



Inland Revenue
Te Tari Taake

Changing Inland Revenue

Transformation Market Brief

21 August, 2013

Reference Number: 2013050

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Inland Revenue change – certainty for New Zealanders



Naomi Ferguson

**Commissioner of
Inland Revenue**

Inland Revenue is changing. Over the past twenty years our role has expanded from solely administering tax revenue to also administering a portfolio of major social policies.

Now we are transforming to respond further to changing customer expectations, the Government's Better Public Services approach, and to meet the future needs of all New Zealanders. This transformation requires long-term planning and a range of specialist expertise.

Making it easy for New Zealanders

Inland Revenue's aim is to make it as easy as possible for New Zealanders to file and pay their taxes on time, receive their correct entitlements, and cut the costs of compliance. To do that, Inland Revenue needs to simplify its processes and systems, build partnerships across government to provide integrated services, and improve our understanding of business and customer needs.

Our tax and social policy system must be readily accessible for all – from individuals and small businesses to large companies. It must be straightforward and certain to deal with, flexible enough to accommodate changing needs, and able to help achieve Better Public Services results for New Zealanders.

Technology alone won't achieve this modernisation. It is more than just replacing a 20-year old computer system. Transformation means a shift in how Inland Revenue works, including changes to policies, processes, platforms and service delivery.

Inland Revenue's transformation will radically improve how business, customers and third parties work with us, and make a huge contribution to achieving Better Public Services and the all-of-government Information & Communications Technology (ICT) strategy.

Inland Revenue plays a part in delivering a better public service which is about ensuring that we have a 21st century public sector that is capable of responding to New Zealanders' increasing use of technology to communicate, interact and transact with government.

There will be opportunities for service providers with the right skills and experiences to help us build and deliver our transformation

It's about delivering IR for the future

Inland Revenue's transformation will happen in a number of distinct stages across several years. We will need skills and capabilities across many areas (e.g. project management, change management, strategy and business analysis, business process reengineering, solution architecture and design, software development etc.). While we have some of these capabilities, we will need to work with service providers in many areas over the duration of Inland Revenue's transformation.

This is a large and complex programme that will run through a number of stages over a period of years. We will be looking for providers with the appropriate skills, track record and expertise to support us at various stages on the journey.

This Market Brief sets out:

- **Transformation overview:** an overview of Inland Revenue's transformation – specifically outlining the vision, case for change, goals, desired outcomes, and benefits for New Zealand
- **Inland Revenue business context:** our current business model and a high-level view of the technology environment
- **Procurement process:** a proposed four-stage procurement process, which also describes the objectives of each stage. The first stage of this process will be to invite the market to respond to an Expression of Interest (EOI) which will be issued on 03 October 2013.

We want service providers involved in the design and transformation of Inland Revenue and its services for the future.

Naomi Ferguson



Commissioner of Inland Revenue

Our transformation will radically improve how people and business interact with us, and make a huge contribution to achieving better public services

1. Transformation overview

Vision

Inland Revenue's vision is to be a world-class revenue organisation, recognised for service and excellence. Inland Revenue works with customers and other organisations to make compliance easy and to give New Zealanders confidence that everyone pays and receives the right amount.

Inland Revenue's transformation aims to deliver this vision. It also incorporates and aligns with the Government's Better Public Services (BPS), and enables Inland Revenue to take a leading role in the broader government services' transformation.

The case for change

Inland Revenue needs to deliver existing services faster and more cost-effectively, and to implement changes in tax and social policies more rapidly.

Technology improvements have raised customer expectations about service levels and quality of interactions. Customers expect high levels of cross-agency data sharing and a seamless and secure online experience with government, similar to the experience they get with other businesses.

As customer volume and expectations grow, Inland Revenue's operating model needs to have the right capabilities to achieve our strategic vision and be aligned with the all-of-government Information Communication Technology (ICT) strategy.

In the last twenty years Inland Revenue's role has expanded from solely the administration of tax revenue to also administering a wide portfolio of major social policy functions (Working for Families, Student Loans, Child Support, and KiwiSaver).

This addition of social policy products and services to technology built for tax products has resulted in complexity.

Inland Revenue's ability to provide a growing portfolio of services and products has become increasingly cost and time prohibitive. Transformation is required to meet the expectations of customers, respond faster to Government policy changes and deliver Better Public Services.

Transformation

Changing Inland Revenue

Transformation goals

Inland Revenue's transformation will build the capabilities required to deliver the goals set out in *IR for the future*, our strategic vision for Inland Revenue:

- Efficient **self-management options for customers** that provide speed and certainty
- A **broader approach to compliance** based on smarter use of information and a wider range of interventions
- A range of different **working relationships with other organisations**, including strategic partnerships across Government to deliver some services
- **Less transactional work** and less direct contact with customers
- **Excellence in complex technical work**
- **More automation** and streamlined information flows
- **Greater use of commercial IT products** in our systems and services
- **A healthy culture** which our people value and thrive in.

Desired outcomes

To enable Inland Revenue to become a world-class revenue organisation, fundamental transformation of our operating model is required across the following areas:

- **Customer:** simple, clear and integrated delivery of services to customers across channels and products. Smarter use of data and intelligence to enable earlier interventions by Inland Revenue and greater self-management by customers
- **Information:** increased information and intelligence sharing with other agencies while protecting privacy, to enable increased cross-agency collaboration and better public service
- **Process:** customer-centric, seamless and streamlined processes including more automation, greater standardisation and better monitoring. Processes will optimise the use of technology as part of the all-of-government ICT strategy.
- **Policy:** improved ability to respond to and implement policy changes and requirements in a timely manner
- **People:** Inland Revenue people will have the broad capabilities needed to deliver business objectives and meet customer expectations. Our people will be adept in re-using common processes, services and applications, and be comfortable working across organisational and sector boundaries
- **Platform:** a technology platform that is flexible, scalable and reliable. Inland Revenue's technology approach will mark it as a leader within government and create a secure foundation for on-demand data sharing and collaboration across agencies and with third parties.

Transformation

Changing Inland Revenue

(continued)

Benefits for New Zealand

In line with Government's Better Public Services objectives, the broad benefit areas of transformation are improving customer experience across government, increasing net revenue collection and disbursements, and reducing costs. Elements of these include:

- **Improve customer experience:** provide certainty to customers that they have met obligations, significantly simplify customer requirements, and improve customers' experience with Inland Revenue and government
- **Economic benefits to New Zealand:** reduce customer compliance costs associated with meeting tax and social policy obligations by reducing the time businesses and other customers spend on tax compliance
- **Improve revenue system integrity:** encourage voluntary compliance through simpler systems; reduce fraud associated with filing incorrect tax information, not filing required obligations, or obtaining social entitlements fraudulently
- **Reduce time to implement policy initiatives:** greater speed and less cost in introducing and implementing policy changes within Inland Revenue
- **Financial benefits to the Crown:** increasing Crown revenue through increased compliance, improved accuracy of tax assessments, reduced numbers of customers in debt, and productivity savings for Inland Revenue
- **Reduce risk of operational failure:** reduce risk of a technology or process-failure limiting Inland Revenue's ability to collect obligations or disburse entitlements.

Timeframe

Inland Revenue's transformation will be significant in scale and complexity. We are taking a considered and staged approach to delivering the changes required, and expect that our transformation programme will be designed, executed and implemented in multiple stages over a number of years.

Transformation

2. Inland Revenue business context

Inland Revenue contributes to the economic and social wellbeing of New Zealand. Our role is to provide high-quality tax and social policy services to the Government and all New Zealanders.

As New Zealand's principal revenue agency, Inland Revenue collects approximately 80% of core Crown revenue (or approximately \$49 billion) and reaches more New Zealanders than any other agency.

Inland Revenue also plays an important role in administering a number of income-related social policy products, including:

- **Working for Families Tax Credits:** in 2011-12 Inland Revenue distributed \$2.67 billion in entitlements to support 194,000 working families. The programme is administered jointly with the Ministry of Social Development
- **Child Support:** in 2011-12 Inland Revenue collected \$426 million in child support payments from 180,000 paying parents and distributed \$216 million* to 182,000 custodial parents
- **KiwiSaver:** Inland Revenue administers the superannuation savings scheme by collecting contributions from wage and salary earners and transferring them to scheme providers for investment. In 2011-12, Inland Revenue transferred \$2.2 billion of contributions from almost two million KiwiSaver members, and managed government contributions of \$1 billion
- **Student Loan Scheme:** Inland Revenue jointly administers this programme with the Ministries of Education and Social Development (StudyLink). In 2010-11, Inland Revenue collected \$768 million in repayments from 701,000 borrowers
- **Paid Parental Leave:** Inland Revenue makes payments for the Ministry of Business, Innovation and Employment to parents who take leave from their job or business to care for a child. During 2011-12, \$157 million was paid to 25,000 applicants.

* The balance goes to the Crown to offset sole parent benefits paid to custodial parents by the Ministry of Social Development.

Last year...

about **1.1 million**
individual customers
filed annual tax returns

over **400,000**
companies filed annual
returns

about **200,000**
employers filed over
2.1 million
employer monthly
schedules during the
year

640,000 payers
filed **3.1 million**
GST returns

Source: Inland Revenue
Annual Report 2012

Context

Inland Revenue's organisational structure

As at 30 June 2012, Inland Revenue employed 5,301 (full-time equivalent) staff across New Zealand. Inland Revenue is organised into nine business groups:

- **Policy and Strategy** is responsible for developing tax and related policy, forecasting & analysis, strategic planning and drafting tax law
- **Office of the Chief Tax Counsel** provides technical advice and services on correct interpretation and application of taxation law through public and taxpayer rulings, disputes resolution and escalations and advice
- **Service Delivery** manages services that collect revenue, disburse payments and provide information to customers. Service Delivery works with customers and other organisations to make compliance easy and give New Zealanders confidence that people pay and receive the right amount
- **Information, Intelligence & Communications** manages and integrates Inland Revenue's corporate and customer information, research, evaluation and intelligence, and a range of communications and stakeholder services
- **Change** is responsible for the design and delivery of Inland Revenue's Investment Portfolio. Change brings together project and programme management, portfolio support, service design and enterprise architecture capability
- **Corporate Integrity & Assurance** provides independent advice and assurance on integrity of the tax system matters and Inland Revenue's governance. The group manages corporate legal, procurement, and risk and assurance services, and has involvement in the Christchurch rebuild
- **Performance, Facilities & Finance** provide financial, accounting, planning and reporting services, and manages Inland Revenue's property and facilities
- **Technology Strategy & Operations** leads Inland Revenue's Information and Communication Technology (ICT) strategy and provides ICT operations and services to support business performance
- **People & Culture** provides HR advice, tools and resources to build leadership, help shape organisational culture, and ensure Inland Revenue has the right people with the right skills in the right jobs.

Context

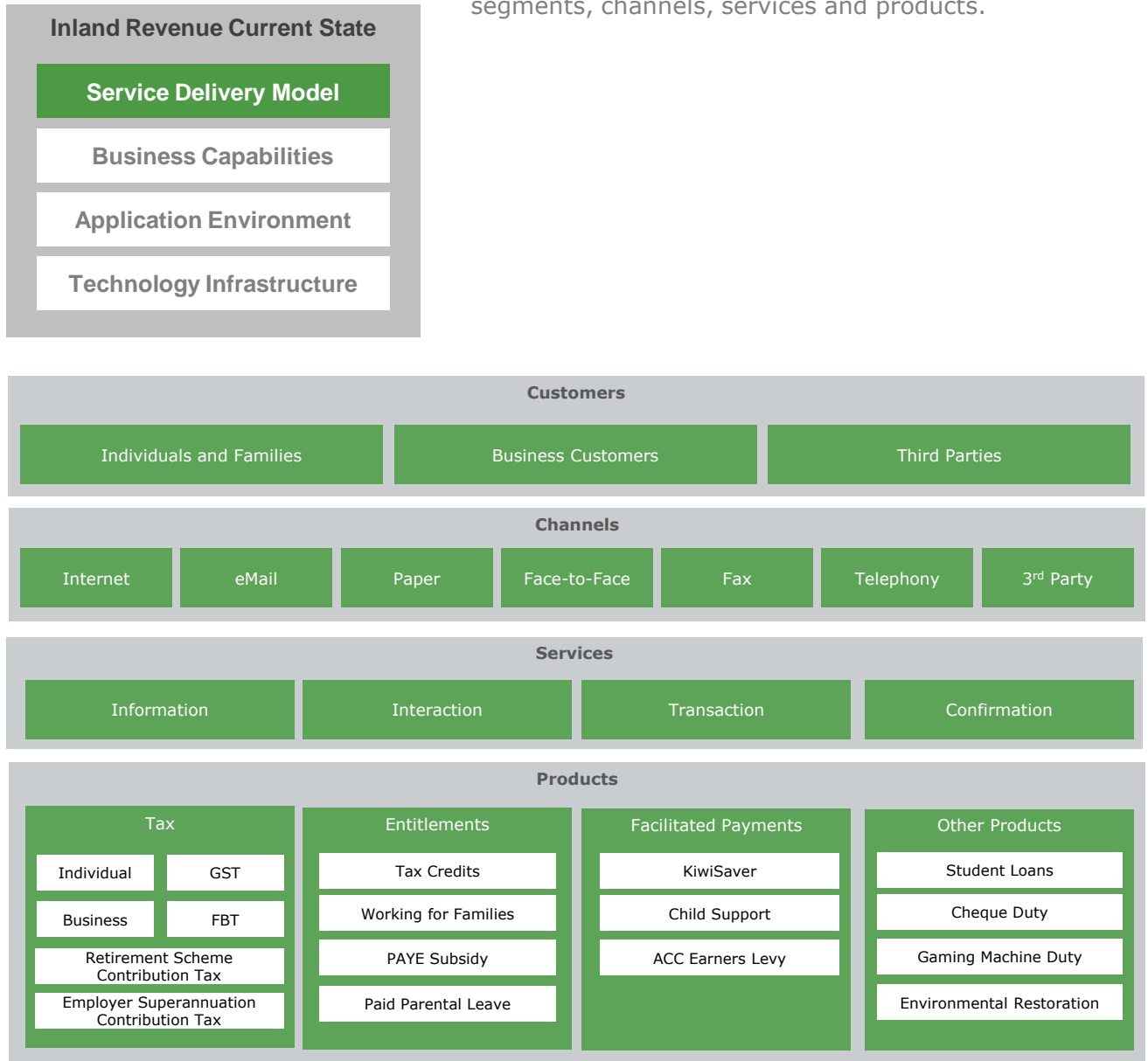
Current state

Overview

This section provides a high-level description of Inland Revenue's current business and technology environment including our service delivery model, business capabilities, application environment and technology infrastructure.

Inland Revenue's service delivery model

The Inland Revenue service delivery model below is a conceptual representation of existing customer segments, channels, services and products.



Inland Revenue's current state service delivery model

Context

Current state

Business capabilities

Business capabilities

Business capabilities describe the functional abilities required to achieve business goals and objectives, and deliver services and products.

The business reference model diagram below represents a high-level view of Inland Revenue's business capabilities, grouped into five areas:

- **Outcome improvement:** providing enterprise services that enable improved operations, outcomes and delivery
- **Deliver services:** delivering services to customers
- **Compliance and integrity:** identifying, preventing, and responding to non-compliance
- **External environment:** understanding the environment, defining and managing responses required
- **Support:** providing organisational services to support the enterprise.

Inland Revenue Current State

Service Delivery Model

Business Capabilities

Application Environment

Technology Infrastructure

Business Capabilities

Outcome Improvement

Managing Policy & Legislation

Strategy Investment & Planning

Design Change

Manage Culture & Change

Manage Information & Intelligence

Deliver Services

Manage Customer Relationships

Manage Transactions & Accounts

Plan & Manage Work Activity

Manage Work Products, Channels & Services

Compliance & Integrity

Assess Compliance Risk & Response

Assure Compliance

Interpret Legislation

External Environment

Manage External Parties & Partnerships

Environment Insight

Influence Society

Support

Manage Business Systems & Technology

Manage Human Resources

Manage Finances

Manage Corporate Assets & Functions

Technology Capabilities

Application Infrastructure

Infrastructure Services

Inland Revenue business reference model

Context

Current state

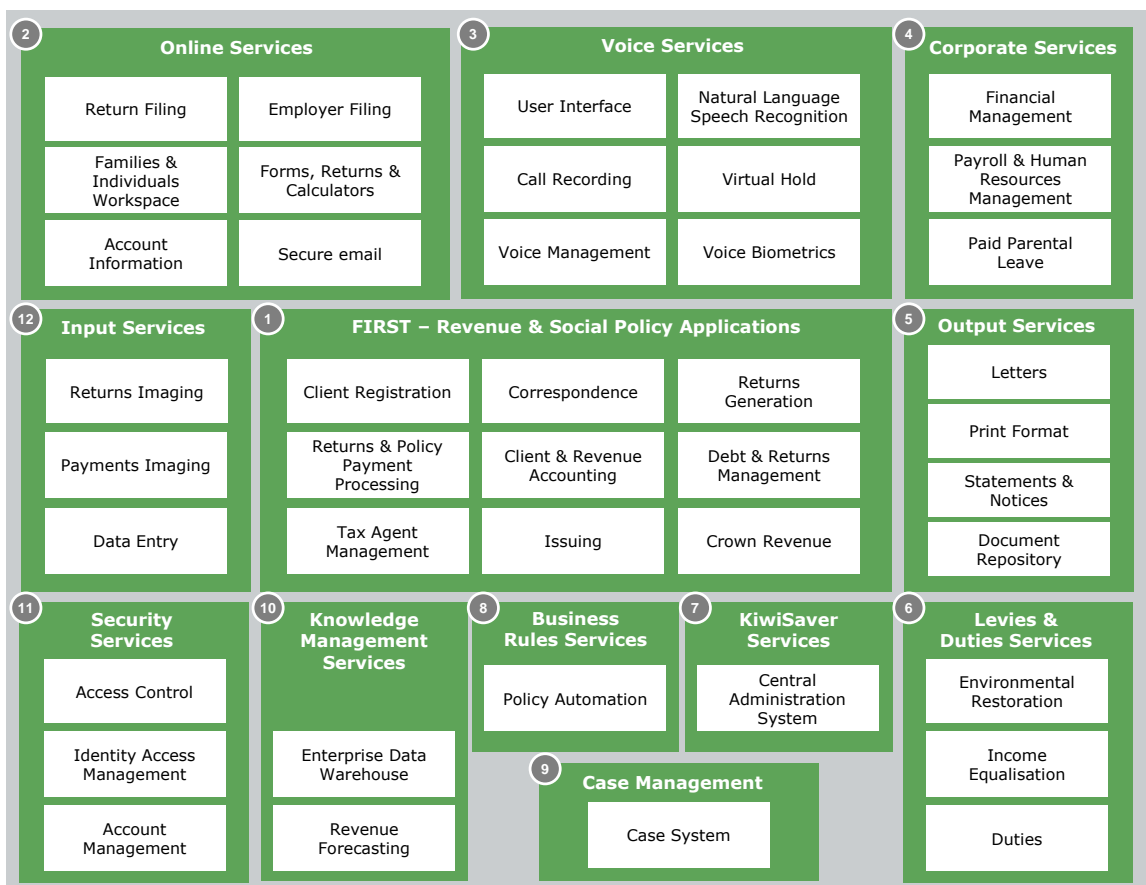
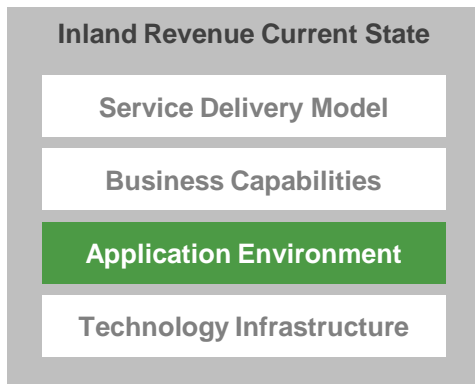
Application environment

Application environment

The current application environment consists of a combination of enterprise packages from major service providers, technology platforms and bespoke solutions.

These systems and solutions have often been implemented at speed to meet new demands and, as a result, are less cohesive.

The conceptual application architecture for Inland Revenue is described in the diagram below. It seeks to illustrate our current application landscape, and the complexity of the environment.



Conceptual application architecture

Context



Current state

Application environment (continued)

Core platform (FIRST) consists of approximately

6,000 programs and
50 million lines
of code

In 2012 there were over

1 million registered
e-services customers.
A 30% increase from 2011

Over **5.5 million**
online transactions
per day

Over **8 million**
payments (62% electronic)
and over **8 million**
tax returns (47%
electronic) processed per year

Over **16 million**
self-help **service enquires**

The 12 application groups represented in the previous diagram are:

1. **FIRST:** Central to Inland Revenue's current state application architecture is FIRST (Future Inland Revenue Systems and Technology). FIRST is an integrated and generic tax processing engine which is function (rather than modular or services) based.

The FIRST system is a complex mainframe system built on Unisys COBOL 74. It has been developed and extended over the last 20 years.

FIRST comprises 40 "tax types", tens of millions of lines of custom-developed and closely-coupled code with in excess of 180 system interfaces.

The core processing of the FIRST system has been extended more widely than its original purpose to incorporate social policy initiatives added over time.

The high-level view of the functionality embedded within FIRST is:

- Client registration
- Returns generation
- Returns processing
- Returns management
- Pro-active actions
- Payments processing
- Refunds and payments distribution
- Customer accounting
- Revenue accounting
- Financial reporting
- Revenue forecasting
- Debt management
- Document management
- Inbound correspondence management
- Outbound correspondence management
- Issuing of outbound notices and statements
- Case data and associated correspondence archiving and retrieval.

Context

Current state

Application environment (continued)

2. **Online services:** as well as managing the static content for the public-facing Inland Revenue web sites, online applications provide significant functionality for customer interaction and calculation.
3. **Voice services:** voice applications support the call centre environments (e.g. virtual hold, voice biometrics).
4. **Corporate services:** corporate applications provide business functions that support the efficient and effective running of the organisation.
5. **Output services:** output applications support output to the customer (e.g. statements).
6. **Levies and duties services:** levies and duties applications support the minor duties and certain Inland Revenue scheme details (Environmental Restoration Account).
7. **KiwiSaver services:** KiwiSaver applications support Inland Revenue product functionality outside FIRST.
8. **Business rules services:** business rules applications deliver business rules for enterprise processes that support business operations, calculations, definitions and policies.
9. **Case management services:** case management applications support the processing of work items until an agreed outcome or contract is reached.
10. **Knowledge management services:** knowledge management applications cover the organisational enquiry and knowledge management functions.
11. **Security services:** security applications manage user access to Inland Revenue system and applications. They provide both user authentication (who you are) and authorisation (what you can access).
12. **Input services:** input applications support input from the customer (e.g. tax returns).

Context

Current state

Technology infrastructure

Inland Revenue Current State

Service Delivery Model

Business Capabilities

Application Environment

Technology Infrastructure

Key infrastructure facts:

Approximately **1,920**
'back-end infrastructure'
assets

Oracle/Linux environment (Server OS, RDBMS, Data Warehouse, Middleware and Integration)

De-centralised location,
management and operation of infrastructure

Over **7,000 desktop clients** used by staff for access to Inland Revenue systems

Technology infrastructure

Currently Inland Revenue operates a mixed information technology model, combining internally owned and supported services with managed services and leasing via third-party providers.

The current technology infrastructure evolved over time in response to business needs, organisational priorities, and project delivery timeframes. This has resulted in significant complexity within the technology environment and operating model.

Locations

Inland Revenue's infrastructure spans 28 sites across New Zealand, including:

- **National office:** Asteron Centre at 55 Featherston Street, Wellington is the home of Inland Revenue's head office
- **Inland Revenue offices:** these offices run networking and desktop infrastructure with connectivity back to data centres for desktop and application resources
- **Data centres:** technical infrastructure is provided through four main data centres. There is a broad mix of capabilities provided from these locations including Mainframe, Enterprise Compute (x86, SPARC and Virtualisation), online, nearline and offline storage, LAN and WAN services. This infrastructure provides the foundation for a number of platform environments and end user applications
- **Operations delivery and contact centres:** two centres (in Hamilton and Wellington) providing critical telephony and resource management support for Inland Revenue services and products.

Context

Procurement Principles

1. Plan and manage for **great results**
2. Be **fair** to all service providers
3. Get the **right service provider**
4. Get the **best deal** for everyone
5. Play by the **rules**

Source: NZ Ministry of Business, Innovation and Employment (Oct 2012)

3. Procurement approach

Introduction

Transformations of the scale Inland Revenue is proposing require specialist expertise, and we've recognised that we don't have all of the necessary capability or capacity internally to successfully implement a programme of change on this scale.

Objectives

Our initial approach to the market will be to invite responses to an Expression of Interest for transformation service provider(s) to work with Inland Revenue to design the stages of the transformation.

The objectives of the proposed procurement approach is to:

- communicate with potential service provider(s) the scope of services required for this engagement
- identify and engage **transformation service provider(s)** with the capability and capacity to work with Inland Revenue to undertake high-level design in relation to the programme and to lead or manage any detailed design, build and implementation phases
- achieve **high-quality of delivery** by ensuring that contract(s) is/are awarded to the service provider(s) who can meet the requirements specified by Inland Revenue in line with quality expectations
- achieve a **cost-effective outcome** by agreeing commercial arrangement(s) with the selected service provider(s) that appropriately addresses quality, time, cost, benefits and risk.

Scope

Inland Revenue's transformation will be separated into a number of stages and delivered over several years.

To mitigate some of the risks of a large-scale transformation programme, it is currently envisaged that each stage will consist of a number of smaller, discrete projects.

The scope of the transformation will likely evolve over time and will be subject to on-going Ministerial approval.

Over the course of the programme, we expect to identify additional opportunities that require specialist expertise from the market, and will develop procurement approaches for those depending on the nature of goods and services required.

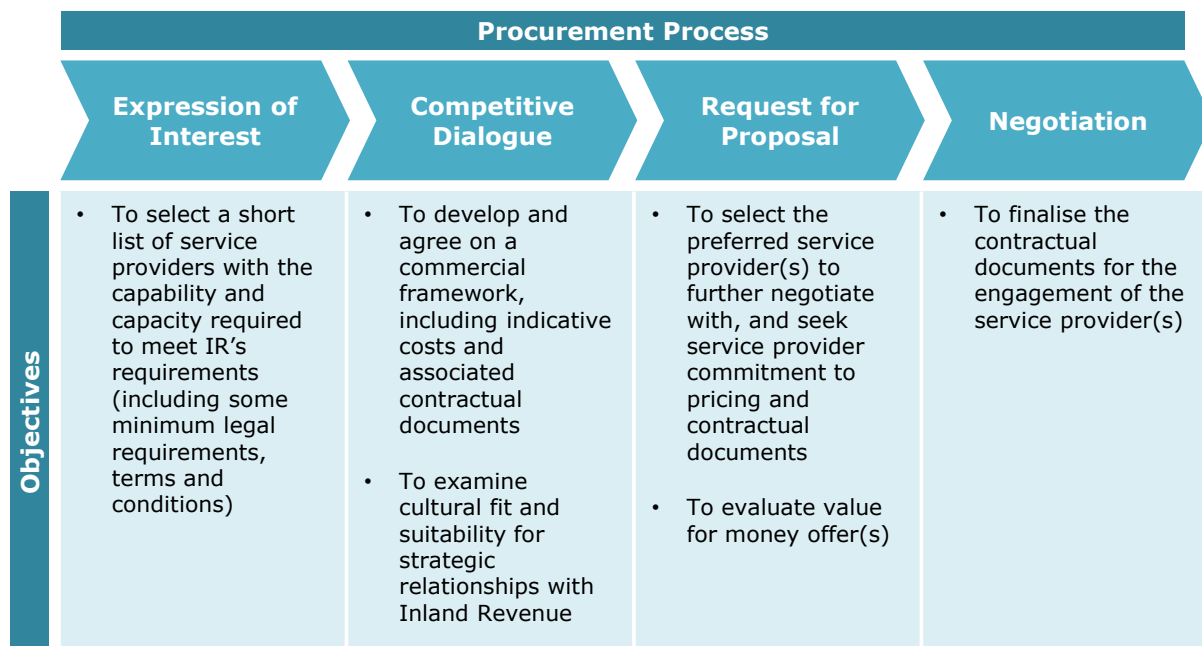
Procurement

Approach

Inland Revenue procurement is guided by the Government’s procurement principles which form the foundation of good procurement practice. These principles are underpinned by the Government Rules of Sourcing and together provide a broad procurement framework aimed at delivering better public services for New Zealand.

For this initial procurement Inland Revenue proposes a four-stage competitive procurement process to identify preferred transformation service provider(s).

Key objectives and outcomes associated with each stage are outlined below.



Timeframe

Each stage of the Procurement Process will inform the next, and each stage may take several months. Typically, the overall process may last a year or more in total. Inland Revenue will initiate the procurement process on 03 October 2013 by inviting the market to respond to an EOI.

Stage	Estimated duration
Expression of Interest	3 months
Competitive Dialogue	2-4 months
Request for Proposal & Negotiation	2-3 months

Procurement

Proposed procurement stages

Expression of Interest (EOI)

The EOI stage aims to verify whether potential service provider(s) have the capability and capacity required to meet Inland Revenue's needs.

An expected outcome of the EOI stage is a shortlist of service providers to be invited to participate in the Competitive Dialogue stage.

Competitive Dialogue (CD)

The CD stage is a process used in large or complex programmes. Potential service providers have on-going discussions with the contracting authority and develop alternative proposals in response to the objectives outlined by the contracting authority, prior to the submission of final proposals.

A CD process generally consists of a series of discussion rounds during which all aspects of the proposed contract are discussed. This enables the contracting authority to identify and mitigate risk, whilst simultaneously encouraging innovation, maintaining competitive pressure and allowing the contracting authority to leverage the expertise of the market with regard to solution design, feasibility and fit-for-purpose.

A typical CD approach may involve:

- discussion of all aspects of the proposed contract with potential service providers
- testing the feasibility and costs associated with different solutions or designs early in the procurement process
- collaborating with potential service providers to ensure a shared vision and adequate understanding of how a proposed solution or design is achieved
- assessing the willingness of potential service providers to enter into a contractual commitment
- maintaining competition to encourage potential service providers to exert their best efforts to reach a solution in a drive to win the contract
- assessing the compatibility of participating service providers in relation to work processes and culture.

Proposed procurement stages

(continued)

Request for Proposal (RFP)

During the RFP stage, Inland Revenue aims to formally request proposals from the shortlisted service providers and ask that they outline their proposals in terms of time, quality, cost, benefits, and risks based on contractual documents developed in the CD stage.

The expected outcome of the RFP stage is to identify the service provider(s) to progress into the Negotiation stage.

Negotiation

In this stage Inland Revenue will seek to reach a final agreement on contractual terms, conditions and specifications with the preferred service provider(s) identified in the previous Request for Proposal stage.

Contractual issues normally expected to be addressed during a negotiation stage are expected to have been addressed earlier during CD and RFP stages.

The outcome of the Negotiation stage is expected to be the engagement of the transformation service provider(s) to undertake the first stage of work. All required contractual documentation between Inland Revenue and the selected service provider(s) is expected to be approved and signed at this stage. However, any contract execution will be subject to necessary approvals first being obtained, including at the Ministerial level.

Further Information

Further information about *Changing Inland Revenue* will be made available at:

www.ird.govt.nz/aboutir/reports/business-transformation/.

Potential service providers are encouraged to review all other publicly-available documents there.

Enquiries

Any enquiries in relation to this information brief must be directed by email to: futureIR@ird.govt.nz

Procurement