

# The Treasury

## Budget 2016 Information Release

### Release Document July 2016

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

|             |  |              |
|-------------|--|--------------|
| [1]         | to prevent prejudice to the security or defence of New Zealand or the international relations of the government  | 6(a)         |
| [4]         | to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial  | 6(c)         |
| [11]        | to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.   | 6(e)(vi)     |
| [23]        | to protect the privacy of natural persons, including deceased people   | 9(2)(a)      |
| [25]        | to protect the commercial position of the person who supplied the information or who is the subject of the information   | 9(2)(b)(ii)  |
| [26]        | to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied  | 9(2)(ba)(i)  |
| [27]        | to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information - would be likely otherwise to damage the public interest | 9(2)(ba)(ii) |
| [29]        | to avoid prejudice to the substantial economic interests of New Zealand  | 9(2)(d)      |
| [31]        | to maintain the current constitutional conventions protecting collective and individual ministerial responsibility   | 9(2)(f)(ii)  |
| [33]        | to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials  | 9(2)(f)(iv)  |
| [34]        | to maintain the effective conduct of public affairs through the free and frank expression of opinions  | 9(2)(g)(i)   |
| [36]        | to maintain legal professional privilege   | 9(2)(h)      |
| [37]        | to enable the Crown to carry out commercial activities without disadvantages or prejudice  | 9(2)(i)      |
| [38]        | to enable the Crown to negotiate without disadvantage or prejudice   | 9(2)(j)      |
| [39]        | to prevent the disclosure of official information for improper gain or improper advantage  | 9(2)(k)      |
| [s18(c)(i)] | that the making available of the information requested would be contrary to the provisions of a specified enactment  |              |
| [40]        | Not in scope   |              |

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [23] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



## Minute of Decision

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*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

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### Implementing New Zealand's Future Revenue System

| Portfolio | Revenue |
|-----------|---------|
|-----------|---------|

On 23 November 2015, following reference from the Cabinet Committee on State Sector Reform and Expenditure Control (SEC), Cabinet:

#### Background

- 1 **noted** that on 18 March 2014, the Minister of Finance and the Minister of Revenue confirmed Inland Revenue's programme business case;
- 2 **noted** that in March 2013, SEC agreed that modernising the revenue system through business process re-engineering, supported by new technology is the preferred way forward [SEC Min (13) 4/4];

#### New Zealand's future revenue system

- 3 **noted** that the case for change outlined in the 2013 programme business case remains sound;
- 4 **agreed** to invest in the implementation of New Zealand's future revenue system;
- 5 **noted** that FAST Enterprises LLC's GenTax solution has been selected as the basis for the new technology platform;
- 6 **noted** that the programme roadmap has been confirmed following the design phase and will deliver New Zealand's future revenue system in four customer-focused stages:
  - 6.1 Stage 1: Enabling secure digital services from 2016 to 2017;
  - 6.2 Stage 2: Streamline income and business tax processes from 2017 to 2019;
  - 6.3 Stage 3: Streamline social policy delivery from 2018 to 2020;
  - 6.4 Stage 4: Complete delivery of the future revenue system from 2019 to 2021;
- 7 **agreed** that Stage 1 will focus on:
  - 7.1 the end-to-end implementation of GST on GenTax;
  - 7.2 implementation of all supporting technical infrastructure and co-existence solutions;

- 7.3 New Zealand Business Number information collection;
- 7.4 stabilisation of Inland Revenue's analytics and information environment;
- 7.5 preparation for future stages;
- 8 **noted** that the outcomes of Stage 1 will be:
  - 8.1 the majority of customers will self-manage and use digital services;
  - 8.2 businesses' compliance burden to fulfil their GST obligations will be reduced;
  - 8.3 there will be fewer customer contacts and processing requirements for GST;
  - 8.4 improved GST compliance;
- 9 **noted** that material changes in the scope, sequencing, timing, costs, benefits, risks and impacts on customers of Stages 2 to 4 will be agreed with Ministers;

### **Commercial arrangements**

- 10 **noted** that the Commissioner of Inland Revenue will enter into a number of long-term commercial arrangements to support the implementation of New Zealand's future revenue system, including with FAST Enterprises LLC;
- 11 **noted** that Inland Revenue continues to work with officials from the Government Chief Information Officer and the Ministry of Business Innovation and Employment to leverage the capabilities available in all-of-government contracts where they are available, fit-for-purpose and cost effective;

### **Contribution to wider government priorities**

- 12 **noted** that Inland Revenue's business transformation programme is a key vehicle for advancing the government's objectives for business growth and its Better Public Services' goals;
- 13 **noted** that adding any further expectations to Inland Revenue's existing work programme will add risk to the delivery of this complex implementation;
- 14 **noted** that Inland Revenue and corporate centre agencies will work closely to identify opportunities for contributing to the government's ICT strategy;

### **Costs to complete transformation and benefits**

- 15 **noted** that new funding for capital and operating expenditure of between \$800 million and \$1,005 million,<sup>1</sup> and for depreciation and capital charges of between \$210 million and \$295 million is required from the Crown, as detailed in table 1 of the submission under CAB-15-SUB-0249;

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<sup>1</sup> Excludes capital charge, depreciation and inflation.

- 16 **noted** that Inland Revenue’s contribution to capital and operating expenditure is expected to be between \$685 million and \$700 million,<sup>2</sup> and to depreciation and capital charges is expected to be between \$420 million and \$430 million to 2023/24 as detailed in table 1 of the submission under CAB-15-SUB-0249;
- 17 **noted** that Inland Revenue has re-directed the majority of its existing capital reserves and discretionary asset improvement funding to transformation and, as a consequence, any new government initiatives will likely require further funding;
- 18 **noted** that total incremental capital and operating expenditure is estimated to be between \$1,500 million and \$1,690 million,<sup>3</sup> and depreciation and capital charges<sup>4</sup> are estimated to be between \$640 million and \$715 million to 2023/24, including contingencies, as detailed in table 1 of the submission under CAB-15-SUB-0249;
- 19 **noted** that costs and benefits to other Crown organisations and other stakeholders in making any changes to their systems and processes are not included;
- 20 **noted** that, at the end of the programme, financial benefits to the Crown are estimated to be between \$2,950 million to \$5,960 million, and compliance cost savings are estimated to be between \$1,200 million to \$2,025 million;<sup>5</sup>
- 21 **authorised** Inland Revenue to apply administrative savings resulting from the programme as part of its funding contribution to the programme;

### **Future policy and legislative changes**

- 22 **noted** that programme costs and timelines assume that implementation of policy changes are aligned with the programme roadmap;
- 23 **noted** that fiscal implications resulting from any proposed policy changes are not included in programme costs and benefits and that these will be included in final policy advice provided to Cabinet following consultation;

### **Appropriation decisions**

- 24 **noted** that the financial figures in the detailed business case and this paper exclude the impact of inflation to enable comparisons with the programme business case;
- 25 **noted** that, given the duration of the programme, appropriations need to include an adjustment for inflation, therefore the appropriation tables and the matching financial delegation amounts include inflation as reflected in paragraphs 28, 37, 38, 42 and 46 below;
- 26 **noted** that implementation will be complex and, once started, halting will increase cost and risk as two systems will have to be maintained and Inland Revenue’s ability to realise administrative savings will be constrained;
- 27 **directed** Inland Revenue to prepare an annual Programme Update for SEC’s consideration by December each year, and an interim progress update by July each year;

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<sup>2</sup> Ibid.

<sup>3</sup> Excludes capital charge, depreciation and inflation.

<sup>4</sup> Includes depreciation and capital charge already in Inland Revenue’s baseline, i.e. capital amounts Inland Revenue will fund from reserves.

<sup>5</sup> Excludes capital charge, depreciation and inflation.

28 **approved** the following changes to appropriations and departmental capital injections to give effect to the decision in paragraph 4 above:

29

|  | \$m – increase/(decrease) |                |                |                |                |               |               |               |                    |
|--|---------------------------|----------------|----------------|----------------|----------------|---------------|---------------|---------------|--------------------|
|  | 2015/16                   | 2016/17        | 2017/18        | 2018/19        | 2019/20        | 2020/21       | 2021/22       | 2022/23       | 2023/24 & Outyears |
| <i>Vote Revenue Minister of Revenue</i>                              |                           |                |                |                |                |               |               |               |                    |
| Departmental Other Expense: Transformation (funded by revenue Crown) | 44.000                    | 195.000        | 226.000        | 190.000        | 156.000        | 70.000        | 64.000        | 45.000        | 36.000             |
| Inland Revenue Department: Capital injection                         | -                         | 54.000         | 102.000        | 90.000         | 87.000         | 21.000        | -             | -             | -                  |
| <b>Total operating</b>   | <b>44.000</b>             | <b>195.000</b> | <b>226.000</b> | <b>190.000</b> | <b>156.000</b> | <b>70.000</b> | <b>64.000</b> | <b>45.000</b> | <b>36.000</b>      |
| <b>Total capital</b>   | <b>-</b>                  | <b>54.000</b>  | <b>102.000</b> | <b>90.000</b>  | <b>87.000</b>  | <b>21.000</b> | <b>-</b>      | <b>-</b>      | <b>-</b>           |

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30 **approved** the following fiscally neutral adjustment related to Business Transformation funding from within the existing departmental baseline in 2015/16, with no impact on the operating balance:

31

|   | \$m – increase/(decrease) |          |          |          |          |
|---|---------------------------|----------|----------|----------|----------|
|   | 2015/16                   | 2016/17  | 2017/18  | 2018/19  | 2019/20  |
| <i>Vote Revenue Minister of Revenue</i>   |                           |          |          |          |          |
| Departmental Output Expense: Services to inform public about entitlements and meeting obligations (funded by revenue Crown) | (3.600)                   | -        | -        | -        | -        |
| Services to process obligations and entitlements (funded by revenue Crown)  | (1.800)                   | -        | -        | -        | -        |
| Management of debt and outstanding returns (funded by revenue Crown)  | (2.100)                   | -        | -        | -        | -        |
| Investigations (funded by revenue Crown)  | (2.500)                   | -        | -        | -        | -        |
| Departmental Other Expense: Transformation (funded by revenue Crown)  | 10.000                    | -        | -        | -        | -        |
| <b>Total operating</b>  | <b>-</b>                  | <b>-</b> | <b>-</b> | <b>-</b> | <b>-</b> |

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32 **agreed** that the proposed changes to appropriations for 2015/16 above be included in the 2015/16 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;

- 33 **noted** that the operating expenditure incurred in paragraph 28 above for 2015/16 will impact the 2015/16 operating balance;
- 34 **agreed** that the operating expenditure incurred under paragraph 28 above be a pre-commitment against the Budget 2016 operating allowance, and commensurately reduce funding available for other priorities;
- 35 **agreed** that the capital expenditure incurred under paragraph 28 will be a pre-commitment against the Budget 2016 capital allowance, and commensurately reduce funding available for other priorities;
- 36 **noted** that the appropriation implications of Inland Revenue's funding contribution will be addressed as part of the 2016 March Baseline Update;
- 37 **noted** the following increase in revenue as a result of the decision in paragraph 4 above, with a corresponding impact on the operating balance:

|   | \$m – increase/(decrease) |         |         |         |         |         |         |         |                    | n<br>o<br>t<br>e<br>d |
|---|---------------------------|---------|---------|---------|---------|---------|---------|---------|--------------------|-----------------------|
|   | 2015/16                   | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |                       |
| <i>Vote Revenue Minister of Revenue</i> |                           |         |         |         |         |         |         |         |                    |                       |
| Tax Revenue: Direct & Indirect taxation | -                         | -       | -       | 90.000  | 190.000 | 290.000 | 540.000 | 750.000 | 1,020.000          |                       |

that the following table shows the total impacts of the above decisions, with a corresponding impact on the operating balance and debt:

|  | \$m – increase/(decrease) |                |                |                |                 |                  |                  |                  |                    |
|--|---------------------------|----------------|----------------|----------------|-----------------|------------------|------------------|------------------|--------------------|
|  | 2015/16                   | 2016/17        | 2017/18        | 2018/19        | 2019/20         | 2020/21          | 2021/22          | 2022/23          | 2023/24 & Outyears |
| Total operating expenditure              | 44.000                    | 195.000        | 226.000        | 190.000        | 156.000         | 70.000           | 64.000           | 45.000           | 36.000             |
| Total increase in revenue                | -                         | -              | -              | 90.000         | 190.000         | 290.000          | 540.000          | 750.000          | 1,020.000          |
| <b>Total impact on operating balance</b> | <b>44.000</b>             | <b>195.000</b> | <b>226.000</b> | <b>100.000</b> | <b>(34.000)</b> | <b>(220.000)</b> | <b>(476.000)</b> | <b>(705.000)</b> | <b>(984.000)</b>   |
| <b>Total impact on capital allowance</b> | <b>-</b>                  | <b>54.000</b>  | <b>102.000</b> | <b>90.000</b>  | <b>87.000</b>   | <b>21.000</b>    | <b>-</b>         | <b>-</b>         | <b>-</b>           |

- 39 **noted** that only the net impact from 2015/16 to 2019/20 will be counted against the Budget 2016 operating allowance;

### Reapplying surplus funding from design phase

- 40 **approved** the reallocation of funding of \$16.5 million previously appropriated for the design phase to the implementation phase;
- 41 **noted** that the reallocation of \$16.5 million is contingent on implementation commencing in January 2016;

### Contingency decisions

42 **noted** the funding contingency amounts that are contained within the funding decision in paragraph 28 above;

|   | \$m     |         |         |         |         |         |         |         |                    | Total over 9 years |
|---|---------|---------|---------|---------|---------|---------|---------|---------|--------------------|--------------------|
|   | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 & Outyears |                    |
| Capital Ministers' contingency          | -       | 17.0    | 5.0     | 5.0     | 5.0     | 2.0     | -       | -       | -                  | 34.0               |
| Operating - Ministers' contingency      | -       | 30.0    | 31.0    | 8.0     | 9.0     | -       | -       | -       | -                  | 78.0               |
| Depreciation- Ministers' contingency    | -       | -       | 3.0     | 5.0     | 5.0     | -       | -       | -       | -                  | 13.0               |
| Capital charge - Ministers' contingency | -       | 1.0     | 2.0     | 2.0     | 2.0     | 3.0     | 3.0     | 3.0     | 4.0                | 20.0               |

43 **noted** that in line with established public sector practice, funding contingencies have been based on the results of a Quantitative Risk Assessment facilitated by an independent expert, with the Ministers' contingency reflecting the difference between funding required at the 50th and 85th likelihood percentiles;

44 **noted** that the Quantitative Risk Assessment informs the overall size of the contingency, however it does not identify when the contingency might be required: consequently, a sizeable portion of the contingency has been allocated to the start of the programme to ensure sufficient funding for early periods;

45 **authorised** the Minister of Finance and the Minister of Revenue to approve Inland Revenue requests to access the funding contingency as well as to move unused contingency portions to later periods, subject to consideration of a report outlining the rationale for accessing or moving the contingency;

### Financial delegation

46 **authorised** the Commissioner of Inland Revenue to incur capital and operating expenditure of up to \$1,870 million and depreciation and capital charges of up to \$740 million on the incremental cost of the business transformation programme, from 1 July 2014 to 30 June 2024.

Michael Webster  
Secretary of the Cabinet

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