



**Inland Revenue**  
Te Tari Taake

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

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<b>Date:</b>	12 November 2018	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2018/570

**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	██████████

12 November 2018

Minister of Finance  
Minister of Revenue

## Transformation status update: October 2018

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### Executive summary

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1. This report summarises the progress and highlights of transformation for October 2018. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown below), and we continue to carefully monitor progress in a few areas.

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

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

2. While there are no significant changes within the programme since the last report, we continue to manage some challenges in some areas. Notwithstanding, we successfully passed the first readiness checkpoint and remain on track for our target go-live date of 23 April 2019.

3. Detailed design for Release 3 has now been completed. Test preparation, which is dependent on the finalisation of design, is currently 5 weeks behind schedule. Test execution is 2 weeks behind schedule. We are actively reallocating testers to the areas under pressure. Our plan is to complete most of our business system testing before Christmas. Testing will continue into 2019 in specific areas that we have identified as requiring a change to improve the functionality and is not expected to cause any issues. All other aspects of Release 3 remain on track.

4. We remain focused on working with our key stakeholder groups. We now have a clear indication of the future business intentions of personal tax summary intermediaries (PTSI's). Two have indicated they will close their businesses, 14 will partially continue their business as tax agents, and 15 will continue as tax agents.

5. Just over 100 software providers and payroll intermediaries with a product in New Zealand have been identified. Approximately 80 have now indicated their preferred method and timeline for developing a solution for payday filing. Within the 80 software providers, the top 10 are advancing through the testing and on-boarding process. They account for approximately 100,000 employers with 1.6 million employees. There are approximately 1.8 million employees in the total market served by software providers, so the top ten providers account for around 90% of these employees.

6. Ensuring customers understand the changes and that we are ready to support them as they experience new ways of doing things for the first time is another key area of focus. Advertising, including press, radio and digital, begins in November 2018. This will complement the payday filing seminars underway around the country and the information being sent directly to customers.

7. We have estimated the effects of the changes on our work volumes and expected customer contacts. We are expecting approximately 346,000 more calls during the period of April to July 2019 than we received during the same period this year. This is an increase of approximately 23%. Approximately 325 additional staff are currently being brought on-board from our temporary labour force to manage the increased demand after the go-live and throughout the 2019 peak period. We are increasing our temporary labour force over this period for 2019 by 62.5% compared to 2018.

### **Recommended action**

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

Noted

Noted

### **Greg James**

Deputy Commissioner, Transformation  
12 November 2018

### **Hon Grant Robertson**

Minister of Finance  
/ /2018

### **Hon Stuart Nash**

Minister of Revenue  
/ /2018

## **Release 3 – April 2019**

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9. 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.

10. We remain on track for our target go-live date of 23 April 2019, albeit not without some challenges.

### ***Delivery progress***

#### *Testing*

11. Detailed design for Release 3 has now been completed. While the risk status of the START solution for Release 3 remains light red, the finalisation of the design means the future trend is amber.

12. Test preparation is currently 5 weeks behind schedule. This is expected to improve as the design has been finalised. Test execution is 2 weeks behind schedule. The key contributing factors are testing inputs and the availability of subject matter experts. We are actively reallocating testers to the areas under pressure to most effectively use this resource.

13. In last month's report (IR2018/567 refers), we indicated we had amended our approach to testing. In response to the Minister of Revenue's questions on that report, we have now quantified the impact of moving from a two-test approach to a one-test approach for non-critical functionality. All new, customer-facing, high volume or high-risk functionality is considered critical and will be tested twice. We expect approximately 60% of functionality for Release 3, or around 22,000 test scenarios, will now be tested once. This is expected to reduce our testing effort by just over 25% for the remainder of the business system testing phase. This, along with the completion of business function definitions, will contribute to testing getting back on track.

14. As at the end of October, we have completed nearly 54,000 test scenarios of the approximately 70,000 required for the START solution for Release 3 and run over 37,000 tests. An additional 11,000 tests have been completed in our heritage systems.

15. Most of our business system testing (making sure START works as expected and meets business and legislative requirements) will be completed as planned before Christmas. Testing will continue into January 2019 in two areas, eServices and returns. This is not expected to cause any issues.

16. All other aspects of Release 3 remain on track.

## ***Customer readiness***

17. In the lead up to the go-live we remain focused on our key stakeholder groups - PTS intermediaries, tax agents and software developers, employers and financial institutions.

18. We are using several indicators to help us assess how well our communications and engagement activity is readying customers for Release 3. These include:

- The results of our customer engagement activity, for example the reach of direct mail, attendance at seminars, feedback from Account Managers etc;
- uptake of services such as payday filing; and
- the three phases of research being run between November 2018 and May 2019 to measure the awareness, confidence, positivity and readiness of approximately 10,000 customers. Research will include individuals, businesses, tax agents and bookkeepers.

19. This will help us to refine and adjust our approach if necessary.

## *Personal tax summary intermediaries (PTSIIs)*

20. As reported to the Minister of Revenue (IR2018/696 refers), we now have a clear view of the future business intentions of PTSIs.

21. In total, PTSIs represent approximately 855,000 clients, including around 63,000 who currently file an IR3 to record their other income and will continue to do so after April next year. The number of PTSI customers who will be affected by the changes to the year-end process for individuals from April 2019 is therefore approximately 792,000. Regardless of whether a PTSI is continuing in business or not, we will need up-to-date contact and bank account details for their clients.

22. As at 29 October 2018, of the 31 PTSIs<sup>1</sup>:

- Two PTSIs, representing just over 1,900 clients including 1,100 who file a PTS, have confirmed they will close their agencies and provide us with their clients' contact and bank account details.
- A total of 14 PTSIs, representing approximately 467,000 clients including 435,000 who file a PTS, will partially continue their business as tax agents. They will provide us with contact details for clients who only used them for filing a PTS.
- There are 15 PTSIs, representing around 386,000 clients including 355,000 who file a PTS, who have indicated they will continue their businesses as tax agents. All their clients will remain linked to their businesses. However, many intend to provide us with their customers' bank account details.

23. To date, we have received contact and bank account details for just under 500 customers. In response to the Minister of Revenue (IR2018/696 refers), this is within our expectations at this point. We are working with the PTSIs who have indicated they want to

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<sup>1</sup> Previously we have advised you that there were 32 PTSIs. One PTSI has been classified as a tax agent given most of their work focuses on customers filing IR3 returns and not PTS customers.

share customer data and send out joint communications. The number of PTSI customers we have details for is expected to grow rapidly in the coming months.

*Employers and payday reporting*

24. We are working with software providers to ensure employers can file employment information directly from their software. As reported to the Minister of Revenue (IR2018/696 refers), we have identified just over 100 software providers and payroll intermediaries with products in New Zealand. The majority are providers of payroll software who are currently engaging with us to develop and test interfaces for payday filing.

25. Approximately 80 payroll software providers have now indicated their preferred method and timeline for developing a solution for payday filing. Within the 80 software providers, the top 10 are advancing through the testing and on-boarding process. They account for approximately 100,000 employers with 1.6 million employees. There are approximately 1.8 million employees in the total market served by software providers, so the top ten providers account for around 90% of these employees.

26. We are working with the remaining providers to determine whether they intend to provide these services in New Zealand and, if so, when they want to test and on-board. Within this group, there are 10 software providers we know of that offer services in New Zealand that have yet to commit to timelines.

27. In response to the Minister of Revenue (IR2018/696 refers), we have now secured commitments from seven of these ten providers. The three software providers who have yet to make any commitments regarding payday filing provide services to just 24 employers with approximately 1,500 employees. We remain confident we will gain a commitment from the remaining providers to develop and implement a solution.

*Tax agents and software developers*

28. Xero, TaxLab, Reckon and CCH are finalising testing for the transaction data services (TDS) solution.<sup>2</sup> [REDACTED]

29. e-File is used by tax agents to send us information, including returns, changes to their clients lists and client contact details. Once Release 3 has gone live, e-File will be reprinted from FIRST to START. We are currently working through testing plans for e-File with Xero, MYOB, TaxLab, Reckon and CCH.

30. Our developer portal, which enables software providers to integrate their software with our products through gateway services, went live on 11 October 2018. The portal allows software providers easy access to mock services, our end-to-end testing environments, and guides them through the registration to deployment process. Gateway

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<sup>2</sup> The TDS solution enables software providers to provision client transactional information from START within their own software. This in turn allows this information to be provided to their clients, particularly tax agents.

services connect providers systems and our systems to exchange information, enabling employers to file their employment information directly from software. In response to the Minister of Revenue (IR2018/696 refers), four software providers have registered on the portal so far. We expect the 16 remaining software providers that have committed to using our gateway services for payday filing to use the portal.

### ***Our readiness to support customers***

31. We attended the Finance and Expenditure Committee (FEC) on 25 October 2018 to finish hearing submissions on the Taxation (Annual Rates for 2018-19, Modernising Tax Administration and Remedial Matters) Bill. We met again with the FEC on 31 October 2018 to answer several questions from members resulting from the hearing. There were a few questions regarding our ability to support customers and to respond to customer demand.

32. In addition to testing services and processes, and engaging with key stakeholder groups, we are working to ensure that customers know what the changes mean for them and have the support they need as they experience new ways of doing things.

### *Customer engagement activity*

33. As reported to the Minister of Revenue (IR2018/696 refers), a range of activity will help ensure customers are ready for the changes being introduced in April 2019.

34. Our multi-channel, targeted campaign for employers began in late August:

- On 29 August 2018, direct mail/email was sent to all employers with an invitation to seminars being run around the country beginning from 3 September 2018.
- From mid-September through to November 2018, our community compliance team are running 300 seminars on payday filing right around the country.
- On 15 October 2018, the second wave of email/direct marketing included links to 'how to' videos and an animated video on benefits of payday filing for employers and their employees.

35. During November and December 2018 advertising will begin. We will send employers another direct mail/email with a link to a downloadable PDF explaining how to switch to payday filing through myIR. From February to April 2019, direct mail/email and advertising will continue.

36. A two-phase advertising approach will support the introduction of payday filing:

- During November to December 2018, advertising will focus on building on the awareness created by the first two waves of direct marketing (sent in late August and October 2018).
- From February to April 2019, advertising will focus on encouraging customers to switch to payday filing before 1 April 2019.

37. Our multi-channel, targeted campaign to individuals is about to kick off. From mid-November 2018, emails will be sent to wage and salary earners to encourage them to visit the Changing for You website.

38. A three-phase advertising approach will build awareness and encourage individual customers to act:

- During November to December 2018, advertising will focus on building awareness about the upcoming changes (subject to legislation).
- From February to April 2019, the focus will be on explaining the changes in more detail.
- From April to June 2019, the focus will be on driving customers to act (check their details are up to date, register with myIR).

39. We will use a range of media to reach both employers and individuals, including digital and social channels, radio, print, and ethnic media.

#### *Meeting customer demand*

40. Meeting customer demand through these April 2019 changes is a priority.

41. We have estimated the effects of the changes on our work volumes and expected customer contacts. We are planning to expand our workforce to manage increased demand post the go-live and throughout the 2019 peak period.

42. Between March and July 2018 (the busiest part of the peak period), we answered approximately 1.517 million calls. Based on current modelling and assumptions we expect to receive approximately 1.863 million calls during March to July 2019. This represents an additional 346,000 calls compared to this year, an increase of approximately 23%.

43. An additional 325 staff are currently being brought on-board from our temporary labour force to manage this anticipated demand, as has been the case during previous end-of-year filing periods. This is to ensure they are fully trained in the new systems and processes before the go-live in April 2019.

44. By way of comparison, during the 2018 peak period we brought on board an additional 200 people from the temporary labour force. We are therefore increasing our temporary labour force for 2019 by 62.5%.

45. As a contingency plan, in the event of heavy customer demand, we will redeploy people from other areas within the business.

#### ***Resilience of our systems***

Accenture have completed their review of the performance and resiliency of our systems. The review found that there is nothing fundamentally wrong with our systems environment. There are however opportunities to fine-tune some areas to improve performance and reduce risk. There are also opportunities to improve monitoring of some services to detect issues earlier and enabling us to improve service stability. These opportunities are being addressed with urgency and some changes have already been completed.

46. Our systems environment has around 90 parts that need to work together to deliver a seamless experience for customers. While transformation is helping to simplify things, until it is complete our systems environment will remain complicated.

47. In November 2018, we are running a disaster recovery test across our online channels and new systems introduced in Release 2. We want to confirm we can continue to serve our customers even if a disaster happens.

48. Our systems will be moved from our primary data centre to our backup data centre. We will operate from our backup data centre for a test period of one week. At the end of the week, we will move everything back to our primary data centre and return to business as usual.

49. This is our second test. In December 2017, we successfully completed a disaster recovery test for Stage 1.

### ***Readying our people***

50. We are running regional leader forums from 30 October to 8 November 2018. The theme of the forums is *The Changing Face of Inland Revenue*. The forums are being attended by around 500 of our leaders and will equip them with the information they need to lead our people through the April 2019 changes. Workshop sessions include getting ready for Release 3, making the most of our new workplace technology, and our enterprise support services. In addition, a dedicated session is being run to help our leaders to talk simply and positively about the changes taking place next year.

51. Recruitment of trainers is in its last stages and the training plan is scheduled to be considered by our Portfolio Governance Committee in November 2018.

### ***The automatic exchange of information with tax-treaty partners***

52. As at 25 October 2018, status messages (advising if our files have been accepted or rejected) are still pending from 10 countries. Our files have been accepted by 25 countries and rejected by 13 countries. These rejections are due to New Zealand using the tax year for reporting rather than the calendar year. As reported last month (IR2018/567 refers), the use of the tax year meets the OECD requirements.

53. Our International Revenue Strategy Team is following up with the 13 jurisdictions that have rejected our files. As we have not yet heard back from them all, this is still work in progress:

- Some jurisdictions have not responded yet.
- Some jurisdictions have responded to us asking for patience as they change their systems to accept our files.
- A small number of jurisdictions have managed to send us an accepted status message.

54. Final testing of the corrections process with Malaysia is continuing.

### **Readiness checkpoint 1**

55. As with previous releases, we are regularly assessing our readiness for the go-live. From October 2018 to April 2019, six checkpoints will confirm that we are where we expect to be.

56. We successfully passed the first readiness checkpoint on 25 October 2018.

### **Contingency planning**

57. Contingency planning is underway as part of standard deployment planning. We are looking at three potential scenarios.

- New processes and systems go live, however legislation is not passed.
  - This would require building the current end of year-process into START.
  - New systems and processes cannot go live without the legislation passing – this is a hard dependency.
  - Go-live of new systems and processes would be delayed until legislation is passed – potentially until April 2020 so that customers do not have to deal with changes within a tax year.
- Legislation is passed, however new systems and processes do not go live.
  - This would require manual workarounds for the new income tax process until new systems and processes go live.
- Legislation is not passed, and new systems and processes do not go live.
  - The current income tax process would continue.

58. We continue to work on contingency options to ensure we have all bases covered. At checkpoint 3 in late January 2019, we will confirm the likelihood of being ready for the go-live on 23 April 2019.

### **Other updates**

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#### **Commercial arrangements**

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

- We have signed statements of work with Deloitte. These are for continued work on our identity and access management solution and to support some aspects of our heritage systems.
- A contract has been signed with Oracle for the verification phase of our enterprise support services solution. This phase will run until the end of November 2018.
- Letters of Agreement have been signed with both Accenture and PrimeQ, our enterprise support services delivery partners, for the initiate phase.

60. Engagement at the executive level with Spark has improved. A relationship charter has been agreed on, including a strong commitment from Spark to avoid further incidents.

61. We have agreed with Spark that they will complete additional checks to provide better end-to-end assurance and visibility of issues in a timely manner. We have also initiated a project to integrate Spark's monitoring with our monitoring of our own services and that of other suppliers to provide a consolidated view across all our services.

### **Finances**

62. The overall budget (excluding contingency) for the business transformation programme from 1 July 2018 until 30 June 2019 is \$219.6 million for operating expenditure and \$91.0 million for capital expenditure.

63. From 1 July to 30 September 2018, operating expenditure was \$8.7m under budget and capital expenditure was \$2.6m under budget. We expect to complete the delivery of Release 3 within budget by 30 June 2019.

### **Assurance reviews**

64. KPMG has completed their fieldwork for an eighth independent quality assurance (IQA) and seventh technical quality assurance (TQA) review. We are now working with KPMG to finalise the report and expect to report to you on the findings by mid-December 2018.

65. Further IQA reviews are planned for February 2019, prior to the Release 3 go-live.

### **Release 4**

66. Work continues on defining the scope of Release 4 and recruiting the required subject matter experts from within Inland Revenue.

67. We have begun planning for early integration with KiwiSaver providers and for the annual provider meeting in mid-November 2018.

### **Key risks and issues**

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68. 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.

69. As at 16 October 2018, the programme had a total of 53 open risks, of which 14 are reported to our Portfolio Governance Committee (PGC). There has been no change in the status of the risks reported to the PGC since the last report.

70. During this reporting period, two new programme-level risks were raised, and five programme risks were closed. One existing programme risk was re-assessed during this reporting period. None of these risks have been escalated to the PGC.

71. The top three risks for transformation as at October 2018 are unchanged:

- Support for heritage systems ending in 2021;
- The time taken to resolve major incidents; and

- Retaining people.

72. Mitigations are in place for all risks.

73. Five new programme-level issues were reported during October 2018. Four concern our new enterprise support services solution and relate to how our people will record time and allocate tasks in the future, how we will manage access and identity changes for our internal systems, and how we will work with delivery partners. The remaining issue relates to the time required by clearing houses for international payments made by direct debit. None of these issues have been escalated to the PGC.

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

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74. Key activities over the next two months include:

#### **November 2018**

- Brief the Minister of Revenue on planning for the 2019 peak season.
- Complete checkpoint 2 in the readiness assessment framework.
- The Cabinet Government Administration and Expenditure Committee will consider the November 2018 transformation update on 6 November 2018.

#### **December 2018**

- Complete business system testing.
- Finalise the KPMG IQA8/TQA7 review and report the findings to you.
- Brief the Minister of Revenue on the work underway to ready payers of investment income for the new reporting requirements.