



**Inland Revenue report: Transformation status update: November 2018**

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<b>Date:</b>	10 December 2018	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2018/571

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	None
Minister of Revenue	<b>Note</b> the contents of this report	None

**Contact for telephone discussion (if required)**

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Greg James	Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA

10 December 2018

Minister of Finance  
Minister of Revenue

## Transformation status update: November 2018

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### Executive summary

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1. This report summarises the progress and highlights of transformation for November 2018. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown in table 1 below), and we continue to carefully monitor progress in a few areas.
2. Whilst our overall status remains at amber over the last reporting period the schedule "key" has deteriorated to amber as a result of the challenges we are experiencing with testing. The resources "key" has deteriorated to amber due to some constraints managing resources between Releases 3 and 4 and the delivery partners "key" has deteriorated to light amber due to our reliance on software providers to update their products for payday filing and the issues we have been experiencing with Spark.

Table 1: Transformation's Red, Amber, Green (RAG) status

	Overall	Scope	Risk	Issues	Inter-dependencies	Schedule	Resource	Stakeholder Engagement	Delivery Partners	Financials	Benefits
CURRENT	Amber	Light Green	Amber	Amber	Light Amber	Amber	Amber	Light Green	Light Amber	Green	Light Amber
PREVIOUS	Amber	Light Green	Amber	Amber	Light Amber	Light Amber	Light Amber	Light Green	Light Green	Green	Light Amber

3. While we continue to manage some challenges in some areas, we remain on track for our target go-live date of 23 April 2019.
4. To remain on track, we are managing key risks and issues closely. These include testing, Personal Tax Summary Intermediaries (PTSI), payday filing and tax agents. We are making good progress in these areas, with the status of both testing and payday filing improving from light red to amber since the last report.
5. Business testing of the START solution (BST) was 88% complete as at 3 December 2018 and testing of our heritage systems was 98% complete. Some areas of pressure remain and are receiving focused attention. Early January through to April 2019 is a critical period. During this time, we will complete three rounds of our scaled testing processes, three mock go-lives, and finalise the closure of priority defects before entering the go-live period. The team are very focussed on ensuring we maintain our strict approach to change control during this period.
6. We continue to engage with PTSIs to ensure they provide their clients' details to us. We have reached agreement with 26 of out the 31 PTSIs and are likely to issue requests under section 17 of the Tax Administration Act 1994 ("section 17 requests") to any who remain unwilling, requiring them to provide this information to us.

7. Engagements with employers, software providers and payroll intermediaries continue. All software providers have now committed to providing a solution for payday filing. However, when providers make updated software available to their clients is beyond our control, as is when customers choose to move to payday filing. Nearly 90% of the largest employers have confirmed a solution and target timeline for payday filing.

8. Our education and readiness activities with tax agents are on track. Approximately 1,900 tax agents have attended our first two webinars and we have made more than 1,200 visits to agents. Tax agents are beginning to move to payday filing, with approximately 80 already having done so.

9. Planning and preparation for early life support (ELS) is well advanced. During ELS we provide extra support to both customers and staff. For Release 3, ELS will start earlier and run for a longer period of time compared to the first two releases, recognising the significantly greater scope of the changes being made.

10. Our next monthly report will be sent to you early in February 2019 and will cover the months of December 2018 and January 2019. We propose to use this report as the basis for the transformation briefing scheduled with the Minister of Revenue on 18 February 2018.

### **Recommended action**

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11. I recommend that you **note** the contents of this report.

Noted

Noted

### **Greg James**

Deputy Commissioner, Transformation  
10 December 2018

### **Hon Grant Robertson**

Minister of Finance  
/ /2018

### **Hon Stuart Nash**

Minister of Revenue  
/ /2018

## **Key risks and issues**

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12. The programme's risk profile remains amber, with a future trend of amber. An amber profile means risks and mitigations are reasonably defined and understood, and support is needed from senior leaders to actively manage specific issues in defined areas.

13. As at November 2018, the programme had a total of 55 open risks,<sup>1</sup> of which 13 are reported to our Portfolio Governance Committee (PGC).

14. One risk reported to the PGC has been closed since the last report. This relates to payday filing information not being validated before being received. This is being addressed as part of the work to move employers to payday filing.

15. There has been no change in the status of any of the other risks reported to the PGC since the last report. The top three risks for transformation are unchanged and mitigations are in place for all risks.

## **Delivery progress**

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16. The overall status of Release 3 remains amber. An amber status means there are some risks to delivery, and support is needed from senior leaders to mitigate these risks effectively.

17. We remain on track for our target go-live date of 23 April 2019, albeit not without some continuing challenges and managing some key areas closely. These include continuing to manage existing risks and issues in the areas of testing, Personal Tax Summary Intermediaries (PTSI's), payday filing and tax agents. As a comprehensive update has recently been provided to the Minister of Revenue (IR2018/715 refers), this report focuses on progress made in these areas since then.

18. All other aspects of Release 3 remain on track. Detailed deployment and cutover planning is progressing.

## **Testing**

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19. Overall, the status of testing has improved from light red to amber. As at 3 December 2018, we had completed nearly 62,000 test scenarios of the approximately 63,000 required before Christmas (99% complete) and run over 55,000 tests (88% complete). An additional 14,000 tests have been completed in our heritage systems (98% complete).

20. Rigorous change control is in place to protect the critical path and only business critical changes are being approved. We will not finish completing all tests by our target date of 14<sup>th</sup> December 2018. At the current level of progress, we expect to now complete the required tests before we break for Christmas. This activity is being managed on a daily basis. There is no impact on the critical path.

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<sup>1</sup> Two risks have been closed since the last report – one reported to the PGC and one programme level risk.

21. However, some pressure still remains and will be carried over into the New Year. Testing for E-File, which is used by tax agents to send us information, is running behind schedule in both FIRST and START. This is receiving focused management attention to ensure we can start partnership testing as planned on 14 January 2019. In addition, there are approximately 8,600 scenarios to prepare for testing after Christmas. The writing and testing of these scenarios has already begun in areas where baseline testing has already been completed.

22. In response to the Minister of Revenue (IR2018/570 refers), staff leaving is not a contributing factor to us being behind schedule in testing. We have pockets of specialist knowledge in some areas of tax and Working for Families, and we need subject matter experts who know how both the old and new systems work. Therefore, if we have a large volume of testing to do in a particular, specialised area, we are reliant on a smaller pool of expertise and we schedule and balance the workload accordingly.

23. The January to April 2019 period is another critical period for testing. We will complete three rounds of scaled business simulation testing (practicing go-live step by step) and three mock go-lives (dress rehearsals for go-live weekend). We will also finalise the closure of priority defects before entering the go-live period.

## **Personal Tax Summary Intermediaries**

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24. As at 30 November 2018, we are reporting an unchanged light green status for Personal Tax Summary Intermediaries (PTSI). To date, one PTSI representing approximately 1,000 customers has provided us with their clients' contact and bank account details. This information is required so we can automatically pay refunds to people who are entitled to them.

25. A further 25 PTSIs have committed to providing these details to us between now and the end of January 2019. These PTSIs represent approximately 783,000 of the 792,000 PTS customers.<sup>2</sup> Most of these PTSIs have asked us to provide them with a section 17 request to formalise the data exchange. A section 17 request enables us to require information to be provided to us where it is not provided in a voluntary or timely manner. We have provided two section 17 requests to date and will issue more before Christmas.

26. On 4 and 5 December 2018, we again visited the 5 PTSIs who have not yet committed to providing their client details to us to discuss the options further with them. If any remain unwilling, we intend to issue section 17 requests to require them to provide customer information to us. We will notify you if this action happens.

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<sup>2</sup> In total, PTSIs represent approximately 855,000 clients, including 63,000 who currently file an IR3.

## **Advertising campaign for changes to the end-of-year process for individuals**

27. As at 30 November 2018, we have sent just over 814,000 emails to individuals outlining the changes coming in April 2019 and encouraging customers to check their personal details in myIR. A copy of the email is provided in the annex. The average open rate of 47% is well above the government benchmark and likely to increase as more people see the email.

28. As at 30 November 2018, there had been 37,000 visitors to the *Changing For You* website. Paid social media advertising has reached more than 1 million people and resulted in 11,427 ad clicks to the *Changing For You* website so far.

## **Payday filing**

29. As reported to the Minister of Revenue (IR2018/715 refers), we are reliant on software providers to make solutions available to their customers and on customers themselves to shift to payday filing. These factors are beyond our control. The things we can control – making our technology solution available and ensuring customers understand what they need to do and when – are on track.

30. As at 30 November 2018, approximately 6,500 employers had indicated an intention to begin payday filing – the majority are micro and small to medium sized businesses – out of a total of 207,000 employers.

31. We continue to work proactively with large employers and government agencies. Four government agencies are now payday filing (Inland Revenue, the Productivity Commission, the Government Superannuation Fund, and the Board of Trustees – National Provident Fund).

32. As reported to the Minister of Revenue (IR2018/715 refers), the Ministry of Social Development (MSD), Education Payroll Limited (EPL – Novopay), and ACC account for around 85% of the total number of people in the government sector for whom payday filing is required. MSD, EPL and ACC are making good progress. Withheld under s18(c)(i) of the OIA

33. We are actively account managing the largest 150 employers to support their move to payday filing. As at 30 November 2018, nearly 90% of employers in this group had confirmed a solution and target timeline for payday filing.

34. Many micro and small to medium sized businesses are waiting for their software providers to make a solution available. Any delays risk their transition to payday filing. In response to the Minister of Revenue (IR2018/715 refers), we will provide an update in our February 2019 monthly report on the calls we are making to employers in this group.

35. In response to the Minister of Revenue (IR2018/570 refers), all software providers have now committed to a solution for payday filing.

## **Tax agents**

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36. Our education and readiness activities are on track. We have hosted 2 webinars to date out the 5 planned before go-live. The webinars were attended by just under 1,900 tax agents who gave them a rating of 4 out of 5. From September 2018 to March 2019, our Community Compliance team will continue to visit tax agents encouraging early preparation and raising awareness. As at 30 November 2018, more than 1,200 visits had been completed as planned. Approximately 80 tax agents have moved to payday filing.

37. Our support activities in the lead up to and after go-live are underway. We will make a further 1,300 visits during April to June 2019 (the period immediately after the go-live) to tax agents identified as a high priority.

38. Subject to legislation, bookkeepers will be able to register as tax preparers and will have access to the same services as tax agents. As at 30 November 2018, more than 130 bookkeepers had registered their intent to become a tax preparer. There are more than 4,800 bookkeepers and we expect, based on survey results, that approximately 2,700 will become tax preparers.

## **After go-live - Early life support**

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39. Planning and preparation for early life support (ELS) is ramping up. During ELS we provide extra support to both customers and staff. ELS for Release 3 will be enhanced, building on the robust processes and systems that supported Release 2 go-live.

40. ELS will start earlier and run for a longer period of time compared to the first two releases, to support the target go-live date of 23 April 2019 and the traditional peak period.

41. ELS will be in place from early March 2019 to support cutover and payday filing from 1 April 2019. In previous releases, ELS has begun immediately after go-live.

42. The initial period of heightened support (known as hyper-care) will run for approximately 10 weeks instead of the 3 weeks in place during Releases 1 and 2. During this period, the entire Release 3 programme team will be available to support ELS. We will have a flexible approach to hyper-care, based on the volume of issues, so that we can easily shorten or extend it if necessary. Our planning assumption is that hyper-care will end on 30 June 2019.

43. Following that, on-going ELS support arrangements will remain in place for up to 13 weeks. This compares to 8 weeks for Release 2. On-going support will include staff dedicated to providing desk-side support and key users, albeit in reduced numbers. During September 2019, the identification and resolution of issues resulting from any of the Release 3 changes will be transitioned to business-as-usual teams.

44. Our planning assumption is that ELS will end on 30 September 2019, a period of nearly 23 weeks compared to 11 weeks for Release 2. This extended period recognises the scale and scope of the changes being introduced compared to earlier releases.

45. To ensure that issues that arise after go-live are prioritised and resolved as quickly as possible, centralised management and coordination will continue. For Release 3, the ELS Central team will again work in partnership with the business, this time including the accelerated customer enablement (ACE) teams which did not exist for Release 2. This will help to improve the quality of information in help requests and help us to better understand customer impacts.

46. We will enhance the prioritisation framework that supports ELS to ensure we have the right people triaging and assessing issues, particularly from a customer perspective. Highly complex issues will receive heightened management attention.

## **Other updates**

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### ***Commercial arrangements***

47. Market engagement activity has continued since the last report:

- The contracts for the Oracle technology that underpins our new enterprise support services platform were signed on 9 November 2018. We signed statements of work with both Accenture and PrimeQ for the services to implement the technology on 16 November 2018.
- Contracts with the providers of our web content management solution have been agreed.
- A market briefing for testing services was held on 30 November 2018 and attended by six suppliers. The testing services request for proposal (RFP) was released on 3 December 2018, with responses expected in the first week of February 2019.
- Withheld under s18(c)(i) of the OIA

48. The relationship with Spark continues to trend in a positive direction. Engagement at executive level remains steady and at programme level things are progressing satisfactorily. Overall, Spark's operational performance is trending in a positive direction. While a recent network outage that affected the whole of Inland Revenue was not ideal, it was handled better by Spark than previous incidents have been.

### ***System resilience***

49. In November 2018, we ran a disaster recovery test to test all the new systems introduced during the first two releases.

50. We have two data centres – a primary one in Auckland and a standby one in Wellington. The data centres mirror each other. That is, they both house all our customer

records, online channels, and the programmes operating behind the scenes. When customers interact with us online, they're directed to our Auckland data centre. As soon as a record is updated, the same record is updated in Wellington, in real time. Two identical data centres mean extra security if a disaster happens.

51. During the weekend of 10 and 11 November 2018, we shut down our primary data centre (Auckland) and redirected customers to our standby data centre (Wellington). We operated out of Wellington over the following week. During 17 to 18 November 2018, we shut down our Wellington data centre, directed customers back to Auckland and returned to business as usual. The switchovers went well, and customers didn't realise anything had changed.

### **Finances**

52. The overall budget (excluding contingency) for the business transformation programme from 1 July 2018 until 30 June 2019 is \$206.8 million<sup>3</sup> for operating expenditure and \$91.0 million for capital expenditure.

53. From 1 July to 30 October 2018, operating expenditure was \$10.1m under budget and capital expenditure was \$1.7m under budget. Based on current forecasts, we expect to complete the delivery of Release 3 within budget (including contingency) for operating and capital expenditure by 30 June 2019.

### **Coming up in the next two months**

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54. Key activities over the next two months include:

#### **December 2018**

- Complete baseline business system testing.
- Report the findings of the KPMG IQA8/TQA7 review to you.

#### **January 2019**

- Begin scaled business simulation testing.
- Complete the first mock go-live.
- Undertake a third readiness assessment.

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<sup>3</sup> The operating expenditure budget was reduced during the month to reflect some transition costs handed back to contingency.

## Annex – email to individual customers

**Subject line option 1:** Some changes you should know about  
**Subject line option 2:** We're making tax more straightforward.  
**Subject line option 3:** We're changing for you

Headline A: Changing for you. Making tax more straightforward

IRD number: <XXX XXX XXX>

Hi <First name>

Inland Revenue is working on some proposed changes to give everyone a more straightforward tax system.

**If the proposed law changes go through early next year, there are a number of things that could affect you:**

**Better information** – You can expect to receive a notification at the end of the tax year. This will tell you how much you've earned and how much tax you've paid – so you'll know exactly where you stand.

**Automatic tax refunds** – If you have paid too much tax during the year, you'll automatically have a refund paid into your bank account (so long as your bank account details are up to date on our system). If you have not paid enough, we will let you know how much you owe and you won't need to pay it until February the following year.

**Helping you stay on track** – Inland Revenue will let you know if it looks like you're on the wrong tax code to ensure you're paying the right amount of tax and so you won't get any surprises at the end of the year.

Check out our [\*\*Changing for You website\*\*](#) for some examples of the proposed changes and what they could mean for you.

(paragraph for myIR customers only)

To be prepared for any changes, simply login to your [\*\*myIR account\*\*](#) and check your contact details and bank account information are up to date.

We'll be in touch again early next year with further updates.

Yours sincerely,

Bernadette Newman  
Manager, Inland Revenue  
<segment\_Code>