



**Inland Revenue report: Business Transformation programme:
Status update for joint Ministers – July
2017**

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|------------------------|---------------|-----------------------|------------|
| Date: | 3 August 2017 | Priority: | Medium |
| Security level: | In confidence | Report number: | IR2017/461 |

Action sought

| | Action sought | Deadline |
|---------------------|--|-----------------|
| Minister of Finance | Note the attached status update | None |
| Minister of Revenue | Note the attached status update | None |

Contact for telephone discussion (if required)

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3 August 2017

Minister of Finance
Minister of Revenue

Business Transformation programme: Status update for joint Ministers – July 2017

1. This report summarises the programme's progress and highlights over the last month. A high-level view of overall progress can be found in the attachment 'BT programme status July 2017'.

Summary

2. Work with tax agents to improve their experience of the new GST system continues. A collaborative approach to the design of future services has been adopted, including user experience labs, and is helping to ensure we have a clear view of tax agent priorities. Enhancements are planned over the next 3-9 months and have been agreed and prioritised with tax agents (refer to paragraphs 13 to 23 for more information).

3. Final decisions about the new organisational design have been communicated to staff, beginning with senior leaders on 12 July 2017, followed by team leads on 17 July and all staff on 19 July. The announcement attracted media coverage (refer to paragraphs 24 to 27 for more information).

4. On 17 July 2017, the Government released the discussion document: 'Better Administration of Social Policy'. Consultation is open until 15 September 2017.

5. The July transformation update was considered by the State Sector Reform and Expenditure Control (SEC) Cabinet Committee on 26 July 2017.

6. The recent Gateway review confirms that transformation continues to be well managed and governed (IR2017/423 refers). The review team found that "much of Inland Revenue's approach is exemplar". Management responses are being finalised and will be reported to you along with the findings of and responses to the KPMG IQA6/TQA5 review. We expect to provide you with this report by 10 August 2017 (refer to paragraphs 28 to 31 for more information).

7. Highlights in the coming weeks include:

- Continued engagement with tax agents to show how we are addressing their concerns about Stage 1.
- A second Service Innovation Lab will look at possible solutions for applying the accounting income method concept further.

- The release of the officials issues paper 'PAYE error correction and adjustment' is expected to be considered by the Cabinet Economic Growth and Infrastructure Committee (EGI) on 2 August.

8. The programme's overall RAG (Red, Amber, Green) status for July is Amber.

9. As at the end of June 2017 we are tracking under budget for the Stage 2 Solution Delivery phase, which began on 1 March 2017. Actual spend to date is \$73.28m, an under-spend of \$20.99m against budget (excluding contingency). The under-spend is driven by changes in the expected timing of expenditure, and some later contract initiation with teams still ramping up. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking within the budget forecast.

Highlights

Updating the Stages 2 and 3 release plan

10. The focus this month has been completing detailed scheduling as a result of finalising the release plan for Stage 2. Based on this, we don't expect there will be any material implications for customers and/or for benefit realisation.

11. Weekly engagements continue with the top four software developers to provide detailed information about the delivery of Stage 2. On 31 July, the release, channel and cutover plans were presented Withheld under s18(c)(i) of the OIA .

12. We continue to meet with a number of government agencies and industry group representatives to talk to them about the release plan.

Improving tax agents' experience of Stage 1 GST online services

13. Since new GST online services were launched in February 2017, we have been working with tax agents to improve their experiences. While START is processing transactions well and there's good uptake of the new online services, some tax agents are having difficulties with aspects of START.

14. Since February we've worked with tax agents to identify their biggest challenges and agree the improvements needed to address them. Focus groups with tax agent administrators have provided a better understanding of the practical aspects of tax agents' work. To address the issues that matter most some targeted improvements are underway, such as introducing a dedicated GST phone queue for tax agents.

15. Further enhancements are planned over the next 3-9 months and have been agreed and prioritised with tax agents. Some changes can be made relatively quickly, however others will take longer as a result of co-existence between FIRST and START or to avoid complicating the first release of Stage 2 in April 2018.

16. Over the last 5 weeks, solutions have been developed and tested:
- Approximately 30 tax agents in Hamilton attended two sessions to help us better understand the impacts on their day-to-day operations of viewing and processing GST transactions.
 - More than 130 tax agents, representing a response rate of around 30%, responded to an online survey to validate our understanding of the impacts.
 - A deep dive session has been held Withheld under s18(c) of the OIA to discuss operational impacts and identify possible improvements.
 - Assurity, our testing partner, has hosted 29 tax agents in their customer experience lab in Wellington to explore potential solutions for the priority areas.
17. So far, these sessions have resulted in the identification of 14 issues and there have been 11 requests raised to have them resolved. The first five solutions were implemented during July. From August onwards, we will implement solutions on a monthly basis to provide sufficient time for tax agents and front line staff to prepare for each release.
18. Over the next 6-8 weeks, design sprints will be held with tax agents. The sprints will run over two weeks, with issues identified in the first week and solutions agreed in the second week. We expect more issues to be identified, requiring more requests for solutions to be raised.
19. We continue to work closely with tax agents to:
- ensure their concerns with the new GST online services are addressed
 - learn more about how they operate and use our information and systems on a day-to-day basis, and
 - include their input in future designs.
20. From July onwards, there will be a number of different ways for tax agents to be involved in transformation and/or be kept up to date. This reflects a more collaborative approach to design and will help to ensure we have a clear view of tax agent priorities.
21. A small number of tax agents are being seconded into transformation to work alongside the design and development teams. In addition, over the coming months, up to 50 tax agents will be hosted each week in user labs and a further 200 will be involved in crowd testing. This will enable us to gather feedback for future design work and provide the opportunity to explore ideas and solutions with tax agents.
22. A variety of marketing and communications techniques will ensure tax agents, and our staff who support them, are kept informed of the changes being introduced. Each month tax agents and their professional bodies will be provided with an update on changes ready to be implemented, as well as a view of what improvements are in the pipeline.
23. A similar approach will be adopted for releases in future stages of transformation to help ensure that new services meet the needs of customers and that any issues can be quickly identified and resolved. For example, involving payroll professionals will help to

ensure that businesses and their representatives can interact smoothly with government to meet their PAYE filing obligations through their software.

Implementing the new organisational design

24. As advised (IR2017/352 refers), just under 2,100 submissions were received on the organisation design proposal. Changes have been made as a result of this feedback:

- The three new groups will now be implemented on 12 February 2018 (the proposed date was January 2018). This feedback responded to comments about the timing of changes.
- New levels have been added to four technical roles and reflected in the remuneration for these roles, and the number of specialist positions in some areas has increased. Changes have also been made to some role descriptions to better reflect what is required of people in technical roles and/or leading technical teams. These changes respond to the feedback provided about the need to retain technical expertise.
- Team leads will generally have team members in no more than three sites and each site will have at least one leader, or a designated leader. This change was made in response to feedback about remote leadership.

25. Other changes have been made to the proposal as a result of feedback received. For example, changes to the titles of some roles and the processes for moving people to new roles. In addition, more information about the new role descriptions and opportunities to progress were provided in the final decisions document.

26. All staff affected by these changes received an email giving them information about their specific situation. Selection processes for senior leaders began in July 2017, and processes for team lead, specialist and business support roles will begin in August 2017. Staff in customer facing roles will receive an offer to appoint or confirmation to a role in October 2017.

27. A dedicated team remains in place to help implement the organisation design.

Quality assurance

28. The results of the July 2017 Gateway review are positive. The review team's view is transformation is on a positive trajectory, due in large part to the strength of leadership and governance.

29. The review team commented that "the quality and capability of its leadership and governance is first rate and provides a basis for confidence". They noted the challenges with finalising future release plans and organisation design changes, and concluded: "Were it not for the strength of leadership and solid approach to programme management, this transformation would not be as positively placed for success".

30. Overall, the review team rated transformation as amber.

31. KPMG have finalised their independent quality assurance and technical assurance review (IQA6/TQA5). We accept the majority of the recommendations made and are

developing management responses. We expect to provide you with a copy of the review and our responses by 10 August 2017.

Policy and legislation

32. Policy and legislative highlights for the month include:

- Release of the 'Better Administration of Social Policy' discussion document on 17 July, and supporting communications. The submission period will close on 15 September. The communications strategy to support this is being implemented, including meetings with key stakeholder groups, online videos and translated materials. There is good initial uptake of the online survey.
- Following a successful series of meetings with middle-sized businesses to discuss whether we could apply the accounting income method concept further, officials are holding a second Service Innovation Lab to look at possible solutions to the problems that have been defined.
- Submissions on the 'Better Administration of Individuals Income Tax' discussion document closed on 28 July. The submissions analysed to date are generally in support of the proposals.
- Officials are analysing the submissions to the Finance and Expenditure Committee (FEC) on the Taxation (Annual Rates for 2017-18, Employment and Investment Income and Remedial Matters) Bill. The first FEC hearing was held on 26 July, with a further hearing on 2 August and another on 9 August (if needed). The officials' report will be provided to FEC once the House resumes after the election.
- On 2 August, EGI considered the release of the officials issues paper 'PAYE error correction and adjustment.' The proposals are intended to reduce compliance and administration costs while maintaining reasonable accuracy.
- Withheld under s18(c)(i) of the OIA

33. Automatic Exchange of Information (AEOI) highlights for the month include:

- The targeted public awareness campaign finished on 14 July, with more than 10,000 visits to the landing page, more than 4,000 Facebook ad clicks and more than 1,200 video views.
- Determinations on excluded entities and accounts continue to be published as reviews are completed.
- The legislative requirement for financial institutions to carry out due diligence processes on account holders commenced on 1 July.
- The finalised guidance material for financial institutions has been published and simplified. Brochures have also been published and distributed to industry associations.

Stakeholder engagement

34. A major focus in the last month has been informing key stakeholders about the updated release plan.

35. Other events in July include:

- Statistics New Zealand meeting to discuss existing information sharing arrangements to ensure these continue to work effectively following go-live of Stage 2 (11 July).
- Tax Agent Web Services (TAWS) demonstrations – Withheld under s18(c)(i) of the OIA
– to show how tax agents use the transactional data they receive in TAWS as an input to the design of a long term solution.
- Tax Management New Zealand Roadshows - Napier (20 July), Wellington (26 July).
- MYOB Employer Essentials series – Dunedin (27 July).
- Workshop with the major banks to discuss automation opportunities for requests for information under section 17 of the Tax Administration Act, and requests for deduction of tax from payments under section 157 (27 July).
- Attending the Accountants and Tax Agents Institute of New Zealand (ATAINZ) board meeting (28 July).
- Workshops with ^{Withheld under s18(c)(i) of the OIA} to discuss opportunities arising from a digital environment (28 July).
- Meeting with software developers to Stage 2 releases (31 July).
- Regular meeting with MSD and ACC to discuss alignment of transformation programmes (31 July).

Commercial arrangements

36. Over the last month a number of agreements have been signed. These include:

- a support contract with Deloitte which consolidates the management of Deloitte support activities across IT,
- letters of intent for Assurity and Team Asparona – our testing and information and knowledge management solution partners respectively,
- two new statements of work with Prismac and Ebit Asia Pacific to continue progressing changes to the cheque payment processing system and an Automated Remittance Processing solution (ARP Solution).

37. A request for proposal (RFP) for the re-design of our website was released on 7 July and closed on 24 July. This was a closed RFP released to a list of 13 pre-qualified suppliers under the Department of Internal Affairs (DIA) common capability Web Services Panel. Suppliers were selected to respond based on the services that they offer. The next step is to evaluate the responses.

Key risks and issues

38. Identifying and managing risks both at a programme and work-stream level remains a high priority. To date, none of the significant programme-level risks have materialised.

39. We are refreshing the programme's risk profile to reflect the updated release plan for Stage 2. The key risks for Stage 2 will be reported to government in the November 2017 transformation update.

This month's issues

40. As at July 2017, one issue was reported to the Portfolio Governance Committee (PGC) with a current status of 'High'. The issue relates to concerns raised by the tax agent community about the end-to-end design of eServices for Stage 1. Please refer to paragraphs 13 to 23 for the work underway to address the concerns raised.

This month's risks

41. The programme's risk profile remains Amber with a future trend of Amber. The risk profile is being refreshed as a result of the confirmed release plan for Stage 2.

42. As at July 2017, the programme had a total of 54 open risks of which 16 are reported to the Portfolio Governance Committee (PGC).

43. The status of the PGC-reported risks has been stable since last month's report. All risks are currently rated as either 'High' or 'Medium'. The exception remains a risk relating to unforeseen legislative changes identified post high-level design (BTR-742), which has a current risk level of 'Very High', and is residually rated as 'High'.

44. Detail on individual risks is available on slides 3 and 4 of the attachment 'BT programme status July 2017'.

What's coming up

45. Key activities over the next two months include:

August 2017

- Analyse submissions on the Individuals discussion document.
- Officials issues paper 'PAYE error correction and adjustment' considered by EGI.
- Hold design review workshops with Inland Revenue staff.
- Begin selection processes for senior leader, team lead, specialist and business support roles in the three new organisation groups.

September 2017

- Continue selection processes for senior leader, team lead, specialist and business support roles in the three new organisation groups.
- Begin analysis of submissions on the social policy discussion document.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
Inland Revenue
3 August 2017

Hon Steven Joyce

Minister of Finance
/ /2017

Hon Judith Collins

Minister of Revenue
/ /2017