Inland Revenue Te Tari Taake

Inland Revenue report: Transformation status update: March 2019

Date:	03 April 2019	Priority:	Medium
Security level:	In confidence	Report number:	IR2019/053

Action sought

	Action sought	Deadline
Minister of Finance	**Note** the contents of this report	None
Minister of Revenue	**Note** the contents of this report	None

Contact for telephone discussion (if required)

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

IN CONFIDENCE

03 April 2019

Minister of Finance
Minister of Revenue

Transformation status update: March 2019

Executive summary

1.   This report summarises the progress and highlights of transformation for March 2019. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown in table 1 below), while the status of some keys has improved.

2.   While the overall programme remains on track, wider systems stability issues still remain which is a continuing cause for concern. We have experienced recent internal systems performance issues as a result of the implementation of the cloud-based Microsoft office 365 solution. We have also experienced outages over the last week with our customer-facing myIR service. This is not ideal this close to go-live and has heightened the risk profile. We are currently working on what additional mitigations we can put in place in the lead up to and after go-live. We will provide a further update as part of our meeting with the Minister of Revenue on 8 April 2019.

3.   The scope key has improved to green following the approval of the detailed scope for Release 4 by the Portfolio Governance Committee (PGC) on 21 February 2019. The issues and schedule keys have improved to light amber and the inter-dependencies key to light green as we are now in the very tail end of testing and are steadily resolving high priority defects for Release 3. The resources key has improved to light amber as the team for the extended support period for Release 3 gets established and as we have recruited a number of new subject matter experts for Release 4 (KiwiSaver and Student Loans). The stakeholder key has improved to green as our communications and engagement activity has increased in the lead up to go-live for Release 3, as partnership testing for Release 3 is in its final stages, and as more software providers release payday filing-compliant solutions.

Table 1: Transformation's RAG status

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

4.   Delivery for Release 3 remains on track for go-live on 26 April 2019. We are making good programme progress and continue to manage some areas closely.

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5.   The readiness of our customer-facing units remains positive with high levels of engagement continuing.

6.   The status of testing remains amber. As at 29 March 2019, we had completed 99.4% of the required tests for Release 3 overall. We successfully ran the third mock go-live (a dress rehearsal for go-live) and second round of scaled business simulation (SBS) testing (practicing go-live step-by-step). Our business system testing (making sure START works as expected) is 99.5% complete.

7.   As at 21 March 2019, we had approved variations from payday filing for 12 employers (time limited exemptions from some or all of the requirements). Early life support is in place to support employers as they file employment information on payday for the first time. Direct marketing is scheduled in April and May 2019 to explain to employers where to go for help if they need it.

8.   We continue to make excellent progress with Personal Tax Summary Intermediaries (PTSIs). As at 29 March 2019, we have received customer data from 28 of the 31 PTSIs, representing 95% of the total customers who are clients of PTSIs.

9.   A nationwide programme of seminars for tax agents and bookkeepers will run from 1 to 16 April 2019. As at 29 March 2019, more than 2,300 tax agents and 350 bookkeepers had registered to attend. We are making appointments with tax agents to support them after go-live.

Recommended action

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

Noted   Noted

Greg James
Deputy Commissioner, Transformation
03 April 2019

Hon Grant Robertson   **Hon Stuart Nash**
Minister of Finance   Minister of Revenue
    /   /2019   /   /2019

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Key risks and issues

11.   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.

12.   No new issues (risks that have been realised) have been reported to the PGC since the transformation status update for February 2019 (IR2019/051 refers).

13.   As at March 2019, the programme had a total of 53 open risks,[1] of which 14 are reported to the PGC. Many of these are longer-term risks relating to the programme, rather than shorter-term risks related to individual releases.

14.   One new risk has been reported to the PGC since the last report. The new risk relates to performance testing potentially affecting customers' ability to log in and use our online services. We are running load testing to see how our systems handle heavy volumes. Our non-production performance test environment is hosted in our production data centre with our live systems, so there is a risk that this testing will result in our online services being slow or unavailable. We are mitigating this by running performance load testing outside business hours, monitoring the performance of our systems and being ready to pause testing if needed, and informing customers when testing is being conducted. We are also looking at moving the non-production performance test environment to our back-up data centre. The risk level is rated as very high and this risk is currently the fifth highest rated risk for transformation.

15.   There has been no change in the status of any of the risks previously reported to the PGC since the transformation status update for February 2019 (IR2019/051 refers). The top risks for transformation are unchanged (support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, and timing of benefit realisation). Mitigations are in place for all risks.

Finances

16.   The overall budget (excluding the contingency held by the Commissioner) for the transformation programme from 1 July 2018 until 30 June 2019 is $208.6 million for operating expenditure and $93.45 million[2] for capital expenditure.

17.   From 1 July 2018 to 28 February 2019, operating expenditure was $14.1m under budget and capital expenditure was $2.8m under budget. Based on current forecasts, we expect to complete the delivery of Release 3 within budget (including the contingency held by the Commissioner) for operating and capital expenditure by 30 June 2019.

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[1] Two new risks have been opened since the last report – one managed at programme level and one reported to the PGC.
[2] Last month, we reported a budget of $92.5 million for capital expenditure. In February 2019, the PGC approved a draw-down of $0.9 million from the contingency held by the Commissioner for the implementation of the research and development tax credit.

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18. The remaining contingency held by the Commissioner for the period 1 July 2018 to 30 June 2019 is $30.3 million for operating expenditure and $7.4 million for capital expenditure. For the period 1 July 2018 to 28 February 2019 we have used $1.8 million of the operating contingency and $1.8 million of the capital contingency. To date, we have not needed to access the contingencies held by Ministers.

Release 3 delivery progress

19. 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. We continue to closely manage challenges relating to Release 3 including testing, payday filing, Personal Tax Summary Intermediaries (PTSIs), and tax agents.

20. Readiness for go-live is regularly assessed through checkpoints, which look at the readiness of customers, third parties, the programme, and Inland Revenue itself for the changes being made. Checkpoint 3c has just been completed. Since no issues of concern were highlighted, approval to continue to the next checkpoint was approved by the PGC on 21 March 2019.

21. The PGC agreed to delegate authority to the go-live committee for the checkpoints to be run immediately before we begin closing our customer-facing services and during the cutover to new systems and processes. The next checkpoint will be on 12 April 2019 and will seek permission to begin early deployments. Two further checkpoints will be on 23 and 24 April 2019 and will include the go/no-go decision. The go-live committee is chaired by the Commissioner and consists of five Deputy Commissioners, our Chief Technology Officer and our Chief Financial Officer.

22. Following last month's report (IR2019/051 refers), the Minister of Revenue asked for more information about what our efforts to reduce the work we have on hand means in a practical sense.

23. As noted, we have corrected 138 million items of data. Examples of the corrections we have made include:
- We have closed 142,000 inactive Working for Families registrations. If these records had remained active, they would have caused difficulties in calculating customers' Working for Families entitlements after go-live.
- We have addressed almost 220,000 instances of invalid transaction amounts in FIRST. These amounts would not have successfully converted to START otherwise, meaning customers' obligations and entitlements would not have been accurate after go-live.
- We wrote off small outstanding balances (between $0.01 to $19.99) for historic periods for nearly 32,000 customer accounts. If we had not done this, after go-live customers would have received a request for payment even for extremely old (e.g. 1984) amounts. Most of these customers were either deceased (individuals) or struck off (businesses).

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24.   As also noted, we have cleared $138 million of old credits. These are refunds for income tax, Working for Families and donations. Any refunds were used to offset debt held by customers first. Any remaining refund was then paid to the customer if that was possible. In cases where payment has not been made, the amount has been written off if there is no possibility of paying out (e.g. the customer has died) or been held in our system if there is potential to pay it out in the future (e.g. if we can locate the customer).

25.   Of the $138 million, just over $1 million was used to offset debt. The main reasons we have refunds that have not been paid to customers are:

- We have been unable to locate the customer – many have left New Zealand and moved overseas.
- The customer has died.
- We did not hold a current bank account for the customer, so a cheque was issued but was never cashed by the customer and became stale.
- We did not hold a current postal address for the customer, so cheques did not reach them and were returned to us.

26.   The 457,000 cell-phone numbers we corrected will enable us to contact customers for additional information if needed before we calculate whether they have a refund or tax to pay this year.

Systems stability

27.   While the programme remains on track, systems stability issues still remain which is a continuing cause for concern. We are seeing some performance degradation when customers need to move between the old and new systems at times of high demand. For example, it can take customers longer to login to myIR than is acceptable. As such, we are continuing our performance testing along with activity to fine-tune our systems in the lead up to go-live.

28.   We have also experienced recent internal systems performance issues as a result of the implementation of the cloud-based Microsoft office 365 solution.

29.   It is not ideal to be dealing with issues such as these this close to go-live and the risk profile is heightened. We are currently working on what additional mitigations we can put in place in the lead up to and after go-live.

Testing

Current status

30.   Overall, the status of testing remains amber. We have completed 99.4% of the overall tests required for Release 3.

31.   We successfully completed our second round of scaled business simulation testing (practising go-live step-by-step) on 8 March 2019 and our third mock go-live (full dress

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rehearsal for go-live) on 21 March 2019. The third mock go-live was run 24/7 and simulated as close to actual cutover conditions as possible. Accordingly, the go-live committee met on 19 March 2019 and decided that, if this was the real thing, we would have made the decision to go-live.

32.   As at 29 March 2019, we had completed 99.9% of the scenarios we test during business system testing (making sure START works as expected). In response to the Minister of Revenue (IR2019/051 refers), as at 29 March 2019, all our baseline testing has been completed and we have less than 10 scenarios remaining of the additional testing we expected to complete by 18 February 2019. These result from defects we have identified and cannot be passed until they are resolved. We have approximately 90 scenarios left to test of the testing we expected to complete by 29 March 2019. We are clearing these quickly.

33.   As noted in paragraph 14, performance testing is underway to ensure our key customer-facing channels perform acceptably when demand is high. Testing shows our systems can cope with 52,000 logins per hour. This level of performance does give us some confidence as we have assumed the volume of logins at peak times will increase by 60% (40,000 logins per hour this year compared to 25,500 per hour in June last year) and the time customers spend logged on to increase by 50% (20 minutes this year compared to 13 minutes last year).

34.   We still have end-to-end performance testing to complete to ensure that our production systems can handle the expected load. This will provide greater assurance that our systems will be available when customers want to use them.

35.   In response to the Minister of Revenue (IR2019/051 refers), as at 29 March 2019 we had approximately 50 failed scenarios across all our testing. We go into testing expecting some scenarios to fail, as testing is about finding out whether things work as they should or not. It is unsurprising that we find that some things don't.

36.   Scenarios fail for a variety of reasons. Each scenario has verification tasks that need to be confirmed and these vary considerably depending on what is being tested. If the tester cannot verify the tasks, they fail the scenario. Reasons for failing a scenario include:

- The tester receiving an error message and not being able to continue.
- Figures not calculating or matching the verification.
- A missing field.

37.   Each failure is reviewed by a subject matter expert as sometimes scenarios are failed due to a user error or a lack of knowledge. If the subject matter expert confirms a failure, a defect is raised. Once the defect has been fixed, the scenario is retested. If the fix worked the scenario is passed successfully. As noted in last month's report (IR2019/051 refers), all critical and high priority defects will be resolved before go-live. We will carry some lower priority defects into go-live and fix them once our systems are up and running again. As an example, a lower level defect that we might decide we could live with until after go-live might be a spelling mistake in a letter that is not sent to many customers. As at 29 March

2019, we have approximately 80 defects that need to be fixed before go-live and we are confident we will do so.

What we are doing

38.   Our third round of scaled business simulation testing (practising go-live step-by-step) began on 24 March 2019 and is progressing well. So far, we are not finding as many defects as we did in the first two rounds.

Payday filing

Current status

39.   As at 22 March 2019, we had approved variations for 12 employers (time limited exemptions from some or all of the requirements). These variations represent approximately 67,000 employees (2% of total employees). This will ensure that no automated compliance activity takes place.

40.   More than 75,000 employers had voluntarily started payday filing by 22 March 2019. As we decommissioned ir-File on 11 March 2019 as planned, all employers will now file their employment information through channels set up for payday filing. As noted in our payday filing report (IR2019/096 refers), our approach to enforcing compliance will be flexible, recognising that it will take time for some employers to adopt payday filing.

41.   In response to the Minister of Revenue (IR2019/051 refers), we have provided content about payday filing to the business.govt.nz newsletter. The most recent article was published during March 2019 and follows a series of articles over the last year.

What we are doing

42.   On 18 March 2019 we implemented the early life support process for issues related to payday filing. This helps to ensure we have the right people in the right places to coordinate and resolve any issues. We have daily conference calls with a specific group of our key users who support payday filing, and a daily review meeting with our key payday filing subject matter experts to check in on what is happening and what we need to do to ensure that we are actively prioritising and managing issues.

43.   As part of readiness checkpoint 3c, we undertook research to determine employers' level of confidence in their ability to file employment information every payday. The results show that 70% of small to medium sized employers are confident about meeting the new requirements and 57% of micro-employers are confident.

44.   Our engagement activity continues to let employers know about payday filing and build their confidence about what they need to do. Here is an update on recent activity:
  * Direct marketing in February 2019 went to more than 157,000 employers by email and more than 19,000 employers by letter. After a follow-up, 62% of email customers had opened it.

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- A further round of direct marketing has recently been sent to businesses. Emails were sent to more than 428,000 customers and currently the open rate is 44% (this will increase with a follow up). Letters were sent to more than 246,000 customers.
- The second phase of our targeted advertising, aimed at employers, started on 14 January and will continue until 20 May 2019. An important part of the campaign is video promotion, where we have achieved almost 1.3m video completions (watched to the end).
- Further direct marketing is scheduled in April and May 2019 to explain where to go for help.
- We have developed step-by-step guides for customers using myIR for uploading files, on-screen filing, zip filing and setting up delegations.

Personal Tax Summary Intermediaries

Current status

45. As at 29 March 2019, 28 PTSIs have provided their data to us and we have validated and uploaded this data into our systems.

What we are doing

46. Of the remaining three PTSIs, one has provided data however we cannot use it as it is poor quality. This will not cause us any issues as the PTSI is one of the smaller intermediaries. They have approximately 450 customers in total, of which around 270 are salary and wage earners who will automatically receive a refund or bill for tax to pay this year. We are working with two PTSIs as they transition to becoming tax agents.

47. We are now checking that:
- Customers have had the right information updated on their records.
- All trust accounts have been removed so that customers' refunds will go to their bank accounts rather than to a PTSI's bank account.
- Customers are no longer linked to PTSIs where PTSIs have told us to remove this link. Some customers will still be linked to PTSIs where they are acting as the customer's tax agent.

Tax agents

Current status

48. More than 230 bookkeepers attended the webinar held on 11 March 2019.

49. We are meeting more frequently with professional bodies (tax agents and bookkeepers) in the lead up to go-live. For example, we are meeting with the Chartered Accountants Australia and New Zealand (CA ANZ) fortnightly and with the Bookkeepers Association weekly.

50.   Training on the new myIR for tax agents and bookkeepers is nearly completed. Our approach is to support intermediaries to use the new functionality in myIR and to self-manage as much as possible.

What we are doing

51.   More than 150 seminars for bookkeepers and tax agents will be run from 1 to 16 April 2019 right across the country. A webinar for tax agents will be held on 8 April 2019 and one for bookkeepers on 15 April 2019. Registrations for both the seminars and webinars are now open and registrations are coming in. As at 29 March 2019, more than 2,300 tax agents and more than 350 bookkeepers had registered for the seminars.

52.   We are making appointments with tax agents to support them immediately following go-live. Agents who call us will be offered a same day call back if they can't get through and don't want to wait on hold.

53.   Bookkeepers have been provided with the statutory declarations and authorities to act so they can be ready to register as tax preparers on 26 April 2019. This will give them access to the same services as tax agents. Approximately 190 bookkeepers have given us their email addresses, meaning they have essentially pre-registered, and we will email them as soon as online registrations are available.

Extended support period – Pou Whirinaki

54.   The sheer size and scale of Release 3 means we need to do things differently this time, building on what we've learned through previous releases. An extended support period, known as Pou Whirinaki (meaning support you can depend on), will deliver additional support over and above our tried and true early life support approach.

55.   A dedicated extended support team has been established and will be in place until September 2019 to enable us to focus on areas where additional guidance and support is needed. A subset of our executive leadership team will provide oversight and guidance to the extended support and early life support teams. One of our Deputy Commissioners is chairing this group and has been re-assigned to lead this work until the end September 2019.

56.   The extended support team will provide support across four broad areas:
- Technical — Are our systems and channels working for our customers and our people?
- Operations — Are our people able to complete tax and social policy processes?
- Customer and Stakeholders — Are our customers able to complete their business with us? Are we listening and acting on their feedback? Do our customers feel supported?
- People – Are our people staying safe and well?

57.   Pou Whirinaki will focus on any areas where we need to provide additional guidance and support to our people, customers and stakeholders, make changes to our systems and processes, or modify business events.

Other updates

Independent assurance reviews

58.   We have reported the findings of the Gateway 4 review (Readiness for Service) to the Minister of Revenue (IR2019/119 refers).

59.   KPMG have not yet finalised the report from their ninth independent quality assurance and eighth technical quality assurance (IQA9/TQA8) review. Notwithstanding, we will provide a draft of the report to the Minister of Revenue so that he has the opportunity to read this report before go-live. There is nothing in the draft report that causes us concern.

Advertising

60.   As noted in last month's report (IR2019/051 refers), our marketing activity for individuals recommenced in February. We sent more than 443,000 letters to customers on 14 February 2019. In addition, we sent more than 281,000 emails to customers between 14 and 20 February 2019.

61.   Advertising ran from 18 February to 13 March 2019 using radio, newspaper, digital video, digital banners, and social media. There were more than 44,800 visits to the website during this period. Advertising performance is currently being compiled by our media agency.

62.   Advertising will run again from 1 to 17 April 2019, using print, radio, digital video and digital display.

63.   After go-live, advertising will run from 29 April to 31 July 2019. We will continue to use mainstream media, including print, radio, digital video, digital display, outdoor. Examples of the advertising can be found in the annex.

New website

64.   In response to the Minister of Revenue (IR2019/051 refers), we unfortunately do not have further detail about the 13% of users who did not report they were satisfied, other than to say that this is quite low for this level of public-facing change. We are going to look more deeply into satisfaction levels with the new homepage and navigation in our next round of user testing which begins on 2 April 2019. We will provide more information in a future monthly report once we have completed this work.

Coming up in the next two months
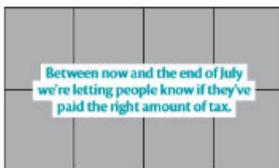
65. Key activities over the next two months include:

April 2019

- New year-end process for individuals takes effect.
- Payday filing becomes mandatory.
- Go-live on 26 April 2019.

May 2019

- Supporting customers and staff as they use new services for the first time.
- Prioritising and responding to requests for support.

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Annex – examples of advertising to individuals

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