet the remaining $1,230 million of the programme's total cost from existing baselines. A large portion of IR's financial contribution to the programme stems from re-investing administrative savings through reducing its workforce by approximately 1,500 FTEs from its workforce. If IR does not accomplish this, it may require significantly more Crown funding to complete the programme. Similarly, if IR is unable to retire FIRST, it will also incur significant ongoing costs, reduced benefits, and will maintain high levels of operational risk.

4. If the proposal is agreed, it will be extremely costly and risky to stop short of completing the transition from, and retirement of, its legacy system. However, IR's ability to implement policy changes will be significantly reduced during the transition from its legacy system to the new core software platform as well. IR would likely require additional funding for any such changes, due to the scale of its contribution to the programme's costs. We recommend changes are kept to a minimum over the period of transition.

5. The monetised benefits to the Crown consist of increased revenue and the aforementioned administrative savings, together totalling $3,000 million - $6,000 million between 2015/16 and 2023/24. Treasury considers that these estimates are at the optimistic end of projections, and notes that optimism over costs and benefits in ICT projects across the public sector is commonplace. That said, the non-monetised benefits, consisting of reduced operational risk and reduced cost and time to implement policy changes, are considered to be of greater significance than the financial benefits.

6. Following the paper's submission, officials identified some issues with the financial recommendations. These are technical in nature and do not alter the fundamental intent of the paper; however, it is important for audit purposes that they are remedied. IR and Treasury will work to ensure the issues are remedied prior to Cabinet's consideration of the paper. Updated recommendations will be tabled by the Minister for Revenue at Cabinet on 23 November and you will be provided a copy of these recommendations.

7. The costs and benefits are presented throughout the paper in 'real' terms, i.e., they do not include increases in cost over time due to inflation, in order to enable comparisons between options in the programme business case. The implication of this is that the appropriation impacts are different to the numbers throughout the paper as the appropriation numbers must reflect the actual cost of the programme.

8. The table below outlines the total fiscal impact of the programme on the operating balance and debt; these impacts will be charged against the Budget 2016 operating and capital allowances. Note, that the bracketed numbers for the impact on the operating balance reflect a positive impact (saving) not a negative impact.

	$m – increase/(decrease)								
	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24 & Outyears**
Total operating	44.000	195.000	226.000	190.000	156.000	70.000	64.000	45.000	36.000
Total increase in revenue	-	-	-	90.000	190.000	290.000	540.000	750.000	1,020.000
Total impact on operating balance	**44.000**	**195.000**	**226.000**	**100.000**	**(34.000)**	**(220.000)**	**(476.000)**	**(705.000)**	**(984.000)**
Total impact on capital allowance	**-**	**54.000**	**102.000**	**90.000**	**87.000**	**21.000**	**-**	**-**	**-**

Treasury Recommendation

9. We recommend that you **support** the recommendations in this paper, and **note** that IR and Treasury are working to remedy technical issues ahead of the paper's consideration at Cabinet on 23 November.

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