



Te Kawa Mataaho
Public Service Commission

Performance Improvement Review of **Inland Revenue**

JUNE 2024



Inland Revenue
Te Tari Taake

Photo by Jen Wilde

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Lead Reviewer acknowledgement

Tālofa lava, Mālō nī, Kia Orāna, Fakaalofa lahi atu, Mālō e lelei, Ni sa bula Vinaka, Talofa, Noa'ia e mauri, Halo ola keta, Malo le soifua maua ma le lagi e mama, Tēnā koutou katoa.

We would like to thank the Executive Leadership Team members and staff we met at Inland Revenue, all of whom were generous with their time and contributed constructively and enthusiastically to our understanding of Inland Revenue and its context. We also appreciated the thoughtful and open discussions with leaders from the private sector, non-governmental organisations and public service. These engagements helped us test and refine our views and we are grateful to them for sharing their perspectives. In addition, our work would not have been possible without the preparatory work and onsite logistics undertaken by the small, hard-working support team from Inland Revenue, and support from the Public Service Commission.

Introducing the Lead Reviewers



Belinda Clark, QSO

Belinda is an experienced senior executive having been Chief Executive of the Ministry of Justice for over a decade (2001-2011) and the head of the public sector in Victoria, Australia (2014-2017). She has also been the Chief Executive of the Tertiary Education Commission (2011-2013) and was the inaugural director of the Office of Treaty Settlements (now Te Arawhiti) from 1995-1998.

She is a lawyer by training and among other roles, has been a commercial and banking lawyer with Minter Ellison (1988-1991) and more recently, a Commissioner with the Law Commission from 2017-2020. In 2014 she was appointed to the Queen's Service Order for services to the State.

Since becoming an independent director and consultant Belinda has undertaken a number of reviews of public agencies including a review of Te Pukenga's state of readiness; the governance arrangements of Fish and Game NZ; the progress of the Tūhoe Treaty settlement with respect to Te Urewera; and the workplace culture at Fire and Emergency New Zealand (FENZ). She is currently Chief Crown Negotiator for the Ngāpuhi Treaty claim, a member of the Te Urewera Board, the FENZ Board, and the Defence Capability Board, as well as Chair of a number of audit and risk committees.



David Smol, QSO

David Smol is an experienced public servant, working in a range of senior management and governance roles. Between 2008 and 2012, David was Chief Executive of Ministry of Economic Development, then going on to be the Chief Executive of the Ministry of Business, Innovation and Employment between 2012 and 2017. Since 2017, David has undertaken a range of governance and consulting roles in the public and private sectors.

He is the current Chair for the External Advisory Committee of Department of Internal Affairs, Chair of the Ministry of Social Development's Risk and Audit Committee and a member of the Strategic Advisory Committee for the Ministry of Housing and Urban Development.

Alongside this, David is a Director of the Co-operative Bank, Chair of GNS Science, a Director of Contact Energy, a member of the board of New Zealand Transport Agency and Chair of Wellington UniVentures (commercialisation arm of Victoria University of Wellington).

As a consultant, David has completed reviews and assignments for a range of public sector clients including Ministry for the Environment, The Treasury, Department of Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade and Ministry of Business, Innovation and Employment.

Executive summary

About this Review

We conducted this Review across mid to late 2023. This report draws on findings from Inland Revenue (IR) corporate documents, publicly available documents and insights from interviews with IR staff, professional bodies, customer advocacy organisations, accounting firms, software providers, unions, other government departments, independent advisors and central agency officials.

Inland Revenue's context

IR has administered New Zealand's tax system since 1878 (initially as the Land Tax Department). It has benefited from continuity of existence and purpose in respect of this core function and has also taken on the delivery of a range of social programmes, starting in 1986 with Family Support (now Working for Families) and Child Support and Student Loans since 1992.

Current state

This Review concluded that IR is a high-performing organisation, well placed to meet the increasing expectations of New Zealanders. The Review considered the main elements of IR's operating model and found that each of them appears to be operating satisfactorily or better.

External interviewees spoke positively of IR's capabilities and performance (including interviewees with experience working in multiple tax jurisdictions), while also identifying challenges and areas with opportunity for further improvement. IR staff interviewed were committed to the causes of making it easy to pay tax and hard to avoid, and making it easy to access and receive social entitlements.

The Review took place following the successful completion of a comprehensive transformation/modernisation, known as Business Transformation (BT). New Zealand now has a tax system that is at or close to the frontier of best practice for tax systems internationally. The completion of BT was a defining moment in the organisational evolution of IR, and IR's challenge now is to maintain high performance in a post-BT environment.

Implementation of BT has underpinned:

- significant reduction in baseline operating costs
- significant reduction in cost incurred per dollar of tax collected
- improved customer service (including automated generation of tax returns for many customers), and
- good and improving results from staff engagement surveys.

As part of the response to the COVID-19 pandemic, IR worked with partner agencies to deliver a range of support programmes exceptionally quickly.

Future Excellence Horizon

IR's operating environment will become progressively more challenging due to:

- increasing pressure on the Government's fiscal position, which will require sustained restraint including from IR
- the potential for reducing levels of trust and confidence in government and in the tax system, which could impact on the current high levels of voluntary compliance
- further development of digital technologies, requiring ongoing updating of IR's systems. Artificial Intelligence (AI) will bring both opportunities and challenges
- pressure to move towards real-time tax collection, and
- increasing customer expectations, including that government services become more joined-up.

Over the next five years, New Zealanders will expect:

- A world-leading tax system – remaining at the frontier of best practice for tax systems internationally, and
- IR and the wider public service to leverage the capabilities delivered through BT by:
 - administering social programmes efficiently and effectively, and
 - contributing to simpler and more integrated public services delivered at lower cost.

Outcome: A world-leading tax system

Tax policy

A world-leading tax system is efficient and maintains high integrity. It will effectively balance:

- low administration cost (for IR and for taxpayers)
- maintaining incentives for productive economic activity, and
- raising sufficient revenue to fund public services, including transfer payments.

IR's opportunities to contribute to this outcome through its tax policy role include:

- contributing a strong evidence base and a broader range of options for tax policy changes to support improved economic, environmental and social outcomes and to raise the revenue necessary to meet challenges such as an ageing population, and
- work with Ministers to explore opportunities to institutionalise the Generic Tax Policy Process to the extent possible, to enhance stakeholder confidence in the robustness of the tax policy development process.

Tax administration

A world-leading tax system makes it easy for customers to engage and to pay the right amount of tax. It will:

- maximise revenue collection over time (given tax policy settings)
- deliver exemplary customer service – digital first but maintaining other channels

- make assessment and payment easy to maintain high rates of voluntary compliance
- take proportionate action in the event of non-compliance
- make customer experience more consistent so that those segments currently under-served receive equal service, and
- maintain and continuously improve the system so that in 2029, the system is as well-placed for the next five years as it is today.

IR's opportunities to contribute to this outcome through its tax administration role include:

- improving response times for resolving customer queries (email, phone, in person), to reduce customers' frustration and rework for staff (resulting from multiple incoming messages on the same issue)
- making the customer experience more consistent
- balancing the empowering of frontline teams so they can make timely decisions close to the customer, with the need for (demonstrable) consistency across customers in similar situations
- making it easier for small and medium-sized enterprises (SMEs), micro businesses and the self-employed to calculate tax due and move towards real-time tax payments
- optimising deployment of the full range of compliance and enforcement tools enabled by BT including targeted engagement with less compliant sectors and sufficient enforcement action to retain public confidence in the system
- continuing to develop and apply IR's data and analytics capability through specific actions that have measurable impact
- completing the embedding of broad-based roles designed to deliver end-to-end service to each of the main customer groups, and ensuring frontline staff have access to the technical support they need to respond to customer queries promptly and accurately
- building a culture of high performance
- achieving ongoing efficiency enhancements to ensure incremental improvements in the core tax system while also delivering on Government priorities

- updating its core tax system START to deal with new trends such as real-time tax collection and e-invoicing
- leveraging the partnership with, and expertise of FAST (the company that developed START) to operate and enhance START, while maintaining robust contingency plans in the event that the partnership with FAST is disrupted in some way
- working more flexibly with partner agencies to remove legislative, technological and cultural barriers to enable better quality of service, lower cost to serve, and simpler and more integrated services, and
- developing a roadmap for the tax ecosystem around which ecosystem partners can plan and innovate.

Outcome: Efficient and effective administration of social programmes

IR plays a central role in the delivery of several social programmes, including Working for Families and Student Loans. That role is likely to increase over time, as successive governments seek to leverage IR's data, systems and other capabilities.

IR's opportunities to contribute to this outcome include:

- continuing to simplify and improve delivery of existing social programmes, and
- being more flexible and open-minded in working with partner agencies to optimise IR's contribution to the design and delivery of new social programmes – leveraging the capabilities developed through BT without compromising the integrity of the core tax system.

Outcome: Simpler and more integrated public services delivered at lower cost

Delivery of most public services is still optimised within rather than across agencies. IR and partner agencies have considerable scope to increase service integration for customers and to reduce cost of delivery.

IR's opportunities to contribute to this outcome include:

- continuing to share learnings from BT with other agencies considering service transformations

- working with other agencies to reduce legislative and cultural barriers to sharing information, increasingly in real-time
- making data and associated analytics available to inform public debate and create opportunities for innovation
- contributing to the development of a system-wide roadmap of planned service transformations, to enable early identification of opportunities to leverage BT
- becoming an easier partner to work with in the delivery of public services – more willing to see the world from others' perspectives and to find solutions that work for all participating agencies, and
- taking on new roles in service delivery where IR has a comparative advantage (for example, databases, data analytics, assessments, processing, payments and receipts) that can be applied sufficiently flexibly to enable a seamless customer experience.

Developing IR's organisational capabilities

IR has recently refreshed its strategy, intended to set a clear direction and priorities for its people over the next few years.

Based on the findings of this Review, priorities for IR in building organisational capability over the next five years include:

People and culture

- embedding a culture that sustains momentum and builds capacity for change and targeted innovation: implementing government policy changes, maintaining the currency of core systems and processes, creating value-adding opportunities for tax ecosystem participants
- developing a culture that makes IR a consistently good public sector team player which is able to walk in partners' shoes and willing to be flexible in partnering while maintaining the integrity of IR's core systems and processes
- building a culture of performance management, including through making the most of flexible working and the broad-based roles established through BT

- continuing to build an understanding of the practical challenges faced by businesses to inform IR's stewardship of the tax ecosystem and to further integrate tax processes into day-to-day business activities
- continuing to embed te ao Māori and partnership with Māori across IR's policy development, service delivery and people development
- establishing product owners to improve end-to-end customer experience
- refreshing the People Strategy, including planning for future workforce requirements and protecting against loss of institutional knowledge as long-serving staff retire, and
- considering whether governance committees having similar membership provides sufficiently independent thinking.

Strategy and priorities

- developing and communicating the next level of detail in the new strategy to enable empowered teams across IR to make informed choices about priorities, and
- evaluating and reporting on the costs and benefits of estimating and reporting on the 'Tax Gap', including the potential to enhance stakeholder trust and confidence in the tax system more generally.

Technology, systems and processes

- completing and maintaining asset management plans that can underpin long-term planning (expected to be completed for key assets in early 2024)
- continuing to be conscious of, and to manage, cybersecurity and AI risks effectively, and
- progressing the integration of payroll, human resources and finance systems to support workforce decision-making and financial management.

Financial management

- continuing to evaluate whether corporate functions are efficient and effective
- optimising resource deployment across the organisation – some areas appear under-funded (for example elements of frontline customer support). Given fiscal constraints, IR has an opportunity to reallocate resources within the organisation before seeking new funding
- improving financial planning and forecasting to enable more informed decision-making and avoid deferring projects because of (what turn out to be) unfounded concerns about overspend, and
- preparing the organisation to find further baseline savings (notwithstanding the significant baseline reduction following completion of BT), and through means that do not compromise revenue collection.

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Responding to the challenge

This section contains Inland Revenue's and the Public Service Commissioner's responses to the findings of this Performance Improvement Review. These responses provide the platform to build on the insights coming out of this report and review process.

In this section:

- Agency response
- Public Service Commission response

Inland Revenue's response

Introduction

This Review has come at an opportune time. The successful completion of our business transformation programme in mid-2022 has created a solid foundation for us to build on as we look to the future. While the programme has concluded, we will continue to transform by making the most of the capabilities we now have. With this in mind, we have recently refreshed our strategy to think about how best to move forward.

We are also facing a more constrained operating environment. The new Government has begun the process of shaping its work programme for the next three years and we have an important role in supporting this work. Along with other public sector organisations, we have been asked to identify options for savings in our baseline funding.

This Review has been a very useful exercise for us to take a step back and look at what capabilities we have, what our options are for using them more cost effectively, and whether there are any gaps we need to address.

Charting our way forward

The Review concluded that “IR is a high-performing organisation, well placed to meet the increasing expectations of New Zealanders”. We accept the findings of the Review and acknowledge that while we have a very strong capability base following our business transformation programme, there are some important areas we still need to embed to take full advantage of the capabilities delivered.

We are committed to making progress on areas where reviewers have identified opportunities, alongside delivering our day-to-day work of providing services to our customers, providing policy advice to Ministers, and implementing the changes either we or the Government want to make. Balancing demand for our services with meeting Government and customer expectations will continue to be a key focus and is not without its challenges.

As the Executive Leadership Team for IR, it is our responsibility to ensure we place our resources in the right areas to respond to Government priorities,

deliver better outcomes for customers by simplifying and digitising interactions with us, and maintain the integrity of the tax and social policy system. We will balance effort across all areas of our work to ensure we make progress in achieving these outcomes.

Looking ahead to the future

As the Review makes clear, we have a range of capabilities, including a wealth of data and information, which could be leveraged more widely to improve delivery of services to customers.

We learned a lot from transformation and are well placed to provide support and advice to other agencies on large-scale transformation and customer-centred services. The insights we can provide will provide most value to other agencies at the start of the investment process. We are working with Treasury Te Tai Ōhanga on the better business case process and the Commissioner is the System Lead for Service Transformation.

Our partners in both the public and private sectors have indicated they would like us to work more closely with them in a range of areas. We recognise we need to lean in more and progressively contribute broader value as a public sector agency.

We accept the need to work more closely with third parties and co-design digital solutions with them that reduce effort for customers. We are taking active steps in this area. Two key areas of work are our digital ecosystem strategy and improving how we manage gateway services.

We have set up a dedicated team who have developed a digital ecosystem strategy, reflecting the importance of building robust strategic relationships with participants, and harnessing their capabilities to improve the effectiveness and efficiency of tax administration. Some of the opportunities we are exploring as part of this work include legislative changes to allow us to work with a greater range of participants, including the ability to share data more easily with other agencies.

To build our capability, we are leveraging the OECD work on Tax administration 3.0 and actively participating in the digital transformation working group. We have set up a Digital Advisory Group with membership from Digital Service Providers

Australia and New Zealand (DSPANZ), an industry association representing the business software sector, and an oversight group for determining our approach to artificial intelligence. We remain connected to work underway in other agencies, including the Digital Identity Services Trust Framework and Customer and Product Data Bill.

Most digital interactions with the tax system are now handled via gateway services, facilitated by third-party software and cross government information shares. During peak periods, gateway services currently handle around 65 million transactions a month and we are expecting this to grow significantly as the digital ecosystem expands.

The robust suite of tax compliance and administration services offered by gateway services allow external software developers to tailor tax software that allows users to fully manage their income, GST, payroll, and other obligations all from their native systems – significantly contributing to helping customers get tax right from the start.

While highly successful in supporting the shift to digital, how we manage gateway services has not had the same level of investment. We are now taking steps to ensure we are better equipped to fully realise the benefits delivered by gateway services and can better engage with and support the software development community. We are progressively implementing a solution to centralise knowledge, relationship and developer management, issue management and onboarding to create a one-stop-shop for developers using gateway services to support customers' digital compliance.

Once fully implemented, this will deliver a better developer experience, ensure we can continue to successfully deliver change with our digital ecosystem partners, and be ready to meet future demand and opportunities. Ensuring we have the capabilities and scale we need to operate successfully in the digital ecosystem on an ongoing basis will require continued focus.

While this demonstrates the progress we are making, we do recognise that there is more work to be done. Accepting this, there is a need to balance the requests and opportunities presented to us with our responsibility to ensure we preserve the agility of our systems and processes and continue to meet the needs of New Zealanders and current and

future governments. We recognise we could be more responsive to opportunities that fit with our longer-term strategic direction and can be aligned with our capacity to implement change and our investment portfolio.

Communicating more clearly about what we can and cannot do and why, and having a shared development roadmap would provide all participants in the ecosystem with visibility and clarity over what work is planned when.

When thinking about the public sector, in our view, some of the foundational elements needed to support successful cross-agency work are not yet in place. Having a shared understanding of what customers want and need and a forward-looking view of what the opportunities are for improvement, including leveraging existing government assets such as data and information, will help to support more cost-effective delivery of government services and more seamless customer service experiences. We are committed to playing our role in achieving these outcomes and the Commissioner is a member of the Digital Executive Board. This group will be key to providing effective system leadership in this area.

We will work towards being more open and responsive and improving how we communicate with existing and potential partners and participants in the ecosystem.

While we are confident we have the systems and processes we need to be successful in the future, we recognise we need to continue to ensure we have the right capabilities and skills as our environment and expectations of us change. This will enable us to respond to the changing needs and expectations of our customers, stakeholders, and partners. Our core system is configurable and capable of supporting both large and small changes to the tax and social policy system, for example real-time calculation and payment of tax.

Other areas highlighted by the Review include the Generic Tax Policy Process and the tax gap. We agree that the Generic Tax Policy Process is a key mechanism to support the integrity of the tax and social policy system and we will continue to identify opportunities to reinforce its value and importance.

We will also continue to build on earlier work and consider the best approach to estimating the tax gap, considering the costs and benefits of doing so.

We thank both the Public Service Commission for the opportunity to be one of the pilot agencies and the lead reviewers for their insights and thoughtful and considered approach.



A handwritten signature in black ink that reads "P. Mersi". The signature is fluid and cursive, with a small dot above the 'i'.

Peter Mersi

Commissioner and Chief Executive

Public Service Commission response

Introduction

IR plays a critical role in New Zealand. It collects over 80 percent of Crown revenue and helps disburse social policy payments. IR's policy advice and administration of the tax system help ensure that the tax system – which impacts the lives of all New Zealanders – is fit for purpose. While expectations on the system are growing, this Review has found that IR is a high performing organisation that is well placed to meet these expectations.

This Review occurred just after IR successfully completed BT, which has delivered a modern, digital revenue system. The Review found that IR's key challenges for the medium-term are:

- using its data and analytics capability to administer the tax system and social programmes more efficiently and effectively, and
- continuing to work with other agencies to deliver more joined-up public services.

While it responds to the challenges outlined in this Review, IR will also need to navigate a range of pressures in its operating environment. Pressures include the fiscal constraints set by the Government, technologies such as Artificial Intelligence, changing public sentiment impacting on voluntary compliance, and increased expectations for joined-up public services. These pressures will bring both challenges and opportunities.

How we will support Inland Revenue

IR's leadership has responded positively to the Review's findings and has already acted in response. The Commission will support IR to develop an implementation plan for the remaining future focus areas.

The Commission will support the implementation of the Review's findings by:

- providing opportunities for IR to support and advise other agencies on large-scale changes to core functions, customer-centred services and engagement with an "ecosystem" of interdependent private sector and non-governmental organisations

- leveraging the scale and cohesion of the Public Service to explore opportunities to provide more joined-up services for customers and to respond to emerging opportunities and risks such as Artificial Intelligence and cybersecurity, and
- supporting IR to work more flexibly with other agencies to support simpler and more integrated services, including reducing barriers to information sharing.

The Digital Executive Board is producing and implementing a plan for digital public services to enable clear sequencing and prioritisation of investment across government. The Commission supports IR's proposal that the Digital Executive Board develop a shared understanding of what customers want and need with an eye to the opportunities for improvement, including how to use existing government assets such as data and information. This will help to support more cost-effective delivery of government services and more seamless customer service experiences.

I would like to commend IR for working constructively and positively through the review process. I look forward to working alongside IR in the coming months as it implements the findings of the Review, so that it can maintain its existing high levels of performance and continue to meet the needs of New Zealanders.



Heather Baggott

Acting Public Service Commissioner

2

Context

This section presents context about this Review, and Inland Revenue's operating context. It presents Inland Revenue's mandate and functions and explores key strategic and Inland Revenue-relevant themes, including how these themes may develop over the medium term.

In this section:

- Scope of the Review
- Inland Revenue's mandate and functions
- Strategic context
- Inland Revenue's organisational context

Scope of the Review

We conducted this Review across mid to late 2023. This report draws on findings from IR corporate documents, publicly available documents and insights from interviews with IR staff, professional bodies, customer advocacy organisations, accounting firms, software providers, unions, other government departments, independent advisors and central agency officials.

The Review assessed all aspects of IR. At the request of IR's Chief Executive, the Review focused on:

- identifying how to leverage IR's existing capability (including IT, people and processes) and investment made through the BT process, and
- assessing the extent to which IR's capability supports its strategic aspirations and ability to engage with key opportunities that exist across New Zealand's tax and social policy system.

Inland Revenue's mandate and core functions

Authorising environment

IR collects around 80 percent of the Crown's revenue, as well as collecting and disbursing social support programme payments and providing the government with tax policy advice. IR's services are delivered through business groups that generally deal with both tax and social policy programmes. IR provides information and assistance, carries out high-volume generation and processing of returns and payments, and delivers compliance and enforcement services such as audit, debt management and litigation. Specialist groups also provide policy advice, adjudication and ruling services, and corporate and IT functions.

IR started out as the Land Tax Department in 1878. The department was renamed the Land and Income Tax Department in 1892, with the central office set up in Wellington. In 1952, the organisation joined with the Stamp Duties Department, and became known as the Inland Revenue Department.

IR administers a range of Acts¹ including:

- Cheque Duty Repeal Act 2014
- Child Support Act 1991
- Estate and Gift Duties Act 1968
- Gaming Duties Act 1971
- Goods and Services Tax Act 1985
- Income Tax Act 2007
- KiwiSaver Act 2006
- Stamp and Cheque Duties Act 1971
- Student Loan Scheme Act 2011
- Tax Administration Act 1994
- Taxation Review Authorities Act 1994, and
- Unclaimed Money Act 1971

Under the Tax Administration Act 1994, "every Minister and every officer of any government agency having responsibilities under this Act or any other Act in relation to the collection of tax and for the other functions under the Inland Revenue Acts must at all times use their best endeavours to **protect the integrity of the tax system**" (subpart 2B, section 6(1)).

The Chief Executive is designated the Commissioner of IR under section 6A of the Tax Administration Act 1994 and has statutory powers under this and other Acts. The Commissioner of IR "is charged with the **care and management** of the taxes covered by the Inland Revenue Acts" and with a range of other functions.

Section 6A(2) further requires that "...it is the duty of the Commissioner to collect over time the **highest net revenue** that is practicable within the law having regard to:

- a. the resources available to the Commissioner; and
- b. the importance of promoting compliance, especially voluntary compliance, by all persons with the Inland Revenue Acts; and
- c. the compliance costs incurred by taxpayers."

¹While IR administers the legislation for Paid Parental Leave, Student Loans and Working for Families it is not the lead policy agency for these products.

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

Core functions

The Commissioner of IR is charged with the care and management of the taxes covered by the Revenue Acts. He also has responsibility as the System Lead for Service Transformation and has recently been appointed to the Digital Executive Board.

IR identifies its four core functions as:

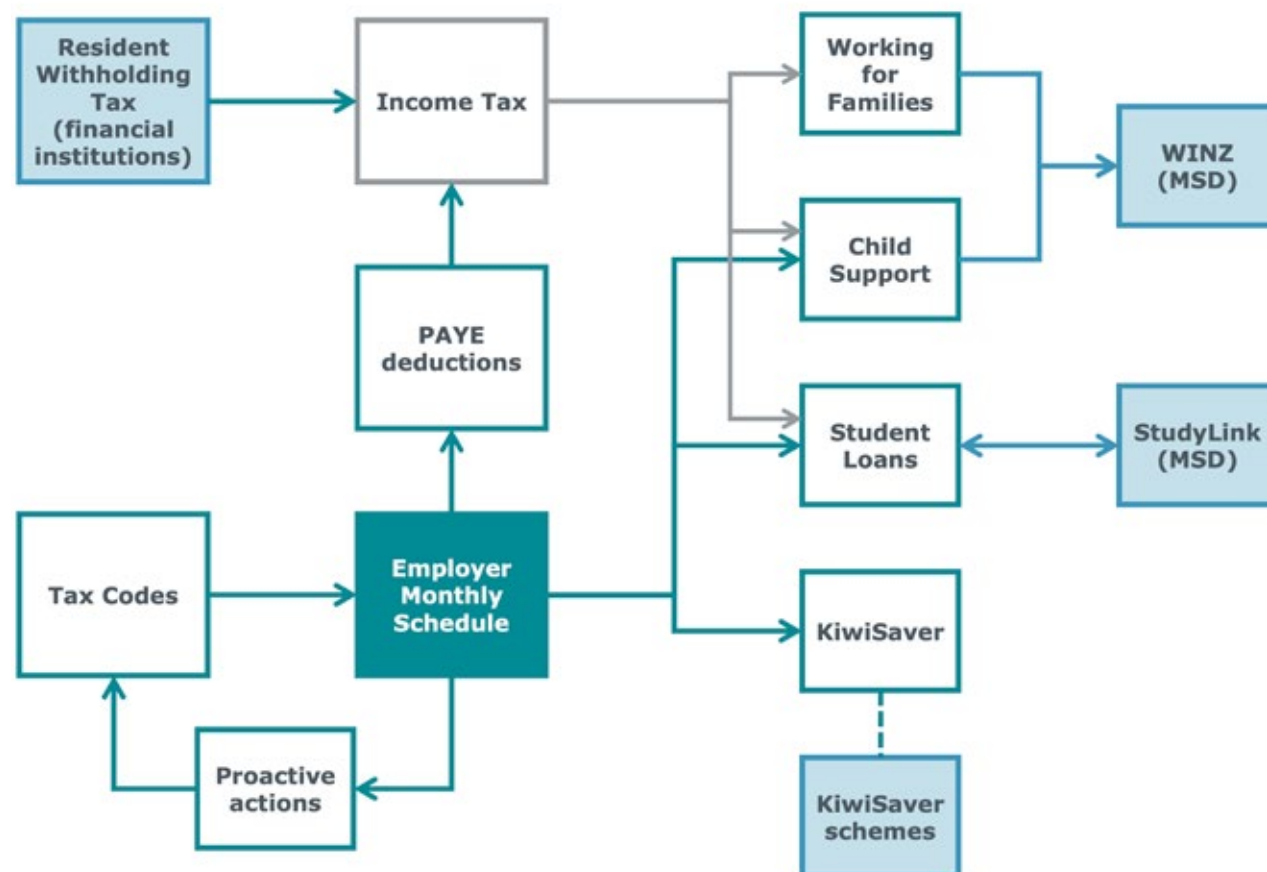
- administer the assessment and collection of tax revenue
- provide end-to-end tax policy advice

- administer social policy programmes, and
- collaborate with other agencies to simplify and integrate government services.

The functions are described in more detail in the Delivery section of this report. Compared to other agencies, IR's functions are well defined and coherent in that it primarily undertakes assessments of tax obligations and entitlements to benefits and collects or distributes money. Systems underlying the six big products (Income Tax, PAYE deductions, Working for Families, Child Support, Student Loans and KiwiSaver) are interlinked, for example PAYE is linked to calculations for Child Support and so on (see Figure 1 below).

In addition, the Forecasting and Analysis team produces regular forecasts for the tax and social programmes that IR administers, which are used for the Government's Budget and Half-Year Fiscal Updates. IR provides monthly forecasts for the current year and a five-year forecast.

Figure One. Links between IR's core products



Source: Inland Revenue

Strategic framework

IR's organisational strategy 'Our Strategy' was launched in October 2023. It articulates IR's aspiration as:

"Improving oranga² for current and future generations

We make our biggest contribution to oranga through economic activities including collecting and distributing money"

The strategy describes three broad roles:

- **"Effective and efficient administrator:** Doing what we do in the best ways for the best results
- **Stewardship of systems:** Actively making sure that what we're responsible for is fit for purpose today and tomorrow
- **Broader contribution:** Working across the Public Service to deliver more for Aotearoa New Zealand."

Strategic context

The following strategic themes impact the contributions and capabilities that IR needs to effectively meet the demands of New Zealanders:

- fiscal constraint
- trust and confidence in government
- technology and digitisation
- tax ecosystem
- real-time tax collection, and
- joined up government.

Fiscal constraint

The Public Service is in a period of increased and sustained fiscal constraint. IR achieved considerable efficiencies through BT, including reducing staff count by 25 percent between June 2016 and October 2023. However, IR will need to continue to find efficiencies and savings in its operations and find ways to increase tax revenue.

New Zealand has an ageing population, leading to a reducing number of taxpayers over time. This, combined with increasing costs of government services such as healthcare and superannuation, means IR has a role in contributing to the Government's fiscal and economic strategy: to maintain or increase the revenue take and provide advice on options to broaden the tax base (for example, environmental taxes).

Trust and confidence in government

IR's operating system relies on a high level of trust and voluntary compliance. Trust and confidence in the tax system is currently high, but changes in social context may erode this, impacting on tax collection. Greater visibility of compliance and enforcement functions may assist in maintaining confidence as will sustaining high levels of customer service.

Customers are seeking a more joined-up approach from government agencies (requiring data sharing between agencies) while maintaining privacy.

Technology and digitisation

To maintain itself as a primarily digital organisation, IR needs to invest resources in technology and ensure that its capabilities are not outstripped by those of its partners and stakeholders. For IR, it could be more challenging to maintain compliance in a world where complex and borderless transactions, and reduced use of intermediaries, make it more difficult to attribute transactions and income to customers. IR needs to be ready to contribute to any programme for digitising government.

IT systems need to be continually updated and upgraded to stay current, and to keep ahead of potential cybersecurity threats. In addition, the rise of AI presents both risks and opportunities. AI might increase processing efficiencies but will also pose cybersecurity threats.

It is likely that the number and range of products and services that IR administers will increase and every new service or policy change increases the demand for human interaction.

² "Oranga derives from Te Ao Māori. Oranga encompasses the physical, mental and spiritual wellbeing of an individual and their interconnect- edness with the natural world around them. Our work has both a direct and indirect impact on oranga. We contribute to oranga tāngata, oran- ga whānau and oranga whenua (wellbeing for people, families, the environment). Oranga is future focussed, compelling us to think about our responsibilities to improve wellbeing for future generations. A way to think about this is 'creating a wellbeing legacy for those to come'" – excerpt from IR's strategy.

Tax ecosystem

IR, as designed, is part of an ecosystem of interdependent players which includes software providers such as Xero, MYOB, tax agents and other intermediaries. The players within the tax ecosystem need to keep in sync for the administration of the tax system to work. This will also entail the incorporation of new players over time.

Real-time tax collection

The 2020 OECD report Tax Administration 3.0: The Digital Transformation of Tax Administration identified the automated connection of systems between tax administrations and business as one of the core building blocks of seamless tax administration. Changing business practices such as sharing platforms and gig economy platforms may also impact on IR's business systems and processes.

IR's systems are not currently configured to support real-time tax collection but public expectation and some tax ecosystem participants represent a growing demand pressure. An example of real-time tax collection is GST being collected at the point of transaction.

Joined-up government

One of the themes of recent public sector reforms is to make more of the whole relative to the sum of the parts, including through more joined-up services for customers and through reducing cost-to-serve by leveraging existing assets and capabilities before investing in new ones. Citizens and businesses typically interact with multiple parts of government, and value these interactions being joined-up (for example, in not having to provide the same information many times over).

Increasingly, both the Government and citizens expect a joined-up government for citizens to interact with. From the taxpayer and customer perspectives this could mean, for example, one agency making all payments that a citizen is entitled to as a net amount, and joint management of debt.

Inland Revenue's organisational context

At an organisational level, BT and IR's reliance on a technology provider have impacted and will continue to impact it.

Business Transformation

BT has very much shaped IR as it is today. Overall, it was well executed, and IR is rightly proud of this.

BT not only digitised the old system – IR took the opportunity to review its systems and devise better ways to administer rules, and make policy changes to amalgamate and condense rules. IR also obtained legislative changes to simplify the system before digitising. BT removed a lot of errors and rework from the system through automatic assessments. This enabled IR to downsize the organisation and reduce the need for taxpayers to submit returns. The interaction between IR and many taxpayers (particularly PAYE taxpayers) is now negligible.

The BT change process was extensive, with considerable change in role definitions. In particular, there was a move to broad-based roles, in contrast to the earlier situation of highly specialised and compartmentalised roles. Most staff received new position descriptions, and IR created new ways of working with an emphasis on organising around the customer and increasing flexibility in its workforce.

The final Treasury Gateway Review of BT rated delivery confidence green and stated that the programme was under budget and on schedule.³ In July 2020, OAG found that IR appeared to be well positioned to realise the benefits of the BT programme.

BT built impressive new capabilities within IR including data sets, data analytics, payments system, development of business rules, processing ability, change management and debt management. There is now a time-limited window to leverage some or all of these capabilities to deliver better services for customers through enhanced collaboration with other agencies.

³ The Gateway review covered BT's Post Implementation Review self-assessment against the business case, business blueprints and programme delivery scope; the Leverage Review outcomes; the BT Business Case Addendum (March 2022); management of risk and issue transition to the business; closure activities as per the Programme Management Plan; and remaining BT plans.

Commissioner has some statutory independence

The Commissioner of Inland Revenue is charged with the care and management of the tax system and has a legal duty to collect the highest net revenue over time. The Commissioner has statutory independence from Ministers regarding the administration of the Inland Revenue Acts to ensure IR can levy tax and carry out its duties independently. This includes matters relating to the interpretation of tax law and the tax affairs of specific taxpayers, such as the calculation of individual persons or entities' tax liabilities and the taking of enforcement action.

Reliance on a technology provider

FAST developed and supports the technology underpinning IR's core tax system (START). FAST is a critically important vendor and there appears to be an excellent relationship with a high level of trust between IR and FAST. The risks inherent in relying on a single supplier are nonetheless potentially significant and should be managed strategically and proactively – this is discussed further below.

3

Future Excellence Horizon

This section presents Inland Revenue's Future Excellence Horizon, as developed by the Lead Reviewers, in close consultation with Inland Revenue and the Public Service Commission. This aims to answer the question: What is the contribution New Zealanders need from the agency in the medium term?

This section outlines the future goal that the agency is working towards. Ratings and discussions in the rest of this report are framed in reference to the contributions defined in this section.

In this section:

- Outcomes New Zealanders expect in the future
- Agency contributions necessary to deliver these future outcomes

Outcomes New Zealanders expect in the future and the agency contributions necessary to deliver these

With the successful completion of BT, New Zealand has a tax system that is at or close to the frontier of best practice for tax systems internationally.

Over the next five years, New Zealanders will expect:

- a world-leading tax system – remaining at the frontier of best practice for tax systems internationally, and
- IR and the wider public service to leverage the capabilities delivered through BT to:
 - administer social programmes effectively and efficiently, and
 - deliver simpler and more integrated public services at lower cost.

Outcome: A world-leading tax system

Tax policy

A world-leading tax system is efficient and maintains high integrity. It will effectively balance:

- low administration cost (for both IR and for taxpayers)
- maintaining incentives for productive economic activity, and
- raising sufficient revenue to fund public services including transfer payments.

IR's opportunities to contribute to this outcome through its tax policy role include:

- contributing a strong evidence base and broader range of options for tax policy changes to support improved economic, environmental and social outcomes and to raise the revenue necessary to meet challenges such as an ageing population, and
- advising Ministers on mechanisms to incorporate the Generic Tax Policy Process into legislation to increase the likelihood of a consistently robust and transparent process of tax policy development.

Tax administration

A world-leading tax system makes it easy for customers to engage and to pay the right amount of tax. It will:

- deliver exemplary customer service – digital first but maintaining other channels
- make assessment and payment easy to maintain high rates of voluntary compliance
- take proportionate action in the event of non-compliance
- make customer experience more consistent so those segments currently underserved receive equal service, and
- maintain and continuously improve the system, such that in 2029 the system is as well-placed for the next five years as it is today.

IR's opportunities to contribute to this outcome through its tax administration role include:

- improving response times for responding to and resolving customer queries through selective increase in resources if necessary
- making it easier for SMEs, micro businesses and the self-employed to calculate tax due and move towards real-time tax payments
- optimising deployment of the full range of compliance and enforcement tools enabled by BT, including targeted engagement with less compliant sectors and sufficient enforcement action to retain public confidence in the system
- completing the embedding of broad-based roles designed to deliver end-to-end service to each of the main customer groups
- building a culture of performance management including continuing to improve performance metrics
- achieving ongoing efficiency enhancements to enable incremental improvements in the core tax system, while also delivering on Government priorities
- updating its core tax system START to keep up with new trends such as real-time tax collection and e-invoicing

- developing a roadmap for the tax ecosystem around which ecosystem partners can plan and innovate, noting that some uncertainty will remain as significant investment decisions will require Ministerial approval
- developing a strategy for utilising AI to enhance its data analytics capability, and
- developing and maintaining effective mitigation strategies to counter cybersecurity risk.
- contributing to the development of a system-wide roadmap of planned service transformations to enable early identification of opportunities to leverage
- becoming an easier partner to work with in the delivery of public services – being more willing to see the world from others’ perspectives, and to find solutions that work for all participating agencies, and
- taking on new roles in service delivery where IR has a comparative advantage (for example, databases, data analytics, assessments, processing, payments and receipts) to enable a seamless customer experience.

Outcome: Administer social programmes efficiently and effectively

Efficient and effective administration of social programmes will require the Public Service to be joined-up for common customers and in use of scarce resources.

IR’s opportunities to contribute to this outcome include:

- continuing to simplify and improve delivery of existing social programmes, and
- being more flexible and open-minded in working with partner agencies to optimise IR’s contribution to the design and delivery of new social programmes – leveraging the capabilities developed through BT without compromising the integrity of the core tax system.

Outcome: Deliver simpler and more integrated public services at lower cost

Delivery of most public services is still optimised within, rather than across, agencies. IR and partner agencies have considerable scope to increase service integration for customers and to reduce cost of delivery.

IR’s opportunities to contribute to this outcome include:

- continuing to share learnings from BT with other agencies considering service transformations
- working with other agencies to reduce legislative and cultural barriers to sharing information, increasingly in real-time
- making data and associated analytics available to inform public debate and create opportunities for innovation

4

Delivery

This section assesses how the agency combines and uses its capability to deliver key functions. Ratings and rating justifications are provided, along with future focuses which identify factors which could impact capability over the time frame of the Future Excellence Horizon.

In this section:

- Responding to Government priorities and serving Ministers
- Stewardship
- Core function one: Administer the assessment and collection of tax revenue
- Core function two: Administer social policy programmes
- Core function three: Provide end-to-end tax policy advice
- Core function four: Collaborate with other agencies to simplify and integrate government services.

Responding to Government priorities and serving Ministers

Question	Rating ⁴
How does the agency respond to Government priorities?	
How does the agency provide advice and services to Ministers?	

What we found

The past few years have been atypical for IR in responding to Government priorities. The inflexibility of IR's old technology – FIRST – meant that the organisation was unavoidably slow in responding to most new tax and related (for example, student loans) policy priorities. This was one reason for the Government deciding to fully fund the multi-year BT, during which period Ministers agreed to minimise requests for policy changes.

The COVID-19 pandemic and its aftermath created new and urgent government priorities. IR stood up new payment schemes very quickly and there is widespread acknowledgment within the Public Service that they were the only agency that could have delivered these services in the required time frame. Feedback from interviewees is that IR's response was exceptional, with substantial contributions to several programmes including the wage subsidy, small business loans and cost-of-living payments, each of which leveraged capabilities created through BT. After the event reviews, such as the review by the Office of the Auditor-General, supported this positive feedback.

The timing of this Review relative to the General Election meant that we received limited Ministerial feedback on IR's responsiveness to post-BT Government priorities for the tax system in 2023.

Post-election, IR has made a good start in serving the new Minister of Revenue and his colleagues, with scope to further raise performance through:

- more demonstrably incorporating perspectives of tax-system user groups in the preparation of advice, and

- articulating the rationale for settling on preferred options for Ministerial consideration.

Indirect feedback suggests that IR did a good job in developing an evidence base to enable Ministers to consider potential wealth taxes. Partner agencies were more mixed in their feedback about IR's responsiveness to priorities in social policy or related portfolios in the absence of COVID-19 pandemic-like urgency. We discuss this further below, in core function 4: Collaborate with other agencies to simplify and integrate government services.

Future Governments are likely to ask more of the tax and transfers system as the fiscal position tightens, as a driver of behaviour change, to incentivise some forms of economic activity, and to address concerns about inequality. The capabilities developed through BT mean that IR is well placed to respond to future Government priorities for the tax system. IR's wider responsiveness will be constrained by the need to protect the ongoing currency and adaptability of the tax system and might be constrained by undue organisational conservatism in this respect.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- building capacity to support higher levels of ongoing policy change than IR has experienced in recent years, and
- taking a more flexible approach to partnering with other agencies in delivering on Government priorities.

⁴ The rating scale is described in Appendix Two.

Stewardship

Question	Rating ⁴
How does the agency meet its system stewardship responsibilities ⁵ (including regulatory stewardship)?	

What we found

Stewardship is one of the three elements in IR's strategy launched in October 2023:

“Actively making sure that what we're responsible for is fit for purpose today and tomorrow

- *We are working to meet current and future needs of customers and government*
- *We continually protect and enhance the tax and social policy systems we're responsible for, including legislation, assets and resources*
- *We have the right people and capabilities as our work evolves”*

Interviewees were generally positive about IR's stewardship of New Zealand's tax policy settings, with successive governments having retained the main elements that were in place by the late-1980s to early-1990s (often described as low rate, broad base notwithstanding some gaps). The system is perceived as more stable, less complicated and less distorting than tax policy settings in most developed economies. IR's policy stewardship is underpinned by the Generic Tax Policy Process.

A primary driver for BT was that IR's historic stewardship of the tax administration system and relevant social policy programmes had not been able to prevent a system that had become highly inflexible, reliant on legacy technology, unable to adapt to evolving Government priorities and at increasing risk of operational failures.

With the successful completion of BT, IR is now well-placed to be an effective steward. The goal is to maintain the system in a state that can deliver on the administration of, and changes to, tax and social policy programmes on a rolling five-year time frame. Stewardship will never be set and forget –

technological possibilities will continue to evolve at pace, and new business and employment models will emerge. The influence of such things as crypto currencies and block chains may grow. Successive governments will make changes to tax policies and social programmes.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- working actively with FAST, tax ecosystem participants and social sector partners to ensure that interdependent systems remain current
- starting planning early if it becomes apparent that another phase of transformation is warranted, and
- maintaining clarity of internal accountability for, and ongoing funding of, the stewardship function in all relevant dimensions.

⁵ Under the Public Service Act 2020 (section 12(1)(e)) the principle of Stewardship is to proactively promote stewardship of the public service, including of (i) its long-term capability and its people; and (ii) its institutional knowledge and information; and (iii) its systems and processes; and (iv) its assets; and (v) the legislation administered by agencies.

Core function one: Administer the assessment and collection of tax revenue

Question	Rating
For each core function, how does the agency deliver value and make a positive impact for New Zealanders?	
For each core function, how does the agency demonstrate increased value and impact over time?	

What we found

IR delivers its core function of administering the assessment and collection of tax revenue very well. External interviewees spoke positively of IR's capabilities and performance (including interviewees with experience working in multiple tax jurisdictions), while also identifying challenges and areas with opportunity for further improvement. New Zealand is unusual in having the tax policy function sitting in the tax administration agency. In most comparable jurisdictions, the Treasury leads tax policy (for example in the United Kingdom and Australia) and the administrator is only the collector. It is an advantage for New Zealand to have the policy function inside the administrator as the dual function can be used to improve policy and delivery.

IR has a range of ways for customers to interact with it, including via the website, email, phone, customers coming into its offices, and the New Zealand relay service for hearing-impaired customers. IR also works in partnership with third party providers and intermediaries to better assist and provide services to its customers. Enforcement powers are used as a last resort.

For most taxpayers, payment of tax is very simple and automated compared to pre-BT. The majority of taxpayers are not even required to file a tax return.

BT has delivered IR a greater data and technology capability than most other agencies have. BT also strengthened IR's capability to deliver social policy programmes. However, this creates a risk, of which IR is well aware – that the delivery of social policy programmes compromises the role of administration of the tax system. For example, external parties noted a big reduction in IR's ability to engage on tax issues when its focus was on delivering initiatives related to the COVID-19 pandemic (such

as the Small Business Cashflow (loan) Scheme, the Resurgence Support Payment, the COVID-19 Support Payment and the temporary loss carry-back scheme) and cost of living payments made in August, September and October 2022. At the same time, IR accepts and recognises that its post-BT capabilities should be optimised as much as possible across the Public Service.

BT incorporated a 'right from the start' approach to compliance: assist customers to get their interactions right, intervene early when they are getting it wrong and take action when people choose not to do the right thing. A key principle for IR in developing tax rules and processes is that they are designed to make it easy to pay and difficult to not pay. An example of this is PAYE, where employees are paid net of tax, and the employer pays the tax due direct to IR. IR's compliance model is shown in Figure Two below.

If IR is successful in moving closer to real-time calculation and payment of taxes by SMEs and the self-employed, this should (other things being equal) reduce the need for compliance and enforcement activities.

Even for systems with high levels of voluntary compliance, credible enforcement activities remain critical in maintaining trust in the fairness and legitimacy of the tax system. As discussed below, IR has built a strong ethos of customer centricity. This brings many efficiencies and advantages, but also carries the risk of under-emphasis of compliance and enforcement (as has happened with other regulatory system failures, such as in the land transport system in 2018).

Enhanced data and analytics capabilities post-BT better enable an intelligence-led approach, including early detection of errors (whatever the cause). IR

Figure Two. IR's compliance model



Source: Inland Revenue (2024)

deploys algorithms to identify potential irregularities in tax returns, which informs decisions on where to focus audits and investigations.

As discussed in the Workforce Capability section of this report, BT introduced significant changes to role descriptions in the compliance area. Investigator roles, which were long-established and well-understood internally and externally, were disestablished and replaced by broad-based roles, within which compliance activities are one element. This change is taking time to bed-in and IR needs to ensure it places sufficient value on the compliance function.

The COVID-19 pandemic impacted on compliance and enforcement activities across government, including IR, as agencies focused on supporting people in distressed circumstances, redeployed resource accordingly and reduced focus on compliance. Interviewees noted that the number of business liquidations triggered by IR decreased through this period.

Several interviewees stressed the importance of ‘boots on the ground’. IR acknowledges this point, and has started stepping-up the visibility of compliance and enforcement activity, including:

- targeted (risk-based) communication campaigns with sectors where non-payment is likely to be more prevalent (for example, because of an above average incidence of cash transactions, and potential for over-claiming of expenses) such as building trades and hospitality
- a focus on student loan debt collection, using third party agents to connect with debtors now living offshore
- publicising successful prosecutions on the website, and
- telling the story of those elements of compliance that are not readily visible, such as applications of IR’s enhanced data and analytics capabilities.

When making the case for additional resource for compliance and enforcement activities, IR typically projects strong returns on any incremental investment (for example, \$8 of additional revenue for an additional \$1 of expenditure). Although these estimates will be subject to diminishing returns at some point, they do suggest scope for additional targeted investment in compliance and enforcement.

IR has the building blocks in place to be effective in compliance and enforcement over the next five years, and in collecting and publishing supporting metrics, by harnessing the potential of its new data and analytics capabilities with the long experience of frontline staff.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- increasing visible compliance and enforcement activity, both to increase tax revenue, and to maintain public confidence in the fairness and even-handedness of the tax system, and
- optimising the mix of resources for targeted, risk-based compliance and enforcement effort, balancing this with the strong focus on customer service.

Core function two: Provide end-to-end tax policy advice

Question	Rating
For each core function, how does the agency deliver value and make a positive impact for New Zealanders?	
For each core function, how does the agency demonstrate increased value and impact over time?	

What we found

Tax policy settings have a pervasive impact on economic and social outcomes over long time periods. The fact that tax policy and operations are both housed within the one agency (which is not the case in other jurisdictions) is a benefit to both policy development and operational design as it enables strong feedback loops between the two functions.

Ministers set tax policy and the tax and social policy work programme. Incoming governments typically make commitments both to change and to not change specific elements of tax policy settings. These commitments are a given for officials and constrain the scope for providing advice on potential improvements to tax policy.

IR and Treasury have joint ‘first opinion’ roles in providing tax advice to Ministers. The split is sometimes characterised as Treasury focusing on macro tax policy advice and IR on micro tax policy advice. Treasury brings a strong fiscal perspective, including on how much money the tax system needs to raise to support planned expenditure while managing government debt levels. IR has a bigger tax policy team, a much closer interaction with the tax-paying community and an incentive to integrate policy with operational design and implementation. Interviewees, including from IR and Treasury, all viewed the partnership between Treasury and IR as consistently effective over time.

IR uses the Generic Tax Policy Process to support Ministers and engage with stakeholders in the development of new policy. Priorities are set by Ministers on advice from IR (and following engagement with stakeholders). IR runs what is, by policy-development standards elsewhere in the New Zealand system, a highly structured process which typically results in two omnibus tax bills each year. Stakeholders value the transparency, openness and

predictability of the Generic Tax Policy Process, and the consequent reduced risk of tax policy which they might regard as rushed, insufficiently defined or impractical to administer and enforce.

Several interviewees expressed concern about recent tax policy processes conducted outside the Generic Tax Policy Process, while acknowledging that Ministers always (and necessarily) have this option. Further institutionalising the Generic Tax Policy Process would enhance stakeholder confidence in the robustness of the tax policy development process, and might be worth considering in preparing advice to future Governments.

IR’s technical tax policy expertise is widely respected by stakeholders. IR has what appears to be an unusually high proportion of long-serving tax policy staff with deep technical knowledge, and strong networks with technical experts in the tax ecosystem (many of whom are also long-serving). Interviewees noted the desirability of the outcomes of policy reviews flowing through into the policy work programme. An example of this is the recommendations from a review of Fringe Benefit Tax not flowing through to IR’s work programme.

In its 2023 Annual Report, IR reported that an independent panel had assessed the quality of the policy advice papers it wrote for Ministers. The panel found that 70 percent of the advice IR provided met or exceeded a score of 3.5 out of 5 (which represented an improvement from 60 percent in 2021/22). IR did not receive a rating from the Minister of Revenue for “satisfaction with the policy advice services received” but did receive 4.9 out of 5 from the Associate Minister of Revenue.

On its own assessment, IR is relatively conservative in its approach to tax policy advice, placing a heavy weight on maintaining the internal consistency

and relative simplicity of the current system. This may not be sufficient as governments confront the challenges of changing incentives to achieve policy ends (for example, environmental taxes and attracting inward investment), the need to raise additional revenue and ongoing concerns about inequality.

One gap identified by interviewees was an absence of measurement of the 'Tax Gap' – the difference in amount between taxes legally owed and tax collected. IR noted the technical challenges in estimating the size of the Tax Gap but acknowledged the value in doing so to the extent practicable. Estimating the size of the Tax Gap and tracking it through time has the potential to enhance trust and confidence in the system.

The policy team at IR works with the Tax and Social Policy Māori Reference Group in developing the programme of potential tax changes. This is part of an organisation-wide initiative to bring a Treaty partnership and te ao Māori lens to IR's activities. Interviewees were supportive of IR's policy engagement with Māori.

A feature of the blueprint for BT was to design in a stronger degree of process integration across IR's tax policy, operational design and operational implementation teams, to ensure that new policies can be given effect in a way that is timely, cost-effective and does not require customisation of IR's START system. As noted by IR interviewees, a potential consequence of this integration is some risk of constraining policy thinking by placing undue weight on ensuring simplicity of implementation and the integrity of START.

Through its Tax Counsel Office, IR also provides advisories and rulings on the correct tax treatment of contested or questioned areas. This approach provides confidence to customers and is comparatively forward-leaning for a regulatory agency. The Tax Counsel Office is well regarded by tax practitioners. This role means IR provides a true end-to-end service in its policy function: advice, implementation, interpretative guidance and rulings.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- ensuring that where issues with the tax system are identified in reviews, they are raised with Ministers as possible items for the work programme
- taking the opportunity to be both more expansive in the range of ideas it is prepared to proactively contemplate, and more pragmatic in preparing advice to Ministers on balancing potentially conflicting objectives for tax policy. In particular, IR could contribute more to economic and fiscal debates on the future of the tax system
- working with Ministers to explore opportunities to institutionalise the Generic Tax Policy Process to the extent possible, to enhance stakeholder confidence in the robustness of the tax policy development process, and
- evaluating and reporting on the costs and benefits of estimating and reporting on the 'Tax Gap', including the potential to enhance stakeholder trust and confidence in the tax system more generally.

Core function three: Administer social policy programmes

Question	Rating
2. For each core function, how does the agency deliver value and make a positive impact for New Zealanders?	
3. For each core function, how does the agency demonstrate increased value and impact over time?	

What we found

IR is a trusted provider of various social programme payments: Working for Families, child support, KiwiSaver, student loans, paid parental leave, unclaimed money, and support packages that rely on income information to determine eligibility. Around 25 percent of IR's people spend the majority of their time focused on delivery of social programmes as opposed to administering the tax system.

Delivery of many social programmes is underpinned by similar or the same information relating to things such as customer identity, income, individual circumstances (for example, number of children), application of eligibility tests, customer service support, making of payments and pursuing debts.

IR's 2023 Annual Report indicates that:

- 83 percent of student loan customers met their repayment obligations
- 70.8 percent of child support assessments were paid on time, and
- 67 percent of Working for Families customers who received their payments during the year were paid within 20 percent of what they were entitled to.

Interviewees noted that the complexity of the Working for Families rules makes accurate real-time payments difficult.

IR has also been called on to administer non-routine payments such as the 2022 cost of living payments and COVID-19 pandemic related initiatives such as the Small Business Cashflow (loan) Scheme, the Resurgence Support Payment, the COVID-19 Support Payment and the temporary loss carry-back scheme. IR's response to these was rapidly implemented and it achieved the requirement to distribute these payments within a short period.

It is very likely that the number and/or complexity of social policy programmes will increase and IR will

be called upon to administer at least some of these changes and additions. IR is the only agency that holds both citizens' information and all employer information so when such information is required to deliver a programme, it is likely that IR will be asked to deliver it.

IR is legitimately protective of its IT system and datasets, in order to ensure they keep operating effectively and efficiently. However, IR will nonetheless need to be open to making an increased contribution in the social policy area. Feedback from other agencies was that IR is not very flexible in assuming these further roles. While IR agrees to help, from the perspective of the other agencies, the help is always on IR's terms and not always what is required. From IR's point of view this is to preserve the integrity of START.

IR is open to taking on broader roles but will still need to protect its core function of tax administration. IR will need to manage the balance of these interests in a way that marks it out as a team player within the wider public service.

A risk for IR to manage is to ensure that an increasing role in delivering social programmes does not divert resources from ongoing maintenance and incremental improvement of the core tax system.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- being consistently open and flexible to contributing to the delivery of social policy programmes, and
- finding solutions that enable IR's systems to be used to support social policy programmes without unduly compromising the core tax system.

Core function four: Collaborate with other agencies to simplify and integrate government services

Question	Rating
2. For each core function, how does the agency deliver value and make a positive impact for New Zealanders?	
3. For each core function, how does the agency demonstrate increased value and impact over time?	

What we found

One of the themes of recent Public Service reforms is to make more of the whole, relative to the sum of the parts, including through more joined-up services for customers and through reducing cost-to-serve by leveraging existing assets and capabilities before investing in new ones. Citizens and businesses typically interact with multiple parts of government, and value these interactions being joined-up (for example, in not having to provide the same information many times over). The Public Service Commissioner has appointed the Commissioner of IR as System Lead for Service Transformation (one of seven such leadership roles across the system).

Following completion of BT, IR commissioned an independent report on potential opportunities to leverage the new set of capabilities for wider public benefit. Part of the rationale was to help government manage the cost and risk of other agency transformations by leveraging the IR capabilities wherever practicable. IR considers it has a range of capabilities that could be used more widely, such as access to up-to-date income information and customer-centric service design. 'Broader contribution' is one of the three limbs of IR's refreshed strategy as at October 2023: 'Working across the public service to deliver more for Aotearoa New Zealand'.

Interviewees for this Review from IR and other government agencies had diverse views on what future collaborations might look like, including:

- sharing IR's practical experience of delivering transformation: this could include lessons learned documents and recruitment of former IR staff by agencies undertaking their own transformations

- making aggregated data available for analysis and insight (subject to confidentiality restrictions)
- information sharing, as close to real-time as possible (for example, sharing IR's information on customer income levels with agencies who pay benefits if income is below a certain level), and
- leveraging collection and payment systems, and related functions such as debt management.

IR utilises specialist tax software (as a service) as its core system. This is a solution that other tax jurisdictions have also chosen and continue to choose. Non-tax agencies contemplating a business transformation in New Zealand may be able to deploy more generic enterprise-wide systems, which might offer more value (for example, lower cost and easier integration within the agency). This point was noted by some external interviewees.

Some forms of information sharing will require policy and legislative change. Such changes are often not given high priority and so remain as enduring constraints to some potentially value-adding collaborations. In addition, decision-making in government on customer-centred service design and technology choices is still dominated by portfolio- and agency-specific considerations. For example, citizens now have access to MyIR, MyMSD and MyACC service portals.

IR has been generous in sharing information and making subject matter experts available to other agencies. Interviewees from other agencies were of the view that IR is open to undertaking service delivery functions but only if this can be done in a way that is consistent with its design principles. They noted that IR is not always easy to interact with and that the engagement can be too much on IR's terms.

This perception was acknowledged by IR's Executive Leadership Team and accepted as an area for development and improvement.

Future focus

In addition to other capabilities discussed in this report, IR should focus on:

- making further use of IR's capabilities (for example, technology, data, process and people) to deliver better outcomes for New Zealanders across a range of services. The areas where IR can add value include:
 - taking a customer-centric approach to all its business activities
 - delivering services based on core information, particularly income and customer data
 - collection and payment of money at scale
 - processing high volumes of digital transactions (excluding services that rely on high levels of discretion or extensive customer-facing presence)
 - delivering large-scale consistent rules-based initiatives that leverage the capabilities of IR's commercial off-the-shelf systems
- sharing analytical tools and capabilities with other agencies, and
- developing and managing a complex ecosystem with private sector and non-governmental organisations to support efficient delivery of services.
- seeking to fully understand the context of the agencies that it is partnering with, finding ways to contribute constructively and recognising their mutually interdependent relationships, and
- working with Ministers, central agencies, and functional leads (notably the Government Chief Digital Officer) to progress more integrated and joined-up services from the customers' perspective. For example, a system-level service transformation roadmap could help agencies develop plans that push towards convergence of services from the customer perspective over time, and efficient utilisation of existing assets and capabilities.

5

Capability

This section provides a targeted consideration of each element of an agency's capability. It considers the readiness of each capability to support the future contributions expected of the agency. Ratings and rating justifications are provided, along with future focuses which identify factors which could impact capability over the time frame of the Future Excellence Horizon.

In this section:

- Leadership, culture, and direction
- Collaboration and delivery
- Workforce
- Public finance and resource management

Leadership, culture, and direction

	Rating
Purpose, vision, and strategy 6. What is the agency's capability to develop and articulate a relevant and aligned purpose, vision, and strategy to staff and stakeholders? 7. What is the agency's capability to consider and plan for possible changes in its purpose or role in the foreseeable future?	
Leadership and governance 8. What is the agency's capability to exercise relevant system and sector leadership roles? 9. What is the agency's capability to implement and adapt governance arrangements to support effective organisational performance and delivery? 10. What is the capability of the agency's senior leadership team to provide collective leadership and direction and to implement change?	
Values, behaviour, and culture 11. What is the agency's capability to develop and promote the Public Service and organisational behaviours, values and culture needed for the agency to succeed?	
Continuous improvement 12. What is the agency's capability to encourage, use, and learn from evaluative activity? 13. What is the agency's capability to report, monitor and use performance information?	

Future focus for: Leadership, culture, and direction

To help IR build the Leadership, culture, and direction capabilities necessary to deliver on the Future Excellence Horizon, we recommend that IR:

- consider developing an action plan or similar to support the new organisational strategy to help maintain momentum and provide clarity on priorities to guide frontline decision-making
- consider whether most governance committees having similar membership provides sufficiently independent thinking
- embed the capability to think differently, take considered risks and innovate in a way that was demonstrated through BT
- maintain organisational appetite and capacity for ongoing change – not on the scale of BT but sufficient to concurrently:
 - deliver on future government policy changes
 - maintain the health of the tax ecosystem and currency of IR's systems, processes and people, and
 - contribute flexibly to more integrated service design and delivery across government.
- continue to improve its lead indicator performance measures, and
- use insights from data and evaluations to drive decision-making about interactions with customers (and make any consequential amendments to performance measures).

Purpose, vision, and strategy

The sense of purpose provided by IR's core functions is clear and well understood throughout the organisation. Interviewees noted some uncertainty within IR as to how to maintain momentum and focus following the completion of BT.

The incoming Commissioner initiated a strategy refresh. The strategy was launched during the course of this Review and the next stage is to develop and support it with fully formed plans, and then to implement it. The priority will be to communicate the strategy well and to ensure that IR's people can see themselves and their work in it, to empower decision-makers across the organisation.

Leadership and governance

IR's Executive Leadership Team has capable members and is forming as a team. Between 2015 and 2022, IR's leaders were focused on delivering BT. In the latter stages of BT, the focus expanded to include a leading role as part of the wider government response to the COVID-19 pandemic. As IR emerges from this largely insular period, it is now at the point of assessing how it can make the most of the significant investment represented by BT.

BT required strong central leadership over several years. IR is now rebalancing, re-empowering the rest of the organisation, and moving decision-making closer to the customer wherever practicable. Interviewees were supportive of this direction of travel, while noting the importance of maintaining consistency.

IR's governance system, for the highest-level decisions, comprises five executive-level governance bodies. The Commissioner is responsible for the overall governance system. This Review notes that the governance committees all have very similar membership, and encourages the agency to consider whether this provides sufficiently independent thinking. The Risk and Assurance Committee, which is advisory, has an external Chair and four external members.

Values, behaviour, and culture

We noted many examples of great commitment and dedication from staff throughout the agency. There is a unity of focus around administering the tax system and social programmes well, and meeting customer needs.

The Executive Leadership Team works together collaboratively and as a collective is reflective on the agency's performance and capabilities. IR models an ambition to be ever-improving and having a culture of striving for excellence.

IR has long had a culture that values integrity and protects privacy and security. Everyone who works for IR has a legislative obligation to protect the integrity of the revenue system and to keep revenue information confidential (except where it can be disclosed). IR conducts routine monitoring to check for potential wrong-doing and to ensure that any incidents are investigated properly and fairly. IR recognises the need to retain and apply appropriate safeguards and protections going into the future.

In March 2023, IR launched Te Pou o te Tangata which describes "how we do things at IR". These behaviours are key to ensuring IR maintains the trust and confidence of the public, and they complement public service values including a spirit of service ethos. The behaviours of Te Pou o te Tangata reflect te ao Māori concepts which IR aims to embed "in the way we work". The behaviours are:

"We lift each other through Manaakitanga.

We seek to lift the mana of others, are generous with our knowledge, and care for those around us. We see the value in diversity.

We unite through whanaungatanga.

We make connections, listen and value the experience of others. We are open-minded, inclusive and show respect.

We strive for integrity through Mahi Tika.

We do the right things, are open and accountable. We do what we say. We are flexible and learn as we go."

IR accepts that it is early on the journey to embed Te Pou o te Tangata behaviours into its culture.

Continuous improvement

IR has the foundations of a continuous improvement culture, underpinned by a strong customer focus. It continues to develop and modify its operating model to respond to shifts in demand and customer requirements.

IR sees itself as a lean organisation, resourced post-BT on the assumption that unexpected or new demand would be met through additional capacity. Since BT, IR's design and delivery capacity has been fully utilised by the tax and social policy programme, and there has been insufficient capacity to make system improvements identified from within IR and by stakeholders. IR's challenge is to optimise allocation of existing resources to support maintenance and continuous improvement of the system, while also delivering on Government priorities.

Performance measures

IR's performance measurement framework shows how the agency uses its resources to deliver services and how those services connect with the outcomes for customers. IR reviews its performance measures annually to ensure they remain relevant. IR's performance measurement framework is recognised as leading practice by Audit New Zealand and IR is often approached by other agencies wanting to understand the framework.

IR has 144 performance measures and accepts it has work to do in making these performance measures

more meaningful and to reduce the number of measures. An internal interviewee commented that the current measures are "great at ensuring IR is doing its base job. As a mechanism for us to manage the business going forward and shift the dial, they are not great for that".

One gap in the performance measurement system identified by some interviewees was the measurement of the "Tax Gap" (discussed in Core function two: Provide end-to-end tax policy advice).

Data, analytics and evaluation

IR has a centre for enterprise data and analytics to generate insights. External parties that we spoke to all consider that IR could do more to optimise use of the data that it holds. IR acknowledges this. Several external parties also considered that IR could be more open to receiving and utilising the data and analytics that they held, to use in improving IR's service.

IR has considerable performance and management reporting information and undertakes a significant amount of evaluation activity with a view to better understanding the risk environment, how customers interact with IR, and customers' compliance behaviour and changing needs. There are opportunities to make stronger connections and ensure IR is using the insights to drive decision-making about interactions with customers (and make any consequential amendments to performance measures).

Collaboration and delivery

	Rating
Customers, clients, and citizens 14. What is the agency's capability to understand customers, clients, and citizens' medium and long-term needs, and using these to innovate and drive better experiences? 15. What is the agency's capability to employ service design, continuous improvement, and innovation in developing its services? 16. What is the agency's capability to be open, transparent, and accessible in actively engaging with stakeholders and citizens?	
Māori-Crown relationship 17. What is the agency's capability to develop and maintain its engagement with Māori and to understand and incorporate Māori perspectives?	
Operating model 18. What is the agency's capability to develop and adapt an operating model to support delivery of Government priorities and its core functions? 19. What is the agency's capability to evaluate service delivery options?	
Partnerships and external engagement 20. What is the agency's capability to contribute to the success of the agency's wider operating system(s), including collaborating with partners and providers? 21. What is the agency's capability to manage its context with external stakeholders and the public?	

Future focus for: Collaboration and delivery

To help IR build the collaboration and delivery capabilities necessary to deliver on the Future Excellence Horizon, we recommend that IR focus on the following:

- reviewing the timing and clarity of communications particularly to micro businesses and self-employed taxpayers to reduce the administrative burden on those customers
- focusing continuous improvement efforts on service to customer segments that are comparatively under-served (for example, self-employed, individuals and families with complex needs, SMEs, FinTech companies and digitally excluded people)
- optimising resource allocation to:
 - continue the shift to digital customer engagements wherever practicable
 - ensure consistent response times to customer queries via phone and email, and
 - maintain sufficient capability to deliver in-person support for customers who are not comfortable using other channels
- growing more Māori leaders within IR and deepening the commitment to tikanga across the whole organisation
- maintaining and updating the operating model to keep it current as the operating environment evolves
- developing a roadmap for tax ecosystem evolution around which participants can plan and innovate. This could be developed in consultation with partners but owned by IR as steward of the tax system. It would remain subject to government decisions, and
- developing the capability to support IR's tax ecosystem leadership role, including a deep understanding of the contexts and motivations of each of the ecosystem participants.

Customers, clients, and citizens

IR placed customers at the heart of BT. During BT and subsequently, IR has engaged with customers to understand their experience in interacting with the tax system and IR's social programmes. This includes the use of focus groups, regular customer surveys and an in-house customer research panel, IR Connection, launched in October 2021. IR Connection now has 18,000 members, including individual customers, customers with families and business customers – from sole-traders to large corporations. It is one of the largest public sector customer research panels in New Zealand.

IR's customer focus is very impressive and appreciated by the majority of customers. The requirement to interact with IR for some customers, such as PAYE taxpayers, is minimal. Notwithstanding this, some customer segments are comparatively under-served (for example, self-employed, individuals and families with complex needs, SMEs, FinTech companies and digitally excluded people).

The revenue system is now highly digital and largely automated. The rate of digital filing is very high, with 99 percent of returns now filed digitally. Although early thinking in BT was to push towards a model of digital-only, IR recognised this was not feasible for some customer groups and has provided multiple channels through which customers can engage. Any change in policy settings typically results in increased demand. Unanswered emails often prompt calls or additional emails. To improve the customer experience, and in particular to make the customer experience more consistent across segments, IR has an opportunity to supplement its digital channels to allow for more human-to-human interaction and to answer email queries in a more timely fashion.

IR monitors customers' perceptions of ease when interacting with it, their satisfaction with their interactions, and trust in IR. IR plans resource levels against expected demand for interactions via email and voice channels and recognises that some additional resource may be required to be more consistent in maintaining timely response to

customers' questions. IR's 2023 Annual Report states that 67 percent of customers' issues or queries were resolved during their first call. The average speed to answer telephone calls was 4 minutes 47 seconds. In 2022/23, IR answered 63 percent of the 2.1 million calls received (compared to 56 percent of calls received in 2021/22)⁶. IR does not currently report on response times to resolve customer queries via email.

Those with complex interactions, such as large businesses, typically have a relationship manager in IR to engage with. External interviewees valued these roles in helping them navigate the organisation post-BT. IR deploys multiple fora through which to engage with partners in the tax ecosystem, including regular meetings with various representative groups (for example, tax agents, accountants and lawyers).

Interviewees noted that the timing and clarity of some communication and requests for information were not well aligned with natural business processes and cycles. This was particularly an issue for smaller businesses and self-employed.

Through BT, organisational and job design shifted from functionally oriented (for example, grouping compliance officers) to customer-oriented (for example, grouping all functions serving SMEs). This fundamental shift has helped embed the focus on customers, which was a strong theme in discussion with all internal interviewees. The change also disrupted existing ways of working for IR's staff and customers. IR recognised this and has made ongoing adjustments to ensure the new arrangements are understood and effective.

Following completion of BT, the leadership has worked to re-empower the frontline, leveraging the insight of frontline teams to identify and implement service improvement opportunities. As discussed in the Workforce Capability section of this report, IR's people are still adjusting to the broad-based roles that were a feature of BT. Internal interviewees noted that, on occasion, customer service teams are not sure where to go for answers to technical questions from customers. Pre-BT, people had narrow technical jobs and were readily identifiable. Post-BT, technical information is available on-line in searchable databases. Some staff are still adjusting to this new way of working.

Māori-Crown relationship

IR's Executive Leadership Team is committed to ensuring that the organisation grows its capability to support Māori-Crown relations. As a public service agency, IR uses Te Arawhiti's Whāinga Amorangi framework as the basis for lifting its capability.

Feedback from interviewees was constructive, noting IR takes responsibility to support Māori-Crown relations seriously at senior levels and is committing resource accordingly. The practice of tikanga and visible commitment to Māori-Crown relations appears to be somewhat uneven across the organisation but is moving in the right direction. IR has an appropriate set of initiatives in place.

Tax policy

IR convenes the Tax and Social Policy Māori Reference Group. The group includes seven Māori active in the tax ecosystem, senior representatives from IR and from Treasury. The Group uses He Ara Waiora (developed by Treasury in partnership with Māori) as a way to frame its thinking about the short, medium and long-term development of the tax system.

Some issues considered by the Group are specific to Māori, such as tax treatment for different forms of legal entity. Others, such as the debate about capital gains tax, could have particular impacts on Māori communities.

Tax administration

IR employs Kaitakawaenga Māori to:

- help ensure the organisation understands the needs and aspirations of Māori individuals and businesses, and
- deliver services in a whānau, hapū and iwi centric way, and to ensure Māori customers have the tools to self-manage their tax affairs.

Kaitakawaenga Māori are deployed in areas with strong Māori representation.

IR's cultural capability and Māori employees

As discussed above, IR's new values are expressed using te ao Māori concepts. IR is working to strengthen tikanga across the organisation and to

⁶ IR states in its Annual Report that "The time it takes to answer a phone call is a key contributor towards a positive experience for customers. During our peak periods, we adjust our resourcing to best manage the customer experience across all our channels, for example, around key events such as individual income tax assessments. However, it does mean our ability to respond to some customers in a timely manner was affected. In 2022–23, there were 2.1 million attempted calls, 10 percent fewer than in 2021–22."

attract and retain Māori employees. Māori employees at IR are roughly in proportion to the population as a whole but are under-represented at senior levels.

Operating model

The comprehensive scope of BT created an opportunity for IR to design and implement an integrated operating model across systems, technology, processes and people that, if done well and with built-in capacity to adapt and evolve, would serve the organisation for many years. IR has a fully defined and well understood operating model that covers all the main elements of the business. Organisational awareness of the model is high, particularly at leadership levels.

Key operating model choices made by the BT team and IR's leadership included:

- designing the new organisation around the customer
- implementing broad-based job descriptions to underpin end-to-end support of customer cohorts and provide development opportunities for staff
- utilising networked teams to work across organisational boundaries: solving problems and making ongoing system and service improvements
- partnering with FAST to implement an off-the-shelf (configurable but not customised) technology platform to underpin the core tax system and various social programmes
- deploying commercial-off-the-shelf and cloud-based solutions to provide supporting technology capabilities, including for the various corporate systems, and for the MyIR portal
- working with the tax ecosystem participants (such as tax agents and accounting software providers) to integrate tax data and returns with 'natural systems' (such as payroll and business accounting), and
- building a data and analytics capability that informs other elements of the operating model and has potential to add value more widely.

IR interviewees were familiar with the choices made in designing the new operating model, and reflective on experience to date in its operationalisation. No

one suggested that the new model was not fit for purpose, although most identified areas where adjustments have been or will be required. As anticipated, some elements of the new operating model have not turned out quite as planned. For example, IR interviewees noted that choices of when and how to deploy networked teams have become more centralised over time.

A gap in the model as implemented was the absence of end-to-end product owners (such as for student loans). IR is in the process of filling this gap, while retaining a primary focus on the customer.

External interviewees had a less comprehensive view of the operating model but did not identify first-order concerns about any element of the design. As noted elsewhere, some elements were under-resourced initially (for example, in responding to customer questions via email or over the phone) and optimising resource allocation is still a work in progress. Interviewees would welcome enhanced functionality in the MyIR portal.

Interviewees from other government agencies were complimentary about the integrated nature of IR's operating model, while noting the potential constraints on IR's capacity to partner in a way that required working differently. IR recognises this tension.

Partnerships and external engagements

Partnerships are integral to IR's post-BT operating model. IR has long-established relationships with entities that advise taxpayers on their obligations, such as tax agents, bookkeepers, accountants, lawyers and tax poolers. With the advent of digitisation, providers of payroll and accounting software have become increasingly important partners in the tax ecosystem. By design, IR relies on the tax ecosystem to work efficiently, and the filing activity represented by tax agents and software service providers takes considerable cost out of IR.

Some participants in the tax ecosystem have multiple roles. For example, big accounting firms:

- advise individual clients (which can include businesses)
- file tax returns on behalf of clients
- publicly comment on IR and the tax system to inform public awareness and debate, and

- participate in policy, design and implementation working groups and industry panel meetings with IR.

Staff movements between tax advisers and IR (in both directions) are not uncommon.

Professional bodies such as Chartered Accountants Australia and New Zealand interact with IR on matters of tax policy and tax administration and form a useful conduit between IR and smaller tax agents. Smaller tax agents and private providers such as Xero and MYOB are both customers of IR and enablers of the system.

Each of these ecosystem entities has built businesses that are partly or fully dependent on adding value for clients by managing aspects of their tax affairs or, in the case of payroll providers and financial institutions, are required to participate by law. Privately-owned systems are specifically developed to comply with IR requirements – both technological and policy. However, they are also commercial enterprises that make money from servicing IR on behalf of their clients. Such providers also have market intelligence and analytic and data capabilities which can be useful for IR, and the tax system in general.

In developing the new operating model, IR worked with tax ecosystem participants to design a system that creates opportunities for value-add and innovation within a construct that enables IR to operate the tax system efficiently and effectively. IR acknowledges the challenge of working with an ecosystem in which the various participants are profit-motivated, able to innovate at pace and, to varying degrees, in competition with one another.

Several interviewees commented positively on the well-structured programmes of engagement that IR operates with representative groups (such as for tax agents, accountants and lawyers). Meetings are regular, IR attendance is at the right level and commitments to action are followed through.

IR works with partners in making any changes to its own systems, to ensure that interfacing systems can be updated at the same time. This may prove to be a constraint on IR's ability to implement tax policy changes quickly, particularly if the number of participants in the tax ecosystem continues to grow.

In working with the tax ecosystem, IR is guided by the 2020 OECD report *Tax Administration 3.0: The Digital Transformation of Tax Administration*, a shared international vision for the next stage of tax system development – integrating tax calculations and payments within 'natural systems' (notably payroll and accounting) and moving to real-time processes wherever practicable.

Most interviewees commented positively on IR's openness to working with tax ecosystem partners, including in designing application programming interfaces to manage the interfaces between IR's system and those of tax ecosystem partners. FinTechs questioned IR's openness to innovation, and to some level of disruption of its ways of working. For example, IR's openness to move more quickly towards real-time tax payments for clients such as SMEs and self-employed contractors.

Interviewees also discussed the extent to which IR should set and enforce standards for intermediaries participating in the tax ecosystem on behalf of taxpayers.

IR has less scope for partnering in its administration of social programmes. The lead agency (most commonly the Ministry of Social Development) tends to have primary responsibility for partnerships with intermediaries. Having said that, interviewees rated IR relatively highly in helping recipients of social payments to navigate the relevant system and to solve problems as they arise.

As noted by the Minister of Revenue, IR is well placed to play a leadership role in supporting the Public Sector to steward ecosystems within which government agencies partner with community and private sector participants to provide better quality of services than either could manage alone.

Workforce

	Rating
Workforce development 22. What is the capability of the agency to develop its people (including its diversity and leadership)? 23. What is the agency's capability to anticipate and respond to future capacity and capability, and how are they organised to meet demand?	
Performance focus 24. What is the agency's capability to promote and develop a high performing workforce? 25. What is the agency's capability to manage or improve performance that is not meeting expectations?	
Workforce engagement 26. What is the agency's capability to maintain positive and effective relationships with its employees, employee networks, and unions and other groups? 27. What is the agency's capability to develop and maintain a safe, inclusive, and engaged culture and workforce?	

Future focus for: Workforce

To help IR build workforce capabilities necessary to deliver on the Future Excellence Horizon, we recommend that IR focus on:

- embedding the changed ways of working implemented through BT: broad-based roles organised around customer groups, networked teams and empowered frontline staff
- developing a workforce strategy that focuses on how to embed the refreshed organisational behaviours as well as on future workforce needs. It could include an explicit set of actions to monitor progress
- improving support for frontline staff in broad-based roles (one example cited was accessing technical tax expertise necessary to answer customer queries)
- ensuring a consistent approach to performance management – supporting all employees to fulfil their potential and, where necessary, help people to move on in a timely way, and
- considering reinstating more self-explanatory job titles, with clearer guidance on how to transition through levels of seniority.

Workforce development

BT impacted on many elements of IR's workforce. Total staff numbers reduced from around 5,401 FTE in June 2017 to 4,230 FTE in October 2023 (a decrease of 22 percent). Role descriptions reduced from more than 500 relatively narrowly defined roles (for example, 'investigator') to around 100 broadly-based roles for example, 'community compliance officer'). The new system required some new or enhanced capabilities, such as data scientists, who were recruited both from within and externally. All 17 locations around the country were retained, although the nature of the work done in these offices changed materially.

IR has embraced flexible working, which has been welcomed by staff. With a predominantly digital system, much of the work can be undertaken anywhere. This has enabled IR to access the nationwide labour market, rather than being restricted to a particular location for a given role.

Networked teams are a mechanism to manage interdependencies across organisational boundaries. The teams have been given space to operate self-generatively. The experience is that some top-down oversight is required to ensure clarity of accountability, discipline around meeting delivery dates, and to help team members manage their overall workloads.

As a large organisation with a fully funded transformation and relatively stable levels of ongoing funding, IR has been able to take a structured approach to supporting workforce development, which is recognised and appreciated by staff. IR actively promotes opportunities for career development within the organisation. For example, Customer and Compliance Services recently convened an in-house careers fair with internal "ambassadors" talking about their roles, to showcase internal development opportunities. IR advises that nearly 50 percent of job vacancies are filled by internal candidates.

IR has an unusually large proportion of employees with thirty or more years tenure. The gradual retirement of this cohort will require careful planning by IR to ensure retention of institutional knowledge and memory.

IR is developing a refreshed workforce strategy. This is timely given the organisation now has some post-BT

experience and an increasing sense of priority areas for workforce development and recruitment. It will be important that the strategy is developed in a timely way and includes an explicit set of actions that can be used to monitor progress.

Performance focus

IR operates a standard process for performance management, which includes setting expectations, discussing progress, assessing performance and agreeing development priorities. Feedback from interviewees is that management of this process is variable, particularly in addressing under-performance in a timely and appropriate way.

The workforce has changed through BT, with many departures and arrivals. Notwithstanding, the average tenure post-BT is still around 13 years which is high for the Public Service. Stability of workforce is generally beneficial, but can slow the implementation of culture change, increases in diversity, and recruitment of new skills and capabilities.

A theme of several interviews was the extent of the organisation's appetite for ongoing change in the aftermath of BT and with a level of change fatigue. External interviewees encouraged IR to maintain momentum post-BT. The operating environment will continue to evolve and some BT changes are still embedding.

Continuing to improve performance metrics (as discussed above) will help IR leadership assess the extent to which performance is continually improving through time, and relative to relevant comparators.

Workforce engagement

A capable and motivated workforce is a big contributory factor to IR's strong performance. A highly engaged workforce, constructive union relationships and a well-regarded employment brand provide a strong platform from which to continue to develop.

IR staff generally appear to be highly engaged and motivated, with considerable loyalty and attachment to IR. IR monitors staff engagement levels through regular Pulse surveys, having ceased undertaking comprehensive staff surveys during BT. All areas reported in the survey have improved over the last two years.

BT involved comprehensive change for, and a significant downsizing of, IR's workforce. Feedback from interviewees is that this process was clearly signalled and involved extensive engagement with unions and the workforce. However, one major phase of the change had significant impacts for many people and was not viewed as well managed. This was due to the process being perceived as rushed, with insufficient support and a lack of respect for people going through change. Interviewees noted some residual feeling in the organisation about this episode, albeit with no discernible impact on ongoing engagement levels. Internal interviewees expressed some frustration with the prevalence of unclear job titles post-BT (such as "domain specialist") because they make it more difficult to navigate the organisation and to explain their roles clearly to others (both internally and externally).

A large proportion of the IR workforce is a member of one of three trade unions (around 82 percent of total employees). Interviewees spoke of a constructive relationship with high levels of ongoing engagement, consultation around potential change and good access to senior management.

IR's national structure and flexible approach to locations for staff enables it to access capability and capacity outside the main centres. For example, it has recently increased staff numbers in the Greymouth office (from six to around 18). Community compliance officers in regional offices are able to conduct proactive outreach with the local taxpaying community as well as being available to be deployed nationally over voice and digital channels.

Public finance and resource management

	Rating
Investment and asset management 28. What is the agency's capability to manage investment and assets to support service delivery and drive performance improvement?	
Data and technology 29. What is the agency's capability to manage and use information as a strategic asset? 30. What is the agency's capability to leverage technology to drive improvements in service delivery and outcomes?	
Public finance management 31. What is the agency's capability to understand, plan, direct and control financial resources to ensure sustainable value-for-money?	
Risk and assurance 32. What is the agency's capability to identify and manage agency, Crown, and system-wide risk? 33. What is the agency's capability to provide assurance that organisational risks are effectively managed and internal control environment improvements are appropriately prioritised?	

Future focus for: Public finance and resource management

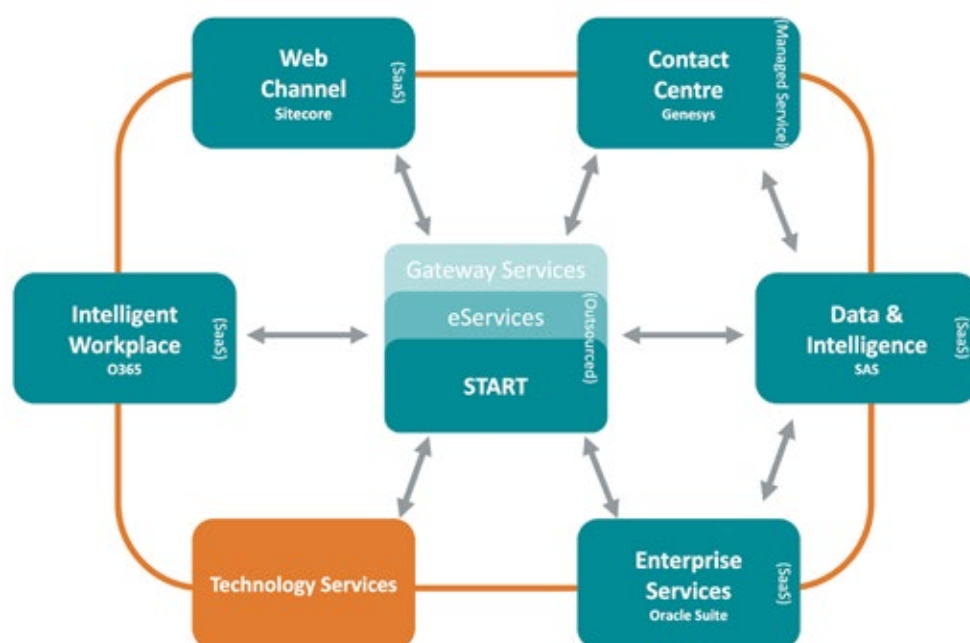
To help IR build the public finance and resource management capabilities necessary to deliver on the Future Excellence Horizon, we recommend that IR focus on:

- continuing to develop START to accommodate international trends in taxation (such as real-time collection)
- completing asset management plans to underpin long-term planning
- utilising AI to improve IR's analytical capabilities to fulfil its duty to collect the highest net revenue
- applying best practice in countering cybersecurity risks, and keeping connected to other public and private sector technology leaders
- completing the development of, and implementing, IR's digital strategy
- paying greater attention to the development of adequate contingency plans, should the arrangement with FAST come under pressure for some reason (for example, due to a change in the company's ownership)
- exploring opportunities to strengthen the connection between data analytics teams and the wider business, so that the insights provided can support operational decision-making
- managing IR's data sets as key assets and considering how best to use them to solve problems across government
- exploring opportunities to reduce constraints to the use of data across the Public Service
- continuing to evaluate whether back-office functions are sufficiently efficient and effective and optimising resource across the various functions
- establishing a programme to periodically test the efficiency and effectiveness of each of IR's main functions, with expert independent input and utilisation of points of reference wherever practicable, and
- embedding the capability to think differently, take considered risks, and innovate that was developed through BT.

Investment and asset management

The tax and social policy system is essential to New Zealand's economy and society. IR's core system, START, is a major piece of national infrastructure that supports the collection of around 80 percent of core Crown revenue. The centrality of START to IR's systems is shown in Figure Three right.

Figure Three. IR's technology platforms



Source: Inland Revenue (2024)

IR lives by the mantra “configure not customise”. The rationale behind this is to preserve the integrity and operational viability of START, to avoid a return to ad hoc programming changes and add-ons. Customisation poses a risk to the viability of the system. Accordingly, IR relies on the established design patterns within START. Deviation from these patterns will add complexity, resulting in an increase in risk and cost, into IR’s systems and processes. IR is therefore committed to maintaining the discipline of keeping START within its design parameters as much as possible, while still meeting Government priorities for new or amended products.

To ensure tax and social policy remains highly digital and secure, IR has committed to ensuring that START will be within one version of the most recent. START was upgraded to the latest version in October 2023. The voice technology platform used by IR call centres was upgraded in November 2023. To ensure such upgrades go smoothly requires two to three years of planning. We agree with IR that it is critical that the system be both maintained and kept current which will require ongoing government investment.

While IR has a good view of its current assets, it does not yet have asset management plans that enable longer-term planning. This is an area of focus for IR and it expects to complete asset management plans for key assets in early 2024.

Data and technology

IR is in the process of developing a digital strategy. Given the centrality of digital service delivery to IR’s operating model, this is an important document to help the organisation prioritise its investment and development work over the next five years.

Relationship with FAST

START is an off-the-shelf software system that is provided by a private company (FAST Enterprises). FAST was established in 1997 and the FastCore platform is currently in production in over 95 government agencies, including in the United States, Canada, Finland, Jamaica, Laos, New Zealand, Poland, Trinidad and Tobago and Malaysia. FastCore supports:

- tax and revenue
- unemployment insurance and paid leave

- driver licensing systems, and
- child support.

IR’s contract with FAST is for seven years, expiring in June 2029. IR has a close partnership with FAST and some FAST personnel are embedded within IR. START has been configured (but not customised) to accommodate all the social programmes that IR delivers. When IR wishes to introduce new policies, FAST considers whether they may also be of interest to other jurisdictions that FAST provides its software to. If they are likely to be of wider interest, then FAST typically incorporates the functionality into its core platform rather than requiring IR to customise. IR is almost totally reliant on FAST for the platform and software to run START.

We accept IR’s conclusion that due to the costs and scarcity of skilled personnel, it is not feasible for IR to run the system entirely from in-house resources. We also accept IR’s assurances that there are sufficient safeguards built into the contract with FAST, to cover the eventuality or possibility that FAST, for whatever reason, is no longer available to continue this level of support. Such mitigations include a copy of the code being held in escrow. Nonetheless, we queried why such a critical dependency was not higher on the organisation’s risk radar. Expectations from IR and FAST are that the contract will roll over once the seven-year term ends, but this is not something to be taken for granted.

Data optimisation

IR is focused on developing the capabilities of its people to ensure they have the skills needed to get the most out of IR’s data and information. IR has very advanced analytical capabilities but also recognises that it has work to do to optimise these capabilities.

In recognition that the data and information held by IR are key assets for the future, IR has set up a data and information governance programme to provide oversight of the management and use of data. There are two dedicated teams responsible for analysing information held within the core system and for providing insight when combining this with other information sources. IR could use this capability to utilise AI to improve its analytical capabilities to fulfil IR’s duty to collect the highest net revenue.

Information sharing

IR has a number of information sharing agreements in place with other agencies, including Department of Internal Affairs, Ministry of Social Development, New Zealand Police and Accident Compensation Corporation. However, these are constrained by restrictions on what the data shared can be used for. There is an opportunity for IR to work with the Data and Digital System Leads to help address these constraints. IR's intent is to move to providing access to information when it is needed and requested in real-time, as opposed to the current state, where access is shared at a point in time.

Information management

IR has completely overhauled its enterprise records management system which stores finalised business information. Security permissions ensure that sensitive information is locked down and that documents are held, accessed, and shared appropriately.

IR uses several systems to store and share information, including guided help, START Help, and ServiceNow. Context-based searches enable people to quickly search for and find information they need to do their jobs, such as instructions, guidance and experience for tax and social policy products and processes.

Security

As mentioned above, IR takes very seriously its obligations to protect confidential information and has systems in place to ensure these obligations are met. The role of the Chief Information and Security Officer (CISO) was recently elevated to tier three level to recognise the importance of managing risk in this area. The CISO is responsible for assessing and upskilling the security awareness of IR's people, certifying and accrediting critical information assets and publicly facing systems, and ensuring IR follows sound security architecture and development principles. The CISO also provides early warning of security vulnerabilities or threats, and ensures that security breaches are handled appropriately. IR needs to ensure it is applying best practice in countering cybersecurity risks, and that it

keeps connected to other public and private sector technology leaders.

IR is in the early stages of rolling out a programme to improve security awareness of its people. This was informed by a recent security awareness proficiency assessment to gather information about people's current knowledge across seven areas of security awareness. The findings provided an overall security awareness benchmark of 70 percent compared to the industry benchmark of 65 percent (for the global government sector)⁷. These results have been used to create tailored training modules. The proficiency assessment will be conducted every six months to track progress. The training modules will then be adjusted if necessary.

Public finance management

BT resulted in a fundamental review of the resources required to deliver IR's core functions. The combination of simplified processes for customers, expanded online services, greater automation, more straight-through processing, and analytical tools to help better target effort resulted in IR being able to deliver its core functions with around 25 percent fewer people.⁸ In real terms, IR's operating baseline is 15 percent lower than previously. In 2018, it cost 80c to collect every \$100 of revenue. In 2023, it cost 43c. Over the same period, the average cost to process GST returns, income tax returns and employment information fell from \$2.17 to \$1.48 per return.

BT was delivered on time and yielded most of the expected benefits while creating a modern platform for administering the tax system. In this sense, it represented value-for-money. IR will continue to take opportunities to drive further efficiencies, for example, by reducing additional demand caused by IR's actions.

IR is focused on delivering value and managing its finances conservatively, which can result in halting or delaying value-adding initiatives. IR has traditionally had an underspend of its appropriation (even pre-BT) and because it has a multi-category appropriation, it has been able to use underspends to meet contingencies in other parts of the business. These underspends have largely resulted from

⁷ IR uses an online tool called [KnowBe4](#). KnowBe4 global software provides an extensive range of cybersecurity and awareness training modules. The industry score is the average score of KnowBe4 customers in the same industry – in this case the global government sector.

⁸ At 31 October 2023, IR had a workforce of 4,230 people, a reduction of 1,432 people from its June 2016 workforce of 5,662.

challenges posed by the tight labour market. However, consistent patterns of underspending may also indicate deficiencies in planning, forecasting and resource allocation methodology. IR is committed to improving its forecasting ability over the next two to three years by improving linkages between its business planning, workforce planning and financial planning processes.

Because IR has consistently underspent its appropriation, it has not been in the position of having to cut back in the way that many agencies have. The forthcoming period of fiscal constraint may challenge IR and its self-perception of efficiency and value-for-money. IR will have to address the question “where can baseline savings be found?”. That question will have to be answered in the context of the understanding that it will not be acceptable to make savings that negatively impact on revenue collection.

Establishing a programme to periodically test the efficiency and effectiveness of each of IR’s main functions would help embed a culture of continuous improvement. It would also provide assurance for Ministers, Parliament and the public that IR is performing at the level that New Zealand needs. The programme should include expert independent input and utilisation of points of reference wherever practicable.

Risk and assurance

Management of operational risk

As the tax and social policy system is based on voluntary compliance, managing risk is fundamental to minimise operational risks that could impact collection of tax or payment of entitlements.

IR has an enterprise risk management framework which is consistent with the international risk management standard (ISO 31000: 2018) and associated risk registers. These risk management practices consider operational risks, tactical risks and seven enterprise risks that are regularly monitored by the Executive Leadership Team.

The Enterprise Design and Integrity business group is responsible for ensuring risks are identified, understood and managed, including assessing whether controls work effectively. IR has a programme of annual assurance reviews to focus on identifying areas of improvement, or on previously

unseen risks or to control gaps. In establishing the programme, IR considers:

- key risks identified
- known issues or problems
- change initiatives that will impact the operating environment, and
- topics identified by senior leaders, IR’s internal auditors or external partners.

Assurance is provided in different forms, including the executive level governance system and the Risk and Assurance Committee.

For the year ended 30 June 2023, the Office of the Auditor-General (OAG) assessed and graded IR’s management control environment as “good”. OAG assessed and graded IR’s financial information systems and controls, and its performance information and associated systems and controls as “very good”.

Risk appetite

Traditionally, IR has had a low appetite for risk. The Executive Leadership Team is considering IR’s risk tolerance as part of the strategy refresh. From an operational perspective, IR has decided that it is willing to take well-justified risks and manage the impacts. Its aim is to move from transactional risk management (reviewing risks on a periodic basis and updating controls and impacts) to actively considering risks and opportunities as part of the decision-making process.

Appendices

Appendix One – Purpose of Performance Improvement Reviews

The Performance Improvement Review Programme (the Programme) is an initiative to lift agency and system performance across the Public Service, to help advance the Government's priorities and drive results and outcomes for New Zealanders.

The Programme provides a consistent basis for driving performance of agencies and systems and identifying the actions necessary to lift their performance. Performance Improvement Reviews take a forward-looking approach to identifying what is expected from an agency or system over the following 4-10 years, the capability of an agency or system to meet those expectations and the challenges they may face along the way.

The Programme has separate models for agency and system reviews, to reflect the differences in focus:

- During an agency review, independent Lead Reviewers use the Agency Performance Improvement Model to evaluate the performance and capability of the agency and to identify priority areas for improvement. Each agency is rated on a number of elements, including its delivery of Government priorities and core functions and organisational management. Organisational management covers aspects such as leadership and direction, how the agency focuses on delivery for customers, clients and citizens, and how it manages key relationships, its workforce, finances and other resources.
- System reviews take a broader lens to support groups of agencies and chief executives to work together to deliver shared outcomes and work across common customers, clients, and businesses. For example, they can be used to support the delivery of the Government Targets and other priorities that span multiple government agencies. They are also led by independent Lead Reviewers and are based on the System Performance Improvement Model.

The Programme provides independent, future-focused reviews to inform the strategic direction and performance of public service agencies. Reviews provide Ministers with an important lever to shape the long-term direction, focus and performance of their agencies, which helps position agencies to deliver on Government priorities. Reviews also aim to:

- embed a culture of continuous improvement across the Public Service, and
- provide useful insights to support wider shifts across the Public Service to lift its performance.

Reviews are undertaken by highly experienced independent Lead Reviewers, who bring a strong understanding of the Public Service operating environment and how organisations can build capability to lift performance. Most are experienced former chief executives and/or governance leaders.

The Commission publishes final reports on its website and incorporates review findings and recommendations into chief executive and agency performance management. Clear action plans and implementation plans to address issues identified through the reviews are developed by the agency or system lead. The Commission undertakes regular monitoring and assurance to assess implementation progress.

Appendix Two – Description of ratings

Ratings help to clarify relative strengths and highlight the priority areas on which to focus, given the challenges, risks, and opportunities in the medium term. Ratings are applied in terms of the future the agency is preparing for (the Future Excellence Horizon) and are not an assessment of current or past performance.

Indicator/level	What it indicates
	• Excellent current level of capability to support sustained and high levels of delivery • Strategic and systematic approach to forecasting future capability challenges and responding accordingly • Systems in place to monitor and build capability to meet future demands • Organisational learning and external benchmarking used to continuously evaluate and improve • Strong change management capability to deliver against Future Excellence Horizon
	• Comprehensive and consistently good current capability and practices, with future capability gaps identified • Demonstrates plans and activities to change and improve in areas of current and future capability gaps, and is well placed to continue improving • Mostly aligned to Future Excellence Horizon • Comprehensive and consistently good organisational practices and systems in place to support effective management
	• Weakness or gaps in current capability • Only partial or limited understanding of future state • Concerns in the agency's ability to have appropriate future capability and limited ability to execute change against the future state • Some current and future capability gaps not clearly identified and forecasting of future capability challenges needs to be improved
	• Significant area(s) of critical weakness or concern in terms of delivery and/or capability and the agency has limited or no awareness of them • Weakness or gaps in current capability • Very limited or no view of future opportunities and challenges for the agencies • Strategies or plans to respond to areas of weakness are either not in place or not likely to have sufficient impact
	• No evidence available to make a credible judgement

Appendix Three – Ratings overview

The Future Excellence Horizon in this report outlines the contributions that IR will have to deliver to meet the outcomes sought by New Zealanders. These ratings below assess whether – given current conditions – these aspects of delivery and capability are at the level required for the agency to deliver on its contributions.

Delivery

Element	Rating
Responding to Government priorities	
Advice and services to Ministers	
Stewardship	

Core functions	Rating	
	Impact	Value
Core function one: Administer the assessment and collection of tax revenue		
Core function two: Provide end-to-end tax policy advice		
Core function three: Administer social policy programmes		
Core function four: Collaborate with other agencies to simplify and integrate government services		

Capability

Capability area	Rating
Leadership, culture, and direction	
Purpose, vision, and strategy	
Leadership and governance	
Values, behaviour, and culture	
Continuous improvement	
Collaboration and delivery	
Customers, clients, and citizens	
Māori–Crown relationship	
Operating model	
Partnerships and engagement	
Workforce	
Workforce development	
Performance focus	
Workforce engagement	
Public finance and resource management	
Investment and asset management	
Data and technology	
Public finance	
Risk and assurance	

Rating scale



Leading



Embedding



Developing



Weak



Unable to
rate/not rated

Appendix Four – List of future focus areas

Delivery

Responding to Government priorities and serving Ministers

- Building capacity to support higher levels of ongoing policy change than IR has experienced in recent years.
- Taking a more flexible approach to partnering with other agencies in delivering on Government priorities.

Stewardship

- Working actively with FAST, tax ecosystem participants and social sector partners to ensure that interdependent systems remain current.
- Starting planning early if it becomes apparent that another phase of transformation is warranted.
- Maintaining clarity of internal accountability for, and ongoing funding of, the stewardship function in all relevant dimensions.

Core function one: Administer the assessment and collection of tax revenue

- Increasing visible compliance and enforcement activity, both to increase tax revenue, and to maintain public confidence in the fairness and even-handedness of the tax system.
- Optimising the mix of resources for targeted, risk-based compliance and enforcement effort, and balance this with the strong focus on customer service.

Core function two: Provide end-to-end tax policy advice

- Ensuring that where issues with the tax system are identified in reviews, they are raised with Ministers as possible items for the work programme.
- Taking the opportunity to be both more expansive in the range of ideas it is prepared to proactively contemplate and more pragmatic in preparing advice to Ministers on balancing potentially conflicting objectives for tax policy. In particular, IR could contribute more to

economic and fiscal debates on the future of the tax system.

- Working with Ministers to incorporate the Generic Tax Policy Process to the extent possible, to enhance stakeholder confidence in the robustness of the tax policy development process.
- Evaluating and reporting on the costs and benefits of estimating and reporting on the 'Tax Gap', including the potential to enhance stakeholder trust and confidence in the tax system more generally.

Core function three: Administer social policy programmes

- Being consistently open and flexible to contributing to the delivery of social policy programmes.
- Finding solutions that enable IR's systems to be used to support social policy programmes without unduly compromising the core tax system.

Core function four: Collaborate with other agencies to simplify and integrate government services

- Making further use of IR's capabilities (for example, technology, data, process and people) to deliver better outcomes for New Zealanders across a range of services. The areas where IR can add value include:
 - taking a customer-centric approach to all its business activities
 - delivering services based on core information, particularly income and customer data
 - collection and payment of money at scale
 - processing high volumes of digital transactions (excluding services that rely on high levels of discretion or extensive customer-facing presence)
 - delivering large-scale consistent rules-based initiatives that leverage the capabilities of IR's commercial off-the-shelf systems

- sharing analytical tools and capabilities with other agencies, and
- developing and managing a complex ecosystem with private sector and non-governmental organisations to support efficient delivery of services.
- Seeking to fully understand the context of the agencies that it is partnering with, finding ways to contribute constructively and recognising their mutually interdependent relationships.
- Working with Ministers, central agencies, and functional leads (notably the Government Chief Digital Officer) to progress more integrated and joined-up services from the customers' perspective. For example, a system-level service transformation roadmap could help agencies develop plans that push towards convergence of services from the customer perspective over time, and efficient utilisation of existing assets and capabilities.

Capability

Leadership, culture and direction

- Considering developing an action plan or similar to support the new organisational strategy to help maintain momentum and provide clarity on priorities to guide frontline decision-making.
- Considering whether most governance committees having similar membership provides sufficiently independent thinking.
- Embedding the capability to think differently, take considered risks, and innovate that was developed through BT.
- Maintaining organisational appetite and capacity for ongoing change – not on the scale of BT but sufficient to concurrently:
 - deliver on future government policy changes
 - maintain the health of the tax ecosystem and currency of IR's systems, processes and people, and
 - contribute flexibly to more integrated service design and delivery across government.
- Continuing to improve lead indicator performance measures.
- Using insights from data and evaluations to drive decision-making about interactions with customers (and make any consequential amendments to performance measures).

Collaboration and delivery

- Reviewing the timing and clarity of communications particularly to micro businesses and self-employed taxpayers so as to reduce the administrative burden on those customers.
- Focusing continuous improvement efforts on service to customer segments that are comparatively under-served (for example, self-employed, individuals and families with complex needs, SMEs, FinTech companies and digitally excluded people).
- Optimising resource allocation to:
 - continue the shift to digital customer engagements wherever practicable
 - ensure consistent response times to customer queries via phone and email, and
 - maintain sufficient capability to deliver in-person support for customers who are not comfortable using other channels.
- Growing more Māori leaders within IR and deepening the commitment to tikanga across the whole organisation.
- Maintaining and updating the operating model to keep it current as the operating environment evolves.
- Developing a roadmap for tax ecosystem evolution around which participants can plan and innovate. This could be developed in consultation with partners but owned by IR as steward of the tax system. It would remain subject to government decisions.
- Developing the capability to support IR's tax ecosystem leadership role, including a deep understanding of the contexts and motivations of each of the ecosystem participants.

Workforce

- Embedding the changed ways of working implemented through BT: broad-based roles organised around customer groups, networked teams and empowered frontline staff.
- Developing a workforce strategy that focuses on how to embed the refreshed organisational behaviours as well as on future workforce needs. It could include an explicit set of actions to monitor progress.
- Improving support for frontline staff in broad-based roles (one example cited was accessing technical tax expertise necessary to answer customer queries).
- Ensuring a consistent approach to performance management – supporting all employees to fulfil their potential and, where necessary, help people to move on in a timely way.
- Considering reinstating more self-explanatory job titles, with clearer guidance on how to transition through levels of seniority.
- Exploring opportunities to strengthen the connection between data analytics teams and the wider business, so that the insights provided can support operational decision-making.
- Managing IR's data sets as key assets and considering how best to use them to solve problems across government.
- Exploring opportunities to reduce constraints to the use of data across the Public Service.
- Continuing to evaluate whether back-office functions are sufficiently efficient and effective, and optimising resource across the various functions.
- Establishing a programme to periodically test the efficiency and effectiveness of each of IR's main functions, with expert independent input and utilisation of points of reference wherever practicable.
- Embedding the capability to think differently, take considered risks, and innovate that was developed through BT.

Public finance and resource management

- Continuing to develop START to accommodate international trends in taxation (such as real-time collection).
- Completing asset management plans to underpin long-term planning.
- Utilising AI to improve IR's analytical capabilities to fulfil its duty to collect the highest net revenue.
- Applying best practice in countering cybersecurity risks, and keeping connected to other public and private sector technology leaders.
- Completing the development of, and implementing, IR's digital strategy.
- Paying greater attention to the development of adequate contingency plans, should the arrangement with FAST come under pressure for some reason (for example, due to a change in the company's ownership).

Appendix Five – Glossary

AI	Artificial Intelligence
BT	Business Transformation
CISO	Chief Information and Security Officer
COVID-19	COronaVirus Disease of 2019
FAST	FAST Enterprises is the company that supplies START (https://www.fastenterprises.com/)
IR	Inland Revenue
ISO	International Standards Organisation
OAG	Office of the Auditor-General
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
SMEs	small and medium-sized enterprises
START	IR's core technology platform
Tax ecosystem	A system involving interdependent relationships between tax system participants, including entities that advise taxpayers on their obligations (such as tax agents, bookkeepers, accountants, lawyers and tax poolers), professional bodies, industry associations and providers of payroll and accounting software.
Tax Gap	The difference in amount between taxes legally owed and tax collected

Appendix Six – List of interviewees

Accountants and Tax Agents Institute of New Zealand

Chartered Accountants Australia and New Zealand

Citizens Advice Bureau

Corporate Taxpayers Group

Deloitte

Department of Internal Affairs

EY

FAST Enterprises LLC

Henry

Independent Directors

IR staff

KPMG

Ministry of Business, Innovation and Employment

Ministry of Social Development

Tax and Social Policy Māori Reference Group

The Treasury

PwC

New Zealand Law Society

National Union of Employees

Public Service Association

Risk and Assurance Committee

TaxPro

Xero



Te Kāwanatanga o Aotearoa
New Zealand Government