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Tēnā koe Leeanne

Follow up on July 2020 audit of Benefits Management for the Business Transformation Programme

Thank you for the opportunity to provide you with some additional information as an input to determining whether any follow-up work is required to your July 2020 report.

Before I respond to your specific questions, I would like to take the opportunity to provide you with an update on the transformation programme overall.

Your letter mentions that, at the time of your report, the potential implications of re-planning the final stage and the potential effects on the benefits of the programme were still being worked through.

I am pleased to confirm that the re-planning of the final stage has not had a material impact on the programme. While the programme is finishing slightly later than originally planned, due to COVID-19 and the resulting re-prioritisation of some work, we are returning funding to the Crown as part of the Budget 2022 process and remain on track to realise our benefit commitments.

The final stage of the programme went live in two releases during 2021:

- Paid parental leave, unclaimed money, duties[1], and New Zealand foreign trusts moved to new systems and processes on 1 March 2021.
- Child support moved to new systems and processes and the online services all our customers use were upgraded on 28 October 2021.

The final release in October 2021 saw the completion of all customer-facing changes. We are now in the final phases of decommissioning our old systems and processes and well on track to close the programme by 30 June 2022.

You asked for updates in three specific areas:

- the action(s) we have taken to continue to measure the programme's intended benefits

[1] Including casino, lottery and totalisator duty, and the problem gambling levy.

- how we know those actions will be effective
- examples of the impacts on customers the improvements we have made are having.

Continued measurement of the programme's benefits

We track the progress we are making with realising the benefits we committed to deliver through a series of lead and lag indicators and through case studies.

Since your July 2020 report, we have compiled and published results for the lead and lag indicators for the 2019/20 and 2020/21 years and completed a further five case studies. The results for the lead and lag indicators for the 2020/21 year are attached to this letter as an appendix.

For the 2020/21 year, we achieved seven out of the ten indicators for which there are quantitative measures. The measures not achieved were:

- The percentage of customers who find it easy to comply. While this is increasing, this measure is tracking up more slowly than expected. Notwithstanding the significant changes introduced since implementation of transformation began in 2017, as at 30 June 2021, 82% of customers said they found it easy to comply. It is possible that the introduction of the COVID-19 support packages may not have helped perception in this area. There is a significant amount of Government support available to businesses affected by the pandemic, and they need to apply for and demonstrate they are eligible for this support. In addition, we have been encouraging businesses to stay on top of their compliance obligations by filing on time, even if they are not in a position to pay the amounts owing.
- Reduction in compliance time for small-to-medium sized businesses (SMEs). The target for 2020/21 was not achieved, with a saving of 5 hours compared to a target of 15 hours. It appears that COVID-19 and the introduction of payday filing are having an impact. However, the cumulative value of the time saved is above target.
- Annual reduction in our administrative costs. This was not achieved for the 2020/21 year as decisions were made to delay some organisational changes in light of COVID-19. However, the cumulative reduction in costs is above target and we are confident we will achieve the targeted savings by 2023/24.

We will continue to measure and report against all the indicators until 30 June 2024. As noted, one of the leading indicators we track is the reduction in compliance time for SMEs. We have run a survey periodically since 2013, which is the baseline, to understand how much time and effort SMEs spend meeting their tax obligations. We intend to run this survey again in 2023 to provide a final result for the 2023/24 year. Processes to track measures for all the other indicators are already in place and will remain so.

We have continued to regularly report our progress to Ministers and Cabinet, including our progress with realising the benefits we committed to delivering. We have now presented our final update to the Cabinet Government Administration and Expenditure Review Committee (GOV) and completed the final addendum to the programme business case. Both these documents outline in some detail what has been achieved through transformation and will be published on our website following the delivery of the Budget on 19 May 2022.

Programme-specific external reporting will cease with the closure of the programme on 30 June 2022. However, our benefits commitments continue until 30 June 2024. Accordingly, in September 2021, our Strategic Governance Board agreed that we would continue to report on our commitments as part of our Annual Reports for 2022, 2023, and 2024. This intention was noted by GOV on 7 April 2022.

Effectiveness of actions taken

The executive leadership team of Inland Revenue is collectively responsible for realising the benefits of transformation.

We have committed to reporting our results against the lead and lag indicators in our Annual Reports for the next three years. This commitment is reflected in a Cabinet minute. As a result, I am confident that there will be a continued focus on benefit realisation at the most senior levels in Inland Revenue.

Examples of improvements in customer experiences

There are numerous examples of the improvements we have delivered for customers as a result of transformation. I will focus on some of the key achievements we have delivered since your July 2020 report.

Processing times are much faster, with many transactions processed straight through. This provides customers with certainty sooner and reduces their need to contact us to check on progress with their tax and social policy affairs.

For example, following the move of KiwiSaver to new systems and processes in April 2020, for the year ending 30 June 2021, 95% of KiwiSaver members' contributions were transferred to their scheme providers within two days. Previously it took an average of 20 to 23 working days. This means members' funds are invested more quickly which may have a positive impact on their retirement savings over time.

For GST, which was the first product to move in February 2017, around 93% of transactions were processed straight through as at 30 June 2021. This ensures customers with valid refunds get them quickly.

Having more up-to-date information is enabling us to act far more quickly to help customers.

Student loans also moved to new systems and processes in April 2020. Previously, the information needed to close a student loan took time to arrive, as employer monthly schedules (replaced by payday filing in April 2019) were filed at the end of the following month. This meant the majority of loans were overpaid by the time we took any action to close them. In most cases, multiple contacts with customers were required to sort things out. This meant delays in closing the loan and refunding overpayments. Customers could wait months for overpaid amounts to be refunded to them, resulting in unnecessary frustration. Overall, each account took about 40 to 45 days to finalise and required considerable follow up with employers and customers. Now, the majority of loan closures are processed overnight. For example, between January and June 2021, 97% of straightforward closures were processed overnight.

We continue to improve the use of our analytical capabilities to help ensure people receive the payments they are entitled to. For example, each week we identify between 50 and 100 customers who should be receiving Working for Families tax credits that aren't and get in touch with them. This was not possible before transformation.

Online services enable customers to do far more for themselves. Now that all the products we administer are in our new system, customers can find all their personal information in their myIR online account. As we moved products to new systems and processes, we took the opportunity to improve how we administer them. Changes to paid parental leave show how the improvements we have made are making things easier for customers and reducing effort for them.

Paid parental leave moved to new systems and processes in March 2021. Customers are now able to apply for and track the progress of their paid parental leave application, view next payment details, and view and maintain their personal details. Customers and their employers no longer have to provide an income estimate, as we pre-populate customers' income for them as part of the application process. Previously, everything was paper based.

Customers are valuing our online services, which is evident in the changes we have seen in how they interact with us. Use of our digital channels has increased significantly, while equivalent 'analogue' options have declined. The number of myIR sessions has nearly tripled from around 17 million for the year ending 30 June 2016, the year immediately before transformation began, to more than 50 million for the year ending 30 June 2021. The number of calls we receive has reduced as a result.

Customers access our services from the platform of their choice, be it a busy parent checking their working for families tax credits from a mobile device, or an accountant seamlessly filing returns through their accounting software integrated with our application programme interfaces (APIs). A huge amount of the growth in myIR sessions, nearly 20 million sessions each year, are the result of customers accessing myIR from a mobile device. This was not possible before transformation.

We have significantly expanded our digital channels. A suite of new gateway services was made available in April 2021. They enable external partners to securely query and update the data we hold about customers in real-time from their systems. They are heavily used by tax agents and software providers. The improvement in the accuracy and timeliness of this data benefits Inland Revenue, its partners, and the other government agencies with whom we share data.

By way of example, three of the new gateway services enable KiwiSaver providers to query the KiwiSaver membership data and contribution history we hold in real-time. Previously, providers had to contact us by phone or email to request this information which usually took more than a week (often several) and required manual effort. Providers can now do this securely, in real-time, and at volume from their systems.

We can make payments faster. One of the most fundamental changes we made as part of transformation was the introduction of automatic year-end income tax assessments for individuals. Customers now only need to let us know if the information we hold about them is incorrect or incomplete. Refunds are automatically paid into bank accounts and each year we have been reducing the time it takes to do this. As at 30 June 2021, more than $1.8 billion in income tax refunds had been automatically paid out to customers over the 3 years the new process has been running.

Since November 2021, child support payments have been passed on by the 23rd of the same month, as long as the liable (paying) parent has paid on time on the 20th. Previously, payments were made on the 7th of the month following the due date. This is helping to ensure money is available to support children as quickly as possible.

Our ability to support the Government's response to COVID-19 demonstrates ***the agility we now have*** as a result of transformation.

The speed with which products introduced in response to the COVID-19 pandemic have been implemented has been enabled by using established design patterns within our new system, START[2].

The small business cashflow (loan) scheme (SBLS) was implemented in 39 working days from the initial decision to begin some preparatory work until the launch of the SBLS on12 May 2020. It took just 10 days from when the Government confirmed its intentions until the SBLS was launched.

The resurgence support payment (RSP) was announced on 15 December 2020 and applications opened for the first time on 23 February 2021.

Making new products available to customers within weeks, with funds in their account within days of their application was simply unthinkable prior to transformation. We are now able to work at a pace which was not previously possible.

Integrity checks are built in upfront to help customers quickly determine their eligibility and ensure payments do not go to those who are not eligible. Around 150,000 applications for either the SBLS or RSP have been stopped by up front checks. A further 168,000 applications for the RSP were referred to our experts to review. Prior to transformation, it would simply not have been possible for us to check this volume of applications and make payments to customers quickly.

Assessing what has been achieved through transformation

The transformation programme has created the capabilities required to enable Inland Revenue to operate in the digital age.

Customers can do far more for themselves, reducing effort and providing them with certainty sooner. Vastly improved online services make it easy for customers to see and track their tax and social policy affairs. All their information is in one place in their myIR account, which is robust, reliable, and available when they need to use it.

Other organisations, such as tax intermediaries, who play a key role in the revenue system are now better able to serve their clients. We make more of the information we hold readily available to them, with appropriate security permissions.

The information we hold is more accurate and up-to-date and combined with new analytical capabilities is enabling integrity checks to be completed in real time. We can now act far more quickly to help New Zealanders pay and receive the right amounts and identify and stop those who have fraudulent intent.

In the lead up to the closure of the programme, we have completed our own post implementation review. We have also continued with our programme of external independent assurance reviews, with the final Gateway 0 (Strategic Assessment) review taking place at the end of March 2022. I am happy to share the findings of both these reviews with you.

[2] START stands for simplified tax and revenue technology and is the name we have chosen for the GenTax software provided by FAST Enterprises LLC

Once again, thank you for the opportunity to provide you with this information. If you would like any further information or if you have any questions, please contact Vanessa Johnson in the first instance.

Nāku noa

Naomi Ferguson

Naomi Ferguson
Commissioner and Chief Executive

Appendix – Lead and lag indicator results for the 2020/21 year

Outcome	Investment objective	Indicator	2017/18		2018/19		2019/20		2020/21		2021/22	2022/23	2023/24
			Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
Easier for customers	• Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies • Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services • Increasing the secure sharing of intelligence and information to improve delivery of services to NZers and improve public sector performance	*Lead indicators*											
		Digital uptake by customers[3]	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	81%	88%	82%	89%	90%	90%
		Reduction in compliance time for SME customers (hours pa)	3 hours	10 hours	8 hours	9 hours	13 hours	9 hours *(indicative)*[4]	15 hours	5 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.3%	99.4%	99.6%	99.4%	99.5%	99.5%
		Lag indicators											
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies *(six completed to date)*										
		Cumulative reduction in compliance costs for SMEs	$30m	$80m	$160m	$280m	$370m	$500m *(indicative)*	$590m	$640m	$820m	$1,070m	$1,330m
		Cumulative additional Crown revenue to Government[5]			$90m	Achieved	$280m	Achieved	$570m	Achieved	$1,110m	$1,860m	$2,880m
Reduced time and cost to implement policy	• Improving agility so that policy changes can be made in a timely d cost-effective manner • Minimising the risk of protracted system outages and intermittent systems failure	*Lead indicator*											
		Reduction in the time and cost to implement policy	Measured through a series of case studies *(four completed to date)*										
		Lag indicator											
		Increased revenue system resilience as assessed by IR	Low	Partial	Low	Partial	Partial	Partial	Partial	Substantially achieved	High	High	High
Inland Revenue is more efficient	• Improving productivity and reducing the cost of providing IR's services	*Lead indicator*											
		Digital uptake by customers	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Lag indicators											
		Annual reduction in Inland Revenue's administrative costs	$5m	$12m	$10m	$48m	$80m	$57m	$100m	$87m	$100m	$100m	$100m
		Cumulative reduction in Inland Revenue's administrative costs[6]	$5m	$12m	$15m	$60m	$95m	$118m	$195m	$205m	$295m	$395m	$495m

[3] The 26% target used for 2017/18 in the 2015 business case related to the percentage of customers using cloud-based software. From 2018/19 onwards, Inland Revenue reports on the overall percentage of digital uptake measured in returns filed electronically.
[4] Inland Revenue had intended to run the SME compliance cost survey again in 2020, however the impacts of COVID-19, especially on smaller businesses, resulted in a decision being taken to delay the survey until 2021. The 2018 survey has been used as an indicative result.
[5] The additional revenue is already included in the government's revenue forecasts. This indicator is rated as achieved based on increases in proxy measures.
[6] These figures do not include investment decisions made by Ministers to support the Government's response to COVID-19 of $36.9m in 2020/21, $26.5m in 2021/22, and $22.7m in 2022/23.