

---

## PERFORMANCE IMPROVEMENT FRAMEWORK

# Formal Review of Inland Revenue (IR)

**MAY 2011**

---

State Services Commission, the Treasury and the Department of the Prime Minister and Cabinet

## **Lead Reviewers' Acknowledgement**

As Lead Reviewers for this Performance Improvement Framework Review for Inland Revenue (IR) we would like to acknowledge the thoughtful and generous input made by IR staff and the senior management team. In addition, we had considerable input from a cross section of IR's external partners and stakeholders, who were equally committed to building stronger collaboration in the future. We also had the benefit of input from officials from the Department of the Prime Minister and Cabinet, the State Services Commission (SSC) and the Treasury, which proved to be insightful, and excellent support during our review.

**Performance Improvement Framework  
Formal Review: Inland Revenue**

**State Services Commission, the Treasury, and the Department of the Prime Minister and Cabinet  
Wellington, New Zealand**

**Published May 2011  
ISBN 978-0-478-36150-6  
Web address: [www.ssc.govt.nz/pif](http://www.ssc.govt.nz/pif)**

**Crown copyright 2011**

**Copyright / terms of use**



This work is licensed under the Creative Commons Attribution-Non commercial-No Derivative Works 3.0 New Zealand licence. [In essence, you are free to copy and distribute the work (including in other media and formats) for non-commercial purposes, as long as you attribute the work to the Crown, do not adapt the work and abide by the other licence terms.] To view a copy of this licence, visit <http://creativecommons.org/licenses/by-nc-nd/3.0/nz/>. Attribution to the Crown should be in written form and not by reproduction of any such emblem, logo or Coat of Arms.

# AGENCY'S RESPONSE

## From the Commissioner of Inland Revenue (Agency Chief Executive)

I am very pleased with the report on the Inland Revenue (IR) Performance Improvement Framework (PIF) review. It aligns closely with our self-assessment, indicating that we have a realistic understanding of our strengths and weaknesses. It supports our sense of accomplishment in several areas we feel proud about and also validates the challenging nature of our business and systems transformation ambitions.

I accept the recommendation that I assume a more directive role in advancing the transformation agenda. The PIF review took place at a critical junction in our work on the Student Loans redesign. A decision has been taken to implement the changes in the current Student Loans Bill in our legacy system. This approach avoids the need to recreate the complex historical policy and processing rules in a new system, shortening the delivery timeframe, and significantly reducing project delivery risk. This decision also allows the time necessary to analyse systems transformation options, with additional independent advice.

I and the Executive Board were pleased that the reviewers identified so many elements as strong or well placed. The reviewers also noted some areas needing development. In addition to those arising from business and systems transformation, these are management of debt and returns, asset management and information management. All these are areas that we had noted similarly ourselves and we have improvements under action in each case.

The Office of the Auditor-General (OAG) has recently reviewed our management of tax debt and of Child Support debt and we are actively working to implement the recommendations of those reviews. We are seeing some encouraging results despite the difficult economic environment.

Our next steps will be to:

- review and make changes to our Business Transformation governance arrangements, which I will chair
- obtain additional independent advice and assurance on IT systems options
- improve communication processes between the executive team and third tier leaders
- continue to implement the recommendations of the OAG performance audits
- develop a medium term information management plan with investment recommendations
- complete a capital asset management plan (due 30 June 2011)
- invite the Treasury to work with us on the analysis of IT systems funding and asset management, as recommended by the lead reviewers
- discuss the review with the Chair of the Risk and Assurance Committee with a view to aligning the work of the committee with the PIF report's recommendations.

The following table sets out our response to the specific recommendations by the lead reviewers.

**Robert Russell**

Commissioner of Inland Revenue

## Lead Reviewers' Recommendations and IR's Response

1. The Commissioner and Executive Board should streamline and focus the governance arrangements that drive Business Transformation and the associated information technology (IT) development paths.

*The Commissioner accepts the recommendation and will engage the necessary assistance to design and implement streamlined and focused governance arrangements, having regard to the other recommendations contained in this report, to drive Business Transformation and the associated IT development paths.*

- *This will be completed during the first quarter of the 2011/12 year.*

2. In addition we recommend that the Commissioner take charge of the decision-making process for recommendations 3 and 4 (below).

*The Commissioner accepts the recommendation. The Commissioner will provide greater leadership direction to the Business Transformation programme and play a more active role in the decision-making processes, including assuming chairmanship of the Business Transformation Board.*

- *This will be completed during the first quarter of the 2011/12 year.*

3. IR should develop a more detailed plan and milestones for Business Transformation to ensure that there is a better understanding of its implications on systems, people, organisational design and funding requirements.

*The Commissioner accepts the recommendation and work has already commenced on determining a more detailed plan and milestones for Business Transformation, we will:*

- *develop options for systems, with cases for and against, by September 2011*
- *produce an indicative plan by December 2011, recognising that a detailed plan will be subject to ministerial engagement, standard business processes and consideration of cross-government service delivery initiatives.*

4. The Commissioner and Executive Board need to elaborate, in some detail, the optimal paths for IT system development and data management under different assumptions.

*The Commissioner accepts the recommendation and notes that actioning of Recommendation 3 will deliver system and data management solutions under different options. The Commissioner will obtain additional independent advice to inform the Executive Board's consideration of information technology and data management options, we will:*

- *develop options for systems, with cases for and against, by September 2011*
- *produce an indicative plan by December 2011, recognising that a detailed plan will be subject to ministerial engagement, standard business plan approval processes and consideration of cross-government service delivery initiatives.*

## Lead Reviewers' Recommendations and IR's Response

5. IR needs to improve the consistency of language about transformation used in various planning documents and communications.

*The Commissioner accepts the recommendation and will ensure that a suitable language is developed and utilised.*

- *This will be completed during the first quarter of the 2011/12 financial year.*

6. IR should undertake a formal assessment as to how and why the development of its core IT system has not kept pace with emerging demands for service changes, nor its vision for future services.

*The Commissioner accepts the recommendation and will invite the Treasury to work with IR on this.*

- *This will be completed during the first quarter of the 2011/12 financial year.*

7. The Risk and Assurance Committee and the Commissioner should work together to reveal the full potential of the committee to add value to IR's work.

*The Commissioner accepts the recommendation and will work with the Group Manager, Corporate Risk and Assurance, and the Chair of the Risk and Assurance Committee to align its work with the opportunities for improvement identified in the PIF report.*

- *This will be achieved by the meeting of the Risk and Assurance Committee in the first quarter of the 2011/12 financial year.*

# TABLE OF CONTENTS

Agency's Response	1
Table of Contents	4
Lead Reviewers' Summary	5
Central Agencies Overview	8
Summary of Ratings	10
Agency Context	12
Results Section	14
Part One: Delivery of Government Priorities	14
Part Two: Delivery of Core Business	21
Organisational Management Section	32
Part One: Leadership, Direction and Delivery	32
Part Two: External Relationships	38
Part Three: People Development	42
Part Four: Financial and Resource Management	46
Summary of Priority Areas for Action	55
Appendix A	56
Overview of the Model	56
Lead Questions	57
Appendix B	58
List of Interviews	58

## LEAD REVIEWERS' SUMMARY

Over the range of services it delivers, Inland Revenue is, on balance, a very well managed department. It displays admirable strengths in both its policy advice functions and in much of its operations. It has a big brain and a strong body. Its policy work is up with the play internationally and embedded in professional networks of tax scholars and practitioners. It provides sound advice, which is delivered with professional aplomb appropriate to its constitutional conventions. It implements the government's priorities, which have been unusually challenging in recent years and include rapid implementation of entirely new lines of service (KiwiSaver, Working for Families and Student Loans) that have come over the top of its continuing activities, which have risen rapidly in volume and also in quality and complexity.

IR has at the time of the review, been necessarily and deeply concerned to respond to the challenges of the Christchurch earthquake. It has responded imaginatively and in practical ways. Inevitably, this will affect its performance indicators and financial performance negatively but the information on exactly how much was not available at the time of the review. Judgements about this in time would of course need to take account of the circumstances and the details of the response.

Many of its applications of modern techniques of operations management are up with the best public sector practices anywhere and it is well capable of moving to best private sector practices where relevant and applicable over time. Its financial management systems are notably up with best practices anywhere with respect to integrating financial management and performance management information. IR has made many step-changes in efficiency as seen in concrete measures of unit costs in many activities and has plans for continuing to lift efficiency.

IR's leadership team has done much over the last few years to prepare the organisation for the type of changes required and in 2010 embarked on an internal programme designed to clarify for its staff what the future has to hold. Called 'Shaping our Future', this sets new visions of future service delivery driven by the expansion of its service offerings, client/citizen focus, use of intermediaries, strengthening and adapting its culture to the changes coming and making advanced use of IT for supporting new business strategies and models. This transformation is intended to bring to reality the visions captured in the Government's strategy known as 'Making Tax Easier' and the plans for more integrated cross-government service delivery known as ServiceLink.

It will be challenging to embed the changes required deep into the fabric of the organisation, while at the same time preserving and building on IR's traditional strengths in its core revenue-raising activities. IR has shown, however, that it can bring changes to business models right to the client service interface.

These general remarks about IR are supported in the detailed ratings in this review across all aspects of its services to external parties and its internal governance, systems and culture. However, these detailed ratings also show that there is potential for improvement in all the major areas of the review: government priorities, core businesses and organisational management. There is a need for focused attention to lifting performance on particular areas noted.

Areas that need development include information management, asset management, debt management and some specific points in the area of financial control, although the general picture of financial management is very good. IR is well regarded externally, considering its roles, and the leadership is respected in the 'tax community'. There is work to do in settling down and realising the full potential for the business-to-business (B2B) integration of IR systems with intermediaries.

People management is generally sound across this large and diverse organisation and it uses advanced performance management methods. The organisation is having challenges in integrating the silos. This is not a criticism of the silos as such, which are working well generally to forge vertical connections necessary to drive performance. But we found some evidence of variability in strength of alignment to department-wide strategies at the third tier of management.

In large diverse government departments it is usually hard to achieve high levels of teamwork across the third tier of management, given the incentives and motivations inherent in these positions. Nevertheless, we conclude that department-wide performance and strategic agility would be improved by stronger teamwork across this level, which will only occur with stronger leadership from the top managers.

## **The Transformation Challenge**

IR today faces one crucial challenge, which will largely determine its performance over the next five to ten years. The Business Transformation programme has recently struck a significant hurdle that manifests itself as constraint arising from the condition of its legacy IT systems and, in particular, its mainframe IT processing platform known as FIRST. What has most recently brought this to the surface is evident difficulty with the design and implementation of a new system for management of Student Loans.

IT projects commonly do not go strictly according to plan but in this case the evidence points to deeper issues in IT capability and change management. This project was selected as the first of a sequence of projects, which would each pay off both in terms of individual business cases and also build underlying platform capability that would upgrade system-wide performance. So its difficulties may indicate that this change strategy needs thorough reconsideration.

IR's 'can do' culture led it to scramble successfully to add major new functions to the legacy system in recent years. There are questions about how well the documentation of these changes was done, while the greatly increased complexity created has made the system much harder to support and much more expensive to test for reliability.

Also lessons need to be learned about how the development of the IT system fell behind not only the visions for future services but possibly also the announcements of service changes by Ministers. One question for accounting policy and procedures under the Public Finance Act 1989 is whether adequate provision was made for continuous upgrade of IT capability by way of use of depreciation reserves and long-term asset management policies. Appropriations were made for system development at various points but they appear to have been inadequate.

A lot has been done to acquire new software and manage suppliers effectively, to integrate off-the-shelf packages from different suppliers and develop a Request for Proposals (RFP) for a data centre roadmap, which promises a path out of the current situation. But the migration from the legacy system to modern IT architecture, in which data warehousing is more degrees of separation from the systems drawing on the data, will not be easy given the state of the legacy environment. But even so, in our opinion, IR's proven ability to implement big strategic changes in response to external demands is not at the time of this review well matched by similar agility in implementing change internally.

The governance arrangements charged with strategic decision-making do not seem to have the strength and drive to crunch difficult decisions about the choice among the possible paths ahead. The high-level concepts are attractive but clearing the blockage requires close attention to detail in the IT scenarios.

The governance arrangements seem somewhat complicated and the evidence suggests they are inadequate to force through decisions in the government-wide or even department-wide interests and to ensure detailed and sound analysis to support these difficult choices. This is our perspective on the issue identified in internal reviews that the IT functions are too siloed. A better balance and integration seems to be needed between strategic IT development across the department to support Business Transformation and the IT development needs of the service units.

The Commissioner needs to simplify the governance arrangements around these decisions at least for the period in which tough strategic decisions will have to be made and also needs to take command of the process for the time being.

## **Conclusion**

This introduction emphasises what we see as a serious blockage to progress but should not distract a reader from the very considerable achievements and high performance of Inland Revenue. We are emphasising it because the removal of this blockage and the changes in governance management and culture that will be needed to do so, will liberate a lot of potential for rapid improvement through the department. Most of the areas we graded as not being 'strong' have been affected by this issue.

**Graham Scott**  
Lead Reviewer

**Ross Tanner**  
Lead Reviewer

## CENTRAL AGENCIES' OVERVIEW

This report is one of five comprising the 2nd tranche of Performance Improvement Framework reviews<sup>1</sup>. In September last year we released the findings and responses to the Pilot and 1st tranche reviews<sup>2</sup>. We want to thank the leaders, staff and stakeholders of the agencies that have been reviewed for being open to external review to provide both assurance and constructive criticism.

### **What is the Performance Improvement Framework and what are we trying to achieve?**

The Performance Improvement Framework is a framework applied by a small group of respected organisational leaders to provide insights into agency performance, identifying where agencies are strong or performing well and where they are weak or need to improve. The framework covers both results (in terms of effectiveness and efficiency) and the organisational management factors that underpin sustainable superior performance.

Because a common framework is used, the reviews not only inform agency performance improvement plans, but also help us build a body of knowledge that provides us with a better picture of cross-system performance and identifies issues which we need to address at sector or system level.

The Performance Improvement Framework is an initiative developed by central agency and State services chief executives to respond to the need for improved effectiveness and efficiency in the State services. It is also important to acknowledge that the New Zealand State services operates from a position of strength and continues to be recognised internationally as among the top performers. However, we recognise that we must meet the ever-increasing and reasonable expectations of Ministers and the public generally, especially in these times of economic and fiscal stress.

### **What are we learning?**

We now have 11 reviews completed.

In general, the reviews confirm that we have a 'can do' service, which is strong on delivering the results government wants now. We have a service that values probity and the systems and processes that support transparency and ensure accountability for the expenditure of taxpayers' funds. We have a service that recognises that its people, and their combined knowledge, experience and commitment, are our greatest assets. We are relatively good at putting in place the systems and processes (in particular human resources (HR) and financial management systems) that should support them to make their best contribution.

At the other end of the spectrum, we are not as good as we should be at working across internal and external silos, progressing the medium- to long-term work programmes that will position us to meet the future needs of governments and taxpayers and reviewing the ongoing need for, or methods of delivery of, the services we currently provide.

---

1. Ministry of Social Development, the Treasury, New Zealand Transport Agency (NZTA), New Zealand Trade and Enterprise (NZTE) and Inland Revenue.

2. Ministry of Agriculture and Forestry, Department of Internal Affairs, Department of Conservation, Ministry of Foreign Affairs and Trade, Te Puni Kōkiri and Land Information New Zealand.

We need to be better at measuring the results of what we do and comparing them to the results government was seeking to achieve. We need to bring together the information we have to make better decisions about what we do and how we do it. For example, we need to use our financial management systems to understand and manage the costs of the services we provide, rather than simply to develop and monitor budgets.

## **Next steps?**

We have 11 agencies at various stages of implementation of their responses to their reviews. We will work with them to support and monitor their implementation of those responses and to evaluate whether their actions are having the improvement results anticipated.

As indicated above, we are looking across the Performance Improvement Framework review results to identify both the agencies that others can learn from and the areas of systemic weakness that we need to tackle as a service rather than on an agency by agency basis. Key to these will be our ability to monitor long-term effectiveness (are we actually achieving the outcomes as opposed to merely delivering the outputs?) and our ability to review the effectiveness and efficiency of what we do (are we providing services the best way we can or indeed can the services be better provided by someone else?).

**Iain Rennie**  
State Services Commissioner

**John Whitehead**  
Secretary to the Treasury

**Maarten Wevers**  
Chief Executive  
Department of the  
Prime Minister and Cabinet

# SUMMARY OF RATINGS

## Results

GOVERNMENT PRIORITIES	RATING
Delivering an effective and efficient tax administration	
Delivery of Business Transformation Programme	
Implementation of Tax Measures in Budget 2010	
Continued focus on International Tax Reforms	
Tax Policy Work Programme Development, Support and Advice	

CORE BUSINESS	RATING (EFFECTIVENESS)	RATING (EFFICIENCY)
Policy advice		
Services to inform the public about entitlements and meeting obligations		
Services to process obligations and entitlements		
Management of debt and outstanding returns		
Taxpayer Audit		
	<b>RATING</b>	
Regulatory impact		

## Rating System

 Strong	 Well placed	 Needing development	 Weak	? Unable to Rate
--	---	---	---	------------------

## Organisational Management

LEADERSHIP, DIRECTION AND DELIVERY	RATING
Vision, Strategy & Purpose	
Leadership & Governance	
Culture & Values	
Structure, Roles and Responsibilities	
Review	

EXTERNAL RELATIONSHIPS	RATING
Engagement with the Minister(s)	
Sector Contribution	
Collaboration & Partnerships with Stakeholders	
Experiences of the Public	

PEOPLE DEVELOPMENT	RATING
Leadership & Workforce Development	
Management of People Performance	
Engagement with Staff	

FINANCIAL AND RESOURCE MANAGEMENT	RATING
Asset Management	
Information Management	
Efficiency	
Financial Management	
Risk Management	

## Rating System

 Strong	 Well placed	 Needing development	 Weak	? Unable to Rate
--	---	---	---	------------------

## AGENCY CONTEXT

Inland Revenue's outcomes focus on the collection of revenue and the disbursement of payments.

Its services are delivered through business groups that generally deal with both tax and social policy programmes. They provide information and assistance, carry out high-volume processing of returns and payments, as well as delivering enforcement services such as audit, debt management and litigation. Specialist groups also provide corporate and IT functions, adjudication and ruling services, and policy advice.

In 2009/10 Inland Revenue:

- had 6,965,000 taxpayers (individuals, businesses, partnerships, trusts and other entities)
- collected \$46.0 billion in tax, over 80% of core Crown revenue
- disbursed \$2,787 million of Working for Families Tax Credits, and \$2,648 million of KiwiSaver payments to fund providers
- answered 4,230,914 telephone calls and supported 15,402,277 self-help and online service enquiries.

The Chief Executive is designated the Commissioner of Inland Revenue under s. 6A of the Tax Administration Act 1994 and has statutory powers under this and other acts.

Under s. 6A, the Commissioner of Inland Revenue is also charged with the care and management of the taxes covered by the Inland Revenue Acts and with a range of other functions. It is the Commissioner's duty, notwithstanding anything in the Inland Revenue Acts, to collect over time the highest net revenue that is practicable within the law, having regard to:

- a. The resources available to the Commissioner; and
- b. The importance of promoting compliance, especially voluntary compliance, by all taxpayers; and
- c. The compliance costs incurred by taxpayers.

In addition to collecting revenue, Inland Revenue jointly administers a range of social policy programmes, including: Working for Families Tax Credits, student loans, child support and paid parental leave. Inland Revenue is also the central administrator for the KiwiSaver scheme.

IR administers a range of acts, regulations, orders and notices, including:

- Child Support Act 1991
- Estate and Gift Duties Act 1968
- Gaming Duties Act 1971
- Goods and Services Tax Act 1985
- Income Tax Act 2007
- Stamp and Cheque Duties Act 1971
- Student Loan Scheme Act 1992
- Tax Administration Act 1994
- Taxation Review Authorities Act 1994
- parts of the Parental Leave and Employment Protection (Paid Parental Leave) Act 1987
- parts of the KiwiSaver Act 2006.

IR works closely with international organisations and revenue agencies to identify policy and administrative responses to compliance issues. IR advises the Government on international tax matters of relevance to the development and implementation of New Zealand's international tax legislation. This includes negotiating and giving effect to New Zealand's double tax agreements, tax information exchange agreements and reciprocal arrangements

The Minister of Revenue is responsible for appropriations in the Vote for the 2010/11 financial year covering the following:

- \$648 million on departmental output expenses including management of debt and outstanding returns, policy advice, services to inform the public about entitlements and meeting obligations, services to process obligations and entitlements, and taxpayer audit
- \$96 million for departmental capital expenditure
- \$4,430 million for non-departmental benefits and other unrequited expenses
- \$9 million for non-departmental borrowing expenses, and
- \$1,655 million for non-departmental other expenses.

In recent times Inland Revenue has noted the following environmental trends:

- **Changing service expectations** — its customers are looking for greater speed and certainty in their interactions with Inland Revenue. This has led to a focus on developing new approaches across the suite of IR's services and the development of some online solutions to replace more traditional channels such as telephones and correspondence.
- **High demand for services** — Inland Revenue has faced an increased demand for its information and services, which it has begun to address through a focus on providing online services and its long-term Business Transformation programme.
- **Changing customer base** — Changes in New Zealand's demographic profile will influence the demand for Inland Revenue's services and will require a change in the way services are designed and delivered to meet future service needs. This will require Inland Revenue to be more flexible in how they design and deliver services in the future.

## RESULTS SECTION

### Part One: Delivery of Government Priorities

This section reviews the agency’s current ability to deliver on its strategic priorities agreed with the government. It is based on the completeness of the agency’s plans, the stage at which the priority is at, and the capability and capacity of the Inland Revenue (IR) to deliver on the priority. The report is also informed by consideration of identified risks.

<p><b>Delivering an effective and efficient tax administration</b></p> <p>This government priority is all-encompassing and reflects the need for IR to provide an effective and efficient tax administration that supports government objectives. In particular, IR has been asked to contribute to the government’s efforts to consolidate New Zealand’s fiscal position by helping to create a better, smarter public service and by delivering increasing value for money.</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>This government priority is broad in its scope and judgements about performance require a balancing of many factors. However, our view is that in recent years IR has operated a largely effective and efficient tax administration. While there are areas for improvement, such as the selection and implementation of new technology and greater attention to the management of debt, the components of the system work well together.</p> <p>IR has demonstrated the ability to provide high quality policy advice, deliver good overall levels of service, respond to new challenges and maintain high levels of voluntary compliance.</p> <p>The review has uncovered much information about measures of effectiveness and efficiency as they apply to tax administration. The team has also been made aware of international benchmarking studies on tax administration that include New Zealand. These, however, have raised as many questions as they have answered.</p> <p>We have not placed weight on these benchmarking studies but we note that IR compares favourably on a number of core indicators in a forthcoming report from a survey sponsored by HM Revenue and Customs in the United Kingdom.</p> <p>Based on achievement against Output Plans, IR has done well in recent years. There were a number of highlights and significant operational savings made in 2009/10.</p> <p>More productivity gains are possible and IR is seeking to be able to have real-time performance information in future, with which enable it to better measure and manage the effectiveness of its service delivery operations.</p> <p style="text-align: right;">contd...</p>

	<p>Leading tax administrations appear to demonstrate the following characteristics:</p> <ol style="list-style-type: none"> <li>1. A professional approach to internal management issues (HR, strategic planning)</li> <li>2. Attention to cost-efficiency and effectiveness</li> <li>3. Responsive engagement with stakeholders</li> <li>4. Successful introduction of technology applications</li> <li>5. Understanding what drives taxpayer and tax agent behaviour</li> <li>6. Sophisticated risk profiling and informed responses to taxpayer behaviour, including the areas of enforcement and service provision</li> <li>7. Transparency of governance and detailed performance reporting.</li> </ol> <p>As we will set out in subsequent sections of this report, IR rates well against most of these criteria.</p> <p>Current issues are being experienced in detailing optional development paths for the implementation of new technology but when seen in overall perspective, and provided that IR moves quickly to resolve these issues, we consider that it is well placed and will continue to deliver on this strategic priority.</p>
--	---

**Delivery of the Business Transformation Programme**  
 This government priority relates to IR’s delivery of a major Business Transformation programme, including policy development and the development of a more electronic and smarter approach to provide customers greater certainty and speedier interactions.

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>This priority involves a programme of significant change initiatives designed to provide IR’s many customers with a better service, greater certainty and a more effective and efficient tax and social policy administration system in the future.</p> <p>Responding to the priority will necessarily involve transforming IR as an organisation. It is gradually upgrading its technological capability, adopting new technologies and ways of working and looking at how it will replace its ageing mainframe computer system.</p> <p>This priority is posing the biggest challenge to IR by far. While the department displays great competence in most areas of management and is introducing new ways to improve services (effectiveness and efficiency) this competence does not yet manifest itself in the management of the Business Transformation Programme.</p> <p style="text-align: right;">contd...</p>
--	---

	<p>IR is demonstrably capable of dealing with the superficial symptoms that make Business Transformation challenging. These include skill shortages, unanticipated urgent new work, operational disruption (Christchurch earthquake), and overstretched resources in places.</p> <p>However, Business Transformation is now 'off-track', with difficulties arising with the Student Loans Redesign and Simplifying Customer Interactions projects. This points to deeper technical and capability issues. IR's normally competent management of technology-supported change is not evident in the way this major programme is progressing.</p> <p>There is a clear need to refine and drive forward the Business Transformation Programme. The risk is that, given recent setbacks, it becomes a somewhat overwhelming task and fails to deliver the key elements of the future Vision of a transformed business, including the features outlined in the 'Making Tax Easier' and 'ServiceLink' proposals.</p> <p>Notwithstanding the technical issues and capability challenges, IR has done much in the last 12-18 months to advance its understanding of what the Business Transformation Journey might look like. However, the way forward is far from certain and while there is a reasonable level of agreement about the 'future state' there appears to be a divergence of views within IR about priorities for implementation, alternative pathways and how the various projects will best be delivered.</p> <p>The biggest challenge in the short term is to manage expectations of stakeholders (both internally and externally) while developing a revised work programme that is realistic in terms of resourcing and optimal in terms of the future administration of tax and social policy programmes for New Zealand.</p> <p>IR has repeatedly risen to the challenge of meeting ambitious demands from the Government but is finding it harder to meet challenges rooted internally. A particular challenge is to reach agreement on priorities owing to the pressures from different parts of IR for a finite IT resource. It is clear that IR needs a better decision-making process to balance the needs of today's business with the broader transformation agenda.</p> <p>Also challenging internally are the shortages of capability to move from a mainframe environment to a system that integrates off-the-shelf products from a range of suppliers.</p> <p style="text-align: right;">contd...</p>
--	--

	<p>The legacy system has been overstretched to respond to demands from governments to adapt it to major new products. Developments to the system for Student Loans, Working for Families and KiwiSaver, for which it was not originally designed, have made matters harder. The strain has been evident for some years, and has increased as tax volumes have grown.</p> <p>IR’s leadership has been working diligently at solutions for some time but changes in governance, funding and management culture, are yet to deliver a clear way forward. Deployment of tools to support an IR-wide and detailed IT strategy will be needed to break out of the current situation.</p> <p>We are not able to give technical advice on IT architecture but are concerned to note that options for Transformation may be complicated by system characteristics that inhibit easy migration of data from FIRST to a modern data warehouse. In addition, documentation of how the new products have been integrated into FIRST in recent years may have been compromised in the rush to meet deadlines for those projects. The effect is to compromise efforts to map the existing system rules into a new environment and to greatly complicate testing of any further changes to FIRST.</p> <p>Ultimately, however, Business Transformation is about the business and its information requirements, and the IT constraints from the legacy system simply have to be removed.</p> <p>The immediate challenge to the leadership and the senior management team is to work up in detail the optional paths for transformation under different assumptions about speed, funding and steps along the way. This must be done from a whole-of-IR perspective and from a whole-of-government perspective.</p> <p>Realism about the timescales on which various milestones can be reached is essential and appears to us to be a bit lacking among stakeholders. The rating reflects the fact that IR has the capacity to get on top of all this – it just has to realise this potential with some urgency.</p>
--	--

<p><b>Implementation of Tax Measures in Budget 2010</b></p> <p>This government priority relates to IR's implementation of the tax measures announced in Budget 2010, including:</p> <ul style="list-style-type: none"> <li>• GST, personal and company tax rate changes</li> <li>• removal of depreciation on properties</li> <li>• legislation on qualifying companies</li> <li>• social assistance integrity</li> <li>• related legislative changes.</li> </ul>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p>
	<p>The tax measures announced in Budget 2010 represented the most significant tax reforms of recent years. Central to the reforms was a need to improve the integrity of the tax system, while remaining revenue-neutral in a constrained fiscal climate.</p> <p>IR was required to act quickly on implementation of the tax package and, based on information available, to Lead Reviewers (including feedback from key external stakeholders and from both the Ministers of Finance and Revenue), delivered the 1 October 2010 changes successfully and with little to no negative impact on IR or the New Zealand public.</p> <p>Further changes came into effect on 1 April 2011 and the work programme to support this has been well managed. There were unique system, information and communication challenges relating to the qualifying companies changes aspect of the 1 April changes. However, from the information available, the project has been a success overall.</p> <p>IR has scheduled a post-implementation review of the project for September 2011.</p>

**Continued focus on International Tax Reforms**  
 This government priority relates to international tax reforms that aim to improve the competitiveness of New Zealand companies overseas and to make New Zealand more attractive for international investment.

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>This government priority focuses on a work programme to improve the competitiveness of New Zealand companies overseas and to make New Zealand more attractive for overseas investment. It relates to the wider government goal of building a growing economy and providing security and opportunity for New Zealanders in the world economy.</p> <p>Globalisation and technology advances have opened New Zealand’s markets to a wider customer base. This has increased the risk to our tax system and makes the determination of tax liabilities more difficult.</p> <p>IR has worked with international organisations and other revenue agencies to identify policy and administrative responses to common compliance issues. IR staff have:</p> <ul style="list-style-type: none"> <li>• taken part in OECD working parties to compare tax policy, identify best practice in tax administration and coordinate domestic and international policy</li> <li>• developed and negotiated a number of double tax agreements and tax information exchange agreements.</li> </ul> <p>IR’s programme for 2010/11 has focused on:</p> <ol style="list-style-type: none"> <li>1. extending income exemption provisions for New Zealand companies with interests in foreign companies they do not control but where they hold significant stakes</li> <li>2. continuing to conclude tax treaties with major trading partners.</li> </ol> <p>We have found that substantial progress has been made in the period to March 2011. Delivery on this priority has included:</p> <ul style="list-style-type: none"> <li>• consultation and new legislation extending the active income exemption to interests in foreign companies not controlled by New Zealanders (non-portfolio FIFs)</li> <li>• further consultation and policy approvals for the final stage of the income exemption to branches</li> <li>• a new Double Tax Agreement (DTA) with Australia and negotiation of DTAs with other countries, including Singapore, Canada, Hong Kong, the United Kingdom, United States, Japan, Vietnam and Luxembourg</li> <li>• passage of legislation in respect of the above and the introduction of legislation allowing non-resident investors to use the PIE regime.</li> </ul> <p>Risks to further progress are being managed well through effective consultation and relationship building.</p>
--	--

<b>Tax Policy Work Programme Development, Support and Advice</b> Development and support of the government’s tax policy work programme in 2009/10 and 2010/11 not covered above.	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>Inland Revenue’s tax policy work programme covers many issues raised by Ministers and various stakeholders and is a management challenge. The programme is formally updated every 12-18 months and IR regularly reports to the Minister of Revenue and the Minister of Finance on progress and issues.</p> <p>The Policy Advice Division (PAD) Work Programme Manager monitors progress across the policy teams, and keeps track of progress and issues. There are various levels of commitment to the items on the programme. Some matters will be progressed through legislation and implementation, while others will only be started in the next 18 months.</p> <p>PAD has delivered on a big policy work programme over a number of years. There is a heavy legislative programme. Budget work takes priority and the management of the programme is dynamic if urgent issues arise e.g. the need to respond to the Christchurch earthquake.</p> <p>Changes that impact on Ministers’ priorities are tested with Ministers either informally at meetings, or more formally if required. While prioritisation of the programme could be improved, this would need to be balanced against relationship management considerations. Some items appear to be on the programme to indicate to internal and external stakeholders that their issue, while not a current policy priority, will be worked on eventually.</p> <p>PAD performed well in 2010 in supporting the Savings Working Group.</p> <p>Developing the tax policy work programme involves scoping broad policy proposals as well as prioritising and sequencing the development of initiatives. IR also looks at budgeted resource requirements, the time needed to develop, legislate and implement initiatives, and the modes of consultation and communication to be employed in the process.</p> <p>We have been advised that IR will continue to look for opportunities to develop and improve in these areas.</p>

## RESULTS SECTION

### Part Two: Delivery of Core Business

This section reviews Inland Revenue’s effectiveness and efficiency in delivering its five core businesses. Reference is made to IR’s 2010 Statement of Service Performance that sets out for each core business the recent performance information, in many cases for the last three financial years.

We have also noted the budgeted costs for the five core businesses for the 2010/11 year (from the IR Output Plan) to give a sense of the relative sizes of each.

<p><b>Policy advice</b></p> <p>This core business (Output Class 1) involves the provision of policy advice services jointly with the Treasury that contribute to achieving the government’s tax and social policy outcomes, and improving the economic and social wellbeing of New Zealanders.</p> <p>In the 2010 Annual Report, recent performance is summarised under two sub-classes: Policy advice in relation to tax and social policy, and ministerial services.</p>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Strong</b></p> <p>Performance Rating (Efficiency): <b>Well placed</b></p> <hr/> <p>The total budgeted cost for this Output Class in 2010/11 was \$15.3m (2% of total operating budget). This is up on expenditure of \$14.7m in 2009/10.</p> <p>IR’s Policy Advice Division (PAD) is responsible for delivering most of the services in this core business. Through PAD, IR has consistently provided sound and expert advice, the foundations of which are the:</p> <ul style="list-style-type: none"> <li>• Government Tax Policy Work Programme developed jointly by IR and Treasury, agreed by joint Ministers and Cabinet and made public</li> <li>• commitment by the leaders in PAD to the international benchmarks of standards of tax analysis</li> <li>• quality of human and other resources, including networks of global expertise whose respect PAD has earned</li> <li>• skills and character shown by IR’s senior tax advisors to building PAD’s capability</li> <li>• confidence in the PAD team in the minds of Ministers and the large network of tax expert practitioners</li> <li>• Generic Tax Policy Process, including external consultation. Most of the policy work involves changes to legislation and IR has an internal legislative drafting unit.</li> </ul> <p>The good quality of policy advice is evident through results:</p> <ul style="list-style-type: none"> <li>• The New Zealand tax system is simple and effective by international comparisons, and is recognised internationally as such</li> <li>• The tax reform package arising from the Tax Working Group and legislated for in Budget 2010.</li> </ul> <p style="text-align: right;">contd...</p>

	<p>PAD's effectiveness is enhanced by its objectivity based on analytical methods and economy-wide perspective. It is able to provide the Minister with advice that does not have to be constrained within the advice provided by operational units.</p> <p>Ministers are getting transparent advice, where there are different perspectives and weightings. The policy function within a largely operational organisation seems to work and is balanced with the close working relationships that PAD has with the Treasury in the joint 1st opinion advice role.</p> <p>This arrangement neatly addresses the dual responsibilities of the Commissioner who, is in effect, both the CEO of a large operational agency and the holder of an independent statutory office, with requirements to provide advice to government.</p> <p>The question of PAD's efficiency is whether all this could be achieved at less cost. We found little reason to believe so. There is a manager in charge of shepherding the work programme and the unit stays on budget and works very hard.</p> <p>The prioritisation of the work programme is handled well to the obvious satisfaction of stakeholders. We note that PAD's policy programmes do not seem to be managed in dollar terms. Although optimising the match of human resources to topics may be sufficient for internal management purposes, we recommend that budgeting for major policy projects, which we are told does not happen, would improve transparency and ministerial decision-making on priorities.</p> <p>Given the strength of this policy unit, it would be feasible and desirable for it to be a leader in innovation to improve the efficiency and effectiveness of policy advisory resources.</p> <p>Some attention to ensuring effective personnel management would be worthwhile. Although we found nothing to suggest weakness in this area, the management of policy units is a challenge across government agencies and a health check on this might be worthwhile.</p>
--	---

**Services to inform the public about entitlements and meeting obligations**

This core business (Output Class 2) includes services that help taxpayers and other customers to meet their payment obligations of their own accord and to receive payments they are entitled to. This is achieved through a range of proactive and reactive services to make people aware of their entitlements and obligations, and the services available to help them comply. These services also contribute to confidence in the tax administration system through managing individual customer complaints quickly, fairly and in confidence.

In the 2010 Annual Report, recent performance is summarised under four sub-classes: Information Services, Adjudication, Taxpayer Rulings and Public Rulings.

<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Well placed</b>                  Performance Rating (Efficiency): <b>Well placed</b></p> <p>The total budgeted cost for this Output Class in 2010/11 was \$245.5m (38% of total operating budget). This is up from actual expenditure of \$230.6m in 2009/10.</p> <p>Frontline services for this core business are provided mainly by the Assistance Team within IR’s Service Delivery Group (over 2,000 full-time equivalent (FTE) staff) and the Office of the Chief Tax Counsel (75 FTE).</p> <p><b>Information Services</b></p> <p>IR’s Service Delivery Group provides proactive and reactive information services that are monitored through a range of customer satisfaction, timeliness, and activity measures. Core activities include:</p> <ul style="list-style-type: none"> <li>• providing information to taxpayers on the application of the tax laws</li> <li>• responding to inquiries from taxpayers and social support programme customers</li> <li>• providing assistance to the public, businesses and tax agents.</li> </ul> <p>IR staff respond to customer inquiries on tax and social support programmes (including child support and KiwiSaver) through electronic channels, correspondence, telephone, and personal appointments. Advice is provided through a range of communication approaches delivered in the community, over the internet, and through the complaints management service.</p> <p>Customer satisfaction metrics show a strong positive track record over time and all other metrics monitored in 2010/11 are exceeding or meeting performance targets with the exception of first call resolution. The aspirational target for this is 80%, current performance is 73% and the provisional target for 2011-2012 is 75%.</p> <p>A list of initiatives to lift service performance in this area of the business is under consideration. Service improvements mostly involve application of contemporary IT solutions. The funding for these needs to be considered within the context of the tight constraints on IT budgets across IR.</p> <p style="text-align: right;">contd...</p>
---	--

	<p>Realistic and achievable targets need to be set in response to what can be done within the resource envelopes.</p> <p>IR has an extensive array of continuous improvement initiatives in this area, resulting from its ongoing focus on efficiency and value for money, international benchmarking and liaison, its array of customer surveys and its research and evaluation programmes.</p> <p>The Future Direction of Service Delivery (FSDS) change programme is currently under way to create more flexible, responsive and efficient services based on the changing needs and compliance behaviours of customers. Alternative delivery options and co-location opportunities continue to be considered as part of this work as IR looks to optimise resource allocation and drive efficiencies.</p> <p>The programme is well aligned to major change initiatives externally (Service Transformation – Service Link) and internally (Business Transformation/IR for the Future). Internal communication about the status of FSDS has been informative and consultative.</p> <p><b>Adjudication, Taxpayer Rulings and Public Rulings</b></p> <p>The Office of the Chief Tax Counsel (OCTC) aims to provide clarity on legal interpretation of tax obligations based on adjudications and technical reviews of tax disputes. The team responds to applications for taxpayer rulings and makes binding or non-binding public rulings to outline IR’s position on specific tax issues.</p> <p>Volumes in Adjudications and Rulings are small but complex issues are dealt with and timeliness of rulings has been a concern for a number of stakeholders. IR has responded to this concern following a customer survey in early 2009. The timeliness of private and product rulings has steadily improved since 2006. The Public Rulings work programme is now published on the IR website.</p> <p>We received a lot of comments about the delay in IR releasing a guidance document on tax avoidance. While we agree that the guidance should be released there are in fact legal issues at stake that need to be carefully balanced.</p>
--	--

**Services to process obligations and entitlements**

This core business (Output Class 3) includes services that contribute to the availability of revenue to fund government programmes, as well as ensuring that taxpayers and other customers receive payments they are entitled to, including tax refunds. This is achieved through services designed to achieve timely, efficient and effective assessment and processing of tax payments, tax credit claims and refunds for taxpayers, and entitlements for social support programmes.

In the 2010 Annual Report, recent performance is summarised under three main sub-classes: Registrations, Applications and Assessing; Administrative Reviews; and Payments, Returns, Collections and Disbursements.

<p><b>PERFORMANCE RATING</b></p>	<p>Performance Rating (Effectiveness): <b>Strong</b> Performance Rating (Efficiency): <b>Strong</b></p>
<p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>The total budgeted cost for this Output Class in 2010/11 was \$114.6m (18% of total operating budget). This is down slightly from actual expenditure of \$115.7m in 2009/10.</p> <p>Frontline services for this core business are provided mainly by the Customer Operations and Assistance Teams (about 590 FTE) in IR's Service Delivery Group.</p> <p>High volume transaction processing is a key strength for IR and we have been able to verify this both through our interviews and from examination of performance data and reports.</p> <p>In recent years IR's external reporting performance targets have predominantly been achieved and extensive internal performance reporting helps to drive performance. The new impact measures developed in 2009/10 should improve the value of external performance reporting from 2010/11.</p> <p>The Customer Operations Team moved into the Service Delivery Group late last year. Over the last few years, it has achieved significant efficiency gains through application of private sector Operations Management methodology. The approach is being looked at for rollout in other areas of the Service Delivery Group. Lean Six Sigma (business management tools) is also used to drive further process efficiencies.</p> <p>IR also uses a combination of temporary staffing, flexible deployment of staff and performance trade-off decisions to ensure the performance of key processes during peak periods.</p> <p>An area for further development we have noted is in developing strong working relationships with tax intermediaries, such as payroll providers. While substantive improvements have been made in recent years, this appears to have been in response to innovations proposed by the intermediaries. We believe that IR is now starting to get 'ahead of the game' and is establishing collaborative partnerships that will drive further changes.</p> <p style="text-align: right;">contd...</p>

	<p>On 1 April 2010 IR launched its new Business-to-Business (B2B) web service allowing Tax Agency staff to access key information about their clients through their tax management software. The new web service will initially provide tax agents a view of clients' transactions and balances for all linked tax types except PAYE and related taxes.</p> <p>Over time, IR plans to make further services available via the B2B channel so that more providers will engage and offer this service to their customers.</p> <p>It is worth noting that in 2008/09 and 2009/10 IR achieved all its performance standards in this core business despite a number of operational challenges. Significantly, in 2009/10 there was an 11.6% increase in tax returns filed securely on the internet and all child support targets were met. More details are provided in the Statement of Service Performance in the IR Annual Report 2010.</p> <p>During our review we have observed that IR is developing a culture of 'doing more with less'. Further gains appear possible in this core business as integration opportunities between the Assistance and Customer Operations units continue to be explored. These gains will, however, depend, in part, on IR's ability to undertake the technology enhancements we discuss elsewhere in this report.</p>
--	---

<p><b>Management of debt and outstanding returns</b></p> <p>This core business (Output Class 4) includes services that contribute to the availability of revenue to fund government programmes. This is achieved by ensuring that taxpayers assess their liabilities when required and that they, and any other customers, meet payment obligations (or understand the action they need to take to meet overdue obligations). This core business also covers the management of appropriate enforcement action where people choose not to comply.</p> <p>In the 2010 Annual Report, recent performance is summarised under three sub-classes: Outstanding returns, Overdue debt, and Child Support debt management.</p>	
--	--

<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Needing development</b></p> <p>Performance Rating (Efficiency): <b>Needing development</b></p> <hr/> <p>The total budgeted cost for this Output Class in 2010/11 was \$99.1m (15% of total operating budget) up from actual expenditure of \$81.3m in 2009/10.</p> <p>Frontline services for this core business, based on monthly average FTEs over the current financial year, are provided mainly from the Assurance Team (500 FTE) and Assistance Team (60 FTE) in IR's Service Delivery Group.</p> <p>Over the last five years there has been considerable increase in the tax and non-tax (child support and student loans) debt. As at 30 June 2005, taxpayer debt, including penalties and interest, was \$2,883m (of which \$1,553m was deemed collectable) but by 30 June 2010 the figure of taxpayer debt was \$5,150m with \$3,485m deemed collectable.</p> <p style="text-align: right;">contd...</p>
---	---

This has also become an increasing focus for Ministers, who are giving close attention to the Crown's balance sheet. The introduction of International Financial Reporting Standards, that require an actuarial calculation of the value of the debt mean that Crown assets are now subject to considerable write-down, depending on an assessment of collectability. The size of this impairment of the asset value is now more visible.

In 2009 the Auditor-General reviewed Tax Debt and found that IR's overall approach to tax debt management was insufficient to control the growth in tax debt. The Auditor-General noted that IR had limited information to monitor the effectiveness and efficiency of its tax debt collection work.

The Auditor-General made five recommendations. These included that IR would need better information about the effectiveness and efficiency of its debt collection techniques to control the growth of tax debt, better reporting of debt and that IR should review how it selects the cases that it does and does not allocate to debt collection officers.

In 2010, the Auditor-General published a review of Child Support debt, which found that, generally, IR is doing a good job monitoring, prioritising and collecting Child Support debt. However, IR needed to do more to prevent debt from occurring in the first place. In the Auditor-General's view, IR's debt strategy had not adequately focused on preventing debt; nor had it addressed the adverse effect the penalty regime was having on levels of debt. (Child Support debt is subject to significant penalties.)

Inland Revenue also collects repayments of Student Loans debt. As at 31 March 2011, there were 630,337 student loan borrowers. Of these, 82,291 had overdue repayments – 48,929 based in New Zealand and 33,362 overseas. Those who were overseas represented about 5.3% of all student loan borrowers but about 62.3% of the overdue debt.

A concentrated effort to improve the management of debt has begun and is reflected in the 2009/10 results, where the increase in overdue debt was just 2% (2008/09 15%) and in outstanding returns 0.6% (13.7%-17.5% over the previous three years).

IR received additional funding in the 2010 Budget to enable it to better manage debt and has set itself challenging targets in this regard. The funding has been used to implement a campaign management system that takes advantage of multiple outbound contact channels and to recruit extra staff for outbound calling and other campaign work.

contd...

	<p>Phase 2 of the Debt Optimisation Project seeks to further improve its debt management through the development of a new 'Future Collection System' design. This is a high-level design solution for a system that is integrated for both tax and social policy and provides an end-to-end delivery for both the collection of debt and returns. Plans for Phase 2 are well advanced but have not yet been formally approved or funded.</p> <p>The development of a whole-of-organisation proactive approach to improving debt management is also reflected in 'Our Compliance Focus'. IR has published this compliance management framework in the last two years. We note also that the first three Standard Practice Statements for 2011 are focused on making it easier for customers to repay debt and for IR to collect it.</p> <p>So IR has become much more focused on debt issues. It is using new strategies to ensure that debt is followed up earlier. A new principled approach to debt management has been introduced to target debt recovery action, with a focus on collecting new debt to minimise penalties and interest based on four elements - <b>P</b>revent, <b>A</b>ssist, <b>R</b>ecover and <b>E</b>nforce (PARE). The PARE model sits neatly alongside IR's 'compliance triangle' model.</p> <p>In 2009/10, IR introduced a new debt collection cost-effectiveness target. This assesses how much overdue cash is collected for every dollar spent on debt collection activities. The target of \$62.50 was not achieved during the measure's first year but, over time, the measure will provide good comparative data to assess the cost-effectiveness of debt collection interventions.</p> <p>IR has recognised the need for performance improvement in this area for a number of years. Its ability to respond has been limited owing to competing resource requirements. We see this as an area that needs ongoing improvement and we are pleased that some very important steps have already been taken.</p>
--	---

<p><b>Taxpayer Audit</b></p> <p>This core business (Output Class 5) includes services to ensure that the revenue base for funding government programmes is protected. This is achieved by verifying that taxpayers are meeting their obligations through audit activity across all taxpayer groups (specifically targeting risk areas) and by taking appropriate enforcement action when obligations are not being met.</p> <p>In the 2010 Annual Report, recent performance is summarised under two sub-classes: Taxpayer Audit, and Litigation Management.</p>	
<p><b>PERFORMANCE RATING</b></p> <p><b>Effectiveness</b></p>  <p><b>Efficiency</b></p> 	<p>Performance Rating (Effectiveness): <b>Well placed</b></p> <p>Performance Rating (Efficiency): <b>Well Placed</b></p> <hr/> <p>The total budgeted cost for this Output Class in 2010/11 was \$173.6m (27% of total operating budget) up from actual expenditure of \$158.8m in 2009/10.</p> <p><b>Taxpayer Audit</b></p> <p>To maintain high levels of voluntary compliance and community confidence in the integrity of the tax and social policy systems, customers must have confidence in IR's ability to take action against persistent non-compliance.</p> <p>While investigations continue to be used where IR believes there is serious non-compliance, audits are increasingly targeted on intelligence analysis to allocate resources in areas with the highest risk of non-compliance. This is a major improvement in effectiveness.</p> <p>Since 2009, IR has publicised 'Our Compliance Focus' in its desire to be open about its approach to compliance activity. Areas of focus now include scrap metal, income from property ownership and misuse of charities tax-exempt status. However, the nature of its compliance work is that IR also needs to be able to respond quickly to new threats to the revenue base.</p> <p>In the large enterprises area, IR is moving away from audit to a cooperative compliance model. This involves establishing Cooperative Compliance Agreements with the boards of companies.</p> <p>Within Taxpayer Audit a range of tools are used to identify areas of non-compliance and instigate appropriate responses.</p> <p>There is a lot of further development in these methods of audit to occur but IR has clearly made great progress. The improvement in revenue raised from the human resources available for audit from \$0.6b to \$1.4b in four years shows both the achievement and the potential.</p> <p>IR surveys small and medium enterprises that have recently been audited to get feedback on the overall audit experience. IR also undertakes a large enterprises compliance survey. The New Zealand Institute of Chartered Accountants undertook research on its members and their clients' experience of IR in 2010. Sixty-two percent of respondents identified the experience of taxpayer audit as 'good' or better.</p> <p style="text-align: right;">contd...</p>

	<p><b>Litigation</b></p> <p>The Solicitor-General is ultimately responsible for the conduct of all litigation in the name of the Commissioner of Inland Revenue. In recent years, there have been some tensions between IR and Crown Law over the conduct of litigation.</p> <p>The relationship between the two agencies is now set out in protocols between the Solicitor-General and the Commissioner of Inland Revenue that were agreed in 2009. While this was a very productive step in putting relationships on a sound footing, it does not dispense entirely with the potential for tension between Crown Law and IR inherent in their respective roles.</p>
--	---

<p><b>Regulatory impact</b></p> <p>How well does the agency’s regulatory work achieve its required impact?</p> <p>This part of the framework is about reviewing whether the Agency applies a transparent risk-based framework in managing across its core business functions from the start of the policy process. It considers policy development and rule-making, implementation and compliance and evaluation and review.</p>	
--	--

<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>We interpret regulatory work in terms of designing, advising on, promoting and communicating about tax and other legislation for which Inland Revenue has responsibilities – in other words, the quality of legislation and how this legislation is acted upon. We have commented under Policy Advice on the results of this and related work in terms of the quality of New Zealand’s tax system. We note that in its Briefing for the Incoming Minister of Revenue in 2008 IR identified six key factors that contribute to a good tax system.</p> <ul style="list-style-type: none"> <li>• There should be clear and well-understood tax policy and legislation</li> <li>• Taxpayers should receive high levels of service and timely responses from good, technically competent and receptive people</li> <li>• Finding information and receiving assistance should not be a struggle for taxpayers</li> <li>• Inland Revenue should be able to anticipate and respond quickly to policy and administrative challenges</li> <li>• High tax rates and narrow tax bases are likely to increase the economic costs of taxation</li> <li>• A good tax system is characterised by high levels of voluntary compliance, which is helped by the tax system being perceived as broadly fair.</li> </ul> <p style="text-align: right;">contd...</p>
---	--

	<p>IR sees its job as doing whatever it can to ensure that the country has a good and effective tax system and has continued to learn about the attributes of strong tax and social policy administration. It stands out in the quality of its policy analysis and preparation of legislation. It has developed considerable expertise in policy development and rule-making based on a sound understanding of taxpayer behaviour (through research and evaluation) and through developing and applying its highly regarded compliance model.</p> <p>It was brought to our attention that tax legislation typically involves a lot of revision as it goes through the process and this is expensive in terms of IR resources and ministerial and Parliamentary time. We are unable to judge whether these costs can be reduced by deeper consideration and better process in the first instance but would expect that this is an area for continuing attention and the application of IR's quality management methods.</p> <p>IR's strong approach to customer compliance modelling and research, and its publication and application of 'Our Compliance Focus', make it a front runner in 'regulatory impact' terms. It is not surprising that we have found that IR has a demonstrable competency in preparing Regulatory Impact Statements under the Regulatory Impact Analysis Regime and has set high standards for others to follow. This confirms our rating as 'Strong'.</p>
--	--

## ORGANISATIONAL MANAGEMENT SECTION

### Part One: Leadership, Direction and Delivery

<p><b>Vision, Strategy &amp; Purpose</b></p> <p>How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>Inland Revenue (IR) has, over the last five years, been working to an organisational strategy that has evolved in response to government priorities and to reflect feedback about the need for greater clarity around its outcomes, impact measures and output indicators.</p> <p>‘Our Way Forward’ has described IR’s strategic direction and is outlined in the <i>Statement of Intent (SOI) for 2010-13</i>. Details of IR’s new Performance Framework are also presented in the SOI.</p> <p>The new Performance Management Framework provides a clear picture of the seven ‘impacts’ that IR seeks to achieve through the conduct of its activities. These impacts are link to desired outcomes and two government priorities.</p> <p>IR’s 2010/14 Corporate Strategy Set presents a range of strategic themes, each describing focus areas and strategic measures. The Strategy Set will evolve during the current planning round into a refreshed Strategic Plan.</p> <p>We have noted there is a high degree of alignment between external documentation and internal business unit plans, in performance management terms. However, we are not convinced there is enough alignment around strategic priorities.</p> <p>Business Transformation (previously ‘Transform IR’) has been a fundamental strategic initiative for some time and is dependent on IT system renewal. The need for a multi-year programme of transformation and renewal was signalled in 2008 in the Briefing for the Incoming Minister.</p> <p>However, during our review in early 2011 we have been told that for many stakeholders “there is not a clear and consistently understood plan of how transformation will be achieved”. There is an urgent need to address this issue from a range of perspectives as outlined earlier under Government Priority 2.</p> <p style="text-align: right;">contd...</p>

	<p>In the last year, IR’s senior management team has made a concerted effort to engage with staff around organisational strategy, purpose, vision and culture. The ‘Shaping our Future’ initiative has been well managed and monitored.</p> <p>We were fortunate to attend the Senior Management Forum in which a refreshed Vision, Purpose, Strategy and Values Statement for Inland Revenue was shared with over 100 organisational leaders. The ‘IR for the Future’ – as described in a very impressive document – needs to be realised over the next few years and the challenge for all the leaders at the forum, and a number of key stakeholders who weren’t, is to actively support the direction, agree the priorities and take up the challenge to ‘make it real’.</p>
--	--

<p><b>Leadership &amp; Governance</b></p> <p>How well does the senior team provide collective leadership and direction to the agency?</p>
---

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>A review was undertaken at IR in 2010 to ensure that IR’s governance structure adequately reflected and supported the new senior management team and enabled the organisation to transform. This followed a management reorganisation that was recommended in a report by external consultants in December 2009.</p> <p>The governance review recommended the establishment of the two new boards: a Business Transformation Programme Board (BTPB) and an Information, Design and Services (IDS) governance forum. The BTPB now reports to IR’s Portfolio Governance and Investment Committee, which together with IDS, is a subcommittee of the Executive Board. The Executive Board is the primary governance body in IR and its membership is drawn from the senior management team.</p> <p>There is evidence the Executive Board is a reflective, well-functioning and collegial group that is aware of, and often discusses strategic issues. However, it became apparent during our review that there is a key strategic and operational dilemma facing IR that the Commissioner and Executive Board have found difficult to solve. This is the question of the future overarching information management strategy and, specifically, the need to renew, supplement and/or strengthen FIRST – IR’s core tax processing system.</p> <p>There have been numerous technical, financial and risk analyses completed in recent years about FIRST and the fact that it could be near the end of its useful life and should be replaced. While there appears to be collective agreement about the need for major system transformation, as reflected in documentation about the ‘Business Transformation’ work programme, there appears to be some tension and indecision about the optimal technology path to take.</p> <p style="text-align: right;">contd...</p>
--	--

	<p>The Business Transformation Programme Board is still a relatively new addition to the governance structure. We believe that this group is not yet working as well as it might. Moreover, we believe that it is vital that the Commissioner takes the lead in what is the crucial area of decision-making and delivery, given the importance of the transformation work and its potential impact for the tax and social policy administration system as a whole.</p> <p>We therefore recommend that the Commissioner simplify the governance arrangements around business and system transformation. As noted elsewhere we recommend he take control of the process of detailed decision-making around IT development scenarios and decisions. This is not to be interpreted in any way as a reflection on the leadership of any individuals but rather that the existing arrangements have not matured sufficiently in time to make these decisions.</p>
--	---

<p><b>Culture &amp; Values</b></p> <p>How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?</p>
---

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well Placed</b></p> <p>As discussed under the ‘Vision, Strategy and Purpose’ section, ‘IR for the Future’ was presented to a Senior Managers Forum on 31 March 2011 as a refreshed statement of strategic direction and intent. The forum was a key event in IR’s ‘Shaping our Future’ organisational change management programme.</p> <p>A key component of ‘IR for the Future’ is the refreshed statement of ‘values’ and these were framed based on feedback from staff up and down the country.</p> <p>‘Shaping our Future’ began in August 2010 and is a highly consultative initiative, led by the Chief Executive. In the latter part of 2010, 166 staff forums were held and led by members of the senior management team. The forums focused on the development of a refreshed set of organisational values. We understand 43% of IR’s staff attended.</p> <p>The approach was, in part, a response to feedback through staff surveys that senior managers did not have enough visibility. We were advised that staff had appreciated the involvement of IR’s leaders and the opportunity to participate. We also observed a positive response from those managers who attended the 31 March forum both during and following the event.</p> <p style="text-align: right;">contd...</p>
--	---

	<p>Consistent leadership behaviour will be the basis of success in bedding down the new culture and values. There is no doubt the Commissioner strongly supports the initiative and the ongoing commitment of IR’s leaders to the change management process can be expected.</p> <p>As is the case with other large organisations, whether in the public or private sectors, there can be a gap between what the leadership of an organisation say they value and what staff actually experience.</p> <p>A 2009 Staff Engagement Survey indicated a drop in the perception of the quality of IR’s leadership. Steps taken by the senior management team since then (especially those around ‘Shaping our Future’) have attempted to address staff perceptions.</p> <p>It will be important now for IR’s leaders to model and reinforce the desired organisational culture, behaviours and values. We consider the new ‘IR for the Future’ documents ensure the department is well placed to achieve positive responses from staff.</p> <p>IR’s Customer Charter is a longstanding and highly regarded one-page document that describes the way in which staff will interact with customers. IR has a sophisticated and highly visible recognition programme for staff linked to its Charter. There is also strong alignment and commitment to the Code of Conduct governing acceptable and appropriate behaviour.</p>
--	---

<p><b>Structure, Roles and Responsibilities</b></p> <p>How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business?</p> <p>How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?</p>	
---	--

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>Inland Revenue has made considerable effort and progress in recent years to ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business. There is an integrated planning model in place.</p> <p>IR’s planning processes and practices were reviewed in March 2010. This resulted in improvements to coordination across business units, integration of resources, and enhanced links to strategic direction. Planning processes and practices appear to be robust.</p> <p>We comment under ‘People Performance’ that detailed service performance metrics have been developed over the past few years, at both operational and individual levels, with clear progress already made in terms of performance improvement and productivity gains and much more potentially achievable.</p> <p style="text-align: right;">contd...</p>
--	--

	<p>We comment further under ‘Efficiency’ and ‘Financial Management’ on the evident strength of IR’s financial and non-financial planning and review systems.</p> <p>Early in 2010, IR made a number of changes to its management structure following an independent review, including the separation of Business Transformation from business-as-usual work.</p> <p>The shift sought to clarify accountability and afford a strong focus to the transformation work. However, as we comment under ‘Leadership and Governance’, a lack of clarity and organisation-wide commitment around the work remains evident and some further maturing or changes to governance arrangements is required.</p> <p>At individual staff level, we have been advised that all positions have job expectations, including required competencies. There is an audited system of delegations encompassing technical, financial and human resources in place with clearly defined limits.</p> <p>We believe IR is ‘well placed’ in terms of its structure, roles and responsibilities to support the delivery of government priorities and its core business.</p>
--	--

<p><b>Review</b></p> <p>How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?</p>
--

<p><b>PERFORMANCE RATING</b></p> <p></p>	<p>Performance Rating: <b>Strong</b></p> <p>Inland Revenue has done well in developing and establishing performance measures for its service delivery functions at different levels – impact indicators, output indicators and activity measures.</p> <p>The performance measurement framework has evolved to the point that, where relevant and possible, measures that are used for internal management purposes derive from the overarching impact measures or from the agreed output measures. IR demonstrates very good practice in this respect.</p> <p>IR recognises that to maximise the benefits of its performance management framework it needs to be able to produce more information in real time. However, to be able to use real-time performance information for operational decision-making, it will need to make appropriate IT investments.</p> <p>Performance measures are being further refined and there is an encouraging emphasis on the development of qualitative as well as quantitative measures. Weekly data on a range of indicators is currently available to business unit managers and team leaders in the Service Delivery Group.</p> <p style="text-align: right;">contd...</p>
---	--

	<p>Actual performance against impact indicators and achievement of output targets is generally good, although there has been a discernible impact on delivery from the effect of the Christchurch earthquake on IR's operations.</p> <p>Apart from Service Delivery, other business groups within IR also engage in regular and appropriate reviews of their work programmes and delivery of advice and services.</p> <p>IR has strong evaluation capability characterised by a research and evaluation system that is working well and managed by two specialised units and an active advisory committee. For the past eight years, it has produced high quality evaluation reports on significant policies and programmes.</p> <p>IR's Research and Evaluation Five-year Plan was developed in stages during 2008 and 2009 following consultation with many business areas. Its purpose is to build a comprehensive body of knowledge that is readily accessible by all staff, and generally helpful for decision-making and resource allocation.</p> <p>As noted earlier, we have not placed weight on international benchmarking studies in forming our views. However, it is worth reiterating that IR compares favourably on a number of core indicators in a forthcoming report from a survey sponsored by HM Revenue and Customs in the United Kingdom.</p> <p>Despite the need for further investment in systems, we believe IR is 'strong' in this element of the framework and does an excellent job of monitoring, assessing and reporting on its performance.</p>
--	--

## ORGANISATIONAL MANAGEMENT SECTION

### Part Two: External Relationships

Engagement with the Minister(s) How well does the agency provide advice and services to its Minister(s)?	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>Both the Minister of Finance and the Minister of Revenue advised us that they were pleased with the way that Inland Revenue (IR) has responded to government priorities. This reflects a high degree of awareness of the political context in which IR operates and a high quality of service to, and support for, the Ministers in their roles.</p> <p>Both Ministers regard the advice they receive, particularly in respect of tax policy across a range of very complicated policy fields, as being of very high quality.</p> <p>The primary relationship with both Ministers is through the Policy Advice Division (PAD), which has a close relationship with the long-serving Minister of Revenue. Most tax policy advice is provided jointly with the Treasury, and results in legislative change.</p> <p>IR continues to use the Generic Tax Policy Process (GTPP) that was prepared following the organisational review of the Department in 1994 (the 'Richardson Review'). The priorities for the policy work programme are agreed by a joint steering group on which both the Treasury and IR are represented.</p> <p>Other Groups within IR (eg, Service Delivery and Business Transformation) interact with Ministers as well but less frequently than PAD.</p> <p>While the ministerial relationship is currently strong in respect of tax policy, this has centred largely, in recent years, around the high performance and reputation of the Deputy Commissioner (Policy). In light of his recent resignation, it will now be vital for IR to secure a strong new appointment for this vital role.</p> <p>Within the positive ministerial relationship, improvements could be explored:</p> <ul style="list-style-type: none"> <li>• As will be evident from our comments on Business Transformation, IR needs to engage in a renewed dialogue with Ministers about its future capital investment requirements for information technology, having first reached agreement on the exact nature of changes or enhancements required to its current IT platform.</li> <li>• Operational units need to ensure they remain aware of the need to keep the Minister of Revenue (and also PAD) informed of any issues that impact IR's ability to perform, and the 'no surprises' requirements.</li> </ul>

<b>Sector Contribution</b>	
How well does the agency provide leadership to, and/or support the leadership of other agencies in the sector?	
<b>PERFORMANCE RATING</b>  	<p>Performance Rating: <b>Well placed</b></p> <p>Inland Revenue maintains active relationships and extensive consultation with private sector agencies and organisations in the tax community. It also has strong relationships with the Treasury in terms of tax policy development.</p> <p>In terms of its relationships with other government agencies, IR has formal Information Matching Agreements or Memoranda of Understanding with over 15 other government agencies and some non-government entities. These are used to manage information exchange, the provision of services and relationships.</p> <p>IR has also documented its various relationships with over 35 other government and non-government organisations in New Zealand, with a description of the various relationships and departmental staff responsible. This is available to all staff on the intranet.</p> <p>Despite this, there is a certain perception in the central agencies that IR has become somewhat isolated in terms of active collaboration with other State sector organisations in recent years. In our view, this may have arisen because there is no single sector to which IR naturally relates. Its current range of activity would suggest it could be part of the economic, social development, and probably the justice sectors.</p> <p>In respect of the economic sector, Inland Revenue has not regularly, until recently, participated in key economic officials' meetings. We were advised that IR had previously not been invited to participate but are pleased this has now changed. The same may be required in other sectors.</p> <p>Given the strategic intent of IR to become more 'joined-up', change business models and set boundaries differently, there is good reason for it to take a more active and strategic approach to its sector relationships. Where it is not included in key sector meetings, IR should consider asking for a place at the table.</p> <p>A positive step in the past year has been IR's willingness to join with the Ministry of Social Development and the Department of Internal Affairs to develop and implement the proposed government 'ServiceLink' concept. While there are risks around IR's preparedness for delivering on whole-of-government initiatives such as ServiceLink, because of the need for IR to get on top of its own future IT requirements, this initiative provides it with a strong opportunity to work with and support other agencies on a key cross-government initiative.</p>

<b>Collaboration &amp; Partnerships with Stakeholders</b> How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>IR believes that it has developed good relationships with key external stakeholders, such as the New Zealand Institute of Chartered Accountants, the New Zealand Law Society, and key tax practitioners, both in the accounting and legal professions. We tested this by interviewing a number of people from these groups.</p> <p>There is ample evidence of effective consultation with stakeholders, especially around policy development and the work of the Office of Chief Tax Counsel. All of the external organisations gave positive feedback about the quality of the engagement.</p> <p>There is, nevertheless, considerable pressure on IR to issue guidance material about the Commissioner’s stance in respect of tax avoidance, and concern from some about an apparent delay in doing so.</p> <p>While we agree that the guidance should be released there are legal issues at stake that need to be carefully balanced. Similar pressure exists for there to be greater clarity about the status of tax rulings. However, these are not matters on which we are qualified to make a recommendation.</p> <p>Of direct relevance to this Review, however, were discussions we held with stakeholders in payroll and accounting service firms, and tax intermediaries.</p> <p>While engagement with these organisations is improving and will potentially lead to useful collaboration on service delivery improvements for service providers as well as the public, IR has tended to be very reactive and has not managed its approach to stakeholder feedback as effectively as it could have.</p> <p>As the role of IR evolves, and it moves towards greater electronic means of engagement with service providers as well as the public, the need for greater stakeholder collaboration becomes imperative. While (as stated earlier) the department is starting to ‘get ahead of the game’ there are further benefits to be gained from a more proactive style of engagement.</p> <p>The development of Business-to-Business (B2B) connectiveness for extending the use of intermediaries, is making good progress but seems a little hesitant, at least in the view of some intermediaries. More effort would be desirable in clarifying expectations to match IR’s capacity to roll this out, with the expectations that have been created.</p> <p>Plans are being developed in fact to do this under the Business Transformation programme. Initial work has been done – stakeholder analysis, prioritisation, and engagement and communications plans.</p> <p style="text-align: right;">contd...</p>

	While this area is a work-in-progress, and one to which IR needs to devote more attention, B2B connectiveness is at this stage a relatively small part of IR's relationship with a broad range of stakeholders.
--	---

<p><b>Experiences of the Public</b></p> <p>How well does the agency meet the public's expectations of service quality and trust?</p>
--

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>IR has put substantial energy and resources into reviewing measures of customer satisfaction. These are available to staff on IR's intranet and also its website. The research is underpinned by a theoretical model and is also linked to other surveys in place across the State sector eg, Kiwis Count.</p> <p>IR appears genuinely interested in what the community thinks to be important in their revenue agency. Its surveys contain a number of questions relating to the key drivers of public perception and satisfaction, including trust, fairness and whether IR operates effectively and efficiently.</p> <p>Results of customer satisfaction and perception surveys and Kiwis Count are generally good and stable. Customer complaints are managed well. Areas for improvement are readily identified and attention has been given to addressing issues of access to services, more specifically at peak times over the phone, and online services.</p> <p>IR is developing a deeper understanding of its current and future customer base and service expectations through active research. It is adapting its service delivery approaches based on the research results. In effect, it is increasingly applying a customer-centric approach to its business processes.</p> <p>Evidence suggests that IR is focused on improving its customers' experiences and many initiatives to do this are in place.</p>
--	--

## ORGANISATIONAL MANAGEMENT SECTION

### Part Three: People Development

<p><b>Leadership &amp; Workforce Development</b></p> <p>How well does the agency develop its workforce (including its leadership)?</p> <p>How well does the agency anticipate and respond to future capability requirements?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>People development activities are well aligned to Inland Revenue’s (IR’s) business strategy through the Corporate Strategy Set 2010-2014. A People Capability Strategy is part of that set. IR has also undertaken an initial assessment of its future workforce requirements, based on the Capability Strategy.</p> <p>This analysis broke the workforce into six segments and discussed future workforce requirements in terms of both capability and capacity. It also took account of IR’s proposed changes to the design of frontline service delivery. Frontline delivery roles (real-time inquiry, process inquiry, and compliance interaction) make up two thirds of IR’s workforce, with another three segments (administration support, internal specialists and external specialists – thought leaders), making up the remaining third.</p> <p>The initial report found that IR will require a different mix of skills in the future as a result of transformational change in the nature of its business. It will need a balanced approach between developing capability in-house and external recruitment.</p> <p>There is high awareness and effort put into planning for future capability requirements at both the national and business unit level. To progress this planning to the next phase requires more detail on the large change projects coming up. An update on future capability requirements is due to be considered by the senior management team in June 2011.</p> <p>There is a strong commitment to staff and management learning and development, with extensive courses, good online tools and a significant staff resource. Learning and training opportunities are seen as important to staff.</p> <p>Improvements are being made to lift the impact of this learning and development effort, in recognition of an apparent over-reliance on training and questions over impact. These issues were raised in a comprehensive review of learning and development in 2009. Significant improvement has been made since in terms of monitoring and measuring training impact and coordinating effort across IR.</p> <p style="text-align: right;">contd...</p>

	We explored how IR undertakes succession planning and whether there are appropriate plans in place for key policy and IT roles. Succession plans for critical roles were identified in structured discussions with senior managers in November 2008. These have been updated regularly.
--	---

<p><b>Management of People Performance</b></p> <p>How well does the agency encourage high performance and continuous improvement among its workforce?</p> <p>How well does the agency deal with poor or inadequate performance?</p>
---

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>IR refreshed its performance management and remuneration systems last year. The changes support IR’s future direction, and include removing formulaic pay movement processes, de-emphasising the link between training courses and remuneration, and putting more focus on the ‘line of sight’ linkage between organisational and personal staff development objectives.</p> <p>As noted previously, the majority of IR’s staff are in service delivery roles. The Service Delivery Group has developed detailed service performance metrics over the past year in conjunction with Finance and Planning staff. This provides regular (weekly) performance data to the Group’s managers and is currently being further refined and developed.</p> <p>The Service Delivery Group leadership would like managers and team leaders in future to have real-time performance information available at individual staff member level (as is the case in comparable private sector organisations) but this will depend on the introduction of appropriate IT tools. We consider that while IR seems already to be at the leading edge of the State sector in respect of these developments, there is much to be gained in terms of productivity improvement. We are mindful, however, that this may put further pressure on an already stretched IT infrastructure.</p> <p>In addition, IR has a strong focus on continuous improvement. It has employed skilled operations managers from the private sector in the Service Delivery Group and is using Lean Six Sigma business management tools to identify where further performance, and hence productivity, improvements can be made.</p> <p>These performance tools are seen not only as a way for managers and team leaders to manage their work programmes proactively but also to enable both managers and staff to ensure that jobs are well defined, with appropriate performance goals, thus potentially leading to greater job satisfaction. They will enable managers to deal better with issues of mediocre or poor performance and work with staff on the means for improvement.</p> <p style="text-align: right;">contd...</p>
--	--

	<p>Our interviews indicated that there may be pockets in the organisation where staff performance has not been well managed in past years and recent reports indicate that sick leave usage is high in comparison to other public service agencies. The existence of an ‘entitlement culture’ may be an issue here, in common with other processing operations and call centres in both the private and public sectors. IR is taking steps to explore the reasons for, and potentially to, deal with this, in consultation with the Public Service Association (PSA).</p> <p>It was also evident that IR’s management and leadership have been proactive in dealing with any breaches of its Code of Conduct.</p>
--	---

**Engagement with Staff**  
 How well does the agency manage its employee relations?  
 How well does the agency develop and maintain a diverse, highly committed and engaged workforce?

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>IR has been very successful in managing employee relations over the last 12 months – it is considered to be doing well in this area.</p> <p>There is a high union presence with over 60% of staff being members (primarily the PSA). Employee relationships have been very well managed, with successful negotiation of three collective agreements last year, including improvements in performance management and remuneration systems, with no additional fiscal impact. IR is perceived as a role model in terms of employee relations and negotiations across the State sector.</p> <p>Health and safety is well managed, with good systems and processes in place. IR is accredited with ACC, in relation to its health and safety practice.</p> <p>We have not been able to make an up-to-date assessment of the extent of employee engagement. A Gallup survey has recently been completed for IR, and the results are currently being collated. A drop in employee engagement in IR’s last Gallup survey (2009) may have been the result of the considerable change processes then under way. In that survey, IR was positioned at around or just above the median compared to like public sector organisations.</p> <p>IR has in the past year undertaken extensive consultation with staff through a series of workshops about the future vision, mission and values for IR and has just launched its new directional statement: ‘IR for the Future’. These workshops were led by IR’s senior management team, which will have increased its visibility to the organisation.</p> <p style="text-align: right;">contd...</p>
---	---

	<p>This fully consultative programme also included a restatement of organisational priorities and desired culture of the organisation, as well as the future key features of IR's business. Our impression is that this programme of consultation and engagement has been well received by staff and managers.</p> <p>Ongoing employee engagement will be hard to maintain but IR is committed to it, and is taking a positive approach.</p>
--	--

## ORGANISATIONAL MANAGEMENT SECTION

### Part Four: Financial and Resource Management

<p><b>Asset Management</b></p> <p>How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>Inland Revenue (IR's) responsibilities for managing Crown assets are primarily concerned with debt management, which is evaluated earlier in this report, although the leading edge work it is doing in the accounting recognition rules for tax revenue is also relevant.</p> <p>The fixed asset base is dominated by the computer hardware and software, which is \$160m from the total net book value of assets of \$188m. Considering what the book value of the IT infrastructure would be if it had not been run down, this proportion would have been much larger.</p> <p>While IR has had a good track record in delivering projects and has developed sound IT methodologies, indications are that it may have been falling behind a bit. IT portfolio and project management tools could be upgraded and the system of IT decision-making creates opportunities to push 'pet projects' potentially at the expense of overall IR priorities.</p> <p>Anecdotal evidence is that the planning process that IR has in place, which appears generally sound, may allow too many projects to be commissioned, causing overload of key IT resources. The balance between business improvement and Transformation may need to be reassessed given that Transformation is the highest priority for IR.</p> <p>Overall, the governance of the IT project portfolio needs to be upgraded to ensure an IR-wide perspective on project decisions and implementation and rigorous prioritisation of the scarce resources for IT investments.</p> <p>We have spelled out in the section on Information Management the state of the IT assets, which raises questions about how this situation has arisen and what the important lessons are, not only for IR but also for the Treasury and perhaps the Auditor-General. Has the depreciation funding been diverted to other uses by IR or reclaimed by the Treasury? Have successive governments underfunded the requirements for maintenance and upgrading of the platform?</p> <p>In its admirable efforts to respond to an extraordinary sequence of demands for new services (KiwiSaver, Working for Families, Student Loans), has IR underestimated the capital requirements to support these and subsidised them out of depreciation funds, which would otherwise have been spent on incremental upgrades?</p> <p style="text-align: right;">contd...</p>

Has IR been slow to develop a long-term plan for migration off FIRST? Is the problem that FIRST could have continued doing what it was designed to do for years but adapting it for unanticipated new products has hastened its obsolescence?

Have expectations about ServiceLink and the future vision for IR been raised too high too soon, given the condition of the IT infrastructure and the fiscal situation?

We pose these questions without being able to answer them definitively but suspect that the answer to enough of them is 'yes' to explain the situation. We know, for instance, that in the mid 1990s IR transferred about \$50m capital to restructuring costs.

In 2010, IR projected that for the period from 2011-2015 it would need \$400m for investment in Transformation and other capital projects. It would be able to fund up to \$223m from depreciation and use of reserves. This would mean that capital of \$177m would need to come from the Crown. In the present fiscal circumstances, IR cannot assume this will be forthcoming and so its scenarios must account for tight budgets over a period of years.

Subsequent experience with the Student Loans Redesign Project raises the concern that this amount of funding will not be adequate. The estimates of the number will be different today but the situation points to several conclusions:

- IR generally has excellent systems of financial management and high competence in IT, so this situation is out of character
- the conclusions in the section on Information Management are also justified from the perspective of asset management
- there are many probable causes of the situation and some of these were beyond IR's control. In the interests not only of IR's ability to support its ambitious plans for Business Transformation but for asset management policies and practices across government, a diagnosis of this situation would be instructive.

<p><b>Information Management</b> How well does the agency utilise information &amp; communications technologies to improve service delivery?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Needing development</b></p> <p>Overall, IR has a strong history of successfully using information and communications technologies (ICT) to improve systems delivery, particularly in completion of programs to support government policy (eg, KiwiSaver) that expand the range of services IR provides.</p> <p>However, IR has not been as good at maintaining and modernising its internal systems or addressing infrastructural/platform issues in a timely manner to avoid unnecessary risk. This risk is now very large and will not be resolved without changes in governance to achieve resolution of lingering strategic decisions requiring a cross-IR response to information management challenges.</p> <p>IT systems have been crucial to achieving efficiency and service improvements to date. We are impressed with the general level of IT literacy among many of the people interviewed.</p> <p>The managers of operational areas and finance, particularly, think seamlessly about business models and IT issues. There is also an active programme to ensure all IT management improve their financial literacy and can understand the balance between CAPEX and OPEX investment requirements.</p> <p>While the performance, in terms of delivering very challenging new products on an ageing infrastructure is a great credit to the can-do culture of IR, it has come at a big cost in terms of the condition of the systems today.</p> <p>These serious threats to meeting goals for Business Transformation are also evaluated under the headings of Asset Management, Leadership and Governance and Delivery of the Business Transformation Programme. These problems also impact more widely to varying degrees on most of the elements of the PIF model.</p> <p>Information system plans have been developed and are well articulated but tough decisions have yet to be made on the feasible and affordable pathways to Business Transformation. Management has struggled to get on top of these issues, which is in part owing to what has been described as the ‘federal’ nature of IR and the impact of the silos on organisation-wide IT strategy and implementation.</p> <p style="text-align: right;">contd...</p>

There is not yet clarity on just how long FIRST can keep up with the demands on it under various scenarios. Nor has there been discussion with Ministers about options for pruning back ServiceLink in recognition of the new fiscal situation. IR is well aware of these risks and internal projects, including a new desktop, are proceeding.

However, on the major strategy questions there is a need for circuit breakers to get on top of the looming IT issue. The project management disciplines and ex ante risk assessments seem to have been weak in relation to the Student Loans Redesign project and the ex-post review of this project points to important lessons going forward.

IR administers student loan debt collection as part of cross-government arrangements for StudyLink, spread across three agencies. Current governance arrangements across the agencies probably need to be strengthened, particularly during a time of system redesign. We understand that a similar comment is being made in the context of the PIF review of the Ministry of Social Development.

IR is committed to the use of a middleware product to allow all of their different systems to interface with each other. A key requirement for moving forward is to further separate data from applications and decide carefully on the future of FIRST in the context of a detailed development path.

While we are not IT experts, these items appear to make up a sensible strategy that extends the life of the legacy system but the implications for the extent and timing of further service enhancements, from both a customer and government perspective, need to be sorted out soon.

<p><b>Efficiency</b></p> <p>How robust are the processes in place to test for efficiency and make efficiency improvements? How well does the agency balance cost and quality when considering service delivery options?</p>	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>Inland Revenue has good processes to measure efficiency and to make improvements and is actively developing more. IR has produced a value for money framework that looks at measures of effectiveness, efficiency and economy. It is still enhancing the framework but it provides a clear statement of how the components of value for money fit together.</p> <p>IR is continuously looking at ways to improve efficiency. It is ready to trial new ways of doing things and to document the performance and test the results. There have been some remarkable and significant improvements in value for money in audit, for example. However, while IR has done well in managing increased volumes of activity and new product lines within tight budget constraints, its ability to keep doing this is going to be challenged unless early and possibly difficult decisions are taken with respect to Business Transformation and information architecture.</p> <p>IR's role has expanded over the years to include Child Support and Student Loan schemes, Working for Families tax credits and KiwiSaver. While IR received funding for implementation and delivery of these new programmes, substantial volume increases have also occurred over time in a number of core tax areas. A significant proportion of the new programme development costs have been unfunded but have been 'affordable' because of year-on-year efficiency and productivity gains.</p> <p>IR has been able to make a number of improvements in business processes. These include enhancing the phone services to reduce waiting times and increasing the amount of electronic filing. IR has adopted and continues to implement the Lean Six Sigma and "Just do it" Kaizen frameworks to improve processes and deliver efficiencies.</p> <p>Outputs are clearly specified with quality and quantity measures and clear indication of those where they are demand driven. At the strategic level managers have made well judged tradeoffs around the 'compliance triangle' focusing their effort to maintain the integrity of the tax system. The Service Delivery Group closely monitors performance against the contracted outputs.</p> <p>IR is aware of the limitation of just using output measures in the Output Plan to accurately define performance. The development of its Enhanced Performance Measurement Framework has led to the development of impacts, and new indicators that are now being measured.</p> <p style="text-align: right;">contd...</p>

	<p>IR engages in benchmarking with other tax agencies to compare its processes. Such benchmarks need to be interpreted with caution but the comparisons show that the cost of collecting a standard unit of revenue in New Zealand is below Australia, Canada and the UK, but more than the USA.</p> <p>IR has participated in the BASS project (led by the Treasury) that benchmarked a number of corporate functions for public sector agencies. IR is looking closely at the results now to see what actions it can take.</p> <p>IR has adapted private sector methods for operations management and performance improvement very successfully and the comparison with private sector best practices indicates that there are still significant gains to be made in efficiency and effectiveness from the methods adopted. These are somewhat dependent on the success of the Business Transformation strategy and IT projects being successfully shaped and implemented.</p> <p>IR received additional funding in Budget 2010 for tax changes and increased audit and compliance activities but overall it is facing a decline in baseline and the need to manage cost pressures through efficiencies and delivering increased value for money.</p> <p>IR deserves a strong rating for efficiency but to maintain that in the future it will have to succeed in its Business Transformation strategy.</p> <p>IR puts considerable effort into process improvement. It has sophisticated cost-recording systems (noted elsewhere) and managers across the administrative functions who are passionate about making and implementing decisions on the basis of detailed and timely data. In this way they seek, through strategic decisions and continuous learning, to achieve the best balance between customer service, voluntary compliance, investigation and enforcement.</p> <p>The weaknesses in its IT system make it difficult for IR to achieve all potential productivity gains.</p>
--	--

<b>Financial Management</b> How well does the agency manage its financial information and ensure financial probity across the business?	
<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Strong</b></p> <p>Inland Revenue has high standards of management of its financial information and ensures financial probity across the business. Its external reporting is at the leading edge of standards for government departments both in New Zealand and globally.</p> <p>The Finance and Planning group displays the leading edge of public sector practices in integrating the collection and transmission of both financial and non-financial performance information for both external monitoring and accountability and for internal use by managers at all levels.</p> <p>IR has control over a huge volume of government revenue and expenditure so its financial management performance and its accountability for this are critical to State sector performance.</p> <p>IR's formal documents of accountability under the Public Finance Act and other legislation set benchmarks for transparency in the way the outcomes, impacts, output classes and appropriations and performance indicators are linked both amongst this set of information for external purposes and into IR's internal systems of performance management and financial control.</p> <p>There is still more that could be done to develop this integrated system for accountability and performance management, but this potential should not detract from the credit owing to what has been achieved. Performance information in the main operational areas is linked with finance right down to cost centre level.</p> <p>IR has sophisticated output costing systems and Audit New Zealand has assessed IR's output costing model as 'excellent'. The system logically tracks spending from where it is captured through business processes and into outputs and output classes based on appropriate principles. Overheads are allocated with an eye to avoiding unjustified complexity.</p> <p>IR has a multi-year forecasting model for departmental expenditure out to five years. The Chief Financial Officer presents to the Executive Board quarterly on this and it is aware of the challenges to operate within the baseline.</p> <p>The Departmental Internal Control Evaluation undertaken by Audit New Zealand showed IR to overall be 'good' for the management control environment and financial systems and information. This rating reflects specific areas that need upgrading, although given the nature of its operations, it will never be easy to graduate to 'very good' across all control systems.</p> <p style="text-align: right;">contd...</p>

	<p>IR has strong financial management capability. It's integrated financial and performance management system is a best practice model for the public sector that has already achieved much by way of value for money and support for decision-makers.</p> <p>Further comment is provided under 'Efficiency'.</p>
--	---

<p><b>Risk Management</b> How well does the agency manage agency risks and risks to the Crown?</p>
--

<p><b>PERFORMANCE RATING</b></p> 	<p>Performance Rating: <b>Well placed</b></p> <p>IR's risk management framework is based on the AS/NZS 4360 Risk Management Standard, which focuses on identifying, analysing and managing risks. There are sound processes in place around pragmatic risk identification and management. Development of sophisticated risk management models and policies is ongoing.</p> <p>The Corporate Legal Department and IR's Group Manager of Corporate Risk and Assurance work closely to manage risks identified. The overall risk management process at IR is quite strong and compares well with other departments.</p> <p>IR is considered to have an excellent relationship with the Minister of Revenue, who is engaged and aware of risks and actions being taken.</p> <p>IR's Risk and Assurance Committee works well. The Committee states that it is "encouraged with the risk management practices". Both management and the external members of the Committee see room for making the Committee's activities more valuable and can be expected to do so.</p> <p>IR has high standards of management of its financial information and ensures financial probity across the business. It has a leading-edge public sector system for performance measurement in its operational areas that keeps managers informed in a timely way of emerging variances from performance forecasts and associated risks.</p> <p>The major strategic risk presented by information management at the time of this Review has many causes, mostly going beyond the scope of routine risk management systems and into the realm of strategy and responsiveness to demands by Ministers, and available budgets.</p> <p>However, the Risk and Assurance Committee might usefully engage in the learning – not only for IR but others also – from the stream of events that has led to IR being apparently constrained by its IT system in pursuing Business Transformation priorities.</p> <p style="text-align: right;">contd...</p>
--	---

	<p>The Risk and Assurance Committee has correctly identified information management as the biggest risk to IR. This is the only area of risk that may be of an order that will stretch the capacity of management.</p> <p>We think this will be brought under control with changes we have suggested but there are risks around this needing immediate attention at the time of this Review.</p> <p>The experience with Student Loan Redesign shows that IR underestimated the complexity of the task, the skills needed and the extent to which the technology was leading edge. The assessment of such risks is a question for the strategic capability of IR going beyond the adequacy of the risk management methods across all activities.</p> <p>These strategic issues are evaluated under other headings. Hence our rating is 'well placed' on risk management across the board.</p>
--	--

## SUMMARY OF PRIORITY AREAS FOR ACTION

The summary of identified performance improvement recommendations is designed to prompt conversation with the senior management team and form the basis for the development of an agreed action plan.

	<b>Lead Reviewers' Recommendations</b>
1	The Commissioner and Executive Board should streamline and focus the governance arrangements that drive Business Transformation and the associated information technology (IT) development paths.
2	In addition, we recommend that the Commissioner take charge of the decision-making process for recommendations 3 and 4 (below).
3	IR should develop a more detailed plan and milestones for Business Transformation to ensure there is a better understanding of its implications on systems, people, organisational design and funding requirements.
4	The Commissioner and Executive Board need to elaborate, in some detail, the optimal paths for IT system development and data management under different assumptions.
5	IR needs to improve the consistency of language about Transformation used in various planning documents and communications.
6	IR should undertake a formal assessment as to how and why the development of its core IT system has not kept pace with emerging demands for service changes, nor its vision for future services.
7	The Risk and Assurance Committee and the Commissioner should work together to reveal the full potential of the Committee to add value to IR's work.

# APPENDIX A

## Overview of the Model



## Lead Questions

### Results

Critical Area	Lead Questions
Government Priorities	1. How well has the agency identified and responded to current government priorities?
Core Business	2. How <b>effectively</b> is the agency delivering this core business area? 3. How <b>efficiently</b> is the agency delivering this core business area? 4. How well does the agency's regulatory work achieve its required impact?

### Organisational Management

Critical Area	Element	Lead Questions
Leadership, Direction and Delivery	Vision, Strategy & Purpose	5. How well has the agency articulated its purpose, vision and strategy to its staff and stakeholders? 6. How well does the agency consider and plan for possible changes in its purpose or role in the foreseeable future?
	Leadership & Governance	7. How well does the senior team provide collective leadership and direction to the agency? 8. How well does the board lead the Crown Entity? <i>(For Crown Entities only)</i>
	Culture & Values	9. How well does the agency develop and promote the organisational culture, behaviours and values it needs to support its strategic direction?
	Structure, Roles & Responsibilities	10. How well does the agency ensure that its organisational planning, systems, structures and practices support delivery of government priorities and core business? 11. How well does the agency ensure that it has clear roles, responsibilities and accountabilities throughout the agency and sector?
	Review	12. How well does the agency monitor, measure, and review its policies, programmes and services to make sure that it is delivering its intended results?
External Relationships	Engagement with the Minister(s)	13. How well does the agency provide advice and services to its Minister(s)?
	Sector Contribution	14. How well does the agency provide leadership to, and / or support the leadership of other agencies in the sector?
	Collaboration & Partnerships with Stakeholders	15. How well does the agency generate common ownership and genuine collaboration on strategy and service delivery with stakeholders and the public?
	Experiences of the Public	16. How well does the agency meet the public's expectations of service quality and trust?
People Development	Leadership & Workforce Development	17. How well does the agency develop its workforce (including its leadership)? 18. How well does the agency anticipate and respond to future capability requirements?
	Management of People Performance	19. How well does the agency encourage high performance and continuous improvement among its workforce? 20. How well does the agency deal with poor or inadequate performance?
	Engagement with Staff	21. How well does the agency manage its employee relations? 22. How well does the agency develop and maintain a diverse, highly committed and engaged workforce?
Financial and Resource Management	Asset Management	23. How well does the agency manage agency and Crown assets, and the agency balance sheet, to support delivery?
	Information Management	24. How well does the agency utilise information & communications technologies to improve service delivery?
	Efficiency	25. How robust are the processes in place to test for efficiency and make efficiency improvements? 26. How well does the agency balance cost and quality when considering service delivery options?
	Financial Management	27. How well does the agency manage its financial information and ensure financial probity across the business?
	Risk Management	28. How well does the agency manage agency risks and risks to the Crown?

## APPENDIX B

### List of Interviews

This review was informed by input provided by a number of IR staff, relevant Ministers, and by representatives from the following businesses, organisations and agencies.

Agency/Organisation
Australian Tax Office
Chapman Tripp
Crown Law
Datacom
Deloittes
Department of Internal Affairs
Independent Barristers
iPayroll Ltd
KPMG
Ministry of Education
Ministry of Justice
Ministry of Social Development
MYOB NZ Ltd
New Zealand Institute of Chartered Accountants (NZICA)
Office of the Auditor-General
PricewaterhouseCoopers
The Treasury
Victoria University of Wellington (VUW)







