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In Confidence

Office of the Minister of Revenue

Chair, Cabinet Government Administration and Expenditure Review Committee

Inland Revenue's Final Transformation Update

Proposal

- 1 This paper provides the final progress update regarding the modernisation of the revenue system. I am asking Cabinet to note that Inland Revenue has successfully implemented its transformation programme and delivered the intended outcomes.

Executive Summary

- 2 In just over 5 years, Inland Revenue has successfully transformed the revenue system in a multi-year, multi-stage programme. Changes have been made to every aspect of the way Inland Revenue operates, including policy settings, processes, its people capabilities and technology. This has been a high risk, highly complex programme of a scale seldom, if ever, seen previously in New Zealand.
- 3 The first customer-facing changes were implemented in February 2017 and the final changes in October 2021. The programme has been delivered on time and has achieved the intended outcomes. Inland Revenue estimates it will hand back \$250 million to \$275 million¹ at the completion of the programme, in addition to the \$160 million² handed back to date. This is a significant achievement. Many programmes of this size, scale, duration and ambition, whether in the public or private sector, are never fully completed, let alone deliver the outcomes intended. Furthermore, Inland Revenue has achieved this while continuing to deliver services to New Zealanders, navigating earthquakes and building closures, and supporting government to respond to a global pandemic. Formal programme closure is now just months away and will occur by 30 June 2022.
- 4 One of the objectives of transformation was to provide confidence that revenue would continue to be collected no matter the circumstances. For the year ending 30 June 2016, the year immediately before transformation began, Inland Revenue collected \$63 billion in Crown revenue. For the year ended 30 June 2021, Inland Revenue collected \$94 billion, an increase of nearly 50%. Over the same period, the number of full-time equivalents working at Inland Revenue reduced by 28% and all staff are now in capability based roles, showing just how much more efficiently and effectively the department is now able to work.
- 5 Customers' ability to self-serve has radically changed. This is reflected in customer uptake of myIR, Inland Revenue's secure online service, where total user sessions have nearly tripled from 17 million to 50 million in total over the 5 year period. Customer contacts through other channels, such as calls to Inland Revenue, have reduced as a result. Experiences for customers have improved significantly. Individual customers now

¹ Including depreciation and capital charge

² Including depreciation and capital charge

have refunds automatically calculated and paid to them. Businesses can meet their obligations through their accounting software. The information Inland Revenue holds is more accurate and up-to-date and combined with new analytical capabilities is enabling integrity checks to be completed in real time. Inland Revenue can now act far more quickly to help New Zealanders pay and receive the right amounts and identify and stop those who have fraudulent intent.

- 6 Although the programme will very shortly close, Inland Revenue will continue to focus on making the most of the suite of new capabilities introduced by transformation to reduce effort and improve experiences for customers further.
- 7 The arrival of the COVID-19 pandemic in 2020 has meant there have been few other times in our history when getting support to New Zealanders as quickly and easily as possible has been as important. New Zealand now has a very responsive and robust revenue system, which has enabled relief packages such as the Small Business Cashflow (loan) Scheme and the Resurgence Support Payment to be delivered within weeks. Online applications with built in checks have made it easy for customers to check their eligibility for support and, for those eligible, payments arrive in their accounts within days. This would simply not have been possible before transformation.

The final changes in Inland Revenue's transformation programme have gone live

- 8 Child support moved to new systems and processes as planned on 28 October 2021. Child support customers now have better visibility of their obligations and payments in myIR, Inland Revenue's secure online service, and are able to do more for themselves, including applying online and advising the department of any changes in their circumstances.
- 9 Payments now get to carers faster. Since November 2021, child support payments have been passed on by the 23rd of the same month, as long as the liable (paying) parent has paid on time on the 20th. Previously, payments were made on the 7th of the month following the due date.
- 10 Legislative changes have also taken effect. Deductions of financial support from payments made by an employer are now compulsory for newly liable parents. As expected, it has taken time for some customers to get used to new ways of doing things and there have been some post go-live issues to address as there has been for every release.
- 11 As part of the final release, Inland Revenue also upgraded the online services all its customers use. A more modern look and feel for myIR, and simplified presentation of information and navigation, is making it easier for customers to find and do what they need to do. The layout adapts to fit the size of any screen without loss of functionality. Following go-live, Inland Revenue surveyed customers to find out about their experiences with using the new look myIR. Overall, most customers found it quite or very easy to do what they needed to do.
- 12 Co-existence, which refers to running old and new systems in parallel, was the biggest risk to the revenue system during transformation. Inland Revenue's operational risk profile has reduced significantly following the implementation of the final release as all products are running on new systems and processes. The previous system, FIRST, was decommissioned on 1 December 2021. One of the key objectives of transformation was to deliver stable and robust technology to underpin the revenue system. This is now a

reality and we have much greater flexibility to make changes to the products Inland Revenue administers. This needs to be balanced against the very full tax policy work programme we have asked Inland Revenue to deliver and any further COVID-19 related initiatives the department may be required to support.

- 13 There is still work to be done to decommission all remaining heritage systems and processes, and close the programme by 30 June 2022. However, this work will be largely invisible to anyone outside Inland Revenue. I am asking the committee to authorise the Minister of Finance and me to confirm the closure of the programme at the appropriate time.
- 14 While the programme will close, Inland Revenue will continue to modernise the revenue system by further embedding its new capabilities. In addition, Inland Revenue's benefit commitments extend through until 2023/24. As programme-specific reporting will now cease, the department will report on the progress it is making with continued modernisation and achievement of its benefit commitments as part of its Annual Reports for 2022, 2023, and 2024.

Inland Revenue has valuable experience others can learn from

- 15 We have begun a period of significant reform in many areas of the public sector and it is important that these reforms are implemented successfully. In my view, there is much that can be learned from Inland Revenue's experience in successfully implementing what has been a highly complex, high-risk and multi-year programme.
- 16 Before getting anywhere near seeking funding and approval to begin implementation, Inland Revenue took the time to understand what it would take to be successful. This included the need to invest in the right capability, dedicated leadership, strong and effective governance, having a clear vision and roadmap, making core technology decisions early, building and maintaining stakeholder and customer support, and taking its people on the journey. Inland Revenue is the first to admit it didn't get everything right and has some hard-won insights about pitfalls to avoid. The department has actively shared its experiences with other agencies and will continue to do so.
- 17 I believe it is essential that the lessons Inland Revenue has learned are captured and shared more widely across the public sector so that others may benefit from them. In my view this needs to happen sooner rather than later, while recollections are still fresh and before the key people involved move on to other things. I have asked Inland Revenue to provide a report to the Minister of Finance and me by June 2022 outlining its views about why it has been successful, what lessons it learned along the way, and what it would recommend other major change programmes should consider to set themselves up for success.
- 18 There are also undoubtedly opportunities to leverage the investment made in Inland Revenue more widely to improve outcomes for New Zealanders and support a unified Public Service. An independent review into where these opportunities may lie was commissioned by Inland Revenue and undertaken in November and December 2021. The findings have been shared with the Minister of Finance and me and the report is consistent with our view that there are opportunities to leverage and recommends:
 - 18.1 The establishment of a system level strategic transformation capability to guide transformation.

- 18.2 Appointing Lead Agencies for major shared delivery processes.
 - 18.3 Reviewing the enabling regulatory frameworks as this is a primary source of complexity.
 - 18.4 Strengthening the business case process to incentivise re-use of approaches and systems.
 - 18.5 Ensuring business transformation programmes are funded through multi-year appropriations.
 - 18.6 Conducting a feasibility study into the deployment of common and core capabilities.
- 19 As these recommendations are all at system level, I have asked the Commissioner of Inland Revenue to work with the Public Service Commissioner to inform further advice to Ministers on how to continue to leverage the business transformation investment and capabilities across the Public Service. The Minister for the Public Service is bringing proposals to this Committee relating to alignment and coordination of key functions across the Public Service that will provide an opportunity to respond to take this work forward.

Transformation has delivered the outcomes intended

- 20 Inland Revenue recognised that a true transformation would involve a combination of changes to policy settings, process, technology, and people capabilities. Changes across all these dimensions were planned for through a multi-year, multi-stage programme. Transformation is far more than an upgrade of technology and has meant changing every aspect of the way Inland Revenue operates. The intent was to deliver a modern, digital revenue system that made tax and social policy payments simpler and more certain for customers. This has been achieved.

Customers have significantly improved digital services and can do more for themselves

- 21 Digital services put customers in control, enabling them to do as much for themselves as possible in a way and at a time that suits them. This makes it much easier for them to interact with Inland Revenue when they need to. Use of Inland Revenue's digital channels has increased significantly in recent years.
- 22 Through their myIR account, customers can file returns, make payments, advise Inland Revenue of changes in their circumstances, and apply for support online. Customers are voting with their fingers as illustrated by the examples below.
- 22.1 The number of myIR sessions has nearly tripled from around 17 million for the year ending 30 June 2016, the year immediately before transformation began, to more than 50 million for the year ending 30 June 2021. A huge amount of this growth, nearly 20 million sessions, was the result of customers accessing myIR from a mobile device. This was not possible before transformation.
 - 22.2 Individual customers have embraced digital channels. As at 31 December 2021, 99% of individual income tax payments were made digitally, up from 85% for the

year ending 30 June 2016³. Over the same period, the percentage of donations tax credit claims made digitally increased from 51% to 82%.

- 22.3 The amount of paper being sent to Inland Revenue has reduced dramatically. 99% of returns were filed digitally for the year ended 31 December 2021. This is up from 73% for the year ended 30 June 2016. As at 31 December 2021, 88% of the correspondence sent to Inland Revenue was sent digitally, up from 57% as at 30 June 2018⁴.
- 22.4 More than 99.5% of the applications for COVID-19 support have been made online. As at 14 February 2022, of the approximately 135,000 applications received for the small business cashflow (loan) scheme, just 312 were not made through myIR. For the resurgence support payment, of the approximately 896,000 applications received, just 3,896 were not made through myIR.
- 23 Visits to Inland Revenue's website have also increased considerably. The re-designed website went live in stages from April 2019 with a simplified and improved information structure, navigation, and language. The website is continually optimised based on customer usage patterns and feedback. The number of user sessions nearly doubled to 57 million for the year ending 30 June 2021, compared to 5 years earlier.
- 24 Working for Families customers whose entitlements had been too high can now pay back their overpayment by reducing their current entitlements. Customers can set up an instalment arrangement themselves through myIR, or Inland Revenue's staff can set one up for them after a conversation with the customer. Since this option became available in April 2020, there has been a steady increase in customers setting up arrangements. Currently, around 2,000 customers have chosen to reduce their entitlements to pay back Working for Families debt. It was not possible to do this before transformation. The options previously available to customers were to try and pay it back in a lump sum, ring Inland Revenue to set up a payment arrangement, or have it taken out of their wages.
- 25 Despite the high uptake of digital services, there will always be customers unable or unwilling to use them or who need to contact Inland Revenue for other reasons. Phone calls and appointments will continue to be available to customers in these situations. While it is clear that use of these services is declining as customers choose digital options, they remain an important part of Inland Revenue's service offering. The number of attempted calls to Inland Revenue declined by around 25% between the years ending 30 June 2017 and 30 June 2021, and the number of visits to the department's offices declined by a similar amount.

It is easier for customers to pay and receive the right amounts

- 26 New processes and new capabilities are making it seamless and low effort for customers to meet their obligations and receive the right entitlements.
- 27 Inland Revenue is about to assess entitlements for approximately 380,000 Working for Families customers which will apply from 1 April 2022. This happens in February each year and is known as rollover. This process is now faster and more accurate, providing certainty to customers sooner, following the move of Working for Families to new systems and processes in April 2019.

³ Inland Revenue stopped accepting cheques in March 2020.

⁴ This measure is not available as at 30 June 2016.

- 27.1 Previously, using old systems and processes. it took more than 12 hours to rollover entitlements. Now, it takes around 30 minutes.
- 27.2 Previously, Inland Revenue notified customers over a 4 to 5 day period what their future entitlements would be. Now, notifications are sent as soon as entitlements have been calculated.
- 27.3 Based on what occurred for the 2021 rollover, Inland Revenue expects to let around 95% of customers know what their entitlements will be through myIR. This is up from around 80% previously.
- 28 Since the year ending 31 March 2019, an end-of year income tax assessment has automatically been issued to individuals. Inland Revenue pre-populates information in their myIR account and calculates the refund or tax to pay for them. Customers only need to let Inland Revenue know if this information is incorrect or incomplete. Refunds are automatically paid into bank accounts.
- 29 As at 30 June 2021, more than \$1.8 billion in income tax refunds had been automatically paid out to customers over the 3 years the new process has been running. Over the same period, \$305 million in bills for tax to pay had been issued. As at 30 June 2021, 90% of the refunds paid for the year ending 31 March 2021 went to customers earning less than \$70,000, putting \$410 million in customers' pockets.
- 30 Prior to the introduction of the new year-end process, Inland Revenue estimates that approximately 1.4 million people did not have any end-of-year interaction with the department. Many could have been entitled to refunds if they had applied for them. For the year ending 31 March 2018, refunds totalling approximately \$450 million were paid to those who applied for them. Customers could check to see whether they had a refund owing or tax to pay before taking any action. Inland Revenue's assumption is that those who did not take any action either had tax to pay or were unaware they could have received a refund.
- 31 Fundamental changes, such as the introduction of automatic assessments, required an extensive programme of policy changes, all of which have now been implemented. Amongst the most significant legislative changes were the move to payday filing and changes to reporting requirements for investment income.
- 32 As a result, individuals' income information is now more accurate and up-to-date and Inland Revenue has greater confidence in sharing it with others to improve outcomes for New Zealanders, with appropriate security permissions in place. This was a pre-requisite for introducing automatic income tax assessments and is helping to make payments during the year more accurate so that fewer people end up in debt or missing out on their entitlements. It has also contributed to the COVID-19 response, particularly in supporting the Ministry of Social Development to administer the wage subsidy.

Analytical capabilities are enabling Inland Revenue to proactively help customers

- 33 Inland Revenue is proactively using the more accurate information it holds to help customers, support the outcomes of social policies, and improve compliance.
- 34 Much greater visibility of customer behaviour enables Inland Revenue to quickly provide support and education where customers are struggling. Early detection of errors, both accidental and deliberate, means Inland Revenue can quickly identify and act on areas of confusion and/or compliance risks. For instance, it quickly became clear that customers filing their 2021 returns were either not including the wage subsidy they had received or were filing an incorrect amount. Within a week, Inland Revenue had pre-populated this information for customers.
- 35 To help ensure people receive the payments they are entitled to, each week Inland Revenue identifies between 50 and 100 customers who should be receiving Working for Families tax credits and aren't and gets in touch with them. This was not possible before transformation. Inland Revenue also uses information from employers to pick up changes in customers' income and notifies them that their entitlements may need to be adjusted.
- 36 Automated rules enable the right checks and balances to be put in place upfront so things that need to be looked at by one of Inland Revenue's people get stopped and those that don't get processed more quickly, providing certainty to customers sooner. This means that a high trust model does not have to mean high risk. As at 14 February 2022, approximately 135,000 applications for the resurgence support payment had been stopped from being submitted by upfront checks⁵. A further 168,000 had been stopped by these checks to be reviewed by one of Inland Revenue's experts, with around 70% subsequently approved. Most of the 840,000 payments to 231,000 eligible businesses totalling \$2.9 billion so far had the funds in their accounts within three days.
- 37 Every return that can generate a refund is checked automatically. All amended returns are checked and screened. Between 1 July 2020 and 30 June 2021, approximately 117,000 returns across all tax types were identified that had errors or potentially fraudulent with a value of just over \$300 million. Please note this data is unaudited.
- 38 Both these examples show the power of Inland Revenue's analytical capabilities to quickly identify and address fraudulent behaviour and ensure those that are eligible for support or a refund get it as quickly as possible.
- 39 New analytical capabilities are also helping people to better understand their compliance obligations. Compliance with the bright-line rule has been one of the first focus areas. Inland Revenue's data has been brought together with LINZ and commercial third party data to begin to provide a view of property transactions throughout the country and identify those which are potentially subject to the bright-line rule.
- 40 When Inland Revenue sends information to customers (or their agent) reminding them that if a sale is subject to income tax due to the bright-line rule, then any profits from the sale must be declared in their income tax return when it becomes due, it delivers results. For the year ended 30 June 2021, 397 voluntary disclosures were received – a 300% increase on the 91 received the previous year. In addition, contacting people shortly after a sale has been made has led to a noticeable increase in bright-line information being filed with tax returns. By prompting more people to come forward and self-correct, Inland

⁵ This does not necessarily equate to 99,000 individual applications as it could include the same IP address attempting multiple entries.

Revenue's compliance specialists are freed up to focus on the more non-compliant customers.

Inland Revenue's systems interact directly with customers' and partners' systems

- 41 Through transformation, the role of third parties in the revenue system has been significantly expanded. Services are increasingly being delivered in partnership with other organisations in both the public and private sector. This means that the timeframes for third parties need to be considered when implementing changes, for example changes to software packages.
- 42 Businesses are able to meet their obligations through their natural business systems. They can file through software and easily provide Inland Revenue with information at the time they're carrying out a normal business process. For example, reporting employment income information to the department when they do their payroll. As at 31 December 2021, just over 210,000 small to medium sized businesses and tax agents were using business accounting or payroll software to manage their GST obligations.
- 43 Use of software platforms by customers has increased, in particular the big accounting and business management platforms, the banks and payroll providers (employers and payroll intermediaries). Previously Inland Revenue's digital channels were not available to many software platforms so most customers used a combination of myIR, phone and paper.
- 44 Gateway services enable two-way, direct machine-to-machine interactions between external systems, such as tax agents and KiwiSaver providers, and Inland Revenue's systems. They are a fast, high-volume channel providing on-call access to up-to-date information. All KiwiSaver providers are now using gateway services with a marked improvement in experience for customers. Customers are being enrolled and getting their contributions faster with much lower error rates. For the year ending 30 June 2021, 95% of members' contributions were transferred to their scheme providers within two days. Previously it took an average of 20 to 23 working days. Inland Revenue is also receiving far fewer manually facilitated requests such as membership queries from KiwiSaver providers.

Inland Revenue is working more efficiently

- 45 Higher levels of automation and rules built into systems mean straight forward transactions are processed with no human intervention. For example, around 93% of GST returns are processed straight through, ensuring customers get valid refunds quickly. As customer effort has reduced, the nature of Inland Revenue's work has changed. This has freed Inland Revenue up to focus on customers who need help and support and those who choose not to comply with their obligations. The size of Inland Revenue's workforce has reduced commensurately, with 28% fewer full-time equivalents (FTEs) as at 30 June 2021 compared to 30 June 2016. The reduction of 1,556 in the number of FTEs was achieved by adopting a set of workforce management principles. This meant that redundancies were limited to around 450, some of which were voluntary, with the balance achieved through attrition.
- 46 Over the same period, revenue collected has increased by nearly 50% and discrepancies identified by Inland Revenue's compliance specialists have remained relatively steady at around \$1 billion a year. The focus of compliance has moved from the end (enforcement) to 'Right from the Start', as the quality and frequency of the data Inland Revenue collects

has improved. Using analytics, the focus is now on real time integrity, both at the time a transaction takes place and intervening earlier when customers get it wrong, either accidentally or deliberately. This reduces the need for post-return work, whether that is debt collection or audit and investigation. However, discrepancies continue to be identified through investigative activity where the dollar value or risk to the integrity of the revenue system warrants it.

- 47 To help its people make the most of its new capabilities, Inland Revenue has invested significantly in training and development opportunities. Capability-based roles are focused on transferable skills such as customer service or digital literacy as well as new capabilities such as data analytics, enabling people to build their capabilities as work has changed. A full organisational redesign was completed. The new operating model enables Inland Revenue to harness collective strengths and knowledge to solve issues and innovate and improve services using new digital capabilities and networked ways of working. Delegated decision-making is enabling Inland Revenue's front-line people to make decisions in real time as they are working with customers.
- 48 Mobile workplace technology is enabling Inland Revenue's people to work from anywhere. This has meant that Inland Revenue could keep providing services during several significant disruptions that occurred during the implementation of the programme, including the Kaikoura earthquake, long-term building closures due to seismic issues, and the COVID-19 pandemic. Inland Revenue's ability to keep providing services would have been severely constrained in these situations prior to transformation.
- 49 Mobile technology and flexible working practices are highly valued by Inland Revenue's people. The 2021 Public Sector Census showed that Inland Revenue people, compared to all public servants, feel they have and can use more flexible working opportunities and are more satisfied with their work/life balance.

The programme will come in under budget and unused funding will be handed back through the Budget 2022 Technical Initiatives Process

- 50 Previously, Inland Revenue has handed back approximately \$127 million in capital and operating funding of the total approved \$1,870 million capital and operating funding for the period 1 July 2014 to 30 June 2024. Additionally, the department handed back approximately \$33 million of the total \$740 million approved funding for depreciation and capital charge over the same period⁶. Jointly, the amount handed back to date is around \$160 million.
- 51 Now that the programme is nearly complete, Inland Revenue estimates it will be able to hand back a further \$90 million to \$100 million in capital and operating funding and \$160 million to \$175 million of depreciation and capital charge. In total, Inland Revenue estimates it will be able to hand back \$250 million to \$275 million including depreciation and capital charge through the Budget 2022 Technical Initiatives Process.
- 52 The total estimated amounts to be handed back over the life of the programme are \$410 million to \$435 million including depreciation and capital charge. This represents about 16% to 17% of the total funding approved for transformation and approximately 30% to 32% of the new Crown funding approved.

⁶ At the time the business case was approved in November 2015, the capital charge was 8%. This has since reduced to 5%, reducing the approved funding for depreciation and capital charge to \$664 million.

Funding transfer for residual activities following the closure of the transformation programme to be requested through the Budget 2022 Technical Initiatives Process

- 53 In 2022/23 and 2023/24, Inland Revenue intends to undertake necessary residual activities following the closure of the transformation programme on 30 June 2022. These activities were unable to be completed due to COVID-19 priorities.
- 54 To fund these activities, Inland Revenue intends to cover capital costs estimated at around \$21 million from internal reserves as well as to seek expense transfers from the current year's operating appropriation totalling between \$30 million and \$35 million.
- 55 The expense transfers for the operating cost will be requested through the Budget 2022 Technical Initiatives Process.

Next steps

- 56 The next steps are to:
- 56.1 complete decommissioning of all heritage systems and processes;
 - 56.2 provide a lessons learned paper to the Minister of Finance and me by June 2022; and
 - 56.3 close the programme by 30 June 2022.

Consultation

- 57 A copy of this paper has been provided to the Accident Compensation Corporation; the Department of Internal Affairs (Government Chief Digital Officer); the Department of the Prime Minister and Cabinet; the Ministry of Business, Innovation, and Employment; the Ministry of Education, the Ministry of Social Development; the New Zealand Customs Service; and Stats NZ.

Financial Implications

- 58 The proposals in this paper have no financial implications.

Human Rights

- 59 The proposals in this paper have no human rights implications.

Legislative Implications

- 60 The proposals in this paper do not require any changes to legislation.

Regulatory Impact Analysis

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

Gender Implications

- 62 The proposals in this paper have no gender implications.

Disability Perspective

63 The proposals in this paper have no implications for people with disabilities.

Proactive Release

64 I propose to proactively release this Cabinet paper, and associated minutes, in whole within 30 working days of Cabinet making final decisions.

Central agencies' comment (The Treasury, Public Service Commission and Government Chief Digital Officer)

Business Transformation was complex, risky project...

65 The Treasury, Public Service Commission and Government Chief Digital Officer agree that Inland Revenue has successfully implemented its Business Transformation programme. This was a very substantial and complex undertaking.

...which has delivered significant change...

66 Every aspect of Inland Revenue's work has been affected by changes that have made the tax system generally more efficient, more responsive to change, and easier to engage with.

67 Inland Revenue's management of its finances and its technology throughout the process has been exemplary. And despite being disrupted by a global pandemic and the closure of the agency's main premises in central Wellington, the project will substantively close in June this year, on-time and under-budget.

68 Business Transformation has already delivered important benefits for Inland Revenue's customers and the Government. More people are filing electronically and Inland Revenue is better able to help people get their obligations 'right from the start.' The agency was also able to play a critical role in the response to COVID-19, standing up the Resurgence Support Payment and Small Business Cashflow Scheme faster than would have been possible before.

...while not detracting from BT's success, central agencies note...

69 Other benefits are harder to assess. Central agencies have previously questioned whether the projected revenue uplift would be achieved. This is because the agreed proxy measures for revenue uplift only loosely correlate with increased revenue (the proxy measures are supplemented by case studies, which are also inevitably incomplete). Inland Revenue correctly notes that revenue has grown by approximately 50% over the course of Business Transformation, but other factors have also contributed.

70 The evidence is also mixed for some other benefits of the programme. Administrative savings have been achieved through downsizing of Inland Revenue's workforce, thereby reducing the agency's baseline beyond the end of the programme. But temporary funding has been provided to prevent some of the downsizing out of concern that this would affect ongoing service levels, especially during the current pandemic.

71 Inland Revenue and the Treasury will need to continue to monitor the sustainability of Inland Revenue's funding.

- 72 In respect of compliance costs, the direct interaction between Inland Revenue's systems and business customers' systems saves time, as does the pre-population of information on returns and automatic refunds. However, the time taken by some taxpayers, such as SMEs, to comply with their tax obligations has not fallen as much or as consistently as hoped. Tax agents, too, have raised concerns about engaging with Inland Revenue.
- 73 In terms of technology, central agencies would like to better understand IR's roadmap of future system investment, including the core system provided by FAST. Specifically, when will an investment of a similar scale be needed in the future, and to what extent can Inland Revenue's systems be continuously and sustainably managed, enhanced and replaced?

...and there are many lessons that can be learned, both for Inland Revenue and for future projects.

- 74 Ongoing responsibility for tracking Business Transformation benefits has passed to IR's Performance and Reporting team. The Minister of Revenue should also continue to seek and interrogate assurances from officials that Inland Revenue remains focused on maximising the benefits of BT, and that the agency is addressing areas where there are further opportunities to improve.
- 75 While central agencies await with interest Inland Revenue's "lessons learned" report, Business Transformation has shown the importance of taking a rigorous approach to risk management, monitoring, and working collaboratively. Taking this approach will put future projects on track to deliver real benefits for New Zealanders, as this programme has.

Recommendations

I recommend that the Committee:

- 1 note that this is the final progress update on Inland Revenue's business transformation programme;
- 2 note that child support successfully went live on new systems and processes on 28 October 2021 and that Inland Revenue's online services were upgraded at the same time;
- 3 note that Inland Revenue has now implemented New Zealand's future revenue system in four stages as agreed by Cabinet in November 2015;
- 4 authorise the Minister of Finance and the Minister of Revenue to confirm the closure of the programme by 30 June 2022;
- 5 note that the Ministry for the Public Service is bringing a paper to this Committee relating to the alignment and coordination of key functions across the Public Service that will provide an opportunity to leverage the business transformation and capabilities across the Public Service;
- 6 note that Inland Revenue estimates it will hand back a further \$250 million to \$275 million, including depreciation and capital charge, through the Budget 2022 Technical Initiatives Process, taking the total to be handed back over the life of the programme to about \$410 million to \$435 million, including depreciation and capital charge;

- 7 note that Inland Revenue intends to undertake necessary residual activities following the closure of the transformation programme on 30 June 2022, and that to help fund these Inland Revenue will be seeking expense transfers totalling \$30 million to \$35 million through the Budget 2022 Technical Initiatives Process;
- 8 note that Inland Revenue will continue to report on its progress in meeting its benefit commitments through its Annual Reports for 2022, 2023, and 2024.

Authorised for lodgement

Hon David Parker

Minister of Revenue