



Report Title:	Performance Improvement Review of Inland Revenue		
Report No:	2024-0117		
Date:	2 May 2024		
To:	Hon Nicola Willis, Minister for the Public Service		
Action Sought:	Agree to forward a copy of this report to the Minister of Revenue	Due Date:	9 May 2024
To:	Hon Simon Watts, Minister of Revenue		
Action Sought:	Provide your feedback on the attached draft report on the Performance Improvement Review of Inland Revenue	Due Date:	16 May 2024
Contact Person:	Rob Anderson, Director System and Agency Performance		
Contact No:	9(2)(a) privacy		
Encl:	Yes	Priority:	Medium
Security Level:	IN CONFIDENCE		

Executive Summary

1. This report briefs you on a Performance Improvement Review (the Review) of Inland Revenue (IR). The draft report is attached in Appendix Two.
2. Performance Improvement Reviews are undertaken under the Performance Improvement Review Programme (the Programme). They are independent, future focused reviews which inform the strategic direction and capability needed in Public Service agencies to ensure they can deliver on current and future priorities. These reviews play a key role in the Public Service Commission's (the Commission) performance management system.
3. IR's Chief Executive, Peter Mersi, commissioned the IR Review in May 2023. David Smol and Belinda Clark (as independent Lead Reviewers) led the Review with Commission support.
4. The 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.

5. The Review identified a range of future focus areas for IR, including:
 - 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.
 - Maintaining robust contingency plans in the event that the partnership with their core supplier is disrupted in some way.
 - Optimising deployment of the full range of compliance and enforcement tools enabled by Business Transformation including targeted engagement with less compliant sectors and sufficient enforcement action to retain public confidence in the system.
 - Making customer experience more consistent so that those segments currently under-served receive equal service, and ensuring frontline staff have access to the technical support they need to respond to customer queries promptly and accurately.
 - 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.
 - Developing a roadmap for the tax ecosystem around which ecosystem partners can plan and innovate.
6. The Commission is continuing to work closely with IR to support the ongoing planning, implementation, and monitoring of actions to respond to the Review's findings.
7. A draft report of the Review's findings is attached as Appendix Two. The report incorporates feedback from the Treasury and IR. DPMC also received a copy of the draft report. The Chief Executive of IR has confirmed that he is comfortable with this version progressing to publication.
8. We met with the Minister of Revenue, Hon Simon Watts, on 29 February 2024 to seek his input to the Review. His input has been incorporated into the draft report. We now seek the Minister of Revenue's engagement on the attached draft report and will incorporate any feedback received into the report ahead of publication. Additionally, if the Minister of Revenue would like to meet again with the Lead Reviewers and Commission officials this can also be arranged.
9. The report will be professionally designed, and then published on the Commission's website. This is currently planned for May 2024. We will work with IR and Ministers' offices to ensure a communications plan for the release is in place.

Recommended Action for the Minister for the Public Service

We recommend that you:

- a **note** that the final report of the Performance Improvement Review of Inland Revenue is scheduled to be published on the Public Service Commission's website in May 2024.
- b **agree** to forward a copy of this report to the Minister of Revenue.

Yes / No

Hon Nicola Willis

Minister for the Public Service

Recommended Action for the Minister of Revenue

We recommend that you:

- c **note** that a Performance Improvement Review of Inland Revenue is nearly complete, subject to your feedback.
- d **provide** your feedback on the attached draft report on the Performance Improvement Review of Inland Revenue.
- e **indicate** if you would like to meet again with Public Service Commission officials and the Lead Reviewers to discuss the Review and any questions or feedback you may have.

Yes / No

- f **note** that the final report – incorporating feedback you provide – is scheduled to be published on the Public Service Commission's website in May 2024.

Hon Simon Watts

Minister of Revenue

Purpose of Report

10. This report briefs you on the Performance Improvement Review of Inland Revenue (IR). A draft report of this Review is attached at Appendix Two.

The Performance Improvement Review Programme is a Public Service Commission initiative to lift agency performance

11. The Performance Improvement Review Programme (the Programme) provides independent, future focused reviews to inform the strategic direction and capability of public service agencies to ensure they can deliver on current and future priorities. It builds on the successful elements of the Performance Improvement Framework (PIF) introduced in 2009, and incorporates lessons learned from similar review programmes overseas.
12. Performance Improvement Reviews aim to drive Public Service performance by:
 - supporting senior leaders to lift the capability of their agencies by providing an independent perspective on future needs and insights into key challenges
 - embedding a culture of continuous improvement across the Public Service
 - ensuring agencies and systems are well-placed to deliver government priorities and outcomes for New Zealanders, and
 - providing useful insights to support wider shifts across the Public Service.
13. Reviews are undertaken by highly experienced independent Lead Reviewers, who bring a strong understanding of the public sector operating environment and how organisations can build capability to lift performance. Most are experienced former chief executives and/or governance leaders.
14. The Programme helps drive the Government's priorities for the Public Service. Reviews provide Ministers with an important lever to shape the long-term direction, focus and capability of their agencies, which helps position agencies to deliver on Government priorities. The Reviews help chief executives prepare their agencies to respond to future trends and issues within their sectors.
15. The Programme plays a key role in the Commission's performance management system. 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. The Commission undertakes regular monitoring and assurance to assess implementation progress.

The Performance Improvement Review of Inland Revenue incorporates insights from a range of stakeholders

16. The Review assessed and considered IR's capabilities within the context of what success will look like for IR over a five-year timeframe (the Future Excellence Horizon) to identify the performance challenges and opportunities for the agency. The Review used all aspects of the Performance Improvement Model (attached as Appendix One).
17. The IR Review was led by two independent Lead Reviewers (David Smol and Belinda Clark) and supported by officials from the Public Service Commission. They conducted the substantive parts of the Review between late September and December 2023.
18. The Review followed the standard process for Performance Improvement Reviews, which included analysis of IR corporate documents, publicly available documents, a self-review by

IR, 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 Minister of Revenue, Hon Simon Watts, was interviewed on 29 February 2024 to inform the Review.

The Review concluded that IR is a high-performing organisation with some areas with opportunities for improvement

19. The Review noted that IR's operating environment will become progressively more challenging due to:
 - increasing pressure on the Government's fiscal position,
 - 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 (such as Artificial Intelligence) will bring both opportunities and challenges, and require ongoing updating of IR's systems,
 - pressure to move towards real-time tax collection, and
 - increasing customer expectations, including that government services become more joined-up.
20. 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.
 - IR and the wider public service to leverage the capabilities delivered through its Business Transformation programme (BT) by:
 - administering social programmes efficiently and effectively, and
 - contributing to simpler and more integrated public services delivered at lower cost.
21. The 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. For most taxpayers, payment of tax is very simple and automated compared to pre-BT. In addition, data and analytics capabilities have been enhanced post-BT to better enable an intelligence-led approach, including early detection of errors. IR now deploys algorithms to identify potential irregularities in tax returns, which informs decisions on where to focus audits and investigations. These and other capabilities developed through BT mean that IR is well placed to respond to future Government priorities for the tax system.
22. 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.

23. The Review identified a range of future focus areas for IR, including:
- 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.
 - Maintaining robust contingency plans in the event that the partnership with their core supplier is disrupted in some way.
 - 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.
 - Making customer experience more consistent so that those segments currently under-served receive equal service, and ensuring frontline staff have access to the technical support they need to respond to customer queries promptly and accurately.
 - 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.
 - Developing a roadmap for the tax ecosystem around which ecosystem partners can plan and innovate.

IR and Central Agencies support the shifts required for IR to meet its Future Excellence Horizon

24. IR has engaged positively and proactively throughout the Review process and has already taken action to respond to the Review's findings, including setting up a dedicated team to develop a digital ecosystem strategy and creating a one-stop-shop for developers using gateway services to support customers digital compliance. IR has provided a formal written response which is included in the draft Report.
25. IR is committed to making progress on areas where the Lead Reviewers have identified opportunities, alongside delivering its day-to-day work of providing services to its customers, providing policy advice to Ministers, and implementing the changes either IR or the Government wishes to make. IR also recognises that it needs to progressively contribute broader value as a Public Sector agency, and to work more closely with third parties to improve customer experiences.
26. The report also includes a draft response from the Public Service Commissioner. 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 cyber security, and
 - supporting IR to work more flexibly with other agencies to support simpler and more integrated services, including reducing barriers to information sharing.
27. 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.

We seek the Minister of Revenue's views on the draft report ahead of its publication

28. The IR report is well advanced and attached as Appendix Two. The draft report incorporates feedback from the Treasury and IR. DPMC also received a copy of the draft report. The Chief Executive of IR has confirmed that he is comfortable with this version progressing to publication.
29. We are seeking the Minister of Revenue's feedback on the draft report before it is finalised for publication. Commission officials, as well as the Lead Reviewers, are available to discuss any aspect of the report and the Review process with the Minister.
30. Once we have received Ministerial feedback, we will incorporate it into the report and progress it through the design and publication process. We will share the final version of the report with you and the Minister of Revenue ahead of its publication. We will also ensure that IR and both Ministers' offices have agreed communication plans to support the public release of the report.
31. We plan to publish the final report on the Commission's website in May 2024.

Appendix One: Performance Improvement Model

Future Excellence Horizon

What contribution will New Zealanders need from the agency in the medium term?

Delivery

- 1 How does the agency respond to Government Priorities?
- 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?
- 4 How does the agency meet its system stewardship responsibilities (including regulatory stewardship)?
- 5 How does the agency provide advice and services to Ministers?

Capability

	Element	Lead question	
Leadership, Culture, and Direction	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 it 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?	
	Collaboration and delivery	Customers, clients, and citizens	14 What is the agency's capability to understand customers, clients and citizens' medium and long-term needs, and use 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 engagement		20 What is the agency's capability to contribute to the success of its 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?			
Workforce	Workforce development	22 What is the agency's capability 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 requirements, 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?			
Public Finance and Resource Management	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 data and technology to drive improvements in service delivery and outcomes?	
	Public finance	31 What is the agency's capability to understand, plan, direct and control financial resources to deliver 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?			

Appendix Two: Draft Report of the Performance Improvement Review of Inland Revenue
