Inland Revenue
Te Tari Taake

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

Date:	9 October 2018	**Priority:**	Medium
Security level:	In confidence	**Report number:**	IR2018/567

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	▉▉▉▉▉▉

IN CONFIDENCE

9 October 2018

Minister of Finance
Minister of Revenue

Transformation status update: September 2018

Executive summary

1.   This report summarises the progress and highlights of transformation for September 2018. Overall, transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown below), and we continue to carefully monitor progress in a number of 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, there are new risks. These risks reflect the challenges we are continuing to manage in some areas.

3.   We remain on track for the Release 3 go live in April 2019 despite design decision-making and testing of the core START solution continuing to track behind schedule. Because we are tracking behind schedule, the risk status of the START solution for Release 3 is trending light red in this reporting period. We are managing this situation very closely by prioritising activities, applying additional resources and streamlining our testing processes. This area will remain a focus of management attention through to December 2018 when this major component of business systems testing is planned to conclude.

4.   Customer engagement activity in the lead up to Release 3 has intensified, focusing in particular on those groups impacted by the changes, specifically Personal Tax Summary (PTS) intermediaries, employers and tax agents. We have completed initial engagement with all of the PTS intermediaries and have a better understanding of their future plans and how we will work with each of them.

5.   Integrated planning for Release 3 go-live and the 2019 peak period is underway with senior business managers to ensure we are adequately resourced to support customers and manage expected increase in call volumes. The Minister of Revenue will be regularly briefed on this activity between now and April 2019.

6.   Our governance forums have confirmed the Release 3 go-live target date █████████
██

1

IR2018/567: Transformation status update: September 2018

██
████████████████████ Detailed planning is in progress to confirm closure requirements.

7.   Mid-release independent quality assurance reviews are underway to assess our progress. The Gateway review is underway, and KPMG is progressing its fieldwork for its more in-depth assurance review.

Recommended action

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

Noted   Noted

Greg James
Deputy Commissioner, Transformation
9 October 2018

Hon Grant Robertson   **Hon Stuart Nash**
Minister of Finance   Minister of Revenue
    /   /2018   /   /2018

IR2018/567: Transformation status update: September 2018

IN CONFIDENCE

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 them effectively.

Delivery progress

Release 3 go-live date

10.   Following consultation with a wide range of stakeholders, our governance bodies have confirmed the Release 3 target date for go-live is ███████████████████████████ ██ The date takes into account major customer and business events and the timing of public holidays. Detailed planning is in progress to confirm closure requirements.

11.   We will signal these dates to customers well in advance. As with previous releases, a series of monthly readiness checkpoints will enable us to monitor progress towards that date. The first of the readiness checkpoints is in October.

12.   Deployment of Release 3 involves significantly more data and complexity than the previous releases. While the fundamentals of the deployment process will remain the same, a number of activities will be undertaken earlier to minimise the number of days Inland Revenue will be closed. The first mock go-live in January 2019 will tell us whether our modified approach works or not.

13.   We are investigating options for reducing customer demand during this period. We are also freeing-up staff to support additional customer demand by clearing as much of our work on hand before the go-live and the start of the 2019 peak processing season.

Testing

14.   Since we last reported to you, we continue to focus on completing Release 3 detailed design decisions that are the basis for writing test scenarios, configuring the solution and then testing to ensure the solution works as intended.

15.   The risk status of the START solution for Release 3 has deteriorated to light red in this reporting period. This change in risk status reflects the fact that we are continuing to track behind schedule with these activities despite intensive management focus.

16.   We have put in place a number of initiatives to improve this situation. We have set up additional design forums, provided additional testing resources and streamlined our design and testing processes to make this as efficient as possible. We are making progress with many design decisions having been completed. As at the end of September, we have completed over 45,000 test scenarios of the approximately 70,000 required for Release 3 and run over 27,000 tests. This is almost three times the volume of testing required for Release 2.

IR2018/567: Transformation status update: September 2018

17.   Overall, business system testing continues to track approximately four weeks behind schedule and we are approximately 1.5 weeks behind in running tests.

18.   To mitigate the test schedule challenge we are amending our approach to testing. To date, we have had a policy of testing each test script twice ("duplicated testing"). Following recent analysis we identified that duplicated testing has only resulted in errors being encountered in approximately 8% of scripts tested. More than 90% of tests pass both times. Our amended approach is, therefore, to test once in the majority of instances. Doing so will free-up testers to focus on the backlog and bring us back into line with our 14 December target completion date. We expect we will continue to test post-14 December 2018, as needed, to support go live. This has been customary with previous go lives.

19.   To ensure that we continue to take a risk-based view of testing, we will continue to use the "duplicated testing" approach for critical areas in the design, as supported by the analysis recently undertaken.

20.   Despite these challenges, other aspects of Release 3 delivery including deployment planning, heritage system testing, data conversion and organisation change and communications are tracking to schedule.

Customer readiness

21.   As part of our integrated approach to planning for the Release 3 go-live and the 2019 peak season, senior managers from our Customer and Compliance Services groups are working closely with the Transformation team in accelerating customer engagement. The focus is on key stakeholder groups - specifically, PTS intermediaries, tax agents, employers and financial institutions. Outcomes from this month's engagement are summarised below.

Personal tax summary intermediaries (PTSis)

22.   We have completed initial engagement with all 32 PTSis. The discussions with each have been focused around their future business intentions and how we are able to support them during the transition period.

23.   We are working with the PTSis to collect customer data including bank accounts, contact information and fees charged for the processing of the PTS for the 2018 tax year. This will reduce the need for these customers to contact Inland Revenue as this income information will have already been gathered as part of the transition process with the PTSis. Where possible, we are looking to produce joint communications with the PTSis, or input into their own communications, for their customers.

24.   From engagement with the PTSIs thus far, we are confident we will have access to the details of approximately half of all customers linked to PTSis. This number is likely to grow as the remaining PTSis decide on their future business models.

25.   As at 28 September, two PTSis have confirmed they will be closing their agencies and delinking all customers. Ten PTSis have indicated they plan to partially continue. This group will continue to work with IR3 filers but will cease PTS operations and delink PTS

and inactive customers. Fourteen PTSis have indicated they intend to continue their operations as tax agents and will keep all their linked customers. We are not yet aware of the intentions of the final two PTSis. We will continue to work closely with all of the PTSis and will continue to update you on progress.

Employers and payday reporting

26. Last month we highlighted the risk around New Zealand's 213,000 employers not being ready for payday reporting which becomes a mandatory requirement from April 2019. A recent survey of large enterprises indicated that only 20% had clear plans to shift their payday filing.

27. To mitigate this risk, we have increased the intensity of our engagement with employers, payroll developers, payroll intermediaries and payroll bureaus. From mid-September through to November, our Community Compliance team are presenting to large and small employers at more than 300 seminars across the country. The seminars are designed to ensure employers are fully informed and ready ahead of April 2019 when payday filing becomes mandatory. Marketing and communications activity is happening alongside the seminars.

28. In the event some employers are not ready by April 2019, Inland Revenue may need to consider exercising some flexibility in enforcing compliance with the payday reporting requirements. As with any new initiative, however, we will focus on education and advisory approaches before we consider any alternative approaches.

29. On 5 September 2018, Inland Revenue became the first New Zealand government agency to file on a payday basis. We successfully filed on behalf of the Productivity Commission (20 staff) and our own IR payroll with 5,207 staff. As the first government agency to complete payday filing, we are now in a position to share our experience and lessons learnt with our customers and other government agencies.

Tax agents and software developers

- To ensure tax agents are ready for the changes that Release 3 will introduce the uptake of the transaction data services (TDS) solution.
- TDS provides financial transaction data for software providers to include in their software packages used by a range of customers including tax agents.
- We made TDS available in Release 2 (April 2018) so that providers could pilot the solution before Release 3 to ensure the solution is error-free and stable.
- There is positive progress with four software partners making good progress in testing their updated software. Testing to date has identified some errors which we are addressing. The fifth provider, ▮▮▮▮, has made a deliberate decision to delay commencing development until December.

Readying our people

32.   Recruitment within Inland Revenue for START trainers for Release 3 finished at the end of August, with a higher number of applications than previous recruitment rounds. Approximately 4,000 of our people, mainly in our customer-facing areas, will require a moderate to high level of training and support. A dedicated effort is underway to get team leaders and their teams ready as we ramp up our internal communications on the Release 3 changes and what these mean for customers and our staff.

The automatic exchange of information with tax-treaty partners

33.   The deadline for the first transfer of information to and from foreign jurisdictions was 30 September 2018. We have successfully met our international obligations and sent Common Reporting Standard (CRS) files to 51 reportable jurisdictions. We have also successfully received CRS files from over 60 jurisdictions.

34.   The rules allow jurisdictions up to 7 days to download a file and 15 days to respond with a status message to indicate acceptance, rejection or highlight any errors that require further work. Hence, we are still waiting on confirmation from some jurisdictions regarding the status of our files.

35.   We are one of a small number of jurisdictions who are using our tax year for reporting rather than the calendar year. We are fully compliant with the OECD schema regarding reporting year, however, the difference in reporting year has resulted in some other jurisdictions' systems not accepting our CRS files. This is not as a result of any errors on our part (and was an issue we identified in testing). Our international team are working closely with each of these jurisdictions to resolve these issues as a matter of urgency.

36.   In parallel to completing all our obligations for the 2018 exchange, we are also working closely with the Global Forum to inform the development of the monitoring framework to assess the effective implementation of CRS internationally.

Ensuring our systems are resilient

37.   We have commissioned Accenture to complete a review our end-to-end user experience, applications, infrastructure, and services by the end of October. This is in response to the issues we experienced with myIR during the peak processing period earlier this year when customers were unable to login or were experiencing longer login times than is acceptable. Since then, we experienced further myIR outages in August during a GST filing period.

38.   Accenture has also been contracted to provide assistance to our information technology teams in improving the stability of our production environments.

39.   We will update you on the outcome of these activities and what further steps we will take to ensure our systems are resilient and stable during peak loads.

Other updates

Policy and legislation

40.   The Finance and Expenditure Committee has received 47 submissions on the Taxation (Annual Rates for 2018-19, Modernising Tax Administration and Remedial Matters) Bill. The majority of submissions are supportive of the direction of the proposals.

41.   The Committee is expected to finish hearing submissions on 24 October and to consider the officials' report on submissions on 7 November 2018.

Commercial arrangements

42.   Market engagement activity has continued since the last report:
- Negotiations with Sitecore and AKQA for our web-content management system are ongoing.
- Licence negotiations are continuing with Oracle, our preferred technology provider for enterprise support services. We are running a three-month verification process from September to November 2018 to ensure the solution is fit-for-purpose before making any long-term commitment. Accenture has been shortlisted (pending negotiations) as our delivery partner for the Oracle enterprise support services solution and joined the team on 11 September.
- We have signed agreements with SAS to provide our new data and intelligence platform

43.   Finding solutions to Spark's service stability continues to be a priority. We are working with Spark on a number of enhancements to the services. Engagement at executive level is ongoing as we rebuild our confidence. An independent mediator has been appointed to support getting this relationship back on track. Discussions have occurred between the Commissioner and Spark's chief executive, and the Government Chief Digital Officer is monitoring the situation.

Piloting our redesigned website

44.   On 7 September we launched a beta version of our new website (beta.ird.govt.nz), focused on new child support customers. The website is available for approximately 8 weeks. Our aim is to give customers a preview of the "look and feel" of our future website, and to seek their feedback on its design and content.

45.   Customers' online feedback to date has been largely positive – for example, "I thought the pages were clear, uncluttered and easy to navigate" and "Awesome change from the old, outdated website." Feedback will be used to improve the design and content models for the ird.govt.nz rewrite. A second version, incorporating feedback and possibly more content, is planned for early November.

Finances

46. 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 $91.7 million for capital expenditure.

47. To 31 August 2018, operating expenditure was $4.5 million under budget and capital expenditure was $0.5 million under budget. At this early stage in the 2018/19 financial year, we expect to be close to budget for both operating and capital expenditure at 30 June 2019.

Assurance reviews

48. Independent quality assurance activity is underway for two mid-release reviews that have been requested given the scale and scope of Release 3. You are meeting with the Gateway reviewers and, separately, with the KPMG IQA8/TQA7 team on 3 October 2018.

49. We will report the findings of the Gateway review to you separately.

50. KPMG's fieldwork for an eighth independent quality assurance (IQA) and seventh technical quality assurance (TQA) is progressing. This review (IQA8/TQA7) will provide an in-depth assessment of Release 3, including detailed design, our customer awareness approach, governance and management practices, our co-existence strategy, and testing. We expect to report to you on the findings of this review by mid-December 2018, depending on KPMG finalising its report.

51. Further independent quality assurance reviews are scheduled for February 2019, prior to the Release 3 go-live.

Preparatory work on Release 4

52. A small team of subject matter experts are now on board to start some early work on what we need to do to successfully migrate KiwiSaver and Student Loans to START in April 2020 (Release 4). Managing resources between major releases is an on-going area of focus for us. There is no impact to the scope or timeframe for Release 4 at this stage.

Key risks and issues

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

54. As at 11 September 2018, the programme had a total of 53 open risks, of which 14 are reported to our Portfolio Governance Committee.

55. During this reporting period, five new programme risks were raised and two programme risks were closed. None of the existing programme risks were re-assessed during this reporting period.

IR2018/567: Transformation status update: September 2018

56. The top three risks as at September 2018 are:
    - Unisys support for FIRST ending in 2021. This risk will be reassessed by the end of 2018.
    - The time to resolve major incidents has an increasingly negative impact on customer experience.
    - Retaining the people we have working on transformation. This is an on-going risk as we need to retain people who have an in-depth knowledge of our existing business processes and systems while we complete the transition to new processes and systems. Retention plans are in place around key resources.

57. Three new issues were reported during September 2018. They relate to the stability of our production system, the challenge of completing design decisions which has a flow on impact to testing, and a delay in completing the roll-out of workplace technology tools which will mean extending the existing contract beyond the current expiry date of 24 November 2018.

Coming up in the next two months

58. Key activities over the next two months include:

October 2018
- Brief the Minister of Revenue on 30 October 2018 on the work we are doing to ensure software providers and business customers are ready for Release 3.
- Report the findings of the Gateway mid-release review.
- Complete checkpoint 1 in the readiness assessment framework.
- Complete heritage system testing.
- Provide the November 2018 transformation update Cabinet paper to the Minister of Revenue, for consideration by the Cabinet Government Administration and Expenditure Committee on 6 November 2018.
- Continue to support FEC's consideration of submissions on the Taxation (Annual Rates for 2018-19, Modernising Tax Administration and Remedial Matters) Bill

November 2018
- Brief the Minister of Revenue on 29 November 2018 on planning for the individual tax and 2019 peak season and the results of checkpoint 1.
- Complete checkpoint 2 in the readiness assessment framework.

IR2018/567: Transformation status update: September 2018