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Inland Revenue Department: Benefits management for the Business Transformation programme



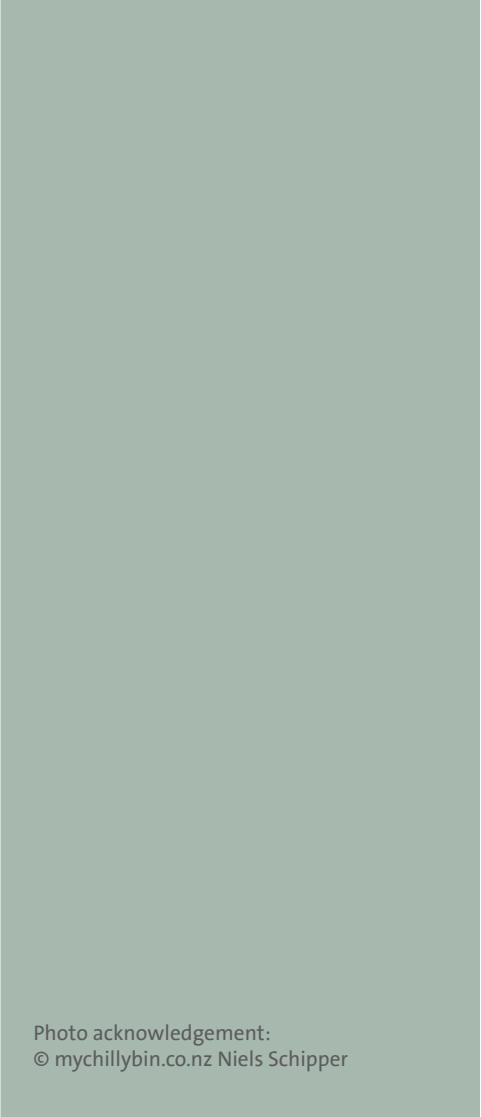


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Inland Revenue Department: Benefits management for the Business Transformation programme

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Auditor-General's overview

E ngā mana, e ngā reo, e ngā karangarangatanga maha o te motu, tēnā koutou.

Collectively, New Zealanders pay about \$80 billion in tax each year. The Inland Revenue Department (Inland Revenue) is responsible for collecting that tax and for supporting other important government services, such as Working for Families tax credits, child support, KiwiSaver, student loans, and paid parental leave. It is critical for Inland Revenue and the taxpayer that it collects the taxes due by law and supports those services effectively and efficiently.

In 2011, Inland Revenue began a significant programme to modernise New Zealand's revenue system and address the underlying risks in its technology infrastructure. This programme is known as the Business Transformation programme.

The Business Transformation programme is expected to cost up to \$1.7 billion¹ and is due to be completed in the 2021/22 financial year. Inland Revenue reports that it is currently on track to complete the programme within budget and on time.

The Business Transformation programme will have a wide effect on Inland Revenue and taxpayers. It will change how Inland Revenue carries out its taxation functions, including the policy, processes, technology, and information it uses to deliver taxation services.

The changes Inland Revenue is making affect the people who administer the revenue system and those who rely on the revenue system for information to do business. The changes are designed to improve how New Zealanders interact with the revenue system.

In New Zealand and other countries, significant programmes of change have a poor track record for fully realising their proposed benefits. We wanted to provide Parliament and the public with assurance about the expected benefits of the Business Transformation programme, including its progress to date. We wanted to do this because of the significant change that is expected, the substantial amount of financial benefits that are yet to be realised, the importance of taxation to government revenue, and the considerable costs of the transformation.

We also wanted to assess how well placed Inland Revenue is to manage, measure, and monitor the benefits of the programme in the future. These benefits include making technology systems more resilient, increased Crown revenue, a reduction in the cost for small to medium businesses to comply with their tax obligations, a reduction in administration costs to Inland Revenue, and making it easier for customers by, for example, automatically calculating individuals' income tax.

¹ This is a 10-year estimate of cost (to 2023/24) that includes ongoing costs. The amount excludes inflation, depreciation, and capital charge.

We expected Inland Revenue's framework for measuring benefits and its benefits management practices to be:

- appropriate, reliable, and relevant; and
- effective in assisting it to achieve its investment objectives.

What we found

Inland Revenue appears well positioned to realise the benefits of the Business Transformation programme. However, there are a significant amount of financial benefits to achieve between now and 2023/24, when its monitoring of the programme's benefits is due to finish.

Although the level of change involved might adversely affect some people's interactions with the system, in 2018/19 Inland Revenue had met all but one of the indicators of progress ("percentage of customers who find it easy to comply") it uses to demonstrate that it is on track to achieving the programme's intended benefits.

Inland Revenue's reporting of the programme's benefits is reliable. Inland Revenue's reporting against its indicators of progress shows that, as at the end of the 2018/19 financial year:

- The programme has resulted in a \$90 million increase in Crown revenue. At its current rate, the increase in Crown revenue will equate to \$540 million by 2023/24. However, Inland Revenue has committed to a cumulative increase of \$2.88 billion by 2023/24.
- It has cumulatively reduced administration costs by \$60 million since 2017, against its overall target of \$495 million by 2023/24.
- The effort for small to medium enterprises to comply with their tax obligations has reduced by nine hours a year. The target for the end of the programme is to reduce this time by 18 hours.

Inland Revenue estimates that the value for small to medium enterprises of this time saved to date is \$280 million. Inland Revenue has committed to making cumulative savings of \$1.33 billion for these businesses by 2023/24.

Although this progress is positive, and largely on track with expectations at this point of the programme, the gap between benefits achieved to date and benefits sought by 2023/24 is significant.

We will not be able to say with certainty that the significant investment in the programme represents value for money until the benefits from the completed project are measured.

However, in my view, Inland Revenue is well positioned to continue managing, measuring, and monitoring the programme's intended benefits. This is because it:

- took the time and invested in external expertise to help gain clarity about the vision and purpose of the programme;
- placed a strong focus on benefits management from the beginning, which included generating reliable baseline data and supporting information; and
- demonstrated a commitment to learning and continuous improvement about benefits realisation and management.

Given the programme's scale and complexity, Inland Revenue's investment to gain clarity of its vision, purpose, and benefits is entirely appropriate.

This audit has reinforced my view that successfully delivering outcomes depends on systematically monitoring and tracking benefits for a programme's duration. Simply establishing benefit targets at the beginning and measuring progress against them at the end is unlikely to be an effective approach.

This is especially so when baseline data is hard to establish and measure, and effects occur throughout the programme's duration. To be successful, public organisations must understand their current state at the start of a programme, monitor progress at every step of implementation, and be prepared to make continuous improvements in benefits management.

Even though Inland Revenue has been managing benefits well, there are still significant risks to it successfully delivering the programme and fully realising its benefits. These include balancing the achievement of benefits with delivering business as usual. To embed the changes arising from the programme and realise its benefits, Inland Revenue must continue to monitor and mitigate those risks.

We completed the fieldwork for this audit before the Covid-19 lockdown. We acknowledge that this may affect the programme's costs and timing in the future.

I thank Inland Revenue staff for their co-operation with our audit. I also thank those we talked to from the Treasury, KPMG, and the Gateway review team.

Nāku noa, nā



John Ryan
Controller and Auditor-General

31 July 2020

1

Introduction

- 1.1 In this Part, we discuss:
 - why we did the audit;
 - what we looked at;
 - benefits management in the public sector; and
 - how we carried out our audit.
- 1.2 The Inland Revenue Department (Inland Revenue) is responsible for collecting and managing tax. It is also responsible for supporting other important government services, such as Working for Families tax credits, child support, KiwiSaver, student loans, and paid parental leave.
- 1.3 Inland Revenue needs to have robust and up-to-date systems, processes, and tools to carry out its responsibilities effectively. In 2011, Inland Revenue began a significant Business Transformation programme (the programme), which is intended to modernise the revenue system.
- 1.4 Inland Revenue is implementing the programme in four overlapping “stages”, some of which have been completed:
 - Stage 1 – enable secure digital services;
 - Stage 2 – streamline tax;
 - Stage 3 – streamline social policy; and
 - Stage 4 – complete the future revenue system.
- 1.5 Stage 1 (enable secure digital services) went live in 2017. It introduced new online services for Goods and Services Tax (GST) and made it possible for new businesses to register for an Inland Revenue number online.²
- 1.6 Stage 2 was delivered in two major releases. These releases included major tax products such as income tax and the Working for Families tax credit. Release 2 was delivered in April 2018 and Release 3 in April 2019.
- 1.7 Stage 3 has been folded into the other stages and releases. Parts of it have been included in Releases 2, 3, and 4, and its final elements in Stage 4.
- 1.8 Release 4 was delivered in April 2020 and involved moving KiwiSaver and student loans into Inland Revenue’s new system.
- 1.9 Stage 4 is designed to wrap up the final elements of the programme. It includes moving child support and paid parental leave to the new system and decommissioning Inland Revenue’s old technology platform.

² Your Inland Revenue number keeps track of the tax you pay and helps ensure that you pay the right amount or get the right entitlements. It is unique to you. If you have a company, trust, partnership, or other type of business, you will need a different Inland Revenue number for each one.

Why we did the audit

- 1.10 Between 1 July 2014 and 30 June 2019, the programme’s operating expenditure was \$583.5 million and its capital expenditure was \$278.4 million.³ Inland Revenue estimates that the total cost of the programme will be up to \$1.7 billion⁴ and that it will be completed in the 2021/22 financial year. Inland Revenue reports that it is “tracking within budget and expects to complete transformation within the funding envelope approved by the government”.⁵
- 1.11 Because of the programme’s significant cost, the extent of changes involved, and its importance to New Zealanders, we decided to report on aspects of the programme during its implementation.
- 1.12 Our first report on the programme, published in 2015, described how it was governed.⁶ The programme had a comprehensive and clear governance structure, an established methodology, and an advanced approach to managing risks. Our report made several recommendations, including that Inland Revenue periodically review the programme’s governance to ensure that it remained fit for purpose.
- 1.13 Our second report, published in 2018, discussed whether the programme’s procurement was effective, was well managed, and complied with relevant government requirements.⁷ Inland Revenue centralised its procurement activity. It did this so that its procurement approach could focus on relationships and outcomes, which would support it getting value for money. We identified some minor improvements Inland Revenue could make to comply with the *Government rules of sourcing*⁸ and its own policies, and to improve aspects of record-keeping for contracts.

What we looked at

- 1.14 This is our third report on the programme. For this audit, we looked at whether Inland Revenue had a robust framework for managing, measuring, and reporting benefits from the programme.

³ Updated programme costs will be available in November 2020.

⁴ This is a 10-year estimate of cost (to 2023/24) that includes ongoing costs. The amount excludes inflation, depreciation, and capital charge.

⁵ Inland Revenue Department (2019), *Programme business case addendum: Business Transformation programme – Implementing New Zealand’s future revenue system*, Wellington, at page 15.

⁶ Office of the Auditor-General (2015), *Inland Revenue Department: Governance of the Business Transformation programme*, Wellington.

⁷ Office of the Auditor-General (2018), *Inland Revenue Department: Procurement for the Business Transformation programme*, Wellington.

⁸ The *Government rules of sourcing* set out good practice guidelines for government agencies to follow in the sourcing stages of the procurement process. The rules can be found at www.procurement.govt.nz.

- 1.15 We looked at Inland Revenue's benefits management because we wanted to provide assurance to Parliament and the public about the benefits that the programme has delivered so far. We also looked at how well placed Inland Revenue is to deliver the remaining benefits of the programme.
- 1.16 We did this by assessing whether Inland Revenue's framework for realising benefits is:
- appropriate, reliable, and relevant; and
 - effective in assisting it to achieve the objectives of its investment.
- 1.17 We did not look at policy decisions about the programme or audit the programme's costs as part of this review.

Benefits management in the public sector

- 1.18 The Treasury defines benefits management as the practice of identifying, analysing, planning, realising, and reporting benefits.⁹
- 1.19 Active benefits management is seen as good practice in project and programme management. The Treasury's guide *Managing benefits from projects and programmes: Guide for practitioners* notes that “[i]nternational studies have shown that organisations with high benefits management maturity have greater success with their projects and programmes.”¹⁰
- 1.20 Historically, in New Zealand and other jurisdictions, transformation programmes have a poor track record in demonstrating that “the benefits they were established to deliver have been realised”¹¹
- 1.21 The Treasury leads investment management in the public sector and has a lead role in benefits management. The Treasury's guide on benefits management sets the expectations for benefits management and realisation for public organisations.
- 1.22 The Treasury's guide provides important foundational information on good practice for benefits management. These principles include:¹²
- Managing benefits is iterative by nature and not a fixed series of staged practices. Plans should be updated during the project or programme.

⁹ The Treasury (2019), *Managing benefits from projects and programmes: Guide for practitioners*, Wellington, page 7.

¹⁰ The Treasury (2019), *Managing benefits from projects and programmes: Guide for practitioners*, Wellington, page 1.

¹¹ The Treasury (2019), *Managing benefits from projects and programmes: Guide for practitioners*, Wellington, page 1.

¹² The Treasury (2019), *Managing benefits from projects and programmes: Guide for practitioners*, Wellington, pages 7-8.

- To be effective, benefits management should be integrated into strategic planning, project, programme, and portfolio approaches, performance management, and reporting systems.
- Managing benefits continues after a project or programme has been completed. It requires a structure that is able to transition into business as usual.
- To demonstrate value, benefits should be:
 - **measurable**: financial and non-financial;
 - **meaningful**: there is a direct relationship between achieving the measure and achieving the benefit;
 - **attributable**: it can be reasonably claimed that the benefit was achieved from the investment and not any other project or programme; and
 - **aligned** to strategic outcomes and targets.

1.23 Inland Revenue told us that it based its benefits management on the Treasury's guide.

How we carried out our audit

- 1.24 To carry out our audit, we:
- reviewed and analysed relevant documents from Inland Revenue;
 - interviewed Inland Revenue staff, including staff from the benefits team and senior leaders;
 - spoke to people from the Treasury's Investment Management and Asset Performance team, and Vote Revenue managers and analysts; and
 - spoke to Gateway¹³ review team leaders and the Independent Quality Assurance team that Inland Revenue commissioned to review aspects of the programme.

¹³ A Gateway review is an independent and confidential peer review process that assesses projects' and programmes' progress at important points and rates the likelihood that they will successfully deliver their outcomes.

2

Establishing a solid foundation for benefits management

- 2.1 In this Part, we discuss how:
 - investment objectives were clear and clearly linked to benefits; and
 - benefits were relevant and feasible, and the measures were robust.
- 2.2 Organisations should set a clear purpose for a project or programme from its beginning. This includes establishing well-defined outcomes and objectives that provide a framework for all decisions, including strategy formation, programme prioritisation, and designing robust benefits and measures. Making these outcomes and objectives transparent can also demonstrate the programme's value to Parliament, public, and other stakeholders.
- 2.3 For a programme of this scale and significance, we expected Inland Revenue to have well-understood processes and expectations that would guide the creation of the programme's benefits and measures.
- 2.4 We also expected Inland Revenue to align the benefits and measures with the programme's investment objectives and outcomes. Given the size of this programme, we expected Inland Revenue to have a robust approach to benefits management.

Summary of findings

- 2.5 Inland Revenue prepared a clear vision and strategy, and robust business cases, for the programme. Between 2011 and 2014, Inland Revenue regularly updated important stakeholders about the programme. This enabled Inland Revenue to demonstrate the value of its investment and provide clarity on the programme's intended outcomes.
- 2.6 Clear and agreed outcomes and benefit areas meant that Inland Revenue had a strong foundation to develop the programme from, including the benefits management framework. In our view, Inland Revenue had a robust process for identifying and estimating the programme's benefits and developing measures for them. This process was consistent with the Treasury's guide *Managing benefits from projects and programmes: Guide for practitioners*.

Investment objectives were clear and aligned to benefit areas

- 2.7 Between 2011 and 2014, Inland Revenue developed and agreed on the programme's investment objectives.
- 2.8 In 2011, Inland Revenue released *IR for the future*. This sets out its strategic vision to become a “world-class revenue organisation for recognised service and excellence”¹⁴ with a streamlined revenue system and new digital services for customers.

- 2.9 Because Inland Revenue had limited experience with business transformation programmes, it appointed an international business consulting firm in November 2011 to review the organisation and help develop an approach to deliver its strategic vision. The review helped Inland Revenue to identify the challenges of its current business model that the programme would need to address.
- 2.10 This review included looking at the current state of Inland Revenue's service delivery model and provided a customer perspective on developing the programme. It analysed customer complaints, created customer experience maps, and identified the points where Inland Revenue directly interacted with the customer and how they could be improved. We were told that customer focus groups were also part of this work.
- 2.11 In 2012, Inland Revenue produced a strategic assessment for the programme that set out the case for modernising the revenue system. The assessment described high-level benefits that Inland Revenue wanted to achieve. It also identified the need to transition to a whole new revenue system, including a new information technology platform, and way of operating that could future-proof its ability to deliver services and achieve its strategic objectives.
- 2.12 From the strategic assessment, and further investigation and planning, Inland Revenue produced the *2013 Programme business case for Business Transformation – Delivering New Zealand's future revenue system* (the 2013 business case). The 2013 business case supported Cabinet's consideration of Inland Revenue's proposed Business Transformation programme.
- 2.13 The 2013 business case set out the case for change and the programme's investment objectives. It also identified broad benefit areas the programme was intended to achieve.
- 2.14 Inland Revenue then commissioned several external reviews of the work done on the programme up to 2013. These reviews included looking at the work completed by the international business consulting firm and the work used to inform the 2013 business case.
- 2.15 One of these external reviews was an independent quality assurance review to assess and provide advice on the appropriateness of the programme's approach, deliverables, governance, and programme management practices (including benefits management).
- 2.16 The review assessed how well the benefit areas linked to the programme's investment objectives. It also assessed the methodology used to identify and quantify the benefits. The review found that the benefit areas and key result areas were well aligned with the programme's investment objectives. It also found that

the financial values of the benefits presented in the 2013 business case were appropriate for that stage of the programme.

Benefit areas are relevant and feasible, and the measures are robust

- 2.17 Inland Revenue based the programme’s benefits and measures on the benefit areas that the 2013 business case identified. These were:
- reduced time to implement new policy;
 - reduced risk of operational failure;
 - easier for customers;
 - improving revenue system integrity;
 - financial benefit to the Crown (including administration savings and increase revenue for the Crown); and
 - economic benefits to New Zealand.
- 2.18 Inland Revenue collected a broad range of information to identify and analyse the programme’s potential benefit areas and test their suitability. As a result, the process produced estimates that were based on the best available information and expertise.

A robust process to develop and establish programme benefit areas and measures

- 2.19 In 2014, Inland Revenue created a benefits management framework. The framework set out its expectations for benefits management for all of its projects and programmes.
- 2.20 These expectations were for baseline management (establishing and measuring baseline information), identifying benefits, quantifying benefits, and developing benefit measures. For example, benefits must contribute to Inland Revenue’s mission, vision, and investment objectives.
- 2.21 The framework also identified guides, tools, and templates for benefits management. The framework’s clear direction gave members of the programme’s benefit team confidence to carry out their work. In our view, this is good practice.
- 2.22 After identifying the benefit areas, Inland Revenue ran workshops with staff from throughout the organisation to develop “assumptions”¹⁵ for the potential benefit areas. For example, for the “easier for customers” benefit area, the main

¹⁵ The Treasury defines an assumption as a “statement of the current understanding that could inhibit or simplify an approach. It is used to help provide context for planning. It is usually reserved for matters of significance that, if they change or turn out not to be true, there will need to be re-planning”. See the Treasury (2019), *Managing benefits from projects and programmes: Guide for practitioners*, Wellington, page 32.

assumption developed was that customers “can self-manage and have confidence and certainty in what [they] need to do”.

- 2.23 Inland Revenue also ran workshops focused on quantifying the estimated benefits of the programme. Estimates were developed by identifying the main elements needed to realise a benefit. The workshops produced clear rationales for the level of change from an estimated benefit and what was needed for that change to be achieved.
- 2.24 For example, the workshop on the “administration savings” benefit conducted in 2015 assessed the potential effect of the changes on the amount of work effort required. This helped to understand the effect on the size of Inland Revenue’s workforce, which is an expected result of the programme.
- 2.25 The workshop used a product costing tool¹⁶ to provide the base information for the estimates of the administration savings benefit. Using this tool, activities were broken down into discrete business processes. This allowed workshop attendees to estimate the impact of proposed changes on each business process and combine these estimates to produce a broad estimate of administration costs savings throughout the organisation. For example, the direct effort for correspondence about GST was 35.75 full-time equivalent (FTE) staff.
- 2.26 By examining the implications of proposed changes for existing business processes at a detailed level, the workshop estimated that implementing the programme could reduce the part of Inland Revenue that handles GST by 17.78 FTEs.
- 2.27 Benefit ranges, and descriptions were developed based on the information the workshops produced. Inland Revenue also collected insights from interviews with overseas revenue collection agencies that used the technology platform GenTax,¹⁷ which Inland Revenue was implementing as part of the programme.
- 2.28 Inland Revenue obtained information about overseas agencies’ experience of productivity gains, the level of digital uptake, the effect on revenue collection, changes to implementing legislation or policy, and information about customer responses to a new way of working.

Benefits were tested with the governance board

- 2.29 The information about benefit ranges and narratives, and interviews with overseas revenue collection agencies, was presented to the programme’s governance board and Inland Revenue’s organisational governance boards to consider.

¹⁶ A product costing tool provides an overview of the total full-time equivalent staff cost of administering a tax or social policy product.

¹⁷ GenTax is Inland Revenue’s new technology platform. It is a tax-processing software package.

- 2.30 We saw evidence that Inland Revenue’s governance boards, including the Executive Leadership Team and Executive Working Committee, challenged targets that they considered too conservative or not aligned with the investment objectives. Targets were adjusted in response to this feedback.
- 2.31 For example, the Executive Leadership Team did not accept the proposed benefit area “protecting Crown Revenue”. This was because one of the benefit areas in the 2013 business case was to increase, rather than protect, Crown revenue.
- 2.32 As a result, the measure for the “protecting Crown Revenue” benefit was amended in 2015 to include a target to increase Crown revenue. This demonstrated an appropriate level of engagement by the programme’s governance boards. It also demonstrated that Inland Revenue was open to setting challenging targets.
- 2.33 Throughout the process of estimating benefits, Inland Revenue used Independent Quality Assurance and Technical Quality Assurance reviews to assess aspects of its process.
- 2.34 These reviews looked at the approach Inland Revenue took to modelling costs and benefits. They included its process for determining business benefits, including identification, tracking, and realisation. The review that looked at the programme’s cost–benefit model found that it enabled an understanding of cost and benefits in enough detail at that stage of the programme.
- 2.35 The reviews were satisfied with Inland Revenue’s process for developing its benefits realisation plan, which was informed by the 2015 *Programme update and detailed business case: Business Transformation programme – Implementing the future revenue system* (the 2015 business case).

Benefit measures were based on existing performance measures

- 2.36 Inland Revenue decided that, wherever possible, the programme would use existing “enterprise performance measures” to monitor progress against each benefit area. Enterprise performance measures are the measures Inland Revenue report against as part of measuring its overall performance.
- 2.37 Using existing performance measures meant the programme could measure progress against established baselines. It also meant that programme monitoring could be easily integrated into existing performance management and reporting systems. This should enable Inland Revenue to monitor and report on the programme’s benefits after the programme has been completed.
- 2.38 Inland Revenue worked with its business leads and performance reporting staff to assess whether existing performance measures were suitable for measuring the programme’s benefit areas. In most instances, Inland Revenue was able to use existing performance measures for the programme.

- 2.39 An example is using the existing performance measure of “percentage of customers who find it easy to comply” for the benefit area “easier for customers”. This measure comes from Inland Revenue’s customer satisfaction and perception survey.
- 2.40 The measure was selected because the programme’s planning identified “key pain points” and potential improvements the programme could deliver. A measurable improvement in customer satisfaction would indicate that these pain points were being reduced.
- 2.41 Where existing performance measures were not appropriate, Inland Revenue created suitable alternatives. For example, to measure improvements in policy agility, Inland Revenue decided on a case study approach. It agreed this approach with the Treasury and the Ministers of Finance and Revenue.
- 2.42 In our view, the measures were based on the best available information at the time, established clear baselines to measure progress against, and, because they were aligned to Inland Revenue’s performance framework, are regularly tested and validated through standard internal and external assurance mechanisms.
- 2.43 The 2015 business case confirmed the programme’s investment objectives, benefit areas, and measures. In our view, the benefits and measures outlined in the 2015 business case were prepared using a robust methodology and the best available information at the time. They are also well aligned with the programme’s investment objectives.
- 2.44 Figure 1 describes the programme’s benefit areas from the 2015 business case, as approved by Cabinet. They were subsequently revised.

Figure 1
The programme’s non-financial and financial benefit areas, as described in the 2015 business case

Non-financial benefit areas	Description
Easier for customers	Customers will find it easier to meet their obligations and receive their entitlements.
Revenue system resilience	The revenue system will be simpler, be more resilient, and recover from any failure quickly.
Agility to implement policy	The time and cost for Inland Revenue to implement policy changes will be markedly reduced.
Financial benefit areas	Benefit from 2015/16 to 2023/24
Compliance effort savings	\$1,200 million to \$2,025 million
Additional Crown revenue and efficiency savings	\$2,950 million to \$5,960 million

Note: The figures referred to in the 2015 business case exclude inflation, depreciation, and capital charge.

Source: Adapted from Inland Revenue Department (2015), *Programme update and detailed business case: Business Transformation programme – Implementing the future revenue system*, Wellington.

- 2.45 The 2015 business case also identified the benefit targets, how they would be measured, and the baselines they would be measured against (see Figure 2).
- 2.46 In our view, Inland Revenue's approach to establishing the benefit areas and benefit measurements was supported by a clear understanding of the programme's intended outcomes and objectives. Inland Revenue also clearly understood the processes for developing the programme's benefit areas and benefit measures.
- 2.47 As a result, the process for estimating benefits produced reasonable estimates that were based on the best available information and expertise, and were appropriately constructed given the scale, complexity, and ambition of the programme.

Figure 2
The programme's benefit targets, as described in the 2015 business case

Investment objectives (primary)	Benefit area	Measurement	Measure description	Baseline	Programme 2023/24 (all products and services)
Improve customer experience	Easier for customers	Increase in the number of customers who find it easy to comply	Inland Revenue's Customer Satisfaction & Perceptions Survey tool and are based on the net agree score (3-5)	82%	At least 90%
		Improve business perception that the revenue system requires less effort	From Better Public Services Result area 9, a key performance rating for government services to businesses are similar to those of leading private sector firms	3.88	3.00 or less
Increase the secure sharing of information		Case-studies on outcomes of information sharing and security of information	Case studies used to demonstrate the reduction in customer effort as a result of information sharing and security of information	Baseline policy change examples	
Improve customer experience	Reduction in customer tax compliance burden	The cost of compliance is measured in the hours taken to complete tax-related activities from SME compliance cost survey	Total of 61 hours p.a.	18-26 hours p.a. reduction	

Investment objectives (primary)	Benefit area	Measurement	Measure description	Baseline	Programme 2023/24 (all products and services)
Minimising system risk	Improved revenue system resilience	Increase in the mean time between failure for customer facing services	This measure records any incidents which impact the customers' ability to interact with Inland Revenue's systems	17 Days for portal	100 days for portal
		Increase in revenue system resilience	Self-assessed end to end view of underlying revenue system resilience [encompassing technology, change, people and process]	Assessed to High	Target is Low
Improving agility	Reduction in the time and cost to implement policy		The case study approach will use examples of policy changes implemented that range from simple to highly complex	Current state case agreed	
More effective services	Financial Benefits to the Crown	Increase in the number of correct customer obligations received on time	The purpose of this measure is to track the impact of the improvement of on-time compliance rates	81.5% (GST)	90%
		Additional Crown revenue via improved customer compliance	An increase in the amount of assessed Crown revenue identified through discrete projects funded through the programme	Nil	Increase \$1.5b p.a
		Percentage of social policy customers receiving accurate and timely payments	Measures the percentage of all Working for Families Tax Credits payments which are made on time and assesses the accuracy of information received by Inland Revenue	67%	95%

Part 2**Establishing a solid foundation for benefits management**

Investment objectives (primary)	Benefit area	Measurement	Measure description	Baseline	Programme 2023/24 (all products and services)
Improving productivity	Financial Benefits to the Crown	Administrative savings for Inland Revenue	The benefits released through discrete projects funded through the programme	Nil	\$95m to \$110m p.a.

Source: Adapted from Inland Revenue Department (2015), *Programme update and detailed business case: Business Transformation programme – Implementing the future revenue system*, Wellington.

3

Maintaining a strong and deliberate focus on benefits management

- 3.1 In this Part, we discuss:
 - benefits planning;
 - the programme's governance arrangements; and
 - Inland Revenue's culture of continuous improvement.
- 3.2 Benefits management needs an ongoing commitment for the duration of an investment. It should be integrated into an organisation's programme planning, strategic planning, and performance management and reporting systems.
- 3.3 Organisations need to regularly test benefit targets and measures to understand whether they are on track to achieving benefits and to ensure that benefits planning is based on the best available information. Effective benefits management helps to ensure that benefits are ultimately realised. It should also support an organisation to continually improve and implement lessons learned.
- 3.4 The Treasury's *Managing benefits from projects and programmes: Guide for practitioners* notes that improving how benefits are managed will increase the value from investments and enable the Government to invest more in critical areas.
- 3.5 We expected Inland Revenue to have clear and documented benefits management processes, including benefit realisation plans that outline expected benefits, governance roles and responsibilities, and the approach to regular monitoring and reporting on benefit areas. We also expected Inland Revenue to regularly review and improve these processes and have a systematic approach to implementing lessons learned.

Summary of findings

- 3.6 Inland Revenue maintains a strong and deliberate focus on its benefits management. One way Inland Revenue achieves this is by setting clear expectations and ensuring that its staff are meeting them. These expectations include adequate benefit planning, clearly assigning governance roles and responsibilities, and meeting monitoring and reporting requirements.
- 3.7 Inland Revenue continually looked for opportunities to improve its benefits management. We saw several examples of Inland Revenue making improvements to its framework for measuring benefits, the way it reports progress, and the activities and plans it has to achieve the benefits.
- 3.8 In our view, Inland Revenue's culture of continuous improvement means that it will be well placed to continue managing, measuring, and monitoring the programme's benefits.

Good quality benefits planning is important

- 3.9 Inland Revenue prepared a Business Transformation benefits management strategy to clearly set out the expectations for the programme's benefits management. These expectations were established in the benefits management framework (see paragraph 2.19).
- 3.10 The strategy sets out and confirms programme's governance arrangements, as well as the processes for quantifying and measuring benefits, and for tracking progress. It also outlines how the programme will communicate changes to benefits throughout its duration. The programme's documents frequently refer to the strategy.
- 3.11 Inland Revenue has prepared and maintained benefits plans at two levels:
- *Programme-level benefits management and realisation plan*, which Inland Revenue prepared in 2015. The plan describes Inland Revenue's approach to benefits management for the programme and the wider business.
 - *Stage and release benefits management and realisation plans*, which Inland Revenue prepares before implementing each stage or release of the programme. The plans describe all of the expected benefits and Inland Revenue's approach to benefits management for each stage or release.
- 3.12 Both levels of Inland Revenue's benefits plans were of good quality. The benefits plans we reviewed were clearly set out in a way that was appropriate to the programme. Elements covered by the plans included:
- important outcomes, benefits, measurement sources, and baselines;
 - processes to be used to test and validate the benefit measures;
 - key risks to the programme and/or the stage or release;
 - respective roles and responsibilities;
 - reporting and governance requirements; and
 - benefit maps that show how each plan's outputs link to the programme's investment objectives and benefits.
- 3.13 We saw evidence that Inland Revenue ran workshops to test and re-test benefit targets and the key performance indicators used to track the delivery of benefits. The purpose of this testing was to check that the targets and indicators were still fit for purpose before each major release. Inland Revenue also tested the benefit assumptions and estimations that it included in the programme update provided to Cabinet in November 2015. Attendees at these workshops included senior managers and subject matter experts from Inland Revenue.

- 3.14 For example, in the benefit plan for Stage 2, Inland Revenue identified that it would now use “increase in system availability” as a proxy measure for the benefit “revenue system resilience”. This “increase in system availability” replaced the proxy measure “increase in system availability for customer facing eChannels”. This change reflected the programme’s intention to use Inland Revenue’s enterprise performance measures rather than create new measures to measure the programme’s benefits.
- 3.15 Inland Revenue’s benefit planning included descriptions of critical success factors and key enablers of benefits (this is, what is needed to realise a benefit). For example, in the benefit plan for Stage 2, the key enabler of the benefit “easier for customers” is “proactive channel management and marketing”. Inland Revenue identified that more self-service options will enable customers to manage their obligations and entitlements with minimal intervention from Inland Revenue.
- 3.16 Inland Revenue has also refined its planning process over time to bring in more information about key enablers. It used this information to identify broader activities that support the achievement of benefits. For example, because a key enabler of most of the programme’s benefits is “customer buy in”, Inland Revenue ran seminars with customers and tax agents. In our view, working with customers and tax agents has been an important factor supporting “customer buy-in”.

Governance arrangements are fit for purpose

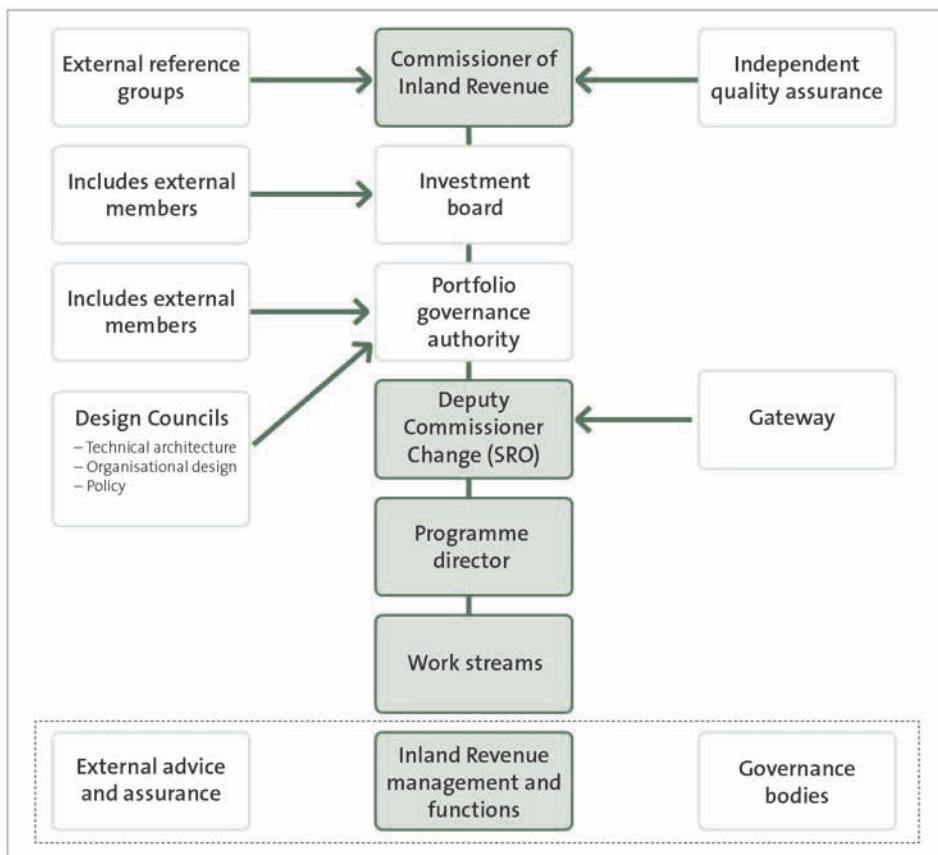
- 3.17 Organisational commitment and senior management accountability is critical to achieving benefits. This includes having effective governance arrangements in place. We expected the programme to have clearly defined and well-understood governance arrangements to approve and direct benefit plans and changes.
- 3.18 The programme’s governance arrangements support Inland Revenue in managing, measuring, and monitoring the programme’s benefits.
- 3.19 Three main factors indicated that the programme’s governance arrangements are effective:
- They have been periodically reviewed and adjustments made to ensure that they remained appropriate.
 - Governance members understood them well, and they were presented in the programme’s documentation consistently.
 - A specialist advisory group was created to seek information about the programme’s benefits and advise governance members.

- 3.20 The programme's original governance arrangements were established in the 2015 business case (see Figure 3).

Figure 3

The programme's governance arrangements, as at 2015

Figure 3 is the previous organisation chart of the programme's governance arrangements, and shows the roles and relationships up to 2017.

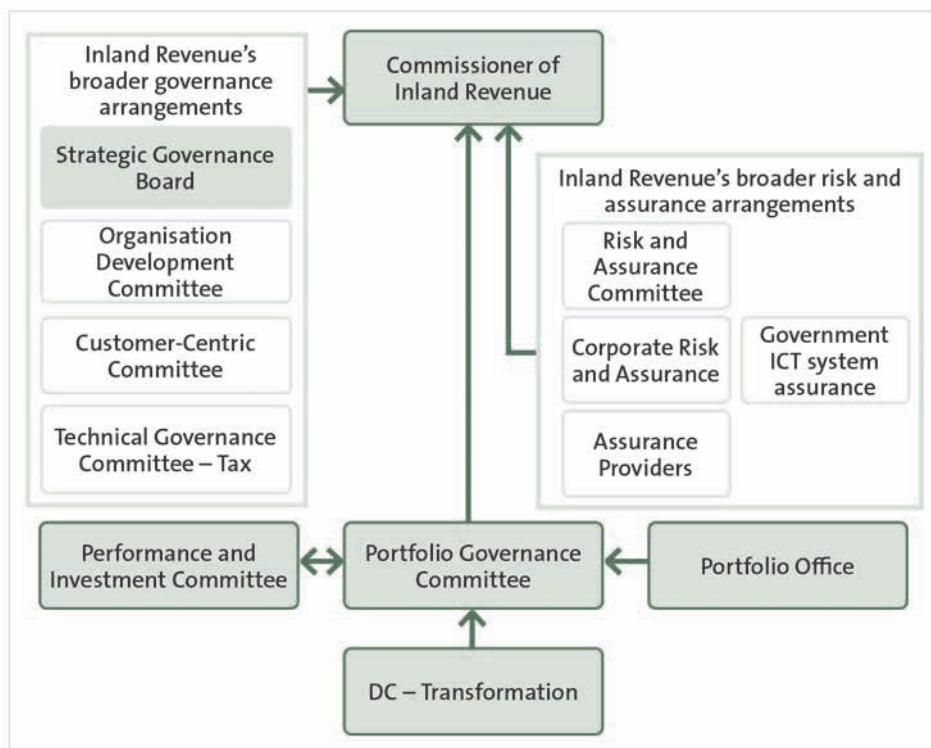


Source: Adapted from Inland Revenue Department (2015), *Programme update and detailed business case: Business Transformation programme – Implementing the future revenue system*, Wellington.

- 3.21 In July 2017, Inland Revenue reviewed and made changes to its organisational governance arrangements. To align with these changes, Inland Revenue made changes to the programme's governance arrangements. Inland Revenue wanted its governance arrangements to continue to provide strong oversight and support for the changing organisation and reflect the programme moving from design to implementation. Figure 4 shows the new governance arrangements.

Figure 4
The programme's governance arrangements, as at 2018

Figure 4 is an organisation chart of the programme's governance arrangements, and shows the roles and relationships.



Source: Adapted from Inland Revenue Department (2018), *Programme business case addendum: Business Transformation programme – Implementing New Zealand's future revenue system*.

- 3.22 Although the governance arrangements appear complex, the roles and responsibilities were clearly distinguished and documented (see Figure 5).

Figure 5
Roles and responsibilities in the programme's governance arrangements

The table lists the roles in the programme's governance arrangements and a description of their responsibility.

Role	Responsibility
Commissioner of Inland Revenue/Senior responsible owner	Accountable for ensuring that the programme delivers its investment objectives.
Portfolio Governance Committee	Oversees all of Inland Revenue's portfolio work, including the programme. The Committee is responsible for achieving expected programme changes, ensuring that milestones are delivered, and monitoring the health of the programme's finances.
Performance and Investment Committee	Governs the performance of the programme and Inland Revenue's other projects. The Committee is responsible for understanding the choices and trade-offs needed for an investment to meet its objectives.
Deputy Commissioner – Transformation	Is responsible for ensuring that the programme is completed successfully, including achieving its benefits.
Portfolio office	Provides advice and guidance around the identification, development, and delivery of benefits. Provides governance forums with information about benefit realisation.
Inland Revenue's broader risk and assurance arrangements	Inland Revenue has a Risk and Assurance Committee, Corporate Risk and Assurance, Assurance Providers, and Government ICT system assurance. These enterprise groups have oversight over the programme and report to the Commissioner of Inland Revenue
Inland Revenue's broader Governance	Inland Revenue's broader governance arrangements oversee all of its activities, including the programme. The Strategic Governance Board (formerly the Executive Leadership Team) sets the strategic direction for the organisation and is supported by the Organisation Development Committee, the Customer-Centric Committee, and the Technical Governance Committee. Members from these governance groups are the programme benefit owners. These are a tier 2 executive role with operational accountability for the area a programme benefit will affect and who has accountability for realising benefits. Their principles, roles, and responsibilities are:
	<ul style="list-style-type: none"> • operational accountability for areas the benefit affects; • end-to-end accountability from acceptance through to realisation; and • approving benefits realisation plans.

Source: Adapted from Inland Revenue (October 2015), *Programme-level benefits management and realisation plan*, Wellington, page 8-9; and Inland Revenue (2018), *Programme business case addendum: Business Transformation programme – Implementing New Zealand's future revenue system*, Wellington.

- 3.23 Consistent with the programme's benefit plans, each of the benefit areas are assigned to a tier 2 executive who has operational accountability for the benefit

area. The tier 2 executives are members of Inland Revenue's Strategic Governance Board and the programme's governance committees. Those we spoke with were clear on their roles at Inland Revenue and their responsibilities for the programme's governance.

- 3.24 Inland Revenue also established additional advisory groups to help support the programme's governance. In 2016, Inland Revenue established the Benefits Realisation Co-ordination Committee. This later became the Benefits Realisation Co-ordination Group. This group has no decision-making rights and is not part of the programme's governance. Its role is to provide specialist advice on matters about realising benefits (including how to deliver programme enablers), help to ensure that benefits are not counted twice, and assess progress towards benefit realisation.
- 3.25 In 2018, the Strategic Governance Board tasked the Benefits Realisation Co-ordination Group with carrying out a detailed examination of the changes to be implemented in April 2019 (Release 3). These changes involved moving major tax types, such as income tax, to Inland Revenue's new revenue system and processes, and included implementing major legislative changes.
- 3.26 The scale of change for major tax products meant that Release 3 was a major milestone and tipping point for benefit realisation. The purpose of this examination of the programme changes was to give Inland Revenue's governance and benefit owners additional assurance about the benefit assumptions and estimates of the programme's benefits, especially the administration savings benefit.
- 3.27 The Group provided the results of the detailed examination to the Strategic Governance Board in September 2018. It found that, in some parts of Inland Revenue, it would take longer than originally estimated to realise the administration savings benefit from Release 3 but that the benefits would be greater. The examination also identified what was needed to achieve the administration savings benefit. We discuss this further in paragraphs 4.41-4.44.
- 3.28 As a result of the update, the Strategic Governance Board commissioned several actions, including designing Inland Revenue's future compliance operating model, to gain further insights into when benefits would be realised.
- 3.29 The future compliance model looks at how the programme will affect the way Inland Revenue works with customers to ensure that they are complying with their tax obligations and identify those not complying. The benefits "administration savings" and "increase Crown revenue" depend on Inland Revenue's new systems and processes working as anticipated.

- 3.30 As mentioned in Part 2, Inland Revenue's governance groups were actively involved with establishing the programme's estimated benefits. We also saw evidence that Inland Revenue reviews these governance arrangements for ongoing relevance and that it is open to establishing additional governance support where necessary.
- 3.31 This demonstrates that the governance groups are actively engaged in overseeing the programme. The governance arrangements for the organisation and the programme appear to work effectively together. We did not find evidence of duplication or confusion of roles and responsibilities.

There is a culture of continuous improvement

- 3.32 In our view, being open to learning from experience helps an organisation to continually build on and improve its benefits management. We expected Inland Revenue to regularly identify and act on opportunities to improve how it manages and measures the programme and monitors benefits.
- 3.33 We found that Inland Revenue has a culture of continuous improvement for benefits management. Inland Revenue routinely uses external reviews, stakeholder feedback, and internal sources to identify opportunities to improve. As a result, it has regularly implemented improvements to the programme, including to how it plans for, informs, and supports the outputs designed to achieve the programme's benefits.
- 3.34 Inland Revenue carries out workshops with staff after each stage or release to identify what went well and what could be improved.
- 3.35 For example, after Release 1, Inland Revenue identified that it needed to increase its efforts to ensure that customers:
- were ready for the changes;
 - had a good understanding of the changes; and
 - understood what these changes meant for them.
- 3.36 Between Releases 2 and 3, Inland Revenue ran seminars with customers to explain the changes that would be made as a result of the release. Inland Revenue contacted more customers than it did for the previous release (see Figure 6).

Figure 6
Customer readiness work completed by Inland Revenue

The table shows how many customers Inland Revenue contacted to communicate the changes that would come with each release.

	Release 1 February 2017	Release 2 April 2018	Release 3 April 2019
Seminars for customers	0	250	350
Webinars for customers	3	15	15
Customers contacted	630,000	368,000	2,000,000

Source: Adapted from Inland Revenue (2019), *Programme business case addendum: Business Transformation programme – Implementing New Zealand’s future revenue system*, Wellington.

- 3.37 After Release 3, Inland Revenue changed its approach to automatically issuing income tax assessments for individual taxpayers. Customers who choose to nominate a tax agent are now removed from the automatic process, and their tax agent completes their tax returns. Inland Revenue told us that it made this change in response to customer feedback.

External reviews help maintain and improve benefits management

- 3.38 Inland Revenue regularly commissions external reviews of the programme to improve its benefits management. A senior leader of the programme told us that the reviews provided a helpful outside perspective.
- 3.39 Regular Independent Quality Assurance and Technical Quality Assurance reviews carried out by KPMG, and Gateway reviews that the Treasury facilitates, are part of the programme’s assurance arrangements. These reviews are generally done twice a year.
- 3.40 The reviews provide assurance to Inland Revenue, Parliament, and the public about the “general health” of the programme. They look at aspects of benefits management, including the suitability of the measures. We met with members of these review teams as part of our audit. External reviewers told us that they consider the programme’s benefits management to be positive. One review team told us that Inland Revenue’s benefits management was best practice.
- 3.41 We saw evidence of Inland Revenue taking feedback from these reviews seriously. It has implemented a robust approach to managing the recommendations from external reviews. Each recommendation from the Independent Quality Assurance and Technical Quality Assurance reviews is tracked and assigned to an individual staff member. A management response is produced for the recommendation, and a deadline is established for any remedial action.

- 3.42 One example of a change made from an external review came from the March 2018 Gateway review. This recommended that Inland Revenue “[f]urther develop the KPI reporting related to take up of digital services to track tax product transactions as well as customers, to support the overall monitoring of outcomes and benefits”.¹⁸
- 3.43 Inland Revenue responded by changing the way it measured and reported the uptake of digital services. The original measure was “percentage of returns filed electronically” using cloud-based software. This was subsequently changed to measuring and reporting on the “overall uptake of returns filed electronically”.
- 3.44 In our view, this better measures the overall progress towards the benefits and outcomes of the programme and demonstrates how Inland Revenue actively uses external reviews to strengthen its benefits management.

4

Systems for monitoring benefits performance are reliable

- 4.1 In this Part, we discuss how:
 - Inland Revenue monitors progress towards realising benefits;
 - internal reports inform decision-making; and
 - Inland Revenue is well placed for the future.
- 4.2 Reliable information enables decision-makers to understand the current performance of the programme or project and re-direct activities or adapt their practices as needed. High-quality information also provides Parliament and the public with assurance that public money is being spent responsibly and that the programme or project remains on track to achieve the intended outcomes. Importantly, making reliable information about performance publicly available provides transparency, which increases trust and confidence in the work an organisation is doing.
- 4.3 We expected Inland Revenue to produce reliable information about how the programme was performing. This information would direct activities and give monitoring agencies and the Crown assurance that the programme is progressing towards its intended outcomes.
- 4.4 We expected that Inland Revenue would get this information by regularly and consistently monitoring its benefit measures and regularly providing the information to decision-makers in a useful way.

Summary of findings

- 4.5 We have confidence that Inland Revenue produces reliable information about the benefits the programme achieves and measures, monitors, and reports progress that is consistent with the requirements of external monitoring agencies.
- 4.6 Inland Revenue has set baselines to assess progress against and uses high-quality enterprise data to inform its measures. It collects information at regular intervals and has processes to ensure the quality of that information.
- 4.7 Inland Revenue has made reporting on the programme publicly available. For example, summaries of external reviews, benefit reporting, reports to ministers, and updated business cases are available on Inland Revenue's website. Inland Revenue decided early that it would keep the public well informed about the programme.
- 4.8 In our view, based on the progress Inland Revenue has made in achieving the programme's targets and its continual focus on benefits management, it is well placed to continue managing, monitoring, and reporting on programme benefits.

Inland Revenue monitors progress consistently and well

- 4.9 Inland Revenue monitors benefits well using defined and reviewed benefit measures and baselines. The benefit monitoring arrangements have evolved during the programme, adapting to Inland Revenue's internal and external feedback. By monitoring benefits, Inland Revenue can see how the programme is progressing towards its intended outcomes.
- 4.10 Inland Revenue provides an assessment of the programme's progress to Parliament and to central agencies that are responsible for monitoring significant Crown investments, such as the Treasury. It reports the monitoring information it collects on the programme to the Treasury and Cabinet twice a year.
- 4.11 Inland Revenue also reports this information internally to its Performance and Investment Committee twice a year. It also produces monthly reports for the Ministers of Finance and Revenue that describe progress towards the programme's intended outcomes.
- 4.12 The 2015 business case defined the expected benefits, benefit targets, and baselines to assess progress against. Using this information, Inland Revenue produced the initial programme and Stage 1 benefit plans. These benefit plans described the timeline for when it expects the benefits of the programme to be realised, how it would measure the benefits, and when it would report the results.
- 4.13 The benefit plan for Stage 1 sets out how Inland Revenue would measure and report benefits. At this stage, it measured the programme against the overall expected benefits of the programme.
- 4.14 These arrangements were appropriate early in the programme because the new technology platform's capabilities and how customers would respond to the new ways of working were unknown. The expected benefits for Stage 1 were small compared to the benefits of the overall programme. However, Inland Revenue refined and improved the programme's monitoring arrangements to account for greater certainty and new information over time.
- 4.15 In 2017, as the programme progressed and more information became available, Inland Revenue developed "indicators of progress", which set annual targets with "lead and lag indicators" to measure and monitor the programme's progress towards achieving its intended outcomes.
- 4.16 These indicators of progress, which were developed in agreement with the Treasury and approved by the Ministers of Finance and Revenue, replaced the benefit targets and monitoring arrangements established in the 2015 business case.

- 4.17 The lead and lag indicators show the Treasury how benefits are progressing and whether it needs to escalate issues if progress on achieving benefits falls behind schedule. These indicators of progress were introduced and communicated after Stage 1 of the programme was implemented in 2017. Introducing these indicators reflected the cumulative effect of the changes introduced throughout the multi-year programme. Inland Revenue staff understood these monitoring arrangements, including the new indicators, well.
- 4.18 As well as introducing the annual lead and lag indicators, Inland Revenue refined its forecasting of the administration savings benefit. It did this at the request of the Treasury. These forecasts used additional information generated from further programme planning to create additional indicators that it reports quarterly.
- 4.19 The purpose of this was to help provide more assurance that the programme will achieve its administration savings benefit.
- 4.20 Where benefits are difficult to measure quantitatively, Inland Revenue produces regular case studies to demonstrate progress. Inland Revenue has a schedule for completing case studies and has consistently complied with that schedule. Although the schedule for case studies was determined at the same time as the lead and lag indicators, additional case studies have been produced as needed and when information becomes available. At the time of our audit, Inland Revenue had produced 19 case studies. Together, these case studies help demonstrate that Inland Revenue is achieving benefits.
- 4.21 These case studies show the benefits that Inland Revenue is achieving for the duration of the programme. They are focused on how the changes from the programme support achieving benefits and highlight instances that did not go to plan.
- 4.22 For example, in the case study about payday reporting,¹⁹ Inland Revenue reported that its efforts to support transitioning to payday reporting did not go as planned. Inland Revenue enabled voluntary payday reporting for the year leading up to it being compulsory on 1 April 2019 but did not get the uptake in voluntary compliance it had expected. However, it considered that this voluntary period enabled it to test its systems and processes.
- 4.23 In our view, the monitoring arrangements in Figure 7 help to provide more certainty to Inland Revenue, the Treasury, and Cabinet about when benefits are expected to be realised than earlier information provided .

¹⁹ This is the requirement for employers to file an employment information form every time they pay their employees. For more information, see ird.govt.nz.

Part 4

Systems for monitoring benefits performance are reliable

Figure 7

The programme's measures and targets, agreed with the Treasury in 2017

Outcome – Easier for customers							
Investment objectives							
Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
<i>Lead indicators</i>							
Digital uptake by customers	26%	54%	72%	75%	78%	82%	85%
Percentage of customers who find it easy to comply	82%	85%	87%	88%	89%	90%	90%
Reduction in compliance time for SME customers (hours each year)	3	8	13	15	16	17	18
System availability for customer-facing e-channels	99.2%	99.3%	99.3%	99.4%	99.4%	99.5%	99.5%
<i>Lag indicators</i>							
Customer outcomes achieved from information sharing and security of information	This will be measured through a series of case studies						
Cumulative reduction in compliance costs for SMEs	\$30m	\$160m	\$370m	\$590m	\$820m	\$1,070m	\$1,330m
Cumulative additional Crown revenue to Government		\$90m	\$280m	\$570m	\$1,110m	\$1,860m	\$2,880m

Outcome – Reduced time and cost to implement policy							
Investment objectives							
	<ul style="list-style-type: none"> Improving agility so that policy changes can be made in a timely and cost effective manner Minimising the risk of protracted system outages and intermittent systems failure 						
Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
<i>Lead indicator</i>							
Reduction in the time and cost to implement policy	This will be measured through a series of case studies.						
<i>Lag indicator</i>							
Increased revenue system resilience as assessed by Inland Revenue	Low	Low	Partial	Partial	High	High	High
Outcome – Inland Revenue is more efficient							
Investment objective							
	<ul style="list-style-type: none"> Improving productivity and reducing the cost of providing Inland Revenue's services 						
Indicators	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
<i>Lead indicator</i>							
Digital uptake by customers	26%	54%	72%	75%	78%	82%	85%
<i>Lag indicators</i>							
Annual reduction in Inland Revenue's administrative costs	\$5m	\$10m	\$80m	\$100m	\$100m	\$100m	\$100m
Cumulative reduction in Inland Revenue's administrative costs	\$5m	\$15m	\$95m	\$195m	\$295m	\$395m	\$495m

Source: Adapted from the Treasury (2017), *Thresholds for monitoring Inland Revenue's Business Transformation benefits and outcomes*, Wellington, page 3. These figures include inflation, depreciation, and capital charge.

- 4.24 Inland Revenue has changed the way it monitors its progress towards achieving benefits. As the programme progresses and more information becomes available, new opportunities for monitoring the programme's benefits will become available.
- 4.25 We encourage Inland Revenue to identify opportunities to build on and improve the way it measures and monitors its progress in achieving the programme's

intended outcomes. This will help with benefit planning and provide additional assurance to Parliament and the public about the level of benefits the programme is achieving.

We have confidence in the monitoring information

- 4.26 We have confidence in the information Inland Revenue produces about realising the programme's benefits. Inland Revenue has a clear understanding of how benefits can be attributed to the programme. It has clear records of the definitions and data sources used to measure the benefits and quality control checks to ensure the information's accuracy.
- 4.27 Inland Revenue's benefits management strategy sets out its approach to attributing benefits to the programme. The strategy notes that other projects existing alongside the programme may result in improved outcomes for Inland Revenue. The benefits from these other projects should not be included when assessing the programme's benefits.
- 4.28 As well as the information on attributing benefits outlined in its benefits management strategy, Inland Revenue has issued specific guidance on benefits attribution for the benefit area "increase Crown revenue". The guidance provides specific examples of what can and cannot be attributed to an increase in Crown revenue as a result of the changes enabled by the programme. Inland Revenue also tasked its Benefits Realisation Co-ordination Group with ensuring that benefits are not counted twice.
- 4.29 The Treasury's guide *Managing benefits from projects and programmes: Guide for practitioners* includes a section on attributing benefits. The guide identifies value or driver modelling as a method to support this.
- 4.30 The guide states that, if a programme benefit is "a reduction in operating costs", an entity could identify the "driver" for the reduction. If it is related to staff effort and overhead costs, the associated benefit can be isolated and attributed to the programme.
- 4.31 Inland Revenue has followed this guidance. For example, in Stage 1 of the programme, one of the programme-funded initiatives was to provide more digital channels to customers to complete their tax obligations. As a result of this initiative, Inland Revenue attributed \$2.4 million to the administration savings benefit because more customers were using online forms and saving paper and postage costs. The driver for this change was the additional digital channels created from Stage 1.

- 4.32 As discussed in paragraphs 2.36-2.41, Inland Revenue chose, wherever possible, to use enterprise performance measures to monitor the programme's benefits. We were told that it did this so that information produced about the programme's benefits is the same as the information that informs its annual report. This information is subject to the business controls that are tested during the annual audit to check accuracy and correct input.
- 4.33 We found that Inland Revenue gains assurance in its enterprise performance measures by:
- having clear records of the definitions and data sources used to measure the benefits; and
 - having the information checked and then signed off by a different person carrying out quarterly internal quality assurance checks.
- 4.34 The purpose of these checks is to ensure the accuracy of all of its performance results and financial information. The programme's governors told us that they felt that these regular checks gave them confidence that the information is reliable. In Inland Revenue's 2018/19 annual audit, our appointed auditor's opinion was that Inland Revenue's performance information presented fairly, in all material respects, what had been achieved.

Internal reports inform decision-making

- 4.35 Inland Revenue produces regular internal reports about benefits management. We found that the reporting was high quality and that the information reported was relevant and consistent.
- 4.36 Inland Revenue's decision-makers told us that they were satisfied with the information they received about the programme. This information is used to set direction and improve the programme's activities and benefits planning.
- 4.37 In 2015, Inland Revenue committed to reporting to the Business Performance Board (now replaced by the Performance and Investment Committee) every six months on its progress on realising benefits. This aligns with the programme updates for Cabinet and is an expectation from the Treasury's benefits guide.
- 4.38 As well as these regular governance updates, Inland Revenue produces reports about the programme's benefits, including release readiness assessments and the results from case studies produced about the programme's benefits.
- 4.39 We found that Inland Revenue uses the information generated about benefits to get a better understanding of when benefits are expected and to make adjustments as needed. For example, when the programme reported that it had

reached its target for reducing departmental administrative costs in 2018/19, Inland Revenue moved to extract cost savings from future operating budgets.

- 4.40 Similarly, the programme has reported internally that it was unlikely to achieve the targets associated with Release 3 in 2019/20. Inland Revenue found that customers did not appear to have fully adjusted to the changes from previous releases. For that reason, Inland Revenue expects the public's adjustment to the changes in Release 3 to be slower than anticipated.
- 4.41 As a result, Inland Revenue has prepared more detailed forecasts (known as “glide paths”) that outline when and in what areas it expects the estimated reduction in administrative costs to be achieved. These glide paths take into account the slower than anticipated uptake and the resources needed to achieve this administration cost savings.
- 4.42 Although the updated estimates demonstrate a slower than originally anticipated achievement of benefits in 2019/20, Inland Revenue estimates that the overall level of administrative savings to be achieved by 2023/24 will be greater than initially estimated.
- 4.43 Inland Revenue has provided these new estimates to the Treasury, as required by the programme’s monitoring arrangements. The November 2019 update to Cabinet noted that “[i]nformation provided by Inland Revenue of glide-path targets is useful to track this progress.”²⁰
- 4.44 We consider the work Inland Revenue has done to refine its understanding about when benefits are expected provides decision-makers with more understanding of what needs to be done to realise benefits.

External reports are of good quality

- 4.45 Having defined and regular external reporting requirements supports benefits management by providing an opportunity for stakeholders to reflect on a programme’s achievement, strengths, and weaknesses. It also supports general engagement with stakeholders.
- 4.46 We expected the programme to have clear expectations for when Inland Revenue would report information about benefits externally. We also expected that the reported information would be useful and relevant to various audiences and that material changes to the programme would be clearly communicated.
- 4.47 The 2015 business case and benefits management plans clearly outline external reporting expectations. Inland Revenue produces monthly programme updates for the Ministers of Finance and Revenue, and reports to Cabinet twice a year.

- 4.48 Inland Revenue consistently produces these updates and makes them publicly available on its website. The updates provide useful information about how the programme is progressing against its expected benefits and overall financial performance. The updates also identify key risks to the programme and outline any material changes.
- 4.49 As well as providing Ministers and Cabinet with assurance that the programme is progressing towards its intended outcomes, Inland Revenue also provides insight into specific service benefits that customers receive.
- 4.50 For example, Inland Revenue reported its progress towards the benefit “easier for customers”, using an agreed measure “reduction in customer tax compliance burden ([per annum] hours per SME)” in the July 2018 update to Cabinet. Inland Revenue reported that there had been an average 10-hour reduction in the time small and medium enterprises took to complete their tax obligations. The target for this benefit was a three-hour reduction.
- 4.51 The reports provided to Ministers and Cabinet also identify the programme’s key risks, including:
- managing customer fatigue as a result of the significant amount of change that has already been made and will continue to be made;
 - supporting customers to keep compliance costs down;
 - maintaining services to customers; and
 - keeping the old revenue system running while the programme is being completed.
- 4.52 The updates also include additional commentary from central agencies. For example, in the July 2019 update, central agencies advised that they were working with Inland Revenue to improve visibility of the operational metrics used to forecast the realisation of the administration savings benefit.
- 4.53 In the November 2019 update, central agencies advised that Inland Revenue had successfully met its administration savings targets to date and that the forecast for administration savings showed an increase in the later years. In our view, making these reports publicly available is an effective way to keep the public informed on the progress of benefits and supports transparency.
- 4.54 As well as the monthly reporting to Ministers and the twice-yearly reporting to Cabinet, Inland Revenue produces addenda for programme business cases. The addenda outline the material changes to the programme since Cabinet approved it. They have the same format as the 2015 business case and provide updates on the programme’s progress against its expected benefits. Making these updates

publicly available keeps stakeholders informed about high-level updates to the programme.

- 4.55 Over time, Inland Revenue has adjusted the way it reports some of its non-financial benefits externally. The October 2019 Gateway review recommended that Inland Revenue improve its reporting of benefits by making its progress towards its non-administration savings outcomes more visible.
- 4.56 As a result, Inland Revenue now provides a percentage assessment of how much progress it has made towards achieving the non-financial benefits “improving agility so that policy changes can be made in a timely and cost-effective manner” and “minimising the risk of protracted system outages and intermittent systems failure”.²¹
- 4.57 In our view, this change improves the programme’s reporting by providing easy-to-understand graphs that demonstrate Inland Revenue’s progress in some of the main benefit areas.
- 4.58 These examples of external reporting of the programme provide Cabinet and the public with consistent and relevant information to understand the programme’s health and assess progress with realising its benefits.

Inland Revenue is well placed for the future

- 4.59 As at September 2019,²² Inland Revenue reported that it has achieved all but one of its targets against the programme’s lead and lag indicators, which are the agreed indicators of progress related to benefit areas. This was communicated in the programme’s reporting and Inland Revenue’s 2019 *Programme business case addendum* (see Figure 8).

²¹ Inland Revenue (2019), *Programme business case addendum: Business Transformation programme – Implementing New Zealand’s future revenue system*, Wellington, page 20.

²² Inland Revenue will report information on the achievement of benefits in 2019/20 in November 2020.

Figure 8
Inland Revenue's progress against the lead and lag indicators of the Business Transformation programme

Outcome: Easier for customers									
Indicators	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
	Target	Actual	Target	Actual					
<i>Lead indicators</i>									
Digital uptake by customers	26%	83%	54%	89%	72%	75%	78%	82%	85%
Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	88%	89%	90%	90%
Reduction in compliance time for SME customers (hours each year)	3	10	8	9	13	15	16	17	18
System availability for customer-facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.4%	99.4%	99.5%	99.5%
<i>Lag indicators</i>									
Customer outcomes achieved from information sharing and security of information	This will be measured through a series of case studies								
Cumulative reduction in compliance costs for SMEs	\$30m	\$80m	\$160m	\$280m	\$370m	\$590m	\$820m	\$1,070m	\$1,330m
Cumulative additional Crown revenue to Government			\$90m	\$90m	\$280m	\$570m	\$1,110m	\$1,860m	\$2,880m

Part 4

Systems for monitoring benefits performance are reliable

Outcome: Reduced time and cost to implement policy

Investment objective:

- Improving agility so that policy changes can be made in a timely and cost effective manner
- Minimising the risk of protracted system outages and intermittent systems failure

Indicators	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
	Target	Actual	Target	Actual					
<i>Lead indicators</i>									
Reduction in the time and cost to implement policy					This will be measured through a series of case studies				
<i>Lag indicator</i>									
Increased revenue system resilience as assessed by Inland Revenue	Low	Partial	Low	Partial	Partial	Partial	High	High	High

Outcome: Inland Revenue is more efficient

Investment objective:

Improving productivity and reducing the cost of providing Inland Revenue's services

Indicators	2017/18		2018/19		2019/20	2020/21	2021/22	2022/23	2023/24
	Target	Actual	Target	Actual					
<i>Lead indicators</i>									
Digital uptake by customers	26%	83%	54%	89%	72%	75%	78%	82%	85%
<i>Lag indicators</i>									
Annual reduction in Inland Revenue's administrative costs	\$5m	\$12m	\$10m	\$48m	\$80m	\$100m	\$100m	\$100m	\$100m
Cumulative reduction in Inland Revenue's administrative costs	\$5m	\$12m	\$15m	\$60m	\$95m	\$195m	\$295m	\$395m	\$495m

Note: Inland Revenue uses proxy measures (based on the lead and lag indicators in Figure 8) and case studies to measure the benefit area "increase Crown revenue" because of the difficulty of direct attribution.

Source: Based on Inland Revenue (2019), *Programme business case addendum: Business Transformation programme – Implementing New Zealand's future revenue system*, Wellington. These figures include inflation, depreciation, and capital charge.

- 4.60 These indicators demonstrate several significant changes, such as:
- on average, small to medium businesses are spending less time meeting their tax obligations; and
 - Inland Revenue has removed \$60 million from future costs.
- 4.61 For 2018/19, Inland Revenue had met all but one of its lead and lag indicators. Inland Revenue did not meet the expected target for the lead indicator for the benefit area “percentage of customers who find it easy to comply”. This indicator is measured using the “customer satisfaction and perception survey”. The target for 2018/19 was 85%, but Inland Revenue achieved 80%.
- 4.62 We were told that this is because Release 3 resulted in many changes to the way customers were expected to interact with the revenue system. As a result of these changes, some customers’ experiences have not been positive.
- 4.63 One of the major changes was that employers were required to provide information on employees every pay day rather than monthly. Inland Revenue reports in the November 2019 update to Cabinet that it expects this to improve in the next year as these changes are embedded.
- 4.64 Although the programme is well under way, there are significant benefits to be delivered in the next few years. We expect Inland Revenue to continue to report on the realisation of benefits as the programme progresses.
- 4.65 As a result of the programme, the way Inland Revenue carries out its tax administration has changed significantly. It expects these changes to help drive the realisation of the programme’s benefits. For example, Inland Revenue was able to automatically issue income tax assessments for the tax year ending 31 March 2019. As a result, 1.3 million people received refunds worth a total of \$572 million, and 271,000 people have a total of \$95 million to pay.
- 4.66 Inland Revenue now also requires employers to provide information each pay day. This means that Inland Revenue has real-time information about income tax and ensures that people pay the right amount of tax throughout the year. This reduces the need for over-payments and under-payments to Inland Revenue.
- 4.67 Inland Revenue is on track to realising the programme’s intended benefits. However, the gap between the benefits achieved to date and benefits sought by 2023/24 is significant, and there is some uncertainty about the realisation of those benefits.

- 4.68 As a result of Covid-19, the Minister of Revenue reported to Cabinet in July 2020 that the final release of the programme is being re-planned. This is to reflect the effect of supporting the Government's response to Covid-19 on Inland Revenue's capacity, the challenges of staff needing to work from home for an extended period of time, and the financial effects of Covid-19 on all New Zealanders.
- 4.69 At the time of writing this report, the potential implications of re-planning the final stage and the potential effects on the benefits of the programme are still being worked through. Cabinet expects Inland Revenue to provide this information in November 2020.
- 4.70 We encourage Inland Revenue to focus on monitoring risks to the programme, including those outlined in paragraph 4.51, so that progress to date is not undermined. The Covid-19 lockdown and its potential effects is an extreme example of a challenge that can arise during a programme of this significance and length.
- 4.71 In our view, Inland Revenue has made good progress towards realising the programme's benefits and is well placed to manage, measure, and monitor those benefits in the future. This is because of the encouraging progress it has made, the deliberate focus and effort it has put into benefits management, and the quality of programme monitoring and reporting.
- 4.72 However, we will not be able to say with certainty that the significant investment in the programme represents value for money until the benefits from the completed programme are measured.

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