PERFORMANCE IMPROVEMENT FRAMEWORK

Follow-up Review of Inland Revenue Department

OCTOBER 2013

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

newzealand.govt.nz

Background to the Performance Improvement Framework (PIF) Follow-up Review

A PIF Review of Inland Revenue (IR) was conducted in 2011. This Follow-up Review is a stock-take of the progress the agency has made since the previous Review. It does not cover all of the items in a full PIF review but is focused on a few issues that were selected by the Commissioner and Chief Executive of Inland Revenue, Naomi Ferguson, in consultation with SSC, as follows:

> Recognising there have been significant internal and external changes since the 2011 Agency Review, the Follow-up review will include a description of Inland Revenue's future performance challenge and an articulation of the Four-year Excellence Horizon for the organisation.
>
> Naomi Ferguson has asked that the Follow-up Review focus on:
>
> How well IR is positioned to progress Business Transformation (BT) while also:
>
> - responding to fiscal pressures
> - contributing to the Government's Better Public Services programme.
>
> In forming a view on how well IR is positioned, to consider:
>
> - Governance arrangements (including Investment portfolio management)
> - Operating model changes
> - Strategy and planning capability (extent to which Business Transformation, business as usual, responding to fiscal pressures and IR's cross-agency planning are integrated into clear strategic and operational priorities).

This Review is somewhat different from other PIF Follow-up Reviews because the Better Public Services (BPS) initiative greatly expanded and changed the strategic challenges faced by IR. The BPS initiative has been launched by government since IR's initial PIF Review. This Review emphasises BPS and also contains material on the 'Four-year Excellence Horizon', which was also not included in the earlier report.

Lead Reviewer's acknowledgement

The approach to this Review was to digest a large volume of written material pertinent to the assignment and conduct 30 or so interviews with staff from IR, the Minister of Finance, the Minister of Revenue, central agencies and a few external people with deep knowledge of IR. Findings and tentative conclusions were tested along the way and the draft report discussed with the Executive Leadership Team. The reviewer wishes to thank all those interviewed for their cooperation. The full and open engagement offered by IR staff at all levels was much appreciated.

The Lead Reviewer would like to express his appreciation to Commissioner Naomi Ferguson for her willingness to be available for regular interviews and updates. He would especially like to thank Alan Pinder for his help in completing the report through his extensive comments on the drafts and by coordinating feedback. He acknowledges the diligence of Nigel Shatford in providing materials, arranging interviews and ensuring the process ran smoothly. He also thanks Jill Sirota and Brian Hallinan (SSC) for their administrative support.

Performance Improvement Framework
Follow-up Review: Inland Revenue Department

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

Published: October 2013
ISBN: 978-0-478-40967-3
Web address: www.ird.govt.nz and also available at www.ssc.govt.nz/pif

CONTENTS

AGENCY RESPONSE

Inland Revenue has embarked upon a significant 10-year transformation programme. The challenge for Inland Revenue is to transform its business while making a substantive contribution to Better Public Services and ensuring that our core tax and social policy business operates effectively.

Given this context, this Follow-up Review is very timely for Inland Revenue and the wider State sector. We have developed a high-level roadmap for our transformation programme covering approximately ten years. We are now advancing engagement with New Zealanders and New Zealand businesses to ensure their needs are fully recognised and understood. We have also commenced a process to select external partner(s) and to commence the development of detailed business case(s) for the first stage of the roadmap.

The Follow-up Review outlines a number of issues to be addressed relating to Governance, Planning, Investment Portfolio management, and organisational culture. All are valid and will be a focus for senior management. The issues raised extend beyond Inland Revenue.

A major issue is how governance and decision-making mechanisms across the agencies participating in BPS will ensure its various initiatives and IR's transformation programme are integrated to advance progress in the result areas without compromising the programme, which may put IR's core tax and social policy business at risk.

We will focus on three things in particular to get traction on these issues. Firstly, engaging with the key BPS stakeholders to reach a shared view on the extent IR and BPS programmes integrate, at the level of major initiatives, in the short to medium term. Secondly, further developing our strategic and operational plans and Investment Portfolio, so we have an agreed and detailed set of deliverables and measures to be achieved over the next two to three years. These will show how we will achieve the goals in our Strategic Plan *IR for the future*. Thirdly, we will also have a Single Investment Portfolio that brings all change activities together, enabling sound governance of activities across the full spectrum of change: run the business, improve the business and change the business. We currently have a Portfolio Management Review under way to ensure that our Portfolio Governance is supported to best practice standards. All of this work will be completed by the end of November 2013.

Naomi Ferguson
Commissioner and Chief Executive

INTRODUCTION: SETTING THE SCENE

The initial PIF Review in 2011 concluded that on balance IR is a very well managed department that is strong in both policy advice and administration. Its performance is appreciated by its Ministers. It demonstrates practical commitment to continuous improvement in customer service and efficiency and effectiveness. Its management systems are largely best practice and its financial management is exemplary in the public sector. At the time of the Review there was room for improvement in information management, asset management and debt management. The Business to Business (B2B) integration of IR's systems with tax agents needed continuing effort.

Culture and values were strong and appropriate to the mission although, like any large department, integrating across silos and maintaining engagement and alignment throughout the organisation was challenging.

Against this background of good operational management, the big challenge identified in the review was around governance and implementation of strategic change – largely in relation to its information technology (IT) platform, known as FIRST and designed primarily for processing tax returns. A 'can do' attitude over several years, which reflected what IR calls 'just enough just in time', had led IR to graft onto FIRST capabilities for KiwiSaver, Working for Families, Student Loans and Liable Parent contributions. These enhancements greatly complicated the system, were not thoroughly documented and were beginning to undermine reliability. IR was unable to deliver on an undertaking to support changes in student loans processing, which was an example of the inflexibility of the legacy IT system, where new policies have to be incorporated.

IR's capability for large system changes was challenged by this situation. Business planning and IT planning were not as integrated as they should have been. There was an overly complicated governance structure where issues could get bogged.

Recommendations adopted by the Commissioner were to:

- streamline and focus governance structures
- take the chairmanship of the Business Transformation Board
- review and get assurance about IT development options
- work through business transformation in more detail and gain better understanding through the department
- develop detailed paths for IT systems transformation
- improve communications about business transformation
- learn past lessons about how the IT systems fell behind emerging service changes
- make better use of the Risk and Assurance Committee.

These matters were largely attended to and some are still under action, eg, governance changes. Measures have been taken to stabilise FIRST and to modernise it in some respects.

IR's challenges and goals for transforming itself are described in its vision: 'IR for the Future' (IRFF). This vision is expected to be implemented by IR's Business Transformation Programme (BT) over ten years.

The strategic case for BT in a nutshell is seen in the following extract:

Strategic case on a page...

Our challenges:

1. We are under pressure to maintain our organisational performance
2. We are unable to satisfy the changing expectations of our customers
3. We are unable to rapidly and economically respond to policy changes
4. We are not fully leveraging the information that we hold and the expertise we have across government
5. We face a risk of a systems failure that constrains our ability to implement changes and could severely impact our ability to collect and distribute money

Our strategic response and investment objectives:

1. More effective delivery of our services to improve compliance
2. More efficient delivery of our services to improve productivity
3. Improve the time to market of policy changes
4. Make it easier and simpler for our taxation and social policy customers
5. Increase sharing of intelligence and information across government to improve services and productivity
6. Minimise the risk of protracted system outages and intermittent systems failure

The changes we need to make:

1. Smarter, more effective and more efficient processes
2. Greater ability to design and implement policy change
3. Further development of intelligence and risk assessment capability
4. On demand sharing of information and intelligence
5. Simple, clear and integrated delivery of services to customers
6. Less time on transactional work and more time on pro-active
7. A flexible, scalable and reliability technology platform

The benefits will be to:

1. Increase Crown revenue by improving customer compliance
2. Reduce Crown cost of debt by collecting more debt quicker
3. Reduce Crown expenditure by improving payment accuracy
4. Reduce State Sector cost by improving operational efficiency
5. Increase the ability to implement change
6. Improve experience for our taxation and social policy customers that minimises compliance burden and ensures that customers receive what they are entitled to

Our strategic case which forms the basis for the PBC will be finalised and submitted in early 2013.

The BT Programme Business Case was put to Ministers in March this year, with choices for proceeding and funding implications.

IR has been stepping up to the challenges highlighted in the initial PIF Review but these challenges have become more complicated by expansions of scope and by the arrival of the Government's Better Public Services initiative (BPS) in 2012. BPS is intended to re-engineer much public service delivery based on ICT platforms that permit widespread information sharing and services that are more integrated, both in how they are produced and how they are delivered. There will be greater use of shared services across state agencies.

Following the Terms of Reference (TOR), this Review assesses how well IR is positioned to progress Business Transformation, paying particular attention to governance arrangements, operating model changes, strategy and planning capability, fiscal pressures and contributing to BPS. A four-year strategy for meeting performance requirements is also presented.

Summary

The TOR for this Review were to advise on the "extent to which Business Transformation, Business as Usual (BAU), responding to fiscal pressures and IR's cross-agency planning are integrated into clear strategic and operational priorities".

A lot of progress has been made since the PIF review in 2011. Senior leaders have noted that they understand how things connect now, although BPS is making it more complicated. IR was getting on top of its challenges centered in the problems around FIRST, when BPS arrived to amplify the size and complexity of its challenges. Of course it also amplifies the potential for improvements in IR's service offering and those of its partners in collaboration – at double the cost. There is a lot of work to be done to realise this potential and a lot of risks to be managed.

The 2011 PIF Review remarked that IR has a big brain and a strong body – this is still the case. It successfully manages the production of about 40 products and is more deeply integrated in respect of tax-welfare service provision than other revenue administrations internationally. However, the general conclusion of this Review is that, although IR has come a good distance in grappling with the challenges of large-scale strategic change, this is IR's area of relative weakness by comparison with the standards set by its wider performance.

Credit is due for what has been achieved. Recent governance changes make good sense and are accepted by the organisation and others as a better arrangement for balancing all the tensions inherent in the BT and doing so creatively and collegially. The Commissioner has sharpened accountability for the results she expects from others, set up the Executive Leadership Team (ELT) to balance BAU and BT and brought onto it functional leaders whose skills are essential for success, regardless of their titles. IR's strengths in performance management and financial management are being leveraged, the people functions are being reinforced and the integrity function is being cast in a broader concept that builds on IR's stewardship of the tax system.

There are sound reasons for merging policy and strategy because of the profound impacts that policy design will have on the shape and implementation of the business transformation. However, there is an attendant risk that tax policy could become inappropriately influenced by the pressures of the transformation. It will be essential for the leadership to ensure this does not happen. IR has an outstanding reputation for tax policy work, which needs to be maintained and also augmented by the merging of tax with certain social policies.

But these changes are recent and the new team is not battle hardened. Some of the legacy behaviours that partly explained the problem with the FIRST ICT platform, described in the initial PIF Review, are still in evidence. Awareness of these needs to be maintained until past lessons are fully embedded.

IR has an admirable culture of open debate, as the interviews for this Review show. It is tightening its central governance usefully without killing diversity of views. But it does need to be careful to get the balance of open discussion and decisiveness right. This was an earlier weakness. Drifting off its core strategic purpose in a 10-year transformation could cause a lot of problems.

At the time of this Review the main issues to be addressed are the lack of integrated operational and strategic plans, both internally and cross-agency.

Comment on the effectiveness of the other players in BPS is beyond the scope of this Review. Within IR, several interviewees spoke about the gap between high-level BT strategy and implementation. Some called it the "missing middle", in that ELT is getting on top of the issues but the strategic benchmarks are not in place. IR does not have a 10-year plan, just a strategic vision. The weakness is at the next level – ELT needs to decide what is IR going to be delivering by when? Strategic documents are being rationalised into work programmes and capabilities etc. Some suggested the strategy board should get into the detail and consider the risks. The strategy group has the infrastructure to see that strategy happens but it is new and has not gone far into this yet.

Another described the resolution of the problem of the "missing middle" as visual alignment between organisational goals and individual goals. "Mid-range" measures are needed to capture the missing middle in a two to three-year horizon.

Yet another said there is a risk of the strategy becoming unhooked from transformational capacity.

This Review endorses these comments: materials are impressive but typically high level and suggestive of what has to be worked on rather than decisive or clear about what is to come or about where IR is going. It is hard to trace the connections between all the projects that are in train. The concerns expressed about the missing middle confirm the impression that strategy work is not integrated and not yet well expressed in terms people more widely can relate to. This partly explains somewhat unsatisfactory staff engagement scores.

It is unlikely that the 'single investment portfolio' designed to pull together all investment plans into a coherent plan will be sufficient on its own to address the "missing middle". This would seem like the tip of an iceberg of formal connections and informal relationships running through and beyond IR. It sounds complicated but in reality it is just the accumulation of the work by many people to make decisions from high strategy to individual work plans – and doing so in a way that makes clear how the parts fit together and for what purpose, within IR and across partner agencies.

Perhaps the picture displayed by this Review is a little distorted by being a snapshot of multiple moving parts. Both BT and BPS are unfolding as detail and institutional form is being added step by step to the joint and separate strategic directions set for them. It is difficult from this snapshot to draw a strong conclusion on whether it is all unfolding according to plans, which will methodically resolve the problems this Review raises or not. While all the issues raised are known to the participants, this Review does not conclude they are already on track to be resolved. The dovetailing and scheduling of the parallel workstreams in BT, BPS and the ICT strategy is going to be a challenge. This Review concludes that the leaders of these strategies should focus on bringing themselves to a state of certainty that these issues will be resolved on time.

FOUR-YEAR EXCELLENCE HORIZON

The Four-year Excellence Horizon for IR will be a mixture of the results of incremental improvement in existing services, the adoption of new or modified services under BT initiatives and progress on BT initiatives that will still be in train in four years' time.

The business strategy is so dominated by BT that it almost is the strategy, so IR's main four-year goals amount to progress on BT initiatives. In four years it will still be pushing ahead with the BT strategy, involving initiatives yet to be decided by Ministers. Within the four-year period IR intends to have gained authorisation for the first tranche of BT initiatives, including having sourced design-and-build partners and commenced implementation.

There is a real need for IR to keep focused on its customers and ensure there is, from their vantage point, a steady improvement in customer service year by year. This is necessary not only to maintain the rate of return on investment, given the time value of money but also to maintain the support of stakeholders and for staff engagement.

Service delivery improvements

Service delivery is expected to be enhanced and compliance and administrative costs reduced over the four-year period through measures including better integration of IR processes with those of other departments and increasing the use of digital channels. For example:

- integrating application for an IR number with other processes, such as birth registration and immigration
- making digital the default setting for payment and disbursement (no longer sending or receiving cheques)
- increased electronic filing through e-GST and increased electronic filing of income tax returns
- increased standardisation and streamlining of business processes.

The existing performance management framework is in need of revision so that the targets for service delivery meaningfully reflect the gains that can be expected, while momentum on BT builds. Doing this will involve planning for the hand-off of BT initiatives to the service delivery units set up to achieve the performance targets.

Business transformation

The Business Transformation plan will be shaped around the Minister's preferred option for BT. The plan will see the next four years of progress as 'tranche one', which is to be "supplemented by other activities either planned or under way in our broader business".

The new procurement strategy will be bedded in and being effectively implemented.

The critical path for BT has as a planning assumption that by August 2014 funding should be agreed for the first tranche of initiatives, programme capacity and capability should be in place, including design-and-build partners and high-level design should be completed.

Over the Four-year Excellence Horizon, tranche one initiatives should be well progressed, with the first of them delivering value. The programme should have established a reputation for delivery of successful business process changes.

Compliance and tax policy

Alongside continued service delivery improvement and transformation, the third imperative for IR is to appropriately focus on issues relating to the integrity of the tax system including investing in analytical capacity to improve compliance; base maintenance and the implementation of Student Loans and Child Support legislation. Throughout the transformation process, IR must be able to respond to new Government priorities.

Compliance is expected to be improved through significantly better targeting of compliance activities, both in IR and in related agencies (eg, Ministry of Social Development (MSD)) through better use and appropriate information sharing.

What success looks like

Success in four years' time looks like this:

- The objectives for tranche 1 are on track
- The target performance indicators for BAU have been updated and have been met
- The BT decisions on directions and funding have been made on the basis of detailed business cases
- Cabinet has a high degree of confidence in IR's ability to design and build complex business process changes and deliver service changes, including some 'quick wins'
- The Target Operating Model is well advanced and the new operating model is gaining momentum in increasing use of third parties, both public and private, to provide non-core services
- IR has taken a leading position in BPS initiatives in which it is a large and critical player and has unambiguously contributed to some major successes in service transformation initiatives
- IR's BPS contributions harmonise the demands of the critical path for BT success well with the cross cutting requirements for progress in BPS
- IR is demonstrably tightly focused and 'on strategy' and has not allowed itself to be distracted by 'nice to have' initiatives and inadequately designed collaborative arrangements
- IR's competence and confidence is high – based on clear strategies and implementation plans – for completion of IRFF
- External stakeholders have high levels of satisfaction, compliance costs surveys show results on the ground, compliance is improving and business partners (tax agents etc) are satisfied
- Business partners within the State sector are confident in IR's execution of its strategic direction and its engagement in BPS initiatives – and are willing to document this in performance assessments
- The procurement model is working well and there is high sophistication and effective management around the activities with vendors
- The governance system as a whole and ELT are buzzing, proficient and unified on a detailed 'single portfolio' it is implementing
- Surveys and other evidence show that staff are at higher benchmark levels of engagement, regard for the leadership and connection with the BT programme
- All this has been achieved within shrinking baseline budgets.

THE INTERNAL CHALLENGES

Progressing Business Transformation

BT dominates IR's business strategy. BT has become business as usual; it goes on for ten years and will likely cost well in excess of $1 billion.

The Programme Business Case that went to Cabinet in March proposed the general intent of BT, which was to resolve legacy issues, create a more flexible and reliable platform for future delivery of IR's traditional services and collaborate with other State agencies in new integrated modes of service delivery. Options were presented and remain under consideration at the time of this Review. It is intended that there are detailed business cases to support proposals for tranches of investment going forward.

Key assumptions of the BT Programme Business Case (PBC) are that IR produces the same services in the future, augmented in accordance with the vision in IRFF, which it assumes is accepted by Ministers as the desired end-state. In addition to transforming its functions, IR intends to change its operating model to a 'Target Operating Model' (TOM) based in what it calls Common Business Services. This fits with it being a major player in the Government's agenda and strategy for BPS and the related government ICT strategy, under the leadership of the Government Chief Information Officer (GCIO). IR is committed to these latter objectives and has been part funded to participate in the BPS agenda. While already contributing to a number of initiatives within the All-of-Government Strategy, IR will be undertaking feasibility studies for two key initiatives that will support cross-agency collaboration and more joined-up government. These initiatives are Government Payment as a Service and Data Integration as a Service. Any work confirmed for these initiatives will be aligned and sequenced with wider business transformation outcomes.

New models for working within IR and collaborating with others will bring large changes to IR's operations over time. The planned outcomes of BT and BPS from the view of the public are:

- Improved implementation of policy changes, including use of standardised services and using third party expertise supported by technology
- Digital and paperless – reduced compliance costs
- Information sharing – more effective social welfare delivery
- More intensified effort in countering non-compliance
- Integrated service delivery to reduce compliance costs.

There is still a lot of work to be done in developing the business cases. The detailed work plan includes refining the options, identifying opportunities with stakeholders especially improvements to PAYE system, preparing the market for future procurement processes, engaging expertise and communications.

The strategic documents for BT are largely about infrastructure investments to support service changes expressed in fairly general terms. It is not yet possible to see the linkages between particular investments and detailed changes in service provision and quality. This reflects the stage in the process, which is about scoping and planning. The detailed designs have yet to be undertaken. This does, however, leave uncertainty and risk about what actual service improvements are going to be produced for the huge investments being contemplated. The transformation roadmap will be developed in detail as part of the next phase of the detailed business case.

The standard Treasury template ‘Better Business Case’ is not easy to apply to a ten-year transformation programme where the change path cannot be determined more than a few years ahead, especially given the uncertain opportunities and problems that BPS will present along the way.

The following paragraphs highlight some particular issues for progressing BT: procurement, enterprise architecture and the integration of strategic and operational planning.

i. Procurement

IR is adjusting its concepts and methods of procurement. In the past it has procured ICT assets through developing detailed specifications and going to market for delivery – usually by the same vendor it worked with on the specifications. The prime vendor manages the subcontractors through the process from start to finish of a big project.

IR’s future intentions are based on work it has done with Ernst & Young Ltd to develop a sourcing strategy based on a more flexible approach, in which one vendor is chosen to deliver detailed design of the first stage of the Transformation Programme, and validation of the remaining stages, but other vendors get the opportunity to compete for the downstream work in subsequent stages. Plans and policies are being worked to implement this new approach.

This change in IR’s procurement methods for large investments has advantages in terms of access to a wider range of vendor skills, reduced exposures to risks from key vendors and being ‘vendor led’. But there are risks in building the capability to implement this new approach successfully, as it is more technically and commercially challenging. IR leadership is well aware of the need to build this enhanced capability although there are varying degrees of comfort that the new procurement systems can be readily implemented. This involves negotiating complex arrangements with a range of players, so IR has to be skilled in many things and be clear about what it wants.

ii. Information, design and systems

ICT capacity has been holding IR back. BT requires strong capability inside IR in Design and Enterprise Architecture. This group is located in the Change Group and oversees the enterprise architecture across the department to ensure that the IT designs are fit for purpose and generally compatible and consistent. The scale of these activities and the time over which it will be needed are large and long.

There are differences in view about how far IR should go in building up its long-term capability internally for ICT design work; this is a question for ELT to resolve.

iii Single investment portfolio

There is a big picture in place and several workstreams to support detailed business cases and Cabinet decision support. There are common views about some strategic directions and a critical path for BT for the next year. But there is a need for a three to five-year roadmap of IT investment to pull together into a consistent plan the large number of conceptual pieces of work and high-level plans and advice, which are somewhat fragmentary at this point.

Some work known as the ‘single investment portfolio’ is being initiated to meet this need. It will try to tie together investments to maintain, improve and change the business.

To keep balance between short-term and long-term service delivery it will be important to:

- reflect this balance in investment portfolio allocations
- use the performance management systems to keep in sight the levels and targets for service delivery at the customer end of the business
- manage the handover of BT initiatives from the Change Team to the line managers carefully so as to avoid overlaps and inconsistencies – especially ones visible to customers
- avoid being distracted by BT at the expense of current service delivery even though it will place high priority demands on the energies of the leadership team.

Deriving the single investment portfolio will require a concerted effort by the leadership over an extended period of time to fully understand the options, the resources and risks in implementation while fitting them into a tight fiscal scenario. It will be the basis for developing the tranches of investment over the years ahead and for assuring Ministers of what exactly they are going to get in service improvements year by year for the investments they are making.

IR is working up the 'do minimum' case, which is a technical solution to rewrite code on newer technology or the implementation of a packaged solution. The case also includes some enhanced capabilities for core tax administration of PAYE and company tax. This will provide the base case for the evaluation of proposals for further pursuit of IRFF capabilities. The GCIO raises the issue that the investment in the technical foundations in the first stage of the programme is of a scale that might imply approval for subsequent stages. He thinks it should be staged to avoid pressuring future decisions.

The single investment portfolio can also be the basis for assuring Ministers that they are not being taken along by a bandwagon effect that makes it difficult to make a stream of 'go no-go' decisions along the way. So-called off-ramps and on-ramps will be planned to create the flexibility to add, subtract and change priorities along the way, while avoiding the inefficiencies brought by stopping an investment before it is completed or being unable to exploit new innovations. Whereas the BT programme was earlier conceived as a one-integrated development it has now been broken into four components. The first two are focused on improving tax administration and the last two are about integration with social supports and wider system integration. So the point of no return is the entry into the third component concerning social support services. This conceptually de-risks BT and avoids the bandwagon effect. This concept also dovetails with the procurement system described above, which provides the flexibility to implement BT in self-contained stages.

The issues concerning the alignment between BPS and BT – discussed below – amplify the need to get this analysis into the investment planning. The IR programme is front-ended with attention to the tax administration platform, which might not fit comfortably with the intentions of the BPS leaders to move that programme along briskly.

Governance arrangements

The PIF Review in 2011 advised that the governance of the transformation lacked focus and drive and was too decentralised. The Commissioner at the time attended to this by taking the chairmanship of the Business Transformation board. ELT consists of these senior officials:

- DC Policy and Strategy
- Chief Tax Counsel
- DC Service Delivery
- DC Information Intelligence and Communications
- DC Change
- DC Corporate Integrity and Assurance
- Chief Financial Officer (CFO)
- Chief Technology Officer (CTO)
- Chief People Officer (CPO).

Bringing finance, personnel and technology into the top management team makes good sense, as BT depends crucially on high levels of performance, change and innovation in these areas, which need to be integrated into a balanced whole. Putting the CFO in charge of monitoring performance across IR is also a useful move. These arrangements are not intended to dilute line managers' accountability. Differences would escalate to ELT.

Three new governance forums have been established to focus on Business Performance, Investment and Strategy. All ELT members will be on these forums. The Investment Board has a complete view of change across the organisation, including BT and is chaired by the Commissioner. It has an external member with experience in ICT and business change. This board will have an associated committee that meets more frequently to keep work rolling along.

There are detailed mandates under development for each board. The business performance board reflects the cross-IR purpose of all the boards. It oversees the delivery of the IR business plan each year and sets out what has to be achieved to deliver on strategic goals. It makes tactical resource allocation decisions across business groups. The balance of these cross-cutting influences against the vertical lines of accountability and the mandates of the other boards is carefully balanced. The Business Performance Board does not manage day- to-day activity. Resource allocation decisions are made in the business groups. Strategic priorities and assessing strategic progress is the responsibility of the Strategy Board and allocating funds in the investment portfolio is the responsibility of the Investment Board.

Thought was given to splitting the service delivery operations, which involves most of the department, but it was decided to keep it together.

The Integrity and Assurance group has been described as, "the conscience of the organisation". It has a role in identifying risks across the organisation. It is thinking about widening the scope of the integrity function somewhat from compliance activities to a broader view of the integrity of the tax system, with more attention to evidence and outcomes and activities beyond monitoring compliance. For example, it is starting to think about the security of taxpayer information when BPS initiatives lead to its transfer or availability to other State agencies.

The addition of external reference groups and stakeholders for the high-level boards and individual programmes should provide essential assurance and challenge, as well as stakeholder engagement along the way. It may be valuable to have a senior business leader, with deep experience in major business transformation programmes with heavy inputs of IT architecture and implementation.

The new governance arrangements look sensible and well thought through. They are designed to provide an intense focus on BT and to bind all the vertical structures tightly together in an integrated and multifaceted programme of long-term transformation. These changes are in line with advice from Ernst & Young that a dedicated 'Transformation Management Function' is needed given the scale of the program. The new post of DC Change has been established to lead and coordinate all change activities, including BT across IR.

The commitments in ELT to build the teamwork needed appear strong. The wider span of control for the Commissioner should be workable, provided the incumbents are fully competent, empowered and supported. Whether it works will depend on leadership, people and culture and the choice of business partners.

The combination of tax policy and strategy seems intended to combine the leadership of the policies that IR is responsible for with how it is going to administer these over time.

This is a break from the past wherein the policy group advised Ministers on what tax legislation should be in place and the rest of the organisation implemented it. The new arrangements suppose synergy between traditional expertise in policy development, forecasting and analysis and law drafting, concepts and strategies for future service delivery and engagement in cross-agency activities for more integrated service delivery. It is described as leadership and participation in our organisational end-to-end policy development, design, build an implementation pathway and product health.

As BT will dominate ELT agendas over many years to come, power will shift to the IT designers and others on who IR's BT performance will depend. There is risk expressed by some that tax policy may be overwhelmed. It is essential that the DC Policy and ELT ensure the preservation of the integrity of tax policy work. This Review sees merit in putting policy and strategy together however, precisely to manage this risk.

Tax policy and administration have an enormous effect on the economy and the society more broadly. Whatever other functions are merged administratively with the tax system, for reasons of efficiency and the exploitation of contemporary IT capability, the public will always look to IR as the keeper of the integrity of the tax system and for ensuring that tax policy and administration is second to none internationally. The policy and strategy group is crucial for ensuring this.

This group will also need to be focused on the major impacts that tax and social policies have on enabling or inhibiting BT. Its role in policy design includes information sharing and some related operational policy issues that IR will share with other agencies. IR needs to be responsive to new policy priorities but also influence the forward agenda through the quality of its advice and being ready to implement it.

Policy communications and stakeholder management shift out of tax policy into the Information Intelligence and Communications group.

Putting high-end analytics together with communications has a high-level logic but it may be hard to get the managers and staff to buy into this mix of widely different professional skills. The portfolio needs to be grounded in deep thought around integrity of the tax system.

Overall, the governance changes are intended to create shared ownership of the change programme and direct connection between it and the business. Achieving this will be a test of its success. It is encouraging that some interviewees said the new arrangements achieve better integration of BAU and change. The new structure provides clear accountability for services and infrastructure in a way the old structure did not.

One of its implications is that the Commissioner will be freer to manage the large amount of external work that BT and BPS will demand.

Target Operating Model

The Commissioner and most in ELT understand what have been described as "profound changes to the organisation from a new operating model". The essence of the TOM is common business services and its implementation will set performance indicators for both BAU and BT to move in this direction. The new model will be enabled and implemented by a 'new services platform', which is to take account of digital and other self-management channels, service delivery through intermediaries, other agencies and private providers, and the ability to share information with other agencies.

TOM starts with outcomes and accountabilities to collect, disburse, advise, share authoritative data and provide expert services. TOM poses questions like 'are there things we do that are better done elsewhere – like registration?' 'How do we configure IR as an income information hub?'

TOM has numerous implications for IR. To implement TOM, IR needs its planned interactive vendor engagement method. The vendors need to know IR's ecosystem to respond to its desire to innovate commercial software to support tax agents and small businesses.

TOM adds complexity to the role of executive sponsors across the work programmes. How they engage across the TOM thinking will have a big impact on outcomes because of all the uncertainty inherent in TOM. IT systems pathways are unclear and untested. TOM is an architectural approach – it is not the model.

There are varying levels of ownership of TOM and different views about its evolution.

TOM will also have major implications for competency requirements and job descriptions. What is an exciting transformation for some, is a job threat to others. Maintaining engagement and morale through the years of transformation will not be easy, so all the basic good practices for taking the staff through the transition will be need to be in place and practised with high integrity and professional skill.

In this connection, the staff engagement survey (2012) produced scores showing room for improvement in many areas, according to Gallup benchmarks. The results show that the follow-up activities from the last survey had not been effectively pursued, although maintaining staff engagement at a time of disruptive change can be very challenging. Of some concern is that only 48% of respondents have a clear understanding about the future direction of IR.

Managing fiscal pressures

Overall, IR's budgetary situation appears pretty tight, which is confirmed by the Treasury. A lot of efficiencies have been made through cutting costs in recent years and some savings options are available but some require policy decisions. A successful fiscal evolution for BT will require strong attention to detail in business cases, bringing projects in on time and on budget, clear linkages between BAU costs, investment budgets and a firm commitment to staying on strategy. It will also require building effective relationships with central agencies and Department of Internal Affairs (DIA) to maintain the quality of decision support for Ministers and confidence in the stakeholders for BT and BPS. Having the CFO in the ELT will help to achieve this but the fiscal situation will require strong ELT-wide commitment to staying on budget, as well as on strategy.

Roughly half the prospective funding for BT will be for providing services now being provided more flexibly and efficiently and with some continuous upgrading and some quick wins. The rest is broadly for government-wide collaborative infrastructure. It will be important for IR and Treasury to keep before Ministers a clear picture of what they are getting for the budgets they are providing as BT evolves.

IR can have no assurance as to what future Cabinets are going give priority to and what elements of the whole strategy will be funded. IRFF does not have the status of a government decision but is more accurately seen as the coherent backdrop against which a stream of decisions will be taken over the coming years. So the long-term strategy has to be robust to uncertainties about these future decisions and funding streams. While there is a clear sense of direction, the strategy is going to evolve in respect of its details, phasing and timing.

THE EXTERNAL CHALLENGES

Cross-agency Activity: Better Public Services

The scope of this Review does not cover BPS in any wider sense but is required to comment on its impact on IR and BT.

IR already has a proliferation of cross-agency activities, some of which are well established. There are 70 memorandums of understanding (MOUs), with 26 agencies and in excess of 100 cross-agency initiatives planned or under way. IR's deepest relationships are with DIA and MSD.

The BPS programme is centered on ten results[1], among which IR will be particularly affected by Result 7 (reducing crime); Result 9 (one stop shop for government support for businesses); and Result 10 (delivering government services digitally).

IR has ten initiatives under way or planned to support BPS Result 9 in the areas of faster digital services and better integration of services around business needs. The goal is to reduce the business costs of dealing with government by 25% by 2017. Quick wins are planned in the use of smart forms, NZ Business Number, Compliance obligations tool and integrated business registration processes. Over the next 12-18 months a one-stop-shop will create a 'no wrong entry point' for business interactions with government.

The performance target for Result 10 is that in 2017 an average of 70% of New Zealanders' most common transactions with government will be completed digitally. IR's contribution to this goal relates to applying for an IR number and filing and paying income tax. IR has eight initiatives that contribute to the result. In addition, IR is contributing, with DIA, to wider initiatives for Result 10. IR is on the Digital Services Council, which is made up of the eight agencies whose transactions are in the scope of Result 10.

DIA is leading the development of a single logon for customers of digital services across agencies under 'Real Me' branding. This supports the sharing of authoritative data in addition to more seamless service delivery. IR will be one of the last agencies to require separate logon and will have to transition to Real Me.

IR is strongly committed to BPS, and Cabinet support for the preferred BT option is contingent on this. However, it represents a significant challenge in that it complicates the achievement of the BT through requiring its integration into government-wide programmes of cross-agency service reconfiguration and delivery. Some of the BPS goals are inherent in BT, so while the point should not be exaggerated, the risks of distraction from the already demanding programme of BT are not to be underestimated. IR will need to think hard and assume some leadership roles to ensure harmonisation of its own transformation and participation in producing BPS results. For BPS to succeed, IR will have to say yes to some big proposals for service integration over the next few years but to avoid serious risks to BT it may also have to say no to some. Further elaboration of this is in the governance section.

Because multiple players and mutual dependencies are involved, this will require skilful preparation, governance and decision-making. Officials say they are aware of these issues and working on them but a lot of open questions were in evidence at the time of this Review. While the high-level framework looks tidy, this Review detected cross-currents lower down the complex matrix governance model.

1 http://www.ssc.govt.nz/bps-results-for-nzers.

The business cases for BPS initiatives are not simple. The benefits of IR's cross-agency work programme are hard to quantify, as most projects are 'pre-initiation'. Also the benefits of some initiatives accrue not to IR but in greater efficiencies elsewhere in the system, such as better compliance in social welfare programmes through information sharing.

BT began as a replacement of FIRST but it is apparent that it has morphed into a project that is roughly twice the cost and far more complex. The effects of the BPS initiatives on IR will mostly be:

- sharing IR assets and capabilities in technology (eg, telephony), service capabilities (eg, investigation skills and knowledge) and back-office capabilities (eg, payroll services)
- enterprise collaboration: greater sharing of information and collaboration with an emphasis on co-design across government as well as with customers.
- information sharing and data exchange; 'authoritative data' requiring agreements about collection responsibilities and accountabilities
- digital by choice: pre-population of forms with data previously provided and validation rules so more data will be submitted as complete
- deduct at source: more accurate, validated information from employers at the first interaction.

Challenges seen by IR in cross-agency cooperation are[2]:

- IR's cross-agency approach is fragmented
- Resourcing levels are fairly low – 30-35 people
- The number of initiatives is going to increase under Results 9-10
- Downstream implication of some initiatives are not clear
- There are no comprehensive metrics
- How to give priority to cross-agency work given the amount of BT work to be done
- How to ensure the BT activities build towards the same endpoint and are not done in isolation
- To date only contributing to, rather than leading, initiatives other than those generated within IR - even though IR has better developed capability in some areas (call centres, business rules, service design digital services)
- How to avoid overloading IR and find a balance between cross-agency and BT work.

IR claims its cross-agency vision statements help to resolve these challenges and has described specific activities it will undertake in this regard. But this Review perceives a large agenda of conceptual, planning and practical analysis and decision-making is needed to de-risk the intersection between BT, BPS and also the Government's ICT Strategy.

2 Towards an all-of-government approach, IR's vision and plan for working with other agencies, March 2013 pages 13-14.

Aligning BPS, BT and Government ICT

All the major players in BPS are going to face demands to align their business strategies with cross-agency strategies. How will the tensions between the objectives of Ministers for their portfolios and demands for cross-agency collaboration be resolved? Not all proposals will avoid trade-offs like this. Central agencies at the time of this Review are not speaking with one voice on this difficult question. One view was BPS does not fundamentally change the decision rights of CEs, although there is pressure for better coordination where that makes sense. Others said that the views of the line ministry cannot prevail over BPS goals as the Government is looking for assurance that functional leadership is working. Plainly this is all still a work in progress.

Inevitably, there will be hard calls along the way. Resolving differences in the best interests of long-term outcomes will be the test of the governance of BPS. There would be dangers in imposing too rigid a model on BPS and some differences may be better not forced to a premature resolution. An acceptable solution in some cases will be that agencies build their systems in accordance with their needs but in conversation with others who have actual or potential interests that might lead to them joining in sooner or later. This approach would emphasise interoperability and 'portals' that facilitate joining up. In other cases a more forceful imposition of a joint solution will be justified.

The BPS will create demands on IR and others to align strategies that are at very different stages of development. Also agencies will have commitments to meet business goals that are critically dependent on another agency delivering on a business development that is to be shared. A concern for IR is other ministries missing deadlines on critical deliverables. The concern may be mutual, although IR generally seems further advanced than its collaborators. These dependencies magnify risks. Where there are failures to meet performance requirements, there will not be commercial remedies available. Collaborating agencies are going to be locked in a perpetual embrace. This puts the onus on getting collaborative business relationships carefully and formally designed in detail and locked down, with the possibility of exit if things turn out irretrievably badly.

Relationships will be tricky at times. For the GCIO to meet its objectives it is going to be in open and continuing discussion with IR and intended to be embedded in IR's ICT, while at the same time maintaining a degree of independence necessary to advise Ministers on IR's progress with BT and BPS. DIA does not see itself as another monitoring agency but rather engaged and involved from day one. This can only work if there are strong relationships and deep professional respect between those involved. But some friction is inevitable.

SSC has the authority to declare an ICT capability as a 'common capability', which permits only approved opt-outs, eg, a payments engine that agencies are expected to use. If a major function within IR is to be declared a common capability, eg, debt collection or payments, it will be crucial to establish at that time what the commercial basis on which customers are procuring the service is and what IR's own relationship with the common service will be. IR's lessons from providing some back-office services to other agencies have illustrated the practical, legal constitutional and commercial problems that have to be solved. There have been some issues in at least one of these relationships.

The documents provided to this Review for the result areas are far short of providing the kind of direction and detail that would be necessary for rapid and detailed rollout of a government-wide reform based in aggregating business functions and contracting these to multiple users.

But, as noted in comments above on the single investment portfolio, IR is approaching BT in four stages, with the first two being focused on its core business. This approach reduces the risk of BT getting out of synch with an evolving strategy for BPS but further risk reduction needs some sort of roadmap for BPS. It is not easy at present to see the vision and the action plan. The principles are generally accepted as making good sense but tensions around 'how and when' need resolution.

Government-wide ICT strategy

Government-wide ICT strategy is emerging as the Government ICT Strategy and Action Plan 2017. This document lays out a strategy based on six guiding principles and four action areas, with lists of more detailed initiatives. These illustrate what the strategy contemplates but are rather general at this stage. For example, the action area 'Information is managed as an asset' includes the item 'establish and pilot an information publishing hub to provide authoritative information on businesses'.[3] There are many other action items of a similar kind that plainly involve IR but with little guidance on how. The BPS planners will presumably attend to getting the necessary detail through collaborative processes with the agencies affected by each of the 37 action items in the strategy document. However, it is not surprising that IR's initial response has been along the lines that:

- it broadly agrees with the intent of the strategy and four priority areas
- it is concerned about achievability of the plan
- it recommends further work is done to develop target operating models and blueprints
- IR should lead in key areas of strategic thinking; income information and analytics
- it agrees in principle to lead in four areas it has been nominated for but wants to work through concerns over deliverability
- it must safeguard the tax system and so wants to clarify its decision rights over ICT investments
- it recommends the GCIO engages with agencies already active in the relevant areas.

From the GCIO perspective, the priority is to implement cross-government initiatives as reflected in comments on the BT Programme Business Case. Taking at face value the assertions in the paper, the GCIO supported IR's advice as the right territory, but expressed a desire to see significant attention given in clarifying, with a view to maximising, the extent to which IR will contribute to government priorities, within acceptable risk and cost profiles, including adopting common capabilities, becoming a provider of common capabilities, aligning with the Government 2017: ICT Strategy and Action Plan, and explicitly supporting the delivery of results, in particular Results 9 and 10.

This is a strong expression from the GCIO of the demand on IR to perform on BPS objectives and only qualified support in April for IR's BT business case. His concern is to ensure that the BT business case(s) fully leverage existing and planned common capabilities, such as Infrastructure as a Service and the Web Platform. More specifically, he wants BT investments to lever integrated transaction accounts to support BPS Results 9 and 10.

The need is apparent that a lot of deep collaborative thought and planning needs to go into aligning the BT, BPS and ICT Strategy in practical ways at low risk and for high returns. The ICT strategy and BPS need to be grounded in rigorous business cases to offset any unwarranted IT

3 Government ICT Strategy and Action Plan 2017, slide 17.

evangelism. Getting the governance details and administrative infrastructure nailed down in detail is crucial and urgent. This should include work to ensure that procurement principles and practices are aligned.

IR is naturally focused on the huge challenges of BT. It is plugged into the governance of BPS and participating well. Its senior managers understand the concept of ‘digital by design’ and have good lines of sight on what other agencies are doing in the area. IR’s CIO sits on the board of the government’s IT strategy. These collaborative arrangements should be used to drive for alignment that was missing at the time of this Review.

A suggestion made to this Review was the BPS needs a target-operating model that can increase clarity about where BPS is heading and what the functional realignments deserving attention actually are. While this would be very helpful, BT is at a point where it is going to prepare specific business cases that will require more detail than BPS is likely to provide for a while. However, there should be value in BT plans being tested against scenarios for possible outcomes for functional integration under BPS and the ICT Strategy. Then off-ramps and on-ramps can be designed that minimise the risk of BT having to write off investments that become inappropriate to a wider BPS plan for service integration. For example, whether or not IR becomes an all-service revenue and debt collection agency for the State or whether PAYE is integrated more deeply with the benefit and Accident Compensation Corporation (ACC) systems may well have significant impacts on BT business cases scheduled for early decision-making.

The risks of not getting this alignment are not just conceptual but can be seen in practice. IR has entered an agreement with DIA to provide it with financial management back-office services. The origins of the arrangement were more pragmatic than strategic, although it did appear to IR to be within the general thrust of BPS-type collaboration.

Baldly stated, from IR’s perspective this arrangement with DIA is not IR’s core business, does not align with its TOM and BT and raises risks from its lack of experience in providing shared services, some of which have already materialised. The claim that it makes a significant contribution to the wider public sector is exaggerated and it raises risks to its performance and to its focus on its strategy for transforming the tax system. From the wider government perspective these scarcely seem worth it for $700,000 saving in DIA’s operating costs.

Interviews within IR suggest that the arrangement points to a future in which IR also outsources its Financial Management Information Systems (FMIS), which is a sensible response to the situation. But if the Government had the objective to procure a few FMIS systems for use across the public sector, this is not the best way to start down that road.

The arrangement could be regarded as a marginal distraction not worthy of this much attention in this Review. However, it came about from the kind of ad hoc decision-making that was a contributing factor to IR getting into the situation it has with FIRST. IR’s ‘can do’ attitude is refreshing but this illustrates the vital importance of carefully integrating BPS initiatives with its core strategy for BT.

Governance of cross-agency activities

The governance of BPS is logical in a general sense but it is not clear to this Review how complex issues will be resolved. BPS involves bi-lateral co-dependencies but envisages the need for more than two CEs agreeing to do something. IT is seen as the ice-breaker and, less clearly, a government-wide IT strategy as the basis for multi-party collaboration. The question is whether the governance framework of BPS is strong enough to get this done. It will require work both within IR and between IR and other agencies.

Historically, there has been little oversight of IR's cross-agency activities except where the size of investment required formal governance through the Portfolio Governance Investment Committee. It was left to the business owners. Twenty nine individual governance groups, both internal and external, manage initiatives spanning multiple agencies.[4] In 2012 the Cross Agency Advisory Group was created to monitor and advise on these activities and from 2013, under the new governance arrangements, cross-agency strategy and planning fall under the Strategy Board and the initiatives are under the Investment Board.

The BPS governance arrangements involving IR are considerable:

- IR is on the ICT strategy Group on cross government information and communication technology
- Functional leadership reference group for ICT
- CEs groups governing Results 9 and 10
- Result 10 Digital Services Council, responsible for the digital services roadmap for Result 10 and the wider public sector
- Result 9 steering committee
- Canterbury leaders group.

The digital leaders group is not finding it easy to gain collective agreement and IR would like the governance of Results 9 and 10 better aligned, as many of the workstreams are similar even though the results differ.

While IR is clear that, for its transformation to be successful, it needs to be part of what it calls 'Government Inc', it is realistic about the choices it will face:

> "The vision for IR is about the proactive nature of our work with other agencies, how our activities achieve cross-agency outcomes, how we better leverage our value to government through the focus of our activity, and what IR is willing to 'trade away' in what is traditionally important to us to help achieve better outcomes for citizens through a joined up public sector".[5]

The choices appear starker than this from the evidence available to this Review.

What IR cannot 'trade away' is a clear focus on the transformation it needs to make to do its primary job of implementing the legislation it is responsible for efficiently and effectively and preserving the integrity of the tax system. This transformation is long and arduous and beginning from a situation with the FIRST system that should not have been allowed to happen, which makes the catch up more risky and expensive than it would have been. Government IT projects are always challenging and this one is perhaps the most challenging yet.

4 Towards an all-of-government approach, IR's vision and plan for working with other agencies, March 2013, page 10.

5 Op cit, page 33.

Values and culture

In considering initiatives that are technically possible and potentially attractive, IR has much to think about in regard to privacy, information sharing, what expert services it should provide or acquire, identity verification, structures and processes to support this.

IR has not suffered the reputational damage from unauthorised release of citizen information it is bound to protect that has hit some other government organisations. With its plans to share a lot of personal information about income and other matters with other agencies, some of which have not had IR's strong commitment to data security, it cannot shed all responsibility for the protection of citizens' privacy and security of its information when it is in the hands of other ministries. This is not just a matter of the technical issues around data security but the long standing and embedded culture in IR to protect information. Collaboration will raise issues of contrasting cultures more widely and merging functions and outsourcing among agencies will have to be deliberate in considering these issues of organisational culture. This is an issue for the Government as a whole to resolve but when it comes to IR's data, it will be on the frontline.

More depth in policy thinking behind BPS Results 9 and 10 will surely be needed. These involve fundamentally different services being provided today in different ways with different cultures and practices that are going to be brought onto the same platform.

Graham Scott
Lead Reviewer