



Briefing on the progress of the Inland Revenue Department's Business Transformation programme

Interim report of the Finance and
Expenditure Committee

Contents

| | |
|-----------------------------|---|
| Recommendation | 2 |
| Introduction | 2 |
| The basics of the programme | 2 |
| Budget | 2 |
| Risk management | 3 |
| The new system | 3 |
| Comment | 3 |
| Appendix | 5 |

Briefing on the progress of the Inland Revenue Department's Business Transformation programme

Recommendation

The Finance and Expenditure Committee has considered a briefing on the progress of the Business Transformation programme of the Inland Revenue Department (IRD), and recommends that the House take note of its interim report.

Introduction

When the Minister of Revenue appeared before the Finance and Expenditure Committee during its hearing of evidence on the 2015/16 Estimates of appropriations for Vote Revenue, he offered the committee the opportunity to be briefed by officials about the progress of the Inland Revenue Department's Business Transformation programme. This is a very significant project in its ambition and reach, and also in its cost to the taxpayer. We have initiated a briefing which we intend to continue through the life of the project. This is our first interim report.

The basics of the programme

The programme is intended to deliver a modern fit-for-purpose revenue system. It will replace the department's current revenue collection platform, FIRST,¹ which is complex and expensive to maintain, and difficult and costly to change.

The transformation programme will change the IRD's business processes, policies, and customer services. It is progressing in four stages over ten years. The stages involve the enabling of secure digital services; streamlining of income and business tax processes; streamlining social policy delivery; and completing the transition of all taxes and social policies to the new platform.

In 2013/14 Cabinet approved the programme business case and a roadmap for the programme. Detailed design for stage 1 was completed in 2015, along with the high-level design for stages 2, 3, and 4.

Budget

In total the project is estimated to cost between \$1.3 billion and \$1.9 billion.² We were told that the current phase, due to be completed in March 2016, has a budget of \$194 million. When we were briefed in October 2015, it was running approximately 15 percent under budget with expenses of \$120 million incurred.

¹ Future Inland Revenue Systems and Technology.

² Office of the Controller and Auditor-General, *Inland Revenue Department: Governance of the Business Transformation programme*, April, 2015, p. 3.

A business case for the later phases is due to be brought to the Minister in March 2016, and at that stage the costs and benefits of the project will be updated and tightened. The IRD told us that the new figure is expected to be at the lower end of the original estimate of Crown funding required, and at the upper end of the original estimate of expected benefits.

Risk management

In a project such as this, with a high budget over a long running time, high quality risk management is critical if the project is to deliver the desired dividends. The fact that it is currently running under budget indicates to us that strong financial disciplines are in place. However, we are mindful of other large IT projects where investment of public money was not well managed, and we asked the IRD to explain to us what steps are being taken to identify, monitor, and mitigate risks.

We were told that a number of layers of risk management, both internal and external, are built into the system. The Minister is briefed on a monthly basis against a range of indicators, including cost. There is an active risk register which focuses particularly on having the right personnel available throughout the project; and on the need to ensure that staff and customers will be able to operate effectively during the rollout period when two systems will be running at the same time.

We were told that IRD's strategy has been to recruit experienced people who have been involved in large-scale transformation projects in the past, including rollouts in Australia, South East Asia, and Europe.

We note that former Deloitte CEO Murray Jack, who headed a technical review of what went wrong with Novopay, is now a member of the IRD's governance committee, steering the transformation project. The commissioner told us that the IRD is consciously trying to learn what can be learned from previous public IT projects, both successful and less successful. We see this approach as sensible and practical, and commend it.

The new system

The IRD's new tax platform will be supplied by Fast Enterprises, a United States based company which works solely with government clients. Its Gen Tax software has been used in a number of other jurisdictions. We were told that the procurement process, completed in June 2015, had been robust and had resulted in the choice of a system which provides 87 percent functionality out of the box.

Comment

The IRD's Business Transformation project is being subject to a number of reviews. This is as it should be, given the significant amount of public money which is being expended and the importance to New Zealand and New Zealanders of the infrastructure on which that money is being spent.

We note that KPMG completed an independent quality assurance review of the programme and commented positively on the approach the IRD is taking to its governance and on the strength of its management. Earlier this year our committee considered a report from the Controller and Auditor-General, *Inland Revenue Department: Governance of the Business*

Transformation programme, which was also positive and made recommendations that called for a continuation of the careful monitoring work which was ongoing. The Office of the Auditor-General will make further such reviews on a regular basis.

It is critical with a long term project such as this that vigilance and risk management remain sharp and focused throughout the life of the project. We have been pleased with what we have learned so far about the way it is being managed and we look forward to a further briefing later in the year, once the next stage of the budget has been approved and the next steps in the project have been taken.

Appendix

Committee procedure

The committee met on 14 October 2015 and 9 March 2016 to consider the briefing. We heard evidence from the Department of Inland Revenue.

Committee members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour