

Inland Revenue Department Shared Services Arrangement

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Organisation: New Zealand Department of Internal Affairs

Country: New Zealand

Level of government: Central government

Sector: Economic affairs

Type: Financial Resources, Organisational Design, Public Service

Launched in: 2011

Overall development time: 4 year(s)

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Description

The Department of Internal Affairs (DIA) is a long-standing core New Zealand government department. It employs over 2,000 people across 49 sites and fulfills one of the broadest portfolios in government with six Ministers and oversight of around 100 pieces of legislation.

Between 2011 and 2014, it embarked on a number of improvement activities across its finance function involving substantial system and capability change. DIA outsourced its accounting system including the provision of core financial ledgers to Inland Revenue (IR). This was one of the first large-scale shared service arrangements entered into in the New Zealand public sector.

At the same time, the other elements of the finance group's operating model were transformed from a highly transactional compliance function to a model with a focus on efficient standardised systems and strategic financial advice via centres of expertise.

Why the innovation was developed

- DIA's Finance function was suffering the effects of multiple pressures; an out-dated 1992 Oracle financial system, low staff engagement and high turnover, inconsistent and ineffective financial processes, poor internal finance capability, and a department whose already broad mandate was continuing to change and grow.
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Objectives

Develop staff capacity, Improve effectiveness, Improve efficiency, Improve service quality, Improve user satisfaction

- Develop the finance function's capacity and capability to support a larger and increasingly complex department.
 - Improve low staff engagement.
 - Reduce high staff turnover.
 - Replace old financial system.
 - Replace poor processes.
 - Transform poor reputation internally and externally.
 - Develop sustainable investment plans for systems, processes and people.
 - Develop the finance function's capability to support DIA's service delivery transformation mandate across government.
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Main beneficiaries

General population, Government bodies, Government staff

- The innovation has provided efficiency and effectiveness gains to internal clients.
 - It has also improved support to outward facing cost recovery services such as passports, birth death and marriage registration, and commercial area in the National Library and Archives.
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Existing similar practices

Platform sharing

In public administration of my country

New Zealand Families Commission, Children's Commission

Sharing of platforms is becoming more commonplace in New Zealand as we work to make better use of scarce resource across the system of government. For example, the Ministry of Social Development shares its financial and HR platforms with the Families Commission and the Children's Commission.

Results

Efficiency

- From: Manual spread sheets by Default, To: Streamlined and online systems wherever possible
 - From: Multiple processes for one task, To: Standardised processes
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Effectiveness

- From: Short term reporting focussed on past spend, To: Long term reporting tools that can influence the future
 - From: No purchasing rules, To: 'Purchase to pay' system
 - From: Differing advice depending on who you asked, To: Standardised advice via 'Centre of Expertise'
 - From: Delivering highly transactional book-keeping, To: Strategic financial advisory enabling better decisions
 - From: Internal customers perceived Finance as a Compliance Function, To: Internal customers perceive Finance as a trusted advisor / business partner
 - From: Oracle 1992, To: SAP (via Inland Revenue)
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Other improvements

- Compliance across the new operating model is at 90%, and staff engagement results improved 300% over a 12-month period.

Development

Design

The idea for the innovation was generated by senior leadership across both organisations (DIA and IR). The solution addressed issues current in DIA, and supported the drive for public sector wide improvements in processes and ICT systems.

DIA leadership had been in unanimous agreement for some time, their extremely out-dated 1992 Oracle financial system was no longer fit for purpose and urgent action was required.

The DIA Chief Executive had taken on the Government Chief Information Officer role, creating the expectation that DIA would take a lead across government when it came to reducing the technology footprint, developing innovative and efficient ways of working or collaborating for infrastructure, IT or improvement programmes.

New Zealand's potential for public sector shared services was one of many government priorities at the time which sought greater efficiencies and capability building, less rework and repetition across government and a focus on enabling back-office savings to improve frontline services.

DIA considered a possible shared service with Inland Revenue on the basis that it was a large and stable user of SAP (since 1998) and that IR's broader finance systems were mature and well respected within the industry.

A personal alliance developed at senior level between DIA and IR officials. Discussions progressed to include a potential shared services model where IR might not only take on the Financial Accounting system but could potentially also provide core financial ledgers (accounts receivable, accounts payable).

A high-level strategic business case was developed with outside assistance over three months. In terms of the big picture of where the public sector was headed as a whole and DIA's place in that, DIA and IR leadership agreed that a shared arrangement with IR would deliver what they needed.

Testing

- IR and DIA decided to move away from using a traditional 'Big Bang' transition to the new SAP system and instead, 'Went Live' in a series of phased stages. Trusts went live to the new system in October 2013, followed by the Lottery Grants Board in April 2014 and finally the whole departmental on 1 July 2014.
 - This reduced the overall level of risk, shared the risk between the agencies, and allowed continuous small-scale improvement.
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Implementation

Tools used:

- As the change programme got under way with Inland Revenue, DIA leadership recognised that the new SAP finance system was only one piece of the puzzle. Also required was high staff engagement and capability, robust internal processes and a sound-operating model.
 - The Finance group leadership articulated much of the current and future states using the McKinsey 7S Framework. The framework proposes seven internal aspects of an organization that need to be aligned and mutually reinforcing for success; structure, strategy, systems, skills, style, staff and shared values. This model was used to start sharing the concepts with staff.
 - Another useful tool to communicate the change came from the info graphic company Motiv8. The image they developed would become one of the most used and highly valued change tools.
 - The image was of the Finance team's 'Mt Everest' change journey – which now sits in pride of place in the Finance boardroom.
 - At first glance, it appears to be a simple drawing of a journey up a mountain but upon closer inspection, the image of the detailed states of change, the difficulty of the journey ahead including weather, crevasses, risky passes and steep cliffs and the clear labelling of key milestones, paints a picture that is both simple and yet very complex and works exceptionally well at engaging 'hearts and minds' of everyone involved.
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Challenges and solutions

- Challenges encountered during the development of the shared services arrangement were that DIA would effectively be competing for IR's time and attention in a way that would not occur with a third party supplier.
- Systems, processes and operating processes would not be developed to suit DIA – instead DIA would have to fit into the existing IR system.
- Both parties held (mostly unvoiced) assumptions about the other's functional needs, capabilities, strengths and weaknesses and departmental culture.
- Development of a way to prioritise competing agency needs for upgrades, extensions and fixes.
- Differences in size and demands on the financial management system between the two agencies. In IR it is largely a back office transactional activity whilst in DIA it extends to frontline points of sale (like paying for passport renewals), commercial retail spaces and asset management.
- Eventual success depended on a mutual commitment to ongoing dialogue. A compromise was eventually reached which was not a typical commercial arrangement with commercial imperatives, the aim was to ultimately benefit taxpayers by reducing the technology footprint and improving services across both entities.
- A major challenge in implementing the operating model has been in communicating the long term vision. The use of the Motiv8 graphical image described elsewhere, and a clear description of the main phases was important: Equipping, Embedding, and Partnering.

Partnerships

New Zealand Inland Revenue Department

Other Public Sector

Shared services.

Lessons Learned

Lessons Learned

- Leader-led: Whatever the size, shape or aim of the change project, everyone should report through to one person – and that person should be a senior leader who owns the vision and can also talk to the detail of change.
- Projects aren't perfect: Your inherited project may have had U-turns, changes, rocky starts or even small disasters. Accept that textbook projects don't exist and do the best with the situation you find yourself in.
- Hearts and minds: Ensure there is a compelling and human story to tell; facts and figures are not compelling for people at the pointy end of change. People want to understand the reasons for change, the process of change and what outcomes are aimed at.
- Check Understanding: Even if you rip up your 12 storey Gantt charts and use lots of stories, analogies, anecdotes and visuals, don't assume it is 'job done'. Proactively and regularly check in with what people understand.
- Manage expectations: The activity and noise that change brings can often lead people to jump to false conclusions about what change will deliver throughout the organisation.
- Embedding to business as usual is hard: Don't underestimate how challenging, resource-intensive and slow, the 'embedding' part of change can be. Ensuring that the new systems, people, ways of working become business as usual requires vigilance, energy and gritty persistence.
- Keep the aim in sight: Don't become derailed by challenges, temporary failures, trying times or rocky crevasses – always keep your eye on the summit, as others will follow your gaze.

Conditions for success

- Let staff see the bigger picture: Enabling staff to really understand the bigger organisation strategy into the future, if done well, enables them to make their own judgments about what the change is trying to achieve rather than focusing on the amount of change.
- Language matters: Several staff cited the word 'transformation' creating problems as it symbolised very different things to different people. Don't be afraid to get into definitions, discuss the end aim or the drivers for change openly and early. And of course: never assume.
- Talking face-to-face: A project may have all the resources, will, vision and Gantt charts in the world, but sometimes, it's just good old-fashioned, face-to-face talking that can save the day. Not easy but few alternatives can beat it.