Inland Revenue
Te Tari Taake

Business Transformation

Commercial Off-the-Shelf Software
Sourcing Strategy

Document control

File Name and Path	M:\Business Transformation\Programme Office\04 Standards\Programme Templates\Communication and Presentations\Programme Report Template May 2014.docx
Contact Person	
Status	FINAL
Template Version	0.05
BT UiD	10825

Document Review History

No	Date	Change Description	Contact
V0.1 – v0.10	26/9/14	Draft completed and reviewed and submitted to PGA for feedback	
V0.11	17/10/14	PGA feedback incorporated, and draft submitted to BT PMO for quality check	

Document Sign Off (Notes: refer to the PEP for the RASCI)

Formal Review Area	Name	Signature	Date
Accountable Person			
Responsible Person			
The following have supported the development of this document:			
The following have been consulted:			

COTS Sourcing Strategy Summary – Approvals
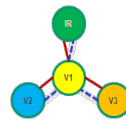
Sourcing Strategy Drivers
► Procurement Objectives

Scope of Requirements
► A primary provider of Commercial Off The Shelf software and associated services for the duration of the programme

Delivery Model
► Service Aggregator delivery model for Design Phase

Commercial Approach
➢ The assessment and recommended approach for contracting with the COTS provider

Procurement Process
► The recommended procurement approach and high level timeline
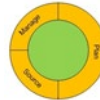
Contract Management
► The established contract management controls

Appendices
► Market Analysis
► Commercial Model Analysis

Sourcing Strategy
The strategy is combines a number of sections which together form a complete strategy to sourcing, selecting, contracting and managing a COTS provider for delivery of the Business Transformation objectives.

Scope of Requirements
Approved by PGA on 21.8.2014
Delivery Model
Approved by PGA on 21.8.2014
Commercial Approach
Approved by PGA on 22.10.2014
Procurement Process
Approved by PGA on 21.8.2014
Contract Management
Noted by PGA on 22.10.2014

Some key icons are used throughout this document, they mean;

✔ **Recommend**

▬ IR should **consider**

✖ **Not recommended** at this stage

CHANGE CONTROL

Ver.	Changes made by:	Comments	Released
0.4		First version released to GCIO for input	11.08.14
0.5		Updates to table of contents and slide 2, 15,16,18,23.	
		Scope of Requirements, Delivery Model Procurement Process submitted to PGA for approval in order to craft the EOI for COTS Software Provider selection.	21.08.14
0.6		Feedback from GCIO as the ICT Functional Lead.	22.08.14
0.7		Updates made to consistency and market analysis based upon IR education visits.	01.09.14
0.8		Feedback from MBIE as Procurement Functional Lead.	02.09.14
0.9		Feedback from Programme Director	08.09.14
0.10		Commercial Approach and Contract Management submitted to PGA for approved and noting respectively	24.09.14
0.11		Revisions following EWC	30.09.14

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Purpose and Contents

The purpose of this document is to outline the Sourcing Strategy for the next major procurement for the Business Transformation programme, Commercial Off The Shelf (COTS), application suite of software and associated services.

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Introduction

1. IR have made significant advancements in understanding of commercial-off-the-shelf (COTS) solution(s) that exist in the market since the Sourcing Strategy v3.8 was built in February 2013;
2. IR has conducted a 12 week competitive dialogue process with two service providers.
3. IR has informed itself by targeting leading* COTS suppliers of tax and social policy application suite of software and visiting their global research and development facilities;
4. Much of the uncertainty that existed in the first market sounding has now matured to a point we IR have clarity;
5. On 7th October 2014, after an exhaustive 12 month supplier selection process IR selected XX to be a primary Service Provider for design services to the Business Transformation Programme;
6. Lessons learnt were derived from the trip undertaken by DC Change and the Chief Technology Officer to other tax jurisdictions;
7. Expression of Interest (EOI) reference checks for the EOI for Business Transformation Services;
8. Request for Proposal (RFP) for Business Transformation Services reference visits have been completed with public and private sector organisations who have successfully implemented significant business transformation;
9. Movement of Foundation and Tactical projects into the scope of Business Transformation – creating a multi supplier environment;
10. IR now has the ability to support additional delivery models such as Service Aggregation through the Resources which have been attained with industry experience in complex transformation projects (Programme Director) and multi-supplier management (2x Commercial Directors);
11. A primary function of the design scope is to select a COTS software provider to assist the Business Transformation service Provider with the detailed design;
12. Once the COTS supplier has been selected the three organisations are expected to operate in unison to assist IR to deliver IR for the Future.

Source: Gartner Critical Capabilities for Integrated Tax System COTS Products, December 2010.

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Sourcing Strategy – Decision Tree

Sourcing Strategy Drivers	INPUTS	– CONSIDERATIONS -		OUTPUTS

Sourcing Strategy Drivers

	INPUTS	– CONSIDERATIONS -		OUTPUTS
Programme Objectives Government Drivers Programme Business Case Market Analysis	Quality Outcome Value For Money Supplier Relationship	Speed to Contract Programme plan COTS Strategy	Market Engagement Open and Transparent	Approve the Procurement Objectives

Scope of Requirements

Programme Objectives Government Drivers COTs Strategy Programme Business Case	Design and Imp Services	Software Licences	Support and Maintenance	Approve high level scope and minimum thresholds

Delivery Model

BT Service Provider Delivery Model Programme Execution Plan Programme Charter	Model Options	Model Analysis	Recommend	Approve Delivery Model

Commercial Approach

Programme Commercial Strategy Commercial Governance model	Relationship Deliverables	Performance Mgmt. Pricing	Contract Period Sanctions/Incentive	Approve key elements of the commercial approach

Procurement Plan

Government Rules of Sourcing IR Procurement Policy	Options Analysis	Impacts	Recommend	Approve procurement approach and high level plan

Contract Management

Contractual Agreement Programme Execution Plan Governance models	Governance	Management	Delivery	Note the approach to contract management

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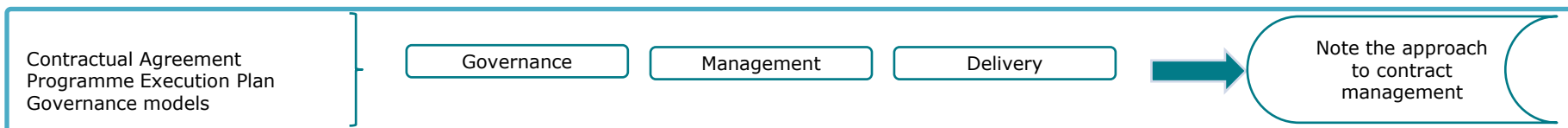
Sourcing Strategy Drivers

In developing the Sourcing Strategy for the COTS application suite of software, the following principles have been incorporated

Inputs to the Sourcing Strategy - In developing the sourcing strategy for the COTS application suite of software, the following principles have been incorporated

Driving Principles – Procurement

The Sourcing Strategy and Procurement Plan are consistent with the guiding Principles of NZ Government Procurement. NZ Government Procurement is based on principles, rules and good practice guidance. Collectively, these provide a broad framework that supports accountability for spending, sound business practice and value for money.

1. Plan and manage for great results
2. Be fair to all suppliers
3. Get the right supplier
4. Get the best deal for everyone
5. Play by the rules

Driving Principles – ICT Strategy and Action Plan to 2017

Directions for Government ICT
1. Provide clear leadership and direction
2. Support open and transparent Government
3. Improve integrated service delivery
4. Strengthen cross-government business capability
5. Improve operational ICT management

- Support end-to-end business processes rather than stopping at agency boundaries
- Use transparent and contestable sourcing models
- Adopt 'as-a-service' models and only invest in assets that support unique agency functions
- Assemble and integrate solutions rather than build bespoke solutions
- Use ICT common capabilities and re-use existing functionality
- Use open standards and industry-standard platforms.

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BT Alignment to ICT Strategy and Action Plan to 2017

ICT Direction	IR Consideration	Pros	Cons
Support end-to-end business processes rather than stopping at agency boundaries	IR active works with other agencies across product lines such as student loans and child support (Ministries of Social Development and Education)	• Closer working relationships across business processes allow for greater collaboration and optimisation which drive a better experience for the customer.	• Different agencies can have different drivers which may not align to those of IR and its Business Transformation programme
Use transparent and contestable sourcing models	• IR approved sourcing process is a multi-step process covering an Expression of Interest and using a predefined evaluation process to shortlist down to those participants who will be invited to the RFP stage. • This approach aligns to the Government Rules of Sourcing.	• Complies with Government Rules of Sourcing and various acts	• IR must disclose a reasonable amount of sensitive information for any supplier who wants to participate in a sourcing process to be able determine their own suitability to meet the requirements.
Adopt 'as-a-service' models and only invest in assets that support unique agency functions	• Inland Revenue's core tax and social policy requirements are unique compared with other agencies. • The ease of which information can be shared with other agencies will need to be evaluated	• Software-a-as-Service (SaaS) will be tested as part of the EOI process. • SaaS will be an option considered as part of the pricing evaluation of RFP.	• It's not clear from IR's current analysis of the market that any of the leading COTS providers sell their product(s) via SaaS. • IR have had no detailed exposure to the AOG Software Acquisition Strategy so that detailed requirements can be produced.
Assemble and integrate solutions rather than build bespoke solutions	For each implementation reference identified the supplier will be asked to confirm that the final solution will meet the following (example) criteria: • **At least ~85%** of the installed functionality must have been delivered via standard features, with minimum and/or moderate amounts of configuration. • **At least ~95%** of the installed functionality must have been delivered via standard features, with minimum and/or moderate amounts of configuration, and with minimum and/or moderate amounts of customisation, where such customisation is non-intrusive, ie, will be fully compatible with upgrades. • **No more than ~5%** of installed functionality must have been delivered via non-standard or complex customisation, and/or product enhancements. Application suite of software must be able to be configured to integrate with other applications suites of software	• The definition used in the Consideration will help IR to determine the level of integration required. • This definition will have the most relevance at the RFP stage when the detailed requirements can be provided to participants and responses assessed.	• The level of business change impact may be higher with an "off the shelf" solution. Although this will vary depending on the level of fit of the COTS solution to IR requirements and NZ tax requirements.
Use ICT common capabilities and re-use existing functionality	Common capabilities must be fit for purpose	• IR will assess common capabilities • Inland Revenue will be authoritative source of information on income	• IR will not break a fully integrated application to take up common capabilities.
Use open standards and industry-standard platforms.	The ease of which information can be shared with other agencies will need to be evaluated	• IR has a varied technology infrastructure which is capable of support most industry standards	

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Background

The Design Phase plan assumes the following sequence of events for the Design Phase of the programme :

- That a Design partner would be selected for the Design Phase, ie, following the Competitive Dialogue phase completed in April, 2014, and the RFP phase scheduled for completion by October, 2014.

- That the Design Phase would incorporate three phases, as follows :

  - ➢ **D1:** The development of a High Level Design for Stages 1, 2, 3 and 4, suitable for the selection of the COTS Core Solution Application Suite of Software.

  - ➢ **COTS Selection :** The selection of the COTS Core Solution Application Suite of Software, ie, via a structured multi-stage EOI then RFP process.

  - ➢ **D2:** The completion of the High Level Design for Stages 2, 3 and 4, and a Detailed Design for Stage 1, based on the selected COTS Core Solution Application Suite of Software. It is planned that the provider of the COTS Core Solution Application Suite of Software would participate in this phase of the Design process.
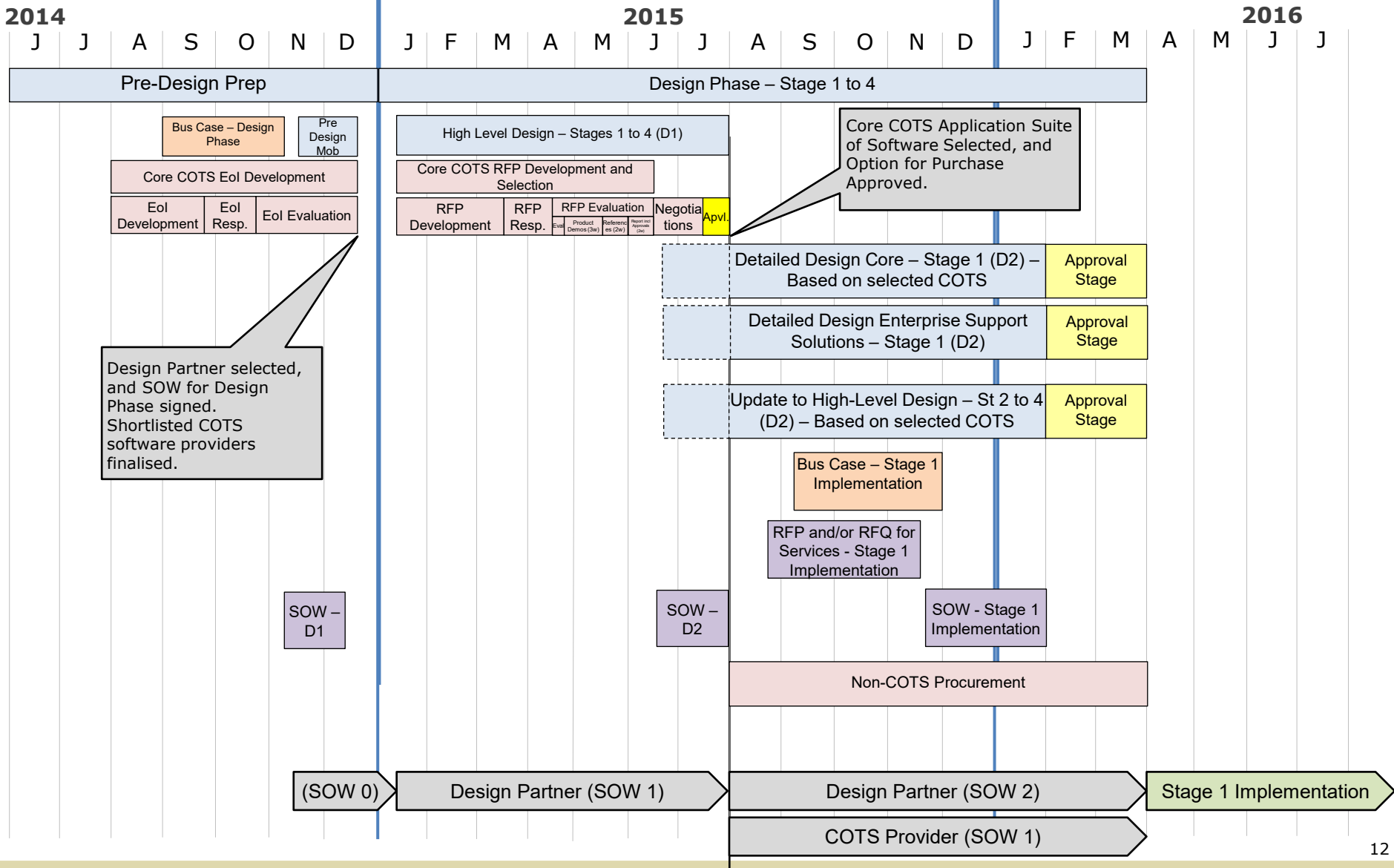
This plan summarises the plan for activities that are required to prepare for the selection of the COTS supplier for the core Tax and Social Policy components of the Programme, as well as the high level plan for the Design Phase.

It is anticipated that the time line for the D2 component of the Design process will require re-planning once the COTS supplier(s) have been selected.

Any non-core COTS gaps in functionality will be identified during the selection process and additional procurements will be established to select any additional technology to support business functions.

A separate procurement has already been established to establish an integration (data arbitration) layer between the legacy environment and new COTS worlds. This procurement for Foundation activity is being covered by the **foundation work stream** which **is outside the scope of this strategy**.

Design Phase High Level Plan

2014						2015												2016				

2014 J J A S O N D | **2015** J F M A M J J A S O N D | **2016** J F M A M J J

Pre-Design Prep	Design Phase – Stage 1 to 4

Bus Case – Design Phase

Pre Design Mob

Core COTS EoI Development

EoI Development	EoI Resp.	EoI Evaluation

High Level Design – Stages 1 to 4 (D1)

Core COTS RFP Development and Selection

RFP Development	RFP Resp.	RFP Evaluation				Negotiations	Apvl.
		Eval	Product Demos (3w)	References (2w)	Report incl Approvals (2w)		

Core COTS Application Suite of Software Selected, and Option for Purchase Approved.

Design Partner selected, and SOW for Design Phase signed. Shortlisted COTS software providers finalised.

Detailed Design Core – Stage 1 (D2) – Based on selected COTS	Approval Stage

Detailed Design Enterprise Support Solutions – Stage 1 (D2)	Approval Stage

Update to High-Level Design – St 2 to 4 (D2) – Based on selected COTS	Approval Stage

Bus Case – Stage 1 Implementation

RFP and/or RFQ for Services - Stage 1 Implementation

SOW – D1		SOW – D2	SOW - Stage 1 Implementation

Non-COTS Procurement

(SOW 0)	Design Partner (SOW 1)	Design Partner (SOW 2)	Stage 1 Implementation

		COTS Provider (SOW 1)	

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Scope of Requirements

The scope of requirements describe what IR will go to market for.

Scope of EOI and RFP Requirements

In approaching the market for Inland Revenue's Application suite of Software, the scope for the COTS providers will potentially cover a range of requirements over the life of the programme

Design Services Implementation Services

- Proven capability in developing (and commit to providing all required services) a High Level and Detailed design for an end-to-end solution incorporating core tax and social policy modules, based on a pre-configured set of routines that can be used to run Conference Room Pilots and Prototyping sessions.

- Proven capability of designing, configuring, and deploying an end-to-end solution incorporating all core tax and social policy modules, either via their own professional services resources, or via preferred implementation partner(s).

Software Licences

- The Supplier must provide the application suite of software on a fully licensed basis, ie, which will allow IR a perpetual right to use all software detailed.

- The COTS Supplier licensing arrangement must allow an option for purchase/and or licensing to be agreed, with an option to draw down licenses as required at the time of usage, and for payment to be structures accordingly, ie, payment for licenses and/or support will be aligned to when they are used in production.

Support Services Maintenance

- Product support must be provided with acceptable Service Level Agreements for resolving defects.

- A capability must be provided for Application Management Support.

Reference Site Requirements - EOI

- Participants will be asked to provide one or more client reference sites and a list of customer reference sites:

  - the purpose of the client reference site/s is to substantiate the Participant's response to the EOI key requirements

  - the purpose of the customer reference site list is for IR information, and should include sites where the COTS solution may not have been implemented fully for a variety of reasons

- The customer reference site list is expected to capture customers from 2000 onwards. This is to ensure that IR has enough information for an informed view of the Participant's history, while at the same time limiting the history to a relatively modern view.

Minimum Pre-Qualification Questions for Consideration

A number of approaches were considered for the sourcing of the COTS application suite of software and the minimum threshold that are set in order to ensure a quality of supplier based upon IR's Market Analysis that is most likely to meet IR's requirements.

Threshold	Description	Pros	Cons
Software Supplier rather than reseller ✔	Proprietary ownership of the COTS software solution(s): Confirm (Yes/No) that your organisation owns the development lifecycle process for the COTS solution and holds the proprietary rights to the source code of those solutions referred to in other pre-qualification questions.	• Confirms that the participant manufacturers COTS software • Limited amount of possible responses (~20) rather than unlimited.	• Will remove Solution Integrators from responding to EOI (but not from supporting a response).
COTS Scope – Collections (Taxes and Duties) ✔	COTS Scope – Collections (Taxes, Levies and Duties) Confirm (Yes/No) that your proposed COTS solution has been implemented to deliver a Core tax solution in a minimum of one client site references in the past ten years. This includes functionality such as: -Individual income tax (including related taxes such as PAYE, PAYG, fringe benefits and withholding tax); -Business income tax (including related taxes such as withholding tax); -Consumption tax (GST/VAT) or equivalent; -Duties (for example casino duty and lottery duty); -Levies (for example problem gambling levy); or -Asset taxes (for example Land tax). This should include supporting functions such as customer management (CRM), case management (including debt management, investigations/audit and litigation management), multi-channel (web, mobile and contact centre), and analytics (for example in process risk management and fraud detection). The following attributes must be met for each implementation: ☐the number of tax types in use must be at least 15; ☐the number of active individual and/or business customers must be at least 1 million; and ☐the overall annual tax revenue collected must be the equivalent of at least NZ$15 billion per annum. Each implementation client site included in your response must be willing to act as a reference.	• Thresholds determines who **has** implemented a COTS application suite of software and therefore has the expertise and experience to do it again, rather than organisations which would describe **how** they would propose to implement a COTS application suite of software. • Resellers are discouraged from applying and would not be progressed to RFP phase. • Thresholds have been set to roughly 25% of IRD current state as per of the 2013 annual report. • This will help ensure that the COTS application suite of software can demonstrate the ability to support reasonable volume and complexity, without unduly limiting the range of providers who might respond.	• Perception may be that this criteria would shut out potential hopefuls • Broad spectrum of requirements, possibility that this criteria would remove every contender. • Would close out resellers from responding.

Minimum Pre-Qualification Questions for Consideration

A number of approaches were considered for the sourcing of the COTS application suite of software and the minimum threshold that are set in order to ensure a quality of supplier based upon IR's Market Analysis that is most likely to meet IR's requirements.

Threshold	Description	Pros	Cons
COTS Scope – Social Disbursements	Confirm (Yes/No) that your application suite of software proposed has been has implemented to deliver a Disbursements solution in a minimum of 2 client sites in the past 10 years. This includes functionality such as: -Working for families (family and work related benefits); -Paid parental leave; -Child support (facilitated payment) and; -Unemployment benefit This should include supporting functions such as customer management (CRM), case management (such as debt management, investigations/audit and litigation management), , multi-channel (web, mobile, call centre etc.), and analytics (eg, in process risk management, fraud detection etc.). The following attributes must be met for each implementation: • number of active individual customers must be at least 100,000; • Overall disbursements through the software must be the equivalent of at least NZ$200m per annum. Each implementation client site included in your response must be willing to act as a reference.	• Thresholds determines who **has** implemented a COTS application suite of software and therefore has the expertise and experience to do it again, rather than organisations which would describe **how** they would propose to implement a COTS application suite of software. • May be more useful to evaluate this a part of the EOI requirements section rather than as a prequalification question	• Perception may be that this criteria would shut out organisations who were light on proven delivery of disbursements • Broad spectrum of requirements, possibility that this criteria would remove every contender.
COTS participants rather than Solution Integrators	Participants must confirm whether they meet the minimum capability and experience pre-conditions listed below. The Participants are required to "confirm" that they meet : A. Own the software; and B. Have a tax solution;	• This variable threshold confirm to IR that the participant is a manufacturer of software rather than an SI and they have substance to their capabilities.	• In depth Fit gap analysis will need to be undertaken as part of the EOI response will confirm what further solutions are required from the market in order to provide the end to end experience for the customer.
Integration	The COTS service provider must have integrated all of the "core" modules into a fully integrated end-to-end solution within the past 10 years. Core modules must cover collect, assessments, disbursements, compliance, customer management.	• Thresholds determines who **has** implemented a COTS application suite of software and therefore has the expertise and experience to do it again, rather than organisations which would describe **how** they would propose to implement a COTS application suite of software.	• Perception may be that this criteria would shut out potential hopefuls • Broad spectrum of requirements, possibility that this criteria would remove every contender.

Minimum Pre-Qualification Questions

A number of approaches were considered for the sourcing of the COTS application suite of software and the minimum threshold that are set in order to ensure a quality of supplier based upon IR's Market Analysis that is most likely to meet IR's requirements.

Threshold	Description	Pros	Cons
COTS Scope – Savings and Loans ▬	COTS Scope – Savings and Loans Confirm (Yes/No) that your application suite of software proposed has been implemented to deliver a savings, loans, and/or facilitated payments solutions in a minimum of 2 client sites in the past 10 years. This includes: - Superannuation facilitated payment, (Kiwisaver); - Unemployment Insurance; - Student Loans or similar; and - Savings such as environmental restoration account. This should include supporting functions such as customer management (CRM), case management (such as debt management, investigations/audit and litigation management), , channel (web, mobile, call centre etc.), and analytics (eg, in process risk management, fraud detection etc.). The following attributes must be met for each implementation: ▪ number of Savings, loans and/or facilitated payment products must be at least 5; ▪ number of active individual customers must be at least 500,000 ; ▪ overall value of loans under management must be the equivalent of at least NZ$7b per annum. ▪ overall value of savings under management must be the equivalent of at least NZ$500m per annum. Each implementation client site included in your response must be willing to act as a reference.	• Thresholds determines who **has** implemented a COTS application suite of software and therefore has the expertise and experience to do it again, rather than organisations which would describe **how** they would propose to implement a COTS application suite of software. • May be more useful to evaluate this a part of the EOI requirements section rather than as a prequalification question	• Perception may be that this criteria would shut out potential hopefuls • Broad spectrum of requirements, possibility that this criteria would remove every contender.
Transactions ✖	Implementation references must meet minimum volume criteria, ie, as follows : • number of core tax and social services products must be at least 50, • number of return types must be at least 80, • number of customer accounts must be at least 4m, • number of internal users must be at least 3,500. • revenue collected must be at least NZ$20b p.a.,	• Aligns with New Zealand's taxation and social policy population and level of complexity. • Thresholds determines who **has** implemented a CTOS application suite of software with same complexity as New Zealand and therefore has the expertise and experience to do it again, rather than organisations which would describe **how** they would propose to implement a COTS application suite of software.	• Perception is that this criteria would shut out potential hopefuls looking to grow from an IR implementation. • Risk from not having this threshold is that IR is inundated with software providers expending time, effort and energy for limited ability to meet the detailed requirements in the RFP. • **Thresholds are likely to be too high for most participants.**

Errors and omissions excepted

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Minimum Pre-Qualification Questions for Consideration

Threshold	Description	Pros	Cons
Configurability	For each implementation reference client site identified, the service provider must confirm that the final solution matched the following criteria: At least 85% of the installed functionality must have been delivered via standard features, with minimum and/or moderate amounts of configuration; At least 95% of the installed functionality must have been delivered via standard features, with minimum and/or moderate amounts of configuration, and with minimum and/or moderate amounts of customisation, where such customisation is non-intrusive, ie, will be fully compatible with upgrades; and No more than 5% of installed functionality must have been delivered via non-standard or complex customisation, and/or product enhancements. The application suite of software must be able to be configured to integrate with other applications suites of software.	• Targets an application suite of software that align to the principles of COTS. • Threshold would remove application builders from being able to bid. • **Consider** for use in the RFP as more information can be made available to participants.	• In the event that IR internal business process is 'unchangeable' then this limit might be arbitrary and this wont be known until IR are well into the deployment of the software. On that basis it may not be fair to have this at the EOI stage. • The level of information required for a potential supplier to inform themselves is extremely high • Installed functionally would need to be defined and referenced. • Difficult for IR or the Participant to assess at the EOI stage without a detailed explanation of requirements.

Maximum Participants	The top scoring (as evaluated by the evaluation panel), maximum 4*, respondents would be taken through to the RFP stage.
	
	*Four makes allowances for market shift since 2010 when Garter market research was completed which identified three 'Excellent' COTS providers.
		• Limited and known amount of participants resulting from the EOI which provides predictability on IR and Service Provider resource to support the RFP phase.
		• Sets a threshold for participants who have a limited likelihood of success for them to decide their odds of success and allows them to bid accordingly.
		• MBIE supported the approach to set this type of threshold at the Central Agencies meeting in May 2014.
		• IRD own market education and research supported by Gartner (summarised in Appendix) suggests that there are three COTS providers that scored an Excellent in
		  • Taxpayer Filing
		  • Tax Assessment
		  • Delinquent Collection
		  • Revenue Administration
		  • Product Viability
		• According to Gartner in 2010 there were at least three providers who would be able to demonstrate capability to meet IRs requirements.
			• Market perception of shutting out potential niche providers

Minimum Pre-Qualification Questions for Consideration

Threshold	Description	Pros	Cons
Social Policy Capability ✓	COTS Scope – Social Policy Capability Confirm (YES/NO) that; (a) your organisation's proposed COTS solution has the capability to be configured to deliver the social policy related functionality detailed below, and (b) (b) that you are able to demonstrate this functionality. Regarding both of these elements the social policy functionality includes, but is not limited to, the following: collection and/or disbursement of funds; complex multi-party relationships; facilitated payments; and income related benefits to enable Inland Revenue to deliver the social policy services described in section 6.1 (Inland Revenue at a glance). In a New Zealand context, social policy products include: Family and work related benefits (Working for families); Paid parental leave; Child support (facilitated payment); Superannuation facilitated payment (Kiwisaver); Student Loans (or similar); or Savings such as environmental restoration account.	• Set a threshold that represents a high proportion of IRD effort (as high as 50% of the workload). • Allows participants to only 'demonstrate functionality' rather than have it site references. This mitigates the low likelihood that a participant has a solution to match New Zealand exact legislation.	• No other tax and revenue authority has the same type of social policy disbursements as New Zealand and therefore the likelihood of someone having a solution to meet our requirements may be limited.

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Minimum Threshold definitions

- A "**Fully Integrated Solution**" will mean that all data and business processes that will be required will reside within one system, and be accessible by all modules within the system, without the need to develop any specific integration custom code to convert or interface such data and/or business processes.

- "**COTS**" will mean a "Commercially Off The Shelf" Application Suite of Software, that will contain all of the essential software for the specified functions, and which will allow key functionality to be enabled and/or suppressed via configuration, with flexibility to augment such configuration via routines that can be customised as "add-ons". All configurations and customisations must be non-intrusive, ie, will be fully compatible with system version upgrades.

- "**Pre-Configured**" will mean that solutions within the COTS Application Suite of Software will be pre-configured and/or have customised routines, supported by the required master and transactional data, to allow the majority of the proposed business processes to be demonstrated via a fully functional demonstration system. The pre-configured scenarios will be based on industry best practice.

- "**Core**" are software packages that automate parts or all the transactional processes that a government revenue agency typically handles:
  - Party relationship management: This includes multichannel interaction management, correspondence management, contact management, marketing and education;
  - Revenue and disbursement management: This includes taxpayer identification, return intake, return processing, taxpayer accounting, billing and collection, and revenue accounting;
  - Case management (incl. Analytics): This includes both generic case management capabilities, such as creating, updating, cancelling, holding, reactivating, approving, closing and auditing cases, as well as specific types of cases, such as collection, audit, delinquency and bankruptcy.

- "**Configuration**" is undertaken by changing dip-switch settings, interface settings, jumper settings, hardware drivers, software options, etc.. Configuration determines what the system will do and how its parts will interact.

- "**Customisation**" is undertaken using changes to programming code that changes the nature of how the components of the solution interact. This may include core code modifications, specifically defined "coding exits", interfaces, custom reports etc.

- A "**facilitated payment**" is a payment received from a 3rd party, and passed on to an unrelated 3rd party. Inland Revenue acts as the facilitator of this payment. It is essentially a combination of a collection and a disbursement managed by Inland Revenue.

Configuration versus Customisation

- The percentage of customisation in an application should be measured by the costs of the customisation compared to the other costs of owning the application.

- Customisation costs during the initial implementation are only a fraction of the overall cost of customisation. Once customisation has been started, it becomes addictive and more customisation will follow. The downstream impact is on supportability and cost to upgrade which can become prohibitive.

  - First, it is necessary to recognise that most COTS applications require a range of configuration techniques, many of which cannot be characterised as "customisation."
  - Secondly, it is necessary to recognise that for certain classes of application — especially large, mission-critical systems — some degree of real customisation is likely to be necessary (see "Manage ERP customisations, Don't Avoid Them").
  - In order to understand how much time and effort the customisation will represent, the starting point is to have a simple mechanism for measuring the fit of an application.
  - During application selection, project teams should establish the likely initial costs for customisation and then show the impact of those initial costs in all subsequent years.

The COTS fit-gap analysis, which will be completed as part of the evaluation will achieve the following:

- Ensure that the requirements are correct, unambiguous, complete, consistent , ranked for importance, testable and traceable;

- Determine all gaps between the capabilities provided by the COTS components and our requirements as detailed in the RTM. The resulting COTS Fit-Gap Analysis document must identify requirements that:
  - Exist in the COTS with no change required
  - Exist in the COTS but require configuration
  - Need to be added to the COTS product/ Need to be removed from the COTS product
  - Need changes in our business process

- Identify in the COTS Fit-Gap Analysis how each validated requirement will be achieved by the COTS solution (ie, through configuration, customisation, or business process change);

- Integration with the Foundation work stream for integration in to the data arbitration layer with the legacy applications.
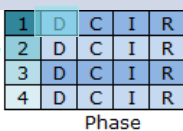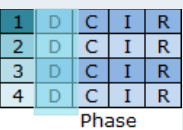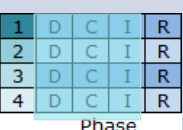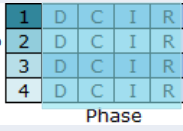
Source: Gartner 2014

Fit-gap Assessment Guidelines

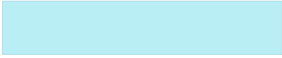| Fit to Business Requirements	Level of Effort – Configuration	Level of Effort - Customisation
1 = Good (High) fit to stated business requirements	1 = Exist in the COTS with no change required	A = No customisation required
2 = Moderate (Medium) fit to stated requirements	2 = Exist in the COTS but requires moderate configuration	B = Exist in the COTS but requires Simple customisation such a simple codes changes, interface development, forms, reports etc.
3 = Poor (Low) fit to stated business requirements	3 = Exist in the COTS but requires complex configuration and/or specialist skills	C = Exists in the COTS but requires moderate customisation such a moderate codes changes, interface development, forms, reports etc.
		D = Exists in the COTS but requires high customisation including complex codes changes, interface development, forms, reports etc.
		E = Poor fit and as a result the functionality needs to be added to or removed from the COTS Product
		F = Core code modification required, third party solution required or change Business Requirement/Policy

Sourcing Approach– Possible Options

A number of approaches were considered for the sourcing of the COTS application suite of software together with associated services

D esign
C onfigure
I mplement
R un

Scope	Description	Pros	Cons
1:	Stage1 Design ► Procurement of COTS supplier(s) for detailed design of stage 1 ► Separate process for engagement of suppliers at each stage	► Ability to select the best supplier to fit the requirements at each stage of the programme ► IR management of each stage of the BT Programme ► Fits into Government's procurement and funding model ► Possibility to engage large number of suppliers	► Engaging a separate supplier in the configure phase is likely to result in significant rework ► Going to market at end of each phase creates breaks in programme momentum and increases the timeline ► Significant costs incurred by suppliers to participate in several different procurement processes
2:	Design Phase of all Stages ► Engagement of COTS supplier(s) for the design phase of the entire BT Programme (stages 1,2 and 3) ► The Design stage is where the architecture of the systems is developed to define the systems' components, how they interface, and their behaviours	► Ability to source the best supplier for design only ► A single supplier has oversight of the whole system and delivers a consistent design across all stages ► IR has control over the management of each stage of the programme	► Engaging a separate supplier at configure phase is likely to result in significant rework and duplication of effort ► Programme timeframe spans several years with significant gaps between stages ► Due to the timeline of the programme and changes in scope as part of the BT Programme lifecycle agreeing appropriate risks and incentives with supplier is difficult
3:	COTS Provider for the Duration of the Programme ► Procuring a long term strategic COTS partner, responsible for delivering stage 1 Design, high-level design of all other stages, and the build and implementation of all stages ► The contract may include the Run Phase, though can be separate from the above bundle	► A single supplier has oversight of the whole system and delivers a consistent design across all stages ► Retains the option to contract for each stage ► Supplier knowledge is maintained over the duration of the BT Programme lifecycle	► Engaging a separate supplier in at configuration phase for stages 2 and 3 is likely to result in significant rework ► Project timeframe spans several years with significant gaps between phases ► Due to the project timeline and changes in scope agreeing appropriate risks and incentives with suppliers is difficult
4:	End-to-End Transformation ► A single COTS partner is engaged from the Design to the Run Phase of the entire BT Programme ► All four stages included in scope of engagement ► Relationship with the partner will span many years	► Supplier knowledge is maintained over the course of the programme ► Ensures steady project momentum between phases ► Reduced total project timeframe ► Less specific requirements driving increased market competition	► High reliance on a single key supplier ► The timeframe and magnitude of the project limit the ability to effectively contract suppliers for the entire transformation ► Not aligned with Government's current project procurement funding model

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Sourcing Scope of Requirements – Preferred Option 3

A provider of Commercial Off-The-Shelf Software and associated services for the duration of the programme

	Strategic Partner must be able to 'do' this work
(yellow)	Strategic Partner must be able to 'do' this work
(light blue)	Strategic Partner must be able to lead this work
(orange line)	A strategic partner would participate in a service aggregation model across the whole of the programme.
(red line)	A strategic partner would initially be contracted for the detailed design phase of Stage 1.

Stage	Phase			
1	D	C	I	R
2	D	C	I	R
3	D	C	I	R
4	D	C	I	R

✔

Procuring a COTS Provider who is accountable for undertaking the detailed design phase of all stages and for the oversight of the configuration and implement stages (which may be sub-contracted).

- This option is the engagement of a supplier(s) to support the end to end detailed design phases (Solution and Process) of the entire Future Transformation. This supplier provides end-to-end thought leadership over technology change and will support the business change and Business Transformation Services Provider.
- The delivery of both the detailed design and build/implement bundles may be completed by different suppliers – which can be managed through the Service Aggregation model.

Under this scope, the COTS Provider would be required to provide the following supplier requirements:
- How the supplier will undertake the programme
- How the supplier would integrate high-level design delivery across, potentially, multiple detailed design and implementation partners
- Evidence of working in a multi-supplier eco-system
- Information about the supplier (scale, complexity, experience, expertise)
- Evidence of relevant programme life-cycle phase experience

Under this scope, IR would be expected to inform respondents on the following:
- What systems and what functionality is required in each stage and the linkages between them
- How each system is expected to be operated within IR
- Current and expected end state after stage 1
- What systems are included in stage 1
- Required functionality of each system in stage

D	esign
C	onfigure
I	mplement
R	un

Delivery Model

A delivery model defines the relationship between the programme, it's a supplier(s) and any sub-contractors. The programme delivery model can have significant impacts on the overall cost and quality of the programme. This section outlines a range of delivery models available to IR and how the recommended option will effect the programme.

Delivery Model – A range of delivery model options are available to IR

Below is a range of common delivery models used in customer-supplier relationships, a description of each option as well as the pros and cons are listed below.

	Description	Pros	Cons
Prime	• Prime holds the commercial relationship with the sub-contractors • One or two supplier(s) engaged to deliver the outcome • May use multiple third parties to deliver	• Build 'best-of-breed' with each supplier playing to their strengths • Can leverage established partnerships both reducing cost and mobilisation time • Broad market input	• Higher cost due to Prime passing through a management margin and risk contingency • IR may have less control over sub-contractor selection • Dependency on the Prime integrator for technology stack and subject to their preferences and capabilities • Innovation is one step removed. • Intellectual Property tie-in makes it difficult and costly to adapt to other models. • **Doesn't fully eliminate risk**
Consortium	• Each party can have a contract with IR • Multiple parties engaged to deliver design and implementation in collaboration • Requirement to present a consolidated management layer with collective responsibility	• Build 'best-of-breed' with each supplier playing to their strengths • Can form quickly in the market in the right conditions • Can give more direct control over the top-to-bottom supplier mix in the eco-system	• Difficult to manage lines of responsibility • Can take time to form in the market if the market is not already primed • Consortium parties can have conflicting objectives • A bidder who would be preferred if they were independent may rule themselves out as part of an unsuccessful consortium • **Doesn't fully eliminate risk**
Service Aggregation	• Multiple suppliers engaged to various parts of the overall solution • Each party has a separate contract with IR	• IR maintains direct control of Risk and accountability over each aspect of a deliverable • Competitive tension remains as any one of the supplier(s) in the model already has knowledge of IR's requirements and can pick up if another supplier falters • Mitigate commercial and delivery risk through the flexibility of two or more suppliers with specialist skills.	• Complex management environment • Require significant IR resources to manage • Has failed before in Government (ref: GSN) • **Doesn't fully eliminate risk**
Selective Sourcing	• Multiple parties engaged to deliver design and implementation • Each party has a contract with IR	• Allows direct control over all participants in the eco-system	• Multiple contracts to manage • Multiple parties to be managed and co-ordinated towards a single outcome • Requires significant IR resources to manage • **Doesn't fully eliminate risk**
Single Source	• One supplier is engaged to deliver design and implementation without the use of third parties	• Single point of responsibility • Possible to develop a close partnership	• Limited selection of suppliers capable of supplying these services in the NZ market • **Doesn't fully eliminate risk**
In-House	• IR completes the end-to-end Tranche 1 activities themselves	• Tailored solution designed by the organisation, for the organisation	• Huge resource requirement • Skills and capability gap in both management

Delivery Model – Potential Delivery models

Management Direction — Contractual Control

Prime

Key IR Capability Requirements

Supplier management of large scale commercial contract
Commitment to a strategic partnership

Consider/Recommend?

Consider – Perceived single point of control in reality risk and contingency embedded in price. IR will ultimately be accountable for success of failure and this isn't able to be delegated away.

Selective Sourcing

Key IR Capability Requirements

Supplier management of multiple commercial contracts
Overall system integration done by IR

Consider/Recommend?

No – Supplier and system integration management is considerable, would require a large IR management team. Breaches rules of Sourcing

Consortium

Key IR Capability Requirements

Supplier management of complex multisource commercial environment, multiple large scale contracts

Consider/Recommend?

No – Review the failing of the consortium model when used by HMRC. Although the COTS providers may require an SI to implement their product

Single Source

Key IR Capability Requirements

Extensive evaluation criteria to evaluate a capable partner

Consider/Recommend?

No – Given the scale and scope of the programme, there is unlikely to be a vertically integrated supplier capable of delivering it

Service Aggregator

Key IR Capability Requirements

Management of multiple contracts in a complex environment
Arbitration in supplier disputes

Consider/Recommend?

Recommend – Would help engage the market, however unpopular with many suppliers due to blurred lines of responsibility and control

In-House

Key IR Capability Requirements

Design, Build, Implement, management skills required, which would need to be resourced by IR

Consider/Recommend?

No – Resource requirement is beyond what could conceivably be built given the market and timescale constraints

Errors and omissions excepted

Delivery Model for Design Phase – the Service Aggregation model (Risks)

Through an assessment of the potential supplier models the Service Aggregation model was identified as the best fit for IR's BT Programme. This is a non-exhaustive list of some of the higher priority risks in comparison with the Service Aggregation Model (recommend) and with the Prime Model (consider):

Risk	Treatment under Service Aggregation	Treatment under Prime
IR doesn't have suitable resources to manage multiple suppliers	• Recruit highly experienced commercial managers which have managed long term complex supplier agreements. • Vacancies for the management of the agreements of the Services Provider and the selection COTS supplier have been recruited.	• Recruit highly experienced commercial managers which have managed long term complex supplier agreements. • Vacancies for the management of the agreements of the Services Provider and the selection COTS supplier have been recruited.
Suppliers will not work collaboratively with each other and seek to constantly undermine each other in order to get a greater share of spend to the determent of delivery.	• Suppliers participating in the Service Aggregation model have operational level (non-legal, non binding) agreements (OLAs) with each other in place to establish demarcation points • Joint governance model in place with all suppliers participating and therefore share success and failures. • Assess the cultural fit of any potential organisation to work within a service aggregation model	Prime manages all suppliers within their scope
Supplier suppresses innovation and promotes and approach that aligns to their sales agenda	The service aggregation model has inherent competitive tension built in therefore if this were to occur another member of the model could replace the problematic supplier.	NO TREATMENT
Government tried Service Aggregation with the Government Shared Network and failed, what has changed	• IR is not reliant on selling a product(s) to other agencies to realise the benefits of the programme, therefore the two approaches are vastly different ie,: unsuccessful suppliers will not be incentivised to undercut the model. • IR will aggregate the services itself rather than outsourcing this function.	
Government tried Prime model with Novapay and INCIS and failed, what has changed.		Distribute the risk by utilising a service aggregation model across a few but substantial suppliers

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Role of the Solutions Integrator (Services Provider)

IR will require the core tax and social policy COTS solution to integrate with legacy and non-ore COTS applications as part of the end to end business transformation.

Under IR's proposed service aggregation model the role of the Solution Integrator (SI) will be required to ensure end-to-end integration of a multi solution. The SI will be required to warrant the solution that they have accountability for integrating. To enable this accountability the SI will have a lead role in the selection of the COTS provider(s).

Having the same SI performing the services from the commencement of the programme can mitigate some of the grey area that will exist between business processes and the underlying technology that enable business continuity.

Design Approach

The High Level and Detailed Designs to be produced during the Design Phase would be jointly produced by IR, the Services Partner, and the COTS supplier, with responsibilities as follows :
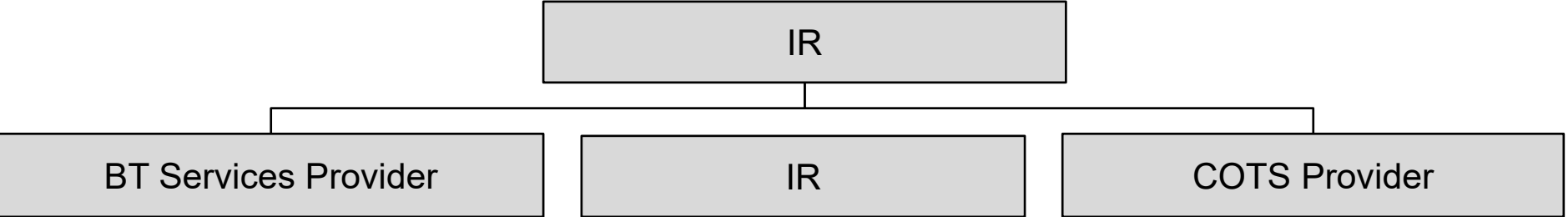
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                              ┌─────────────────┐
                              │       IR        │
                              └─────────────────┘
        ┌──────────────────────────┼──────────────────────────┐
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│ BT Services Provider │ │        IR         │ │   COTS Provider    │
└───────────────────┘   └───────────────────┘   └───────────────────┘
```

Provision of End to End Integration Advisory Services to ensure that all elements of the Design are integrated, fit for purpose, and aligned with the Business Strategy.

BT Services Provider

Scope :
- Working Relationships.
- Project management of all Design Partner services that are in-scope.
- High Level Design for Enterprise Support Solutions for Stages 2, 3 and 4.
- Detailed Design of Systems Integration elements.
- Detailed Design of all changes to and/or new Enterprise Support systems for Stage 1.
- Detailed Design of all business partner co-designs for the External Integration system.
- Assistance with Organisational Change Management.
- Assistance with benefits estimation.
- Provision of End to End Integration Advisory Services to ensure that all elements of the Design are integrated, fit for purpose, and aligned with the Business Strategy.
- Specification of all non-Core application software required for Stage 1.
- Support for COTS provider as required.

IR

Scope :
- Working Relationships.
- Overall Governance.
- Programme Management.
- Project management of all IR services that are in-scope.
- Feasibility and Funding Requests.
- Current State Definition.
- Ratification of Future State Designs.
- Benefits Realisation.
- Organisational Change Management.
- Stakeholder Management & Communications.
- Organisational Design.
- Policy Simplification and Alignment.
- Data Preparation.
- Process Mapping.
- Coordination of co-design activities.
- All procurement activities.

Errors and omissions excepted

COTS Provider

Scope :
- Working Relationships.
- Project management of all COTS Provider services that are in-scope.
- Detailed Design of all Core solutions required for Stage 1.
- High Level Design of all Core solutions for Stages 2, 3 and 4, based on the selected COTS Core package.
- Inter-module integration within the Core COTS package, and integration with the Enterprise Integration layer.
- Detailed Design of all associated CRM and embedded analytics and metrics and reporting solutions.
- Detailed Design of all customer facing digital solutions for the Core system for Stage 1.
- Detailed Design of all business partner co-designs for the Core system.
- Assistance with benefits estimation.
- Support for the Design Partner as required.

Delivery Model for Design Phase – the Service Aggregation model and what it means for IR
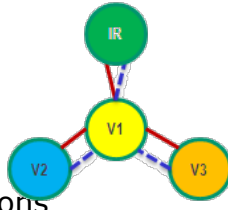
Through an assessment of the potential supplier models the Service Aggregation model was identified as the best fit for IR's BT Programme. The significant advantages, the opportunities this presents for IR and the actions IR will be required to undertake have been listed below:

Advantage	Opportunity for IR	Requirements for IR
• Direct commercial risk on successful delivery to IR is concentrated with a small number of suppliers • All suppliers in the model have consistent terms and conditions.	• IR has simpler contractual and commercial control over the delivery of services and can focus on effectively managing the risk of successful delivery	• Need to ensure that sub-contracts are structured (ie, back-to-back, pro-forma) only where appropriate • Consider information disclosure requirement for effective subcontracting

• IR using sub-contractors allows us to:
  • Bring in key specialist or international resources
  • Diversify delivery risk through the engagement of niche suppliers
  • Leverage economies of scale when engaging third parties
  • Use established partnerships which have been successful in the past
	• More than just "task outsourcing", sub-contractors can add value by:
	  • Leveraging subject matter expertise at the right point in the transformation
	  • Utilising suppliers and resources who have domain or functional knowledge
	  • Utilising existing commercial relationships
	  • Accelerating through cultural and organisational challenges
		• Need to ensure the areas where the supplier and sub-contractors add value are understood:
		  • Clear expectations on capability, visibility over sub-contractor engagement and competent supplier management Identify where third party resources can be supplemented by IR staff
		• IR needs to maintain close control over the level of internal input and involvement.

• IR has complete control and leverage over third-party suppliers	• IR may not need to get involved in managing multiple parties to delivery	• IR must decide whether it wants to include rights to control the sub-contractor environment ("step-in" or novation) should the need arise • Joint work stream management can be implemented, and shared objectives can be engineered through appropriate pricing and commercial constructs
• IR will require a supplier management overhead, it will not need to retain a significant delivery resource overhead which could be up to 300FTE	• Internal IR competency can be developed in strategic supplier management	• If IR should wish to take on run responsibility, then appropriate service introduction planning is essential

Delivery Model for Design Phase

The preferred delivery model is the Service Aggregation Model
The effect of engaging a COTS Provider for the long-term under the Service Aggregation model

Effect on Sourcing:

- As with all the models considered Service Aggregation does not fully eliminate risk, the service aggregation model was not successful with the Government Shared Network mainly due inherent competition of parties who were not selected to run the GSN (which IR will not face) and undercut GSN pricing.

- The capabilities required to act with in a Service Aggregation model will need to be included in the sourcing requirements (RFx) and the COTS provider's ability to be lead by the Business Transformation Service Provider for aspects of delivery which are outside the COTS provider's scope and remit.

- The evaluation criteria will need to focus on the supplier's ability to carry out IT, business change and the ability to manage a programme of this scale over an extended timeframe

- The design of the commercial arrangements and contracting will need to be tailored to suit this type of relationship between IR and the successful suppliers, and the IR management over the parties will need to be

- IR will need to decide what degree of control it wants to have over the selection of 2nd tier suppliers in the BT Programme and to ensure that good procurement practise is being adhered to, commensurate with the Government Rules of Sourcing.

- Note that it's possible to move from Service Aggregation to other models, including Prime if needs arise, but it's almost impossible to move from Prime to other models due to the inherent lock in of intellectual property which makes unpicking this a transformation of significant complexity on its own.

Service Aggregation Model

Sourcing Scope

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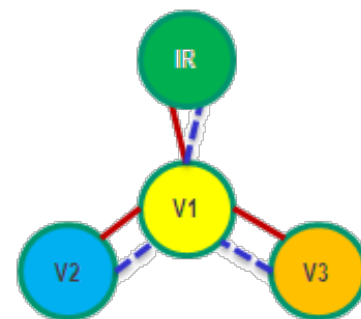
Commercial Approach

The preferred commercial approach will determine how IR construct the contract and interact with the preferred COTS supplier(s) (when selected) for the Design Phase.

Errors and omissions excepted

Contracting Approach – Relationship

The type of relationship that IR is seeking with the supplier should be determined early and communicated to the market as part of the supplier selection process.

Key considerations in determining the most suitable relationship approach include:
- The duration of the expected engagement, whether the focus of the relationship is short-term or long-term
- How the culture of the supplier needs to fit with IR and other supplier(s) within a Service Aggregation model
- Transparency of the supplier and their activities
- How the supplier complements IR's internal capabilities
- The costs associated with different relationship types
- The amount of risk IR wants to transfer to the supplier
- How the supplier reacts to disputes (building of trust and credibility)

- **Slide 35 covers the capabilities being sought as part of the COTS design phase.**
- **It's expected that the supplier(s) will mature during the life of the agreement.**

Increasing Value

Community centred

Pioneering

Partnering

Key

Major

Basic

Transactional

Trading

Tribal

Combative

Successful relationships are generated through effective programme governance. As such, the relationship needs to be aligned to the programme governance structure

Builds on collaborative relationship   Greater social responsibility   Sustainability

Long-Term Value for Money   Shared values   Greater trust   Interdependence

Reactive relationship   Low trust   Basic quality   Reactive improvements

Arm's length   Many short-term relationships   Lack of loyalty

Lack of trust   Adversarial relationship   Based on defence

Active manipulation   Self-Interest   Adversarial relationship   Based on attack

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Relationship Type and Characteristics Matrix

Source: 0 to 10 Relationship Management; Chartered Institute of Purchase and Supply

	Combative	Tribal	Trading	Transactional	Basic	Major	Key	Partnering (Alliancing)	Pioneering	Community
Culture	Master/Slave Adversarial Control and compliance	Defend and Protect (internal and/or external) Risk adverse Secretive	Opportunistic Deal " doing" Deal "making"	Arms length Impersonal	Reactive Inputs focus Client Focus	Outputs focus Quality and Cont. Improvement Based Values	Open Proactive Outcomes Focus	Based on Total Trust and Transparency Principle centered Collaborative	'Who dares wins' Mindset / attitudes	Selfless Inclusive Outward looking
Strategy	"Offensive" Win/Lose Profit focus Tough and Hard nosed contract focus	Defensive Protective Self interest Based - WIIFM	Deal based Little loyalty Low margins and/or Little Differentiation Best of 3 quotes	Technology Driven Systems based STD T&C's Low cost	Do and Charge Tender Based Cost Plus Prescriptive Focus	Do and Improve Best of Breed "Outsourcing" focus on reducing cost base	Do and Add Value Exploiting synergies Preferred Supplier	Win/Win Interdependent Shared risk / reward and common goals, joint plans	Brave, Bold and Different Leveraging core competencies Paradigm shifting	Triple bottom line and Legacy focus Trust based joint Business Plan
Structure	Bureaucratic Hierarchical Hostile interfaces	Parochial Silos, Fiefdoms Clans, Tribes, Factions Territorial interfaces	Simple or single point of contact interfaces Face to face or electronic	Electronic or single point of contact	Simple, single or limited points of contact Face to face or electronic	Medium level contact and contract management interface	Complex Multi level contract and contact management interface Seamless boundaries	Flat, team based, integrated interfaces	Empowered, flat and modular teams and interfaces	Extended supply chain and community interfaces Open source type structures
Process	Legalistic Tightly managed one sided contracts Risk Transfer	Protect information and knowledge Many demarcations and hidden agendas	Track-able, traceable, deal based Efficiency and effectiveness focus	Systems driven and automated Depersonalised STD T&Cs Rule	Work to rule or Standard Basic Account Management	Major Account Plans linked to KPI measures and contractual obligations Supply chain analysis	Key Account Plan leads relationship development and performance obligations	Joint Relationship. Business Plan leads the relationship improvement journey Joint ownership	Best Practice forums Stretch and breakthrough innovation processes	Health of community and legacy focus Integrated and/or modular Few Contracts
People	Aggressive Confrontational Untrustworthy Arrogant, hostile, coercive communicators	Self interest focus Protective and Defensive Tribal loyalty	Short term deal focus Work/play hard negotiators Dealmakers	Task driven Service oriented Technology driven/focused	Task driven Reactive account management skills	Focus on transfer of non core competencies from Client to Supplier	Professional Key Account Managers High accountability	Principled Passionate Professional Performance driven Fair minded and reasonable	Passionate Proud, Stubborn and Unreasonable Pioneers and Trail blazers	Selfless Giving, Caring Working for Community benefit

Inland Revenue
Te Tari Taake

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Business Transformation

Commercial Approach - Deliverables

Deliverables determine the areas of focus, the type and number of people employed by the service provider, and the degree of collaboration possible between the IR and the service provider ensures that they have the necessary organisational, technical and financial resources to meet these requirements.
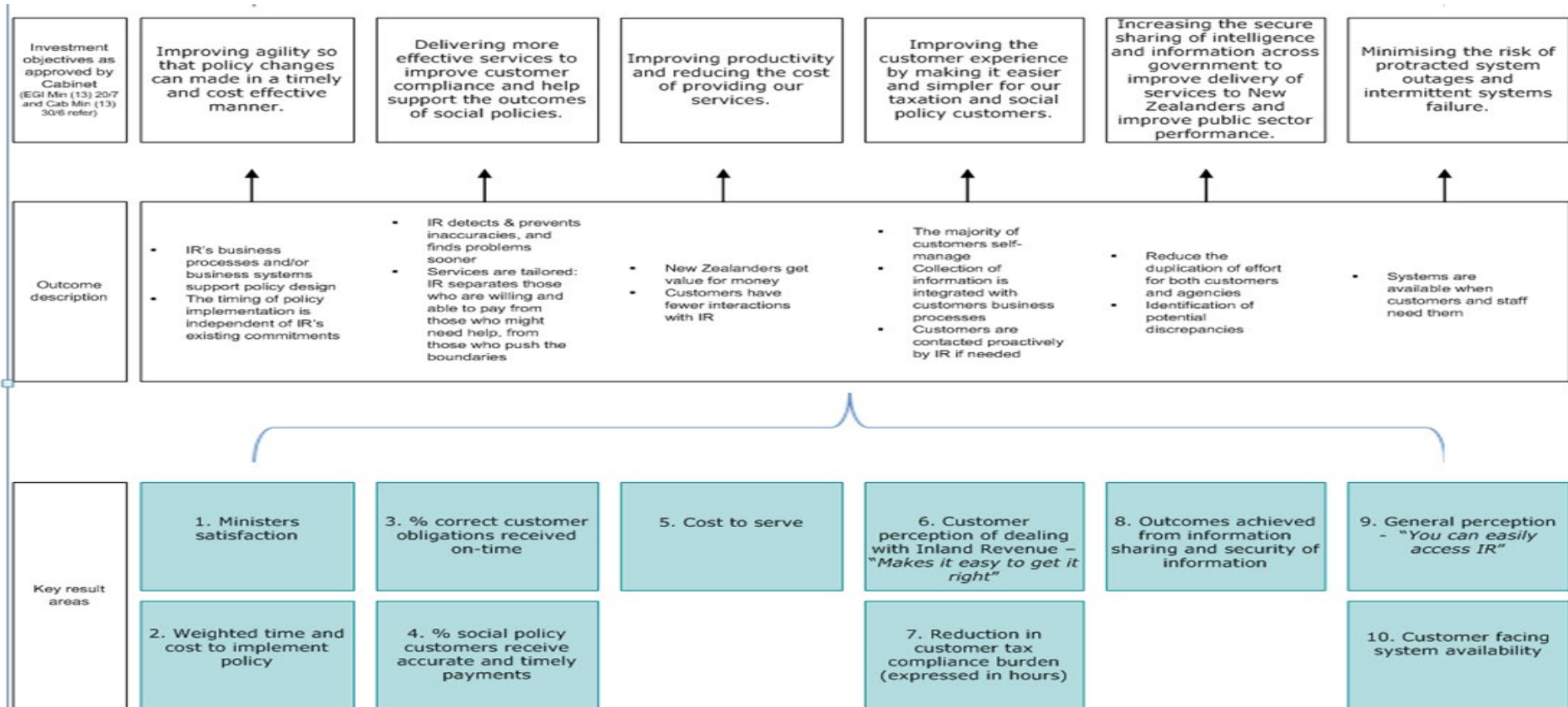
Type	Description	Pros	Cons
Input Based	An input based deliverable focuses predominantly on labour and materials required for a particular task or work package. Control over the programme of work and the budget spend should be retained by IR. This typically sets out the number of resources required, their qualifications and the services they are to provide.	• IR retains control over the programme of work and budget spend • Easy and simple process if IR requires labour to complete particular internally delivered tasks or work packages	• Does not allow service provider performance to be measured against specific outputs or outcomes • Requires IR to have strong governance and oversight of the service provider
Output Based	Output based deliverables focuses on the required outputs and the scope of the service provider's responsibility. Decisions on how to accomplish this (ie, resources, budgets, etc.) are left to the service provider.	• IR can specify the outputs required • Service provider have the flexibility to provide innovative solutions to deliver the agreed outputs • Leverages the service provider's knowledge and experience • Creates clear allocation of roles and responsibilities between IR and the service provider	• Requires significant upfront effort from IR to determine and understand requirements • IR and the service provider must proactively seek to remove as many barriers and constraints as possible to enable the service provider to successfully deliver the agreed outputs • A strong governance structure and process is a necessity for success
Outcome Based	Outcome based deliverables specify targets aligned with policy, strategic objectives and or organisation growth targets. There is an implicit assumption that standard task output objectives will be fully met, and the focus has moved to IR's more strategic issues. This is key to triggering payment for licensing at the time IR is ready to consume the license.	• Focuses on policy outcomes , strategic objectives and growth targets ie, high level benefits and outcomes associated with the Programme • IR compensates service provider primarily on achievement of specified outcomes • IR and the service provider share delivery risk	• Costs associated with transfer of delivery risk to the service provider • May result in IR having less control over the Programme • Reliance on clearly defined and well understood outcomes

Commercial Approach - Performance Management

Performance management is an essential consideration in the procurement as it provides a means to measure and monitor whether the selected Supplier is achieving the requirements it was engaged to meet, eg,

- Defining all deliverables for which the supplier is (to be) contracted
- Determining the factors by which each deliverable will be measured
- Establishing key performance indicators (KPIs) for each deliverable
- Determining whether the KPIs are SMART (appropriate and up-to-date)
- Determining how the measures will be monitored and the frequency of measurement

Specific performance measures are mapped against IR's key result area framework, and must align with the following investment objectives:

Investment objectives as approved by Cabinet (EGI Min (13) 20/7 and Cab Min (13) 30/6 refer)	Improving agility so that policy changes can be made in a timely and cost effective manner.	Delivering more effective services to improve customer compliance and help support the outcomes of social policies.	Improving productivity and reducing the cost of providing our services.	Improving the customer experience by making it easier and simpler for our taxation and social policy customers.	Increasing the secure sharing of intelligence and information across government to improve delivery of services to New Zealanders and improve public sector performance.	Minimising the risk of protracted system outages and intermittent systems failure.
Outcome description	• IR's business processes and/or business systems support policy design • The timing of policy implementation is independent of IR's existing commitments	• IR detects & prevents inaccuracies, and finds problems sooner • Services are tailored: IR separates those who are willing and able to pay from those who might need help, from those who push the boundaries	• New Zealanders get value for money • Customers have fewer interactions with IR	• The majority of customers self-manage • Collection of information is integrated with customers business processes • Customers are contacted proactively by IR if needed	• Reduce the duplication of effort for both customers and agencies • Identification of potential discrepancies	• Systems are available when customers and staff need them
Key result areas	1. Ministers satisfaction 2. Weighted time and cost to implement policy	3. % correct customer obligations received on-time 4. % social policy customers receive accurate and timely payments	5. Cost to serve	6. Customer perception of dealing with Inland Revenue – "Makes it easy to get it right" 7. Reduction in customer tax compliance burden (expressed in hours)	8. Outcomes achieved from information sharing and security of information	9. General perception – "You can easily access IR" 10. Customer facing system availability

Commercial Approach – Pricing (Services Options)

The pricing method determines the way that the selected suppliers will be paid for the work they perform:

		Pricing Detail	Consider/ Recommend?
Structured Time and Materials	Agreed rate for work however the quantity is variable based upon capabilities consumed by IR.	• Retentions held for late deliverables and milestones, waiting time for contingent delay caused by service provider to off-set IR's costs which may be payable to other suppliers in the service aggregation model – • This is the recommended model as it aligns with the service model already in use with the Business Transformation Services provider	✔
Lump Sum - Fixed Price	The supplier is paid a fixed price under the contract. There are no variations allowed under this model (ie, to account for inflation)	• Can be applied to the agreed deliverables provided that the details provided to the supplier in the Procurement process are sufficiently detailed for them to price this accurately. • The supplier includes a 'risk premium' in their pricing, increasing the overall cost to IR or that the supplier carries the commercial risk entirely, which is not consistent with the 'collaborative' approach IR wants to adopt.	▬
Lump Sum - Fixed Price Variable	The supplier is paid a fixed price in the contract however variations are included. This may be the provision for agreed options or variations such as inflation.	• Can be applied to the defined deliverables in scope. Defining and agreeing pricing options upfront for scope changes/amendments also gives IR and the supplier commercial certainty. • This model requires a level of trust that pushes this relationship into the Partnership status, it was noted at the Investment Board on March 2013 that IR is seeking a Collaborative relationship.	▬
Management Fee	Actual work paid for and a management fee on top. The management fee may be a fixed amount or a percentage of costs.	• Can be applied to the requirements in scope like unit rate. • The advantage of this method is that the profit margin can be negotiated. • This pricing method does not drive resource effectiveness and delivery as profit is % of costs incurred.	✖
Success Fee	The supplier is paid for their costs and their additional compensation is an agreed percentage of the delivered BT Programme benefits.	• Can be applied to the entire scope of the strategic 'integration' provided that the supplier has end-to-end responsibility for delivery (ie, not design only). This pricing method drives focused, fast delivery with effective use of resources. • Not commonly used in New Zealand IT industry • Requires mature benefits case	✖
Time and Materials/Fixed – (Hybrid)	Agreed rate for work however the quantity is not specified. Some deliverables could be fixed price based upon risk/certainty to IR.	• Can be applied to the Requirements, in particular if the supplier deems insufficient Requirement details have been shared for them to provide any fixed pricing proposals. • This pricing method requires IR to maintain a high degree of management over the competency of the resources.	▬

Commercial Approach – Pricing (Software Licenses Models Options)

Software Licensing models are wide and varied, these are the most common types for consideration, although different COTS providers have different regimes for different product suites:

		Pricing Detail	Consider
Software as a Service (Opex)	A software licensing and delivery model in which software is licensed on a subscription basis and can be centrally hosted. It is sometimes referred to as "on-demand" software	• Unlike traditional software which is conventionally sold as a perpetual license with an up-front cost (and an optional on-going support fee), SaaS providers generally price applications using a subscription fee, most commonly a monthly fee or an annual fee. • The initial setup cost for SaaS is typically lower than the equivalent Enterprise license. SaaS suppliers typically price their applications based on some usage parameters, such as the number of users using the application. • In a SaaS environment customers' data can reside with the SaaS supplier, opportunities also exist to charge per transaction, event, or other unit of value	✖
Perpetual (Capex)	A perpetual license will allow the IR to use the licensed software indefinitely	• Although the software license terms can very the period of 'indefinitely' needs to be defined as incapable of being terminated. • Many software agreements tie the perpetual right to use to the ongoing payment for support and maintenance.	✔
Enterprise (Opex or Capex)	A license to install software an unlimited number of times within the enterprise. An Enterprise Agreement is structured as 'all you can eat' but the organisation must be licensed for a specific quantity of licenses so this is not strictly an 'Enterprise License' model in its pure form	• Time bound • Limited to a particular software suite or product set ie,: specific Application Middleware, Database	✔

Once a detailed analysis of total cost of ownership and value for money represents then more refinement on the different options can be made, and which proportions of each model is required to license the overall solution.

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Commercial Approach – Pricing (Software Licenses Models Options)

Software Licensing models are wide and varied, these are the most common types for consideration, although different COTS providers have different regimes for different product suites:

		Pricing Detail	Consider/ Recommend?
User (Opex or Capex)	A license that provides access to the software to a specific number of users. All installations of the software will be counted but installations across multiple devices for the same user will be counted as one license consumption	• Named User - A license that allows access to the software by a specific number of named users. In some cases, these licenses can be transferred from one user to another. When you create the license, you should allocate the license to specific users. Only installations associated with allocated users are counted. For example, if the license is allocated to users Sam and Jan, the maximum installation count is two. Any other installations of the licensed application are treated as unassigned installations. For example, if May has also installed the licensed application but has not been allocated to the license, her installation will not be shown against installations of this license • Concurrent User - A license which provides wider access to the software but limits the number of simultaneous users using the software. It may or may not include compliance enforcement capabilities. Typically, a concurrent license is "checked out" from the license server when the software is run, assuming a license is available. • If no license is available, the requester experiences a denial of service	▬
Appliance (Opex or Capex)	A license covering use of a specific piece of hardware	• Processor - A license based on the number of CPU/Processor sockets on which the software will run, and NOT the logical processors aka cores. • Core/Processor Points - A license based on points applied as a multiplier to the number of Cores/Processors in the physical server, or in some cases, the virtual machine. Some suppliers count Processor sockets and others count logical processors, or cores, but the license model is similar. For example an application installed on a 4 processor server with 100 points per processor would require a purchase of 400 processor points to cover the license liability. • These licenses are mainly used for Datacentre software licensing such as IBM. • Device - A license for a defined number of software installations. The software may be uninstalled on one computer and installed on any other computer within the same enterprise, so long as the total number of installations does not exceed the number of purchased licenses	▬

Commercial Approach – Contract Period

The contract period includes the length of the initial period of engagement and any contract extensions that apply. Below is the range of contracting approach options applicable to the BT Programme:

	Detail	Applicable Option to TP	Pros + / Cons	Consider
Budget Cycle	The contract period is based on the time Treasury funding is allocated or reviewed or re-assessed.	Treasury funding is available to IR every 5-years (or for Tranche 1 only), therefore the contract offered may only be for the same period. This may involve a three year contract with an optional two year extension.	Creates a situation of uncertainty for the supplier if their service delivery spans wider than the budget cycle.	✖
Programme Cycle	The contract period is based on the project plan.	The supplier contract will end once delivery of the contracted phase is completed.	Gives certainty to the supplier on their remuneration. If there are scope changes these will need to be dealt with at the time.	✔
Market Entry	The contract period is based on consideration of the time it would take for new suppliers to enter the market and establish themselves. Supplier may have significant start up costs associated with the programme.	The contract period should consider the time it will take for the contractors to recover the start up costs they have incurred.	Unlikely to be in-line with the Government funding rules. In addition, the scope of work for the supplier is sufficient for the supplier to recover any set-up cost they may have incurred.	✖
Lifetime of Solution	The contract period is for the expected duration of the life of the solution for software this is indefinite until terminated.	Government budget periods are limited to cycles, as there will be an opex component to the purchase of any software licenses this cost when know should be build into the business case.	It's likely the COTS solution will be long term (the existing implementation has lasted 23 years) contracting on the basis of an indefinite term until terminated is commensurate with industry software support and maintenance models.	✔

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Commercial Approach - Incentives and sanctions

Incentives and sanctions define the consequences of meeting (incentives) or not meeting (sanctions) the requirements of the agreed contract.

The incentives and sanctions stated in the contract may be used to drive behaviour in the performance management process.

It is optimal to use incentives as the primary means of driving behaviour rather than focusing on the negative implications of sanctions.

This helps to develop a positive relationship with the selected supplier and informs the type of relationship IR is seeking.

However, in some circumstances sanctions are appropriate.

The following type of incentives and sanctions could be considered in the BT Programme:

- Financial - The use of monetary rewards or withholdings based on the work performed by the supplier.
- Contract Extensions - The use of optional contract extensions based on the work performed. This is IR's decision as to whether or not to offer the extension.
- Profit at Risk - The provision that a specified proportion or all of a supplier's profit paid is subject to them meeting required performance standards. IR still pays the contractor's direct costs of performing the specified work.
- Contract Period - Offering a longer contract period to entice suppliers to offer cost savings due to receiving benefits for longer terms of investment.
- Liquidated Damages - Financial sanction incurred by the supplier as a result of delayed work that was due to be performed. It is important to note that liquidated damages are only enforceable when the financial impact of delays have been estimated prior to the contract being issued.

Commercial Approach - Incentives and sanctions (cont.)

	Incentive	Consider/Recommend?	Sanction	Consider/Recommend?
Financial	Rewarding the contractor with a bonus payment for performance of quality work.	✔	Withholding a proportion of payment as a result of non-performance.	✔
Contractor Competition	Rewarding contractors with additional contract periods as a result of high performance.	—	n/a	
Profit at Risk	The full profit is paid for service delivery at the required performance standards.	✔	The specified portion of the profit is withheld from the contractor as a result of service delivery not meeting the required standards.	✔
Contract Period	Establishing a five year contract period to encourage the service provider to offer cost savings due to ability to create efficiencies in service delivery over time.	—	The contract extension is not taken up with the service provider.	✔
Defects Liability	n/a		Obliges a supplier to rectify defects that appear in the deliverables they have completed during the period when the liability clause is in effect.	✔
Liquidated Damages	n/a		A contractor is required to pay liquidated damages for not completing programme on time.	✔
Termination for Convenience	n/a		IR can decide the contract needs to end, notifies the supplier and pays the specified compensation for early exit.	✔

Commercial Approach - Summary

- **Relationship** – Key/Major for Design phase and a migration plan to mature at the length of engagement increases.
- **Deliverables** – Various based upon the different stages, Input for Services, Outcome for licensing drawdown and Output for Run stage.
- **Performance Management –** Performance will be measured against the delivery plan
- **Pricing** - for services will align to the structured time and materials approach, IR will not contract for licensing until a suitable business case has been approved with the requisite benefits. Licenses will be paid for at drawdown (consumption) not upfront.
- **Contract Period** – all contractual commitments will be subject to programme cycle or lifetime of solution depending on the results of the total cost of ownership analysis.
- **Incentives and Sanctions** – contractual remedies will be aligned with the IRs level of risk, endemic sanctions include profit at risk and retention model. SLAs will be in place for support at the time of support and KPIs will be linked back to the programme objectives.

Procurement Process

This section outlines the available selection options and approaches and provides analysis of these with indicative timelines

Procurement Process – Supplier Selection Options

Procurement Method	Description	Implications
(1) **Open Competitive One-Step**	Request for Proposal (**RFP**) issued openly on GETs	• Must disclose enough information to enable a supplier to submit a meaningful response • IR would have to issue sensitive information in order to enable a supplier to submit a meaningful price. • IR could stage-gate an RFP (similar to the option below) so that potential suppliers met a threshold or group of defined criteria before being allowed to via the RFP (a NDA could be executed to protect sensitive information) • Threshold criteria could generate criticisms from the general public and local industry due to its exclusionary effect
(2) **Open Competitive Multi-step**	A procurement process with more than one step, eg, an *Expression of Interest (EOI) openly advertised on GETs followed by the **RFP** to shortlisted participants only*.	• Additional resources and programme cost to manage extended process • Potentially double the duration as IR must evaluate responses that meet any minimum criteria set, a six month process minimum • Threshold criteria could generate criticisms from the general public and local industry due to its exclusionary effect (repeat of BT EOI) • It is possible to combine the EOI and RFP stages together and have the EOI as a threshold which shaves ~3 months off the selection process.
(3) **Closed Competitive** (as an approved exemption to the Government Rules of Sourcing)	A tender process where an IR asks a limited number of pre-selected suppliers to tender for a contract opportunity. The contract opportunity is not openly advertised.	• IR may use closed competitive process to procure goods, services and works from organisations that it knows could provide the outcomes IR is seeking • Approach is supported by extensive market analysis and reference site visits • This requires an exemption from the Government Rules of Sourcing, according to MBIE, given the programme's heightened visibility this would require cabinet approval • The general public and local industry may want to understand the rationale of such a decision • This would save ~3 months (by not having to do a full EOI), effort for IR as well as the market who sometime respond because they feel they must.
(4) **Direct Source** (as an approved exemption to the Government Rules of Sourcing)	A tender process where IR asks a single supplier to tender for a contract opportunity, and the contract opportunity is not openly advertised.	• This requires an exemption from the Government Rules of Sourcing, according to MBIE, given the programme's heightened visibility this would require cabinet approval • The general public and local industry may want to understand the rationale of such a decision

Note: Other sub variants of these options exist, this is to differentiate between options that follow the Government Rules of Sourcing and those that would be executed solely in line with the Principles of NZ Government Procurement

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Procurement Process – Supplier Selection Approvals and Governance

| Procurement Method	Approvals	Commentary
(1) **Open Competitive One-Step**	DFA to CIR from Ministers would be required	• Any thresholds would likely generate commentary from New Zealand Industry
(2) **Open Competitive Multi-step**	DFA to CIR from Ministers would be required	• Any thresholds would likely generate commentary from New Zealand Industry
(3) **Closed Competitive** (as an approved exemption to the Government Rules of Sourcing)	• CIR would need to grant an exemption from the Government Rules of Sourcing • DFA to CIR from Ministers would be required	• MBIE may be expected to provide commentary to Ministers, MBIE have advised that as Cabinet have approved the rules of Sourcing then Cabinet may need to be informed if this approach was approved. • GCIO may have an opinion
(4) **Direct Source** (as an approved exemption to the Government Rules of Sourcing)	• CIR would need to grant an exemption from the Government Rules of Sourcing • DFA to CIR from Ministers would be required	• MBIE may be expected to provide commentary to Ministers, MBIE have advised that as Cabinet have approved the rules of Sourcing then Cabinet may need to be informed if this approach was approved. • GCIO may have an opinion

Note: Other sub variants of these options exist, this is to differentiate between options that follow the Government Rules of Sourcing and those that would be executed solely in line with the Principles of NZ Government Procurement

Supplier Selection Options - Analysis

Poor ● ◔ ◑ ◕ ● Good
(scale: Poor → Good)
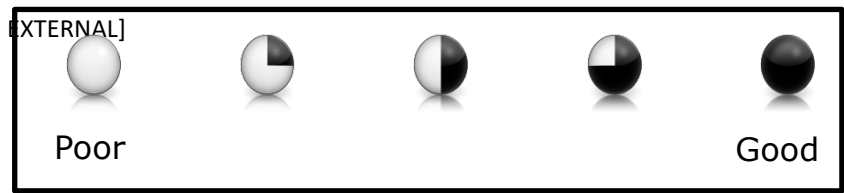
Procurement Method	Description	Open Competitive One-Step	Open Competitive Multi-step	Closed Competitive	Direct Source
Compliant with the Government Rules of Sourcing	The Government Rules of Sourcing (the Rules) represent the government's standards of good practice for procurement planning, approaching the market and contracting and were introduced by cabinet on 1st October 2013	Good (full)	Good (full)	Half	Poor (empty)
Market Access	The level of openness of the Procurement to all potential suppliers in the market	Good (full)	Good (full)	Quarter	Poor (empty)
Speed to Contract	The time it takes for the procurement process to occur, from initial information being released to the market through to the contract being awarded to a supplier	Quarter	Poor (empty)	Three-quarter	Good (full)
Competitive Tension	The awareness between suppliers of the existence and capabilities of rival firms and ability to leverage ideal commercial arrangements.	Good (full)	Good (full)	Half	Poor (empty)
Market Response	Considers the ability of the market to meet and respond to requirements of the procurement, based on the approach to market	Poor (empty)	Poor (empty)	Good (full)	Good (full)

Procurement Process – Supplier Selection Options

(1) Open Competitive One-Step (RFP)

AUGUST	SEPTEMBER			OCTOBER		NOVEMBER		DECEMBER	2015	
12th	2nd	22nd	26th	7th	10th	5th	7-28	1-19	January	February

- **Develop documents required**
- **SS, Procure. Plan, Eval Plan and RFP**
  - (22nd) PEWC submission
  - (26th) PGA endorsement
- **RFP IB endorsement**
- **Issue RFP** Market Document
  - (10th) Issue RFP (18 days)
  - (5th) RFP response deadline
  - **Evaluation of RFP** responses (7th–28th)
- **Scenarios / Presentations** 3 suppliers, maximum 1 week each.
- **Reference Checking / Site Visits** (2 weeks)
- **Governance for RFP Findings Report**

(2) Open Competitive Multi-Step (EOI – RFP)

MONTH	AUGUST	SEPTEMBER				OCTOBER				NOVEMBER				December			
W/C	2014	1st	8th	15th	22nd	29th	6th	13th	20th	27th	3rd	10th	17th	24th	3rd	10th	17th	24th

- **Develop documents required** Communications Plan, Procurement Plan, Evaluation Plan and EOI Document
  - **24th PEWC endorsement**
  - **26th PGA endorsement**
- **Issue EOI** Market Document
  - (29th Sept) Issue EOI (15 days)
  - (24th Oct) EOI response deadline
- **Evaluation of EOI** Individual and Moderation meetings
  - (30th Oct - 13th Nov)
- **EOI Findings Report**
  - (24th–28th Nov) Internal Review
  - (3rd Dec) PEWC endorsement
  - (10th or 18th) PGA endorsement
- Start **RFP** process

(3) Closed Competitive (as an approved exemption to the Government Rules of Sourcing)

AUGUST	SEPTEMBER			OCTOBER		NOVEMBER		DECEMBER	2015
12th	2nd	22nd	26th	7th	10th	11th	13th– 5th	8th	January

- **Sourcing Strategy**
- **Procurement Plan, Eval Plan and RFP**
- **RFP IB endorsement**
- **Issue RFP** (22 days) and **Evaluation of RFP** responses
- **RFP Findings Report**

(4) Direct Source (as an approved exemption to the Government Rules of Sourcing)

AUGUST	SEPTEMBER			OCTOBER		NOVEMBER		DECEMBER	2015
12th	2nd	22nd	26th	7th	10th	11th	13th–27th	8th	January

- **Sourcing Strategy**
- **Procurement Plan, Eval Plan and RFP**
- **RFP IB endorsement**
- **Issue RFP** (22 days) and **Evaluation of RFP** response
- **Negotiations** start and contract agreement
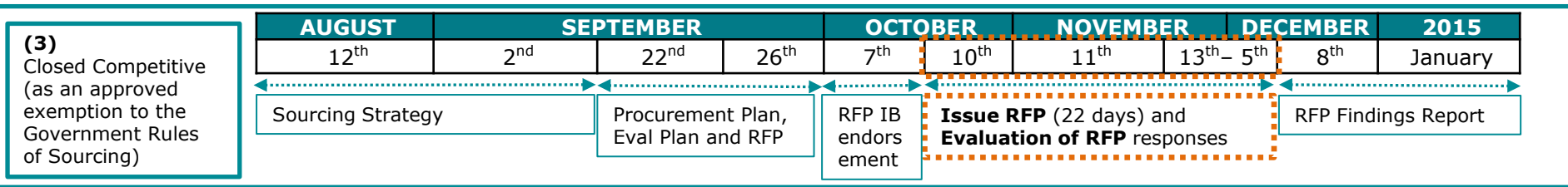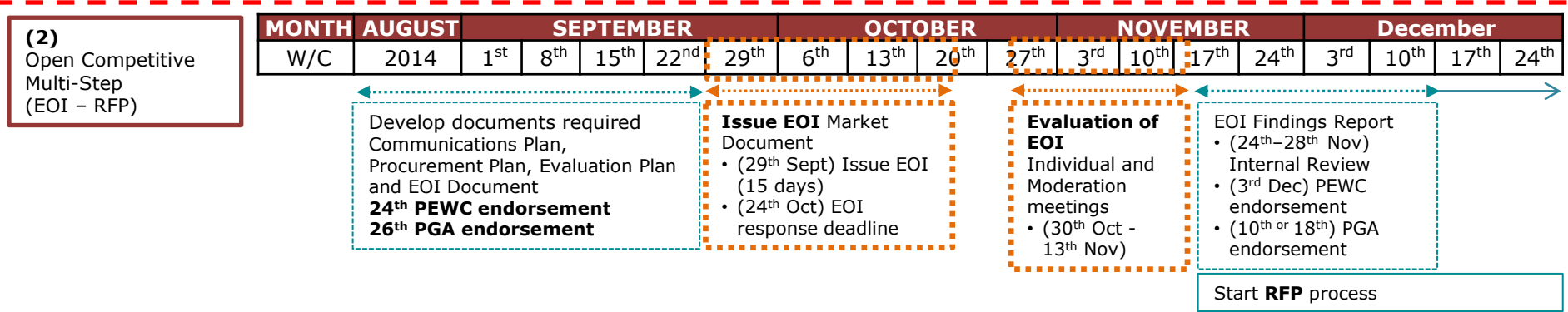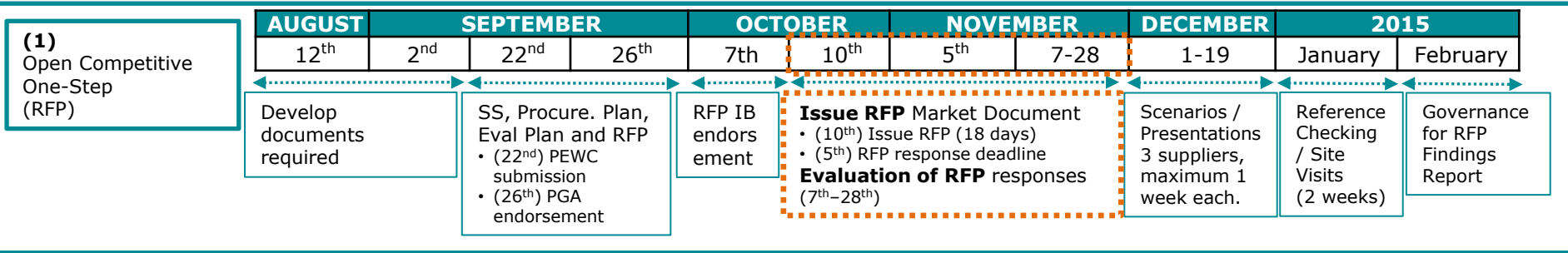
Errors and omissions excepted

Note:
Other sub variants of these options exist. These are highlighted to differentiate between options that follow the Government Rules of Sourcing and those that would be executed solely in line with the Principles of NZ Government Procurement.
Ministerial and funding approval required prior to release of Market Document (EOI or RFP)

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COTS Procurement Process – Supplier Selection Recommended Option

EOI

W/C	AUGUST 2014	SEPTEMBER				OCTOBER				NOVEMBER					December			
		1st	8th	15th	22nd	29th	6th	13th	20th	27th	3rd	10th	17th	24th	3rd	10th	17th	24th

Development of documents required
Communications Plan, Procurement Plan, Evaluation Plan and EOI Document
24th EWC endorsement
26th PGA endorsement

Issue EOI Market Document
• (29th Sept) Issue EOI (15 days)
• (24th Oct) EOI response deadline

Evaluation of EOI
Individual and Moderation meetings
• **(29th Oct - 24th Nov)**
• **29th Oct – 6th Nov** (Ind. Evaluation)
• **7th Nov** (Procurement consolidation)
• **10th Nov -12th** Nov (Moderation)
• **13th Nov – 21st** Nov (Reference Check)
• **24th Nov** (Final moderation)

EOI Findings Report
• (24th–28th Nov) Internal Review
• (3rd Dec) EWC endorsement
• (10th or 18th) PGA endorsement

Start **RFP** process

RFP

DECEMBER 2014	JANUARY 2015	FEBRUARY 2015	MARCH 2015	APRIL 2015	MAY 2015	JUNE 2015	JULY 2015	AUGUST 2015

Development of RFP Evaluation Plan and RFP Market Document

RFP Release
Governance
•(12th) EWC endorsement
•(19th) PGA endorsement

Issue RFP Market Document
(1 month)
23rd March to 20th April

Evaluation RFP Market Document
•1 week individual evaluation
•3 week product demonstrations (1 week per service provider)
•2 weeks reference checking
•1 week final moderation meeting
•1 week finalise RFP Findings Report
21st April to 16th June

Negotiations, contract award (10th July)

RFP Findings Report
Governance
•(18th June) PGA endorsement

IR has made the following deductions in timelines for a multi-step process as per the GRS:
First-step - EOI:
b. All tender documents available electronically on GETS — -3 days
c. Suppliers' tenders or proposals accepted electronically — -4 days
Second-step - RFP:
a. All tender documents available electronically to shortlisted suppliers — -5 days
b. Suppliers' tenders or proposals accepted electronically — -5 days

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Business Transformation

Contract Management

Describes the Programmes approach to Contract Management, including strategy, governance and operational standards and controls.

All signed documentation relating to a contract must be forwarded to the Procurement Team for centralised filing. According to IRs Procurement Policy (1 October 2013) A Contract Management Plan must be implemented for all supply contracts:
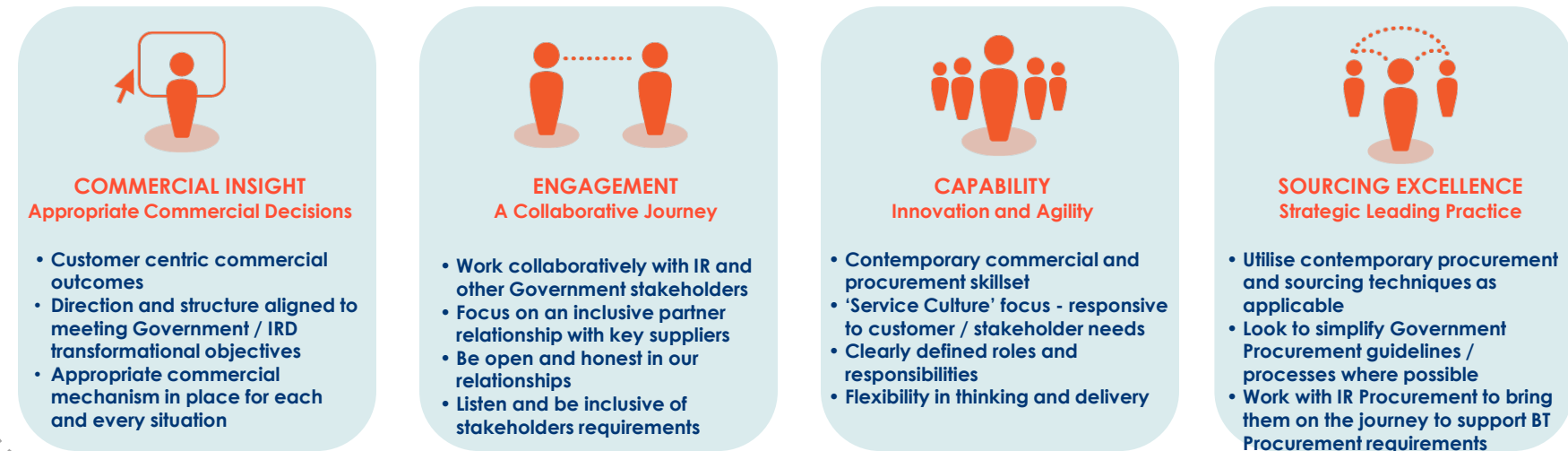a) with an Maximum Total Estimated Value (MTEV) of $500,000 or more; or
b) when warranted by the risk, complexity or importance associated with the supply contract.

The Contract Management Plan establishes systems and processes to assist the contract manager to ensure that the supplier complies with the agreed terms and conditions during the life of the contract.

Contract Management - Strategy

OUR DRIVERS

IR Values:
exhibit the IR and BT values

Government Procurement:
work with and enhance the procurement processes

BT Success
our success is BT success

Collaboration:
work together with open communication

Agility:
be flexibly to meet program changes

OUR SUCCESS IS BASED ON FOUR KEY STRATEGY PILLARS:-

COMMERCIAL INSIGHT
Appropriate Commercial Decisions

- Customer centric commercial outcomes
- Direction and structure aligned to meeting Government / IRD transformational objectives
- Appropriate commercial mechanism in place for each and every situation

ENGAGEMENT
A Collaborative Journey

- Work collaboratively with IR and other Government stakeholders
- Focus on an inclusive partner relationship with key suppliers
- Be open and honest in our relationships
- Listen and be inclusive of stakeholders requirements

CAPABILITY
Innovation and Agility

- Contemporary commercial and procurement skillset
- 'Service Culture' focus - responsive to customer / stakeholder needs
- Clearly defined roles and responsibilities
- Flexibility in thinking and delivery

SOURCING EXCELLENCE
Strategic Leading Practice

- Utilise contemporary procurement and sourcing techniques as applicable
- Look to simplify Government Procurement guidelines / processes where possible
- Work with IR Procurement to bring them on the journey to support BT Procurement requirements

Our Service Delivery:
Strategic Commercial advice and delivery to IRD / BT
Strategic Procurement/Sourcing advice and delivery to IRD / BT
Strategic Stakeholder management across BT programme and Government

We are successful when we have:
Delivered effective and efficient commercial outcomes to IRD / BT
Provided leadership in Commercial Management to the BT
Enabled BT to meet its objectives commercially
Capable and engaged staff in the Programme

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Contract Management - Supplier Management Dashboard

All suppliers providing services to the BT Programme will be assessed against a balanced scorecard. This will be discussed at the commercial/account management meeting and (where appropriate) linked to any service credit regime in the contract between IR and the supplier

Contract Management – Programme Delivery

The **Programme Execution Plan** (PEP) serves as a key reference point for the scope, approach, governance arrangements, deliverables, implementation timeline, quality procedures, acceptance criteria, key assumptions, key risks, dependencies, and responsibilities for the Business Transformation Programme. This PEP, together with any associated Statements of Work (SoW) with third party providers, will define the baseline for the Programme.

All suppliers will be required to align with programme's **governance and management** structures, including roles and responsibilities. Contractual engagements will include a commercial governance schedule

During the design phase the IR Programme Director will be responsible for the management of third party suppliers' through the **two Commercial Director** positions within the programme.

The detailed plan of how the agreement(s)s will be managed is contained in the Contract Management Plan. Management of suppliers includes, but is not restricted to the following:

- resource allocation to the Programme (if required)
- the commercial terms and conditions suppliers are contractually obligated to deliver
- management of contractual deliverables
- management of change requests
- performance management
- milestone deliverables
- managing suppliers to value add
- management of supplier innovation
- contract management.

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Contract Management - Governance Framework

Each contractual engagement will contain a BT governance schedule, which aligns to the proposed commercial management framework as outlined below.

*Joint forums (with the suppliers) may be constituted under a service aggregation model.

	Forum	IR Attendance	Supplier Attendance	Frequency	Proposed Chair
Governance Forums	Executive Steering*	• Commissioner • DC, Change • Programme Director	• Regional Head • Executive Sponsor • Account Executive	Quarter	DC, Change
	Account Management*	• Programme Director • Commercial Director • Programme Manager	• Account Executive • Commercial Director • Delivery Lead	Monthly x+2 weeks	Programme Director
	Commercial Management	• Commercial Director • Contract Manager • Commercial Accountant	• Commercial Director • Billing Specialist	Monthly x+1 weeks	Commercial Director
	Operational Management*	• Programme Manager • Contract Manager • Project Manager	• Delivery Lead	Monthly x	Programme Manager

Dispute Resolution

x=Agreement start date

Appendix - Market Analysis

The Market Analysis provides an overview of key insights from recent education visits to COTs providers and other lessons learnt from comparator projects.
The analysis of potential suppliers acts as a starting point for determining the size of the market and who the key players are.

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Market: supplier strengths and weaknesses

	Key Strengths	Key Weaknesses
Supplier		
Supplier		
Supplier		
Supplier		

Information redacted

Market: Taxation and Social Policy COTS suppliers

International Supplier Name	Global HQ (global employees)	NZ Offices	Australia Offices	COTS Taxation System Provider	Tax System Implementation Experience	Hosting / Service Provider (NZ facilities)	IT Professional Services Supplier	Software Development Capability

Source: Gartner - Critical Capabilities for Integrated Tax System COTS Products, December 2010
Ernst and Young, February 2012

Information redacted

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Market: supplier strengths and weaknesses

Key Strengths	Key Weaknesses
Supplier	
Supplier	
Supplier	

Information redacted

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Market Analysis – Government IT Case Study Overview

The following table provides an overview of the key characteristics of previous government IT projects

Case Study	Delivery Model	Governance	Deliverables	Price	Duration	Incentives	Process	Value (US/NZ million)	Time frame
			Information redacted						
			Errors and omissions excepted						

Market Analysis – COTS Implementations

Reference	Supplier	Pricing Model	Delivery Model	COTS Taxation and Social Policy System Provider	Comments
			Information redacted		

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Overseas COTS visit Summary

- IR has educated itself so that it can operate as an informed buyer of software and services.

- As part of the education process, a cross functional team (management, tax and social policy experts and technologists), visited the global research and development facilities of three providers of COTS software.

- The objective of the overseas COTS visit was to establish;
  1. What solutions the providers currently have available
  2. What is under development
  3. What may be suitable to serve as aspiration for detailed requirements.
  4. Test industry maturity for the type of applications available to meet IR's business transformation aspirations.

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COTS Tax and Social Policy Education visit Analysis

Poor ⚪ ◔ ◑ ◕ ⚫ Good

These are indicative ratings based on 5 days of education with two incumbents (*redacted*) and 5 days with (redacted). The findings below do not cover the corporate systems.

	Supplier	Supplier	Supplier
Tax Revenue Collection and Administration			
Superannuation			
Social Services			
Reporting and Analytics			
Digital solutions, including mobility			
Master Data Management	Information redacted		
Business Rules Management			
Customer Relationship Management			
Knowledge Management			
Content Management			
Security and Identity Management			
Enterprise Integration			
Business to Business (B2B)			

Domestic Market Non COTS:

New Zealand Supplier	Global HQ (global employees)	NZ Offices	Australia Offices	COTS Taxation System Provider	Tax System Implementation Experience	Hosting / Service Provider (NZ facilities)	IT Professional Services Supplier	Software Development Capability
			Information redacted					

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Domestic Market Non COTS: supplier strengths and weaknesses

Supplier	• Key Strengths	• Key Weaknesses
Supplier		
Supplier	Information redacted	
Supplier		
Supplier		
Supplier		

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Appendix – Commercial Model Analysis

The Commercial Model Analysis provides an overview of key commercial components that will make up any resulting agreement structure including commercial management model.

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Contracting Approach – Local and global experience demonstrate how value levers drive the optimal contracting model

The mix and approach to contracting can vary depending on the type of supplier, any inherent risk, the stage of the BT Programme they are engaged at, and the scope of engagement.

Below are some of the options considered for the difference components of engagement, ultimately the contract model will be selected on the basis of inherent risk and overall value.

	Contract Model									
Relationship	Combative	Tribal	Trading	Transactional	Basic	Major	Key	Partnering (Alliancing)	Pioneering	Community
Deliverables	Input Based	Output Based	Benefit Based	Value Based	Outcomes	Materials Only	-			
Value Management	Delivery Plan	Price Mechanism	Value Schedule	Value Board Approval	Change Requests					
Pricing	Unit Rate	Lump Sum (Fixed Price)	Lump Sum (Variable)	Management Fee	Performance Fee	Risk Reward	Structured Time and Materials	Time and Materials		
Contract Duration	Budget Cycle	Program Cycle	Market Entry	Whole of life service	Periodic (ie, Quarterly)	-	-			
Incentives and Sanctions	Bonus for Early Delivery	Contractor Competition	Profit at Risk	Contract Period	Defects Liability	Liquidated Damages	Termination for Convenience	Retentions		

Contracting Approach – Emphasis on Risk

	Most Negotiated Term	Most Important Term
1	Limitation of liability	Scope and Goals
2	Indemnities	Responsibilities of the parties
3	Price / Charge	Price / Charge
4	Intellectual Property	Delivery / Acceptance
5	Service levels	Service levels
6	Warranties	Payment
7	Performance Guarantee / Undertakings	Performance Guarantee / Undertakings
8	Service withdrawal / termination	Communications and Reporting
9	Liquidated damages	Change management
10	Delivery / Acceptance	Limitation of liabilities

Source: International Association for Contract and Commercial Management

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Contracting Approach – What Goes Wrong?
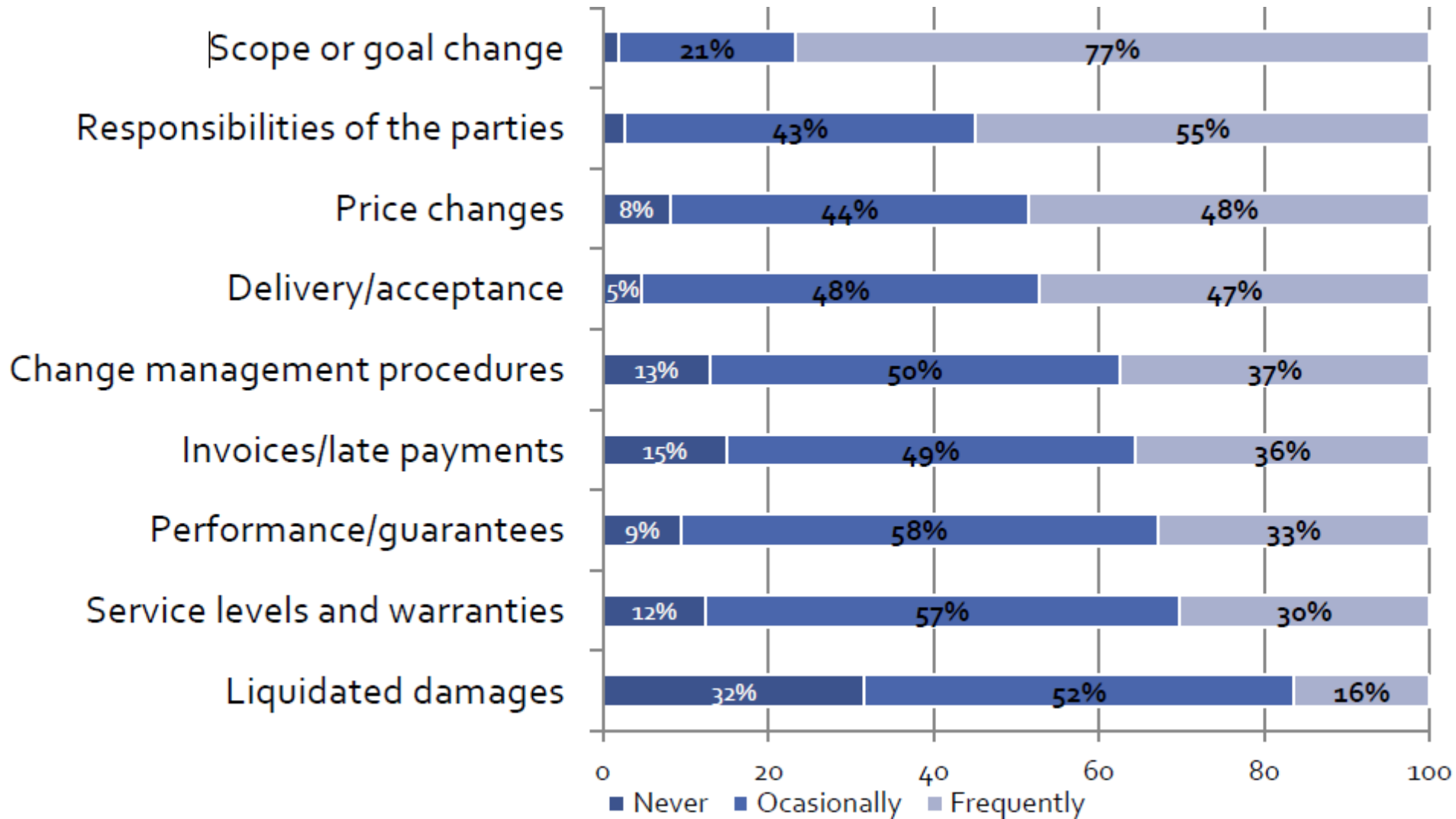
Source: International Association for Contract and Commercial Management

Commercial Approach – Relationship for Design Phase

An analysis has been undertaken to determine the type of relationship IR will have with the selected COTs provider. This will influence other considerations which make up the commercial and contractual approach. Further (detailed) analysis is located in Appendix (Slide 77).

Type	Description	Pros	Cons
Transactional	Meeting the deliverable requirements ("what you specify is what you get"). This is a basic relationship. The focus remains on meeting the specified deliverables as prescribed at the expected quality and a specified price. Any improvements or innovations occur only at the client requests resulting in variations to the contract.	• IR knows exactly what to expect form the deliverable • IR is in complete control and must understand how this deliverable and all the others fit within the scheme of the Programme	• Reactive relationship • No incentive for service provider(s) to go 'above and beyond' • Tight controls on changes which can be time consuming to justify the commercial impact if change requests are required
Key	Reactive more that proactive, safe pair of hands and tends to rely more on inputs focus. Has a strong client Focus	• Simple, single or limited points of contact • Face to face or electronic	• Do and Charge • Tender Based • Cost Plus • Prescriptive • Focus • Work to rule or Standard • Basic Account Management • Task driven • Reactive account management skills
Core	Do and Add Value with and ability and depth of organisation to exploit synergies, this relationship tends to act as a Preferred Supplier	• Key Account Plan leads relationship development and performance obligations • Professional Key Account Managers • High accountability	• Complex Multi level contract and contact management interface
Strategic	Alliance contracts are based on a long term commitment between two organisations with a common purpose and goals that are achieved by maximising the effectiveness of skills and resources. The contracts are simple and does not have clauses covering every possible risk and contingency but covers off the key business risks. The aim of such an arrangement is performance excellence. It is predicated on improvement and innovation and assumes that both parties win through working closely as one team. Errors and omissions excepted	• Focus' is on strategically important processes for IR • Seeks world's better practice outcomes for IR • IR and service provider focus on delivering continuous improvement/innovation • Creates a flexible relationship between IR and the service provider • Focuses on achieving long term value for money for IR • Focuses on redesigning and improving processes for IR	• Needs genuine vision and commitment by IR and the service provider • Requires a genuine long term view by IR and the service provider • Requires significant flexibility and change by IR and the service provider

Preferred Contracting Approach – Key/Major Relationship

IR is looking for the preferred supplier to work with the BT Programme team, to augment experience and expertise that IR has in-house or via contractors.

More specifically this will be a long-term relationship likely to span over the full lifecycle of the BT Programme.

This will require that IR:

- has good visibility over the supplier's activities so that IR may continue to drive value after implementation, and to also effectively manage complexities arising during the different phase(s),
- develops a transparent and risk-sharing relationship with the supplier to ensure both parties' interests are aligned for the duration of the programme lifecycle – to deliver a successful outcomes, and
- captures the opportunity to work in partnership with a world class supplier to transfer knowledge and expertise and embeds sustainable capability.

Based on this understanding and the objectives outlined in the Programme Business Case the contracting approach should be one in which IR and the supplier develops and implements in a *major/key* manner.

It is expected given the nature of the engagement that the relationship grow to an aspirational level of Partnering* and above once trust has been built upon the delivery of benefits.

*Typically partnering and greater levels are grown through cultural alignment of objectives therefore cannot be establish at commencement very easily. Note that several notable** large scale contracts tried at the commencement to enter a partnering structure and this reverted to less mature models with in 5 years.*

Increasing Value

Community centred

Pioneering

Partnering

Key

Major

Basic

Transactional

Trading

Tribal

Combative

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