



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

<b>Date:</b>	5 September 2018	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2018/541

**Action sought**

	<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)**

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Greg James	Deputy Commissioner, Transformation	04 890 3381 (wk)

IN CONFIDENCE

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5 September 2018

Minister of Finance  
Minister of Revenue

## Transformation status update: August 2018

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### Executive summary

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1. This report summarises the progress and highlights of transformation for August 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 or new risks within the programme since the last report, we are currently facing some challenges in particular areas.

3. There have been some minor delays due to recent strike action and we continue to monitor and manage these impacts.

4. We are now four months into the delivery phase of Release 3. There are some areas we need to keep a close eye on as we head towards go-live in April 2019. The design of the core START solution and testing are progressing, with some areas still under pressure and currently behind schedule. We continue to actively track progress and have recovered some ground. With a concerted effort we are maintaining our critical path at this stage.

5. We are intensifying our customer engagement activity in the lead up to Release 3 and focussing on customer groups impacted by the changes, including employers, tax agents and individuals. In addition, we are tightly integrating communications about Release 3 with wider communications to the same customers. This will ensure that we are well prepared for go-live and also for next year's peak season. The Minister of Revenue will be regularly briefed on this activity between now and April 2019.

**Recommended action**

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

Noted

Noted

**Greg James**

Deputy Commissioner, Transformation

5 September 2018

**Hon Grant Robertson**

Minister of Finance

/ /2018

**Hon Stuart Nash**

Minister of Revenue

/ /2018

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

### ***Delivery progress***

8. We are approximately 60% of the way through writing the nearly 65,000 test scenarios required for Release 3. While we are behind schedule, we have go-to-green plans in place that we continue to monitor closely to ensure that we can catch up. We have prioritised critical areas and increased our test resources.

9. Business system testing continues. To date, we have completed approximately one-fifth of the total number of tests we need to complete for START (which is behind where we expected to be) and one-third of the tests we need to complete for our heritage systems (on track). The status of e-Services, the new myIR, has improved and testing began as planned on 13 August 2018. Progress is being tracked daily.

10. We have a number of detailed design decisions to finalise in the coming weeks that could impact testing. These are in more complex areas, such as tax pooling, where systems and processes need to be integrated to provide an appropriate customer experience.

11. A way to resolve the potential issue of Release 3 changes causing delayed processing times for e-File (as noted in the *Transformation status* updates for June and July - IR2018/409 and IR2018/494 refer) has been identified, with no impact on our critical path. The solution is currently being designed and will work in the same way e-File does today.

12. Mock data conversions continue and good progress is being made. To date, we have met all our key milestones. Compared to the first two releases, significantly more data will be migrated from our old FIRST system to our new START system. We have provisionally estimated the number of accounts to be converted at 19 million (compared to 1 million for Release 2 and 880,000 for GST), and the number of records at 18 million (compared to 13 million for Release 2 and 8 million for GST).

13. We have identified possible options for a go-live date, which we are discussing with our governance bodies. As Release 3 involves more data and is a more complex deployment, we will refine our approach to ensure we can fit all cut-over activities within a reasonable timeframe. For all options the cut-over window will be over weekends and public holidays whenever possible. We will avoid going live during busy times, such as year-end and month-end processing, and avoid major filing or other key dates. As we did for Release 2, we are taking stakeholder feedback about the window that best suits them into account. We will report to you when the go-live date has been decided.

## ***Customer readiness***

14. Our Transformation and Customer and Compliance Services (CCS) groups are intensifying our customer engagement activity ahead of Release 3. This will ensure that our messaging is consistent, that we are well prepared for Release 3 go-live, and also for next year's peak season. We will:

- Ensure customers have a positive end-to-end experience. Where customers do need further information, we will ensure they can get it from our new online services as their first port of call and are aware that they can do so.
- Ensure tax agents are fully briefed on the changes. We will proactively work with tax agents to ensure they have set up the appropriate delegations so they can continue to access their clients' information. We will establish escalation processes so that tax agents can easily let us know if they think things are not working as expected.
- Proactively work with personal tax summary intermediaries. Some will choose to continue as tax agents and some will choose to cease business. We will work with the latter group to ensure their customers' information is up-to-date in our systems before they close.
- Transition employers, payroll developers, payroll intermediaries and payroll bureaux to payday reporting by April 2019.
- Ensure financial institutions meet new reporting requirements for investment income information from April 2019 (voluntary) to April 2020 (mandatory).
- Ensure our systems are resilient and there are no unexpected disruptions to our services.

15. The risks around employers not being ready for payday reporting and slower than expected uptake of the transaction data services solution (refer to paragraph 25), which will impact users of software packages, are being actively monitored.

16. We intend to be more proactive in engaging with all customers and stakeholders about the changes coming in April 2019. Our first step is to ensure we have a comprehensive view of all our current activities, to determine if these are the right things to continue with and identify what else may be needed. We will share our thinking and approach with you as it develops.

17. A series of briefings is being planned with the Minister of Revenue in the lead up to go-live covering each of these areas of customer engagement activity at least once. The first briefing is scheduled for the 13<sup>th</sup> of September 2018.

18. We have begun planning the first wave of promotional activity to support our direct customer contact. This phase will focus on encouraging employers to change to payday filing and will include emails, letters, website and video content.

## ***Readying our people***

19. Five open homes were held during August 2018, attended by more than 240 of our people. The focus was sharing what's changing for our people and customers with

Release 3. Information outlining the likely impacts on our customers, our organisation and people, was displayed. We also outlined how we will manage the changes, and our plans for supporting readiness and deployment, training and communications.

20. We have begun recruiting (within Inland Revenue) for trainers for Release 3. Approximately 4,000 of our people, mainly in our customer-facing areas, will require a moderate to high level of training and support. We are adapting our communications, training and online help approaches to reflect the greater depth and breadth of the Release 3 changes.

### ***Ensuring our systems are resilient***

21. We are reviewing our end-to-end user experience, applications, infrastructure, and services. This is in response to the issues we have experienced with myIR this year, for example customers being unable to login or experiencing longer login times than is acceptable. We will report further on the remedial activity we have identified to get the level of stability we need in our systems.

### ***Areas requiring management attention***

22. Although we are making good progress overall, we are experiencing challenges in some areas.

23. We are tracking behind schedule for completing the design of the core START solution and writing test scenarios. These areas are receiving focussed management attention, including daily meetings. We have identified critical designs, prioritised review and approvals, and introduced an agreed 'ready for testing' status for the core solution design. This will ensure we focus on the right things at the right time so that preparation of test scripts remains on track. This has been successful so far and we are tracking progress daily to ensure we sustain momentum.

24. The increased professional testing support for eServices and customer areas of solution design is making a difference and, with a concerted effort, the critical path is being maintained.

25. We are working through issues relating to the slower-than-planned uptake by software providers of the transaction data services (TDS) solution delivered in Release 2. TDS provides financial transaction data for software providers to include in their software packages. This data is then made available to users of software packages, which include tax agents and customers. TDS was made available in Release 2 so that providers could pilot the solution before Release 3. Early adoption is key to ensuring the solution is proven and stable. However, to date, software providers have been slow to mobilise teams within their businesses to deliver TDS functionality. If uptake does not improve, there is a risk that late changes will be required to the design. This emerging risk is receiving immediate attention.

26. We are seeing some early signs of change fatigue in our people, and are very mindful of the changes planned between now and Release 3 go-live in April 2019. For

example, we are progressively rolling out Release 3 training, new technology, and our new enterprise content management system. We will monitor this emerging risk very closely over the next few months.

27. Ensuring we are well prepared to respond to any issues that arise following go-live is an increasing and significant area of focus. As the changes being introduced are fundamental and affect many participants in the revenue system, reactions are likely to be mixed. As with previous releases, we will provide additional support to both customers and our people for the three month period after go-live, known as early life support.

## **Other updates**

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### **Commercial arrangements**

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

- Negotiations with Sitecore and AKQA for our web-content management system continue. A *Letter of Agreement* was signed in July 2018. This has enabled us to begin work on the early stages of our new website.
- Licence negotiations are continuing with Oracle, our preferred technology provider for enterprise support services. We are planning to run a three month verification process during September to November 2018, to ensure the solution is fit-for-purpose before making any long-term commitment.
- We expect the agreement with SAS to provide our new data and intelligence platform will be signed during August 2018.

29. Spark continues to be our lowest performing partner and our confidence in their abilities continues to drop. We have escalated the situation to Spark's Chief Executive and the Government Chief Digital Officer has been asked to support us to find a suitable approach to re-build confidence.

### **Redesign of our website**

30. In late August 2018, we intend to launch a beta version of our new website. The beta.ird.govt.nz site will be live for approximately 8 weeks and will give customers a preview of the look and feel of our future website. The focus is on new child support customers, with content redesigned around key customer questions.

Users will be asked to complete a pop-up survey once they have finished visiting the site to inform future iterations. A second version, incorporating feedback and possibly more content, is planned for early November 2018.

31. We have chosen to start with child support as:

- We receive a significant number of queries from child support customers.
- There is little to no dependency on Release 3.
- The product is complex, so is a good testing ground for design and content.

### **Finances**

32. The overall budget for Release 3 from 1 July 2018 until 30 June 2019 is \$219.6 million for operating expenditure and \$91.7 million for capital expenditure.

33. To 31 July 2018, operating expenditure was \$2 million under budget and capital expenditure was \$1.4 million under budget (excluding contingency). At this early stage, we expect to be close to budget for both operating and capital expenditure at 30 June 2019.

### ***Independent quality assurance***

34. Planning is well underway for two mid-release reviews. We have requested these additional reviews given the scale and scope of Release 3.

35. A Gateway targeted investment review will take place during the first week of October 2018. This review will focus on the maturity of our support model, customers' readiness for go-live, and our approach to replacing our enterprise support systems. We anticipate reporting the findings of this review to you in late October 2018, dependent on when the reviewers finalise their report.

36. Fieldwork for an eighth independent quality assurance (IQA) and seventh technical quality assurance (TQA) will be undertaken by KPMG in late September 2018 and early October 2018. This review (IQA8/TQA7) will provide an in-depth review of Release 3, including detailed design, our customer awareness approach, governance and management practices, our co-existence strategy, and testing. We expect to report the findings of this review to you by mid-December 2018, depending on when KPMG finalise their report.

37. Please note that areas which have previously been rated green, such as procurement and financial budgeting, are not included in the IQA8/TQA7 review. However, they will be included in the Release 3 go-live review, which is scheduled for February 2019.

### **Key risks and issues**

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38. One new issue was reported to the Portfolio Governance Committee (PGC) during August 2018. This relates to subject matter experts for Release 4. We had hoped to have a small team on board by now doing some early work on what is required to successfully migrate KiwiSaver and Student Loans to START in April 2020. Managing resources between major releases is an on-going area of focus for us. There is no impact to the scope of or timeframes for Release 4 at this stage.

39. 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.

40. As at August 2018, the programme had a total of 53 open risks, of which 13 are reported to the PGC. One risk has been transferred to the business since the last report.

41. The transferred risk relates to the complexity of the employer monthly schedule. This risk has been closed by the transformation programme as responsibility for managing the risk sits with the business. However, within the programme, we are investigating potential improvements to file transfer mechanisms between FIRST and START. This is to ensure that employment information is processed as quickly as possible between now and 2020, when PAYE will be fully migrated to START.

42. There have been no changes to the status of any of the other risks reported to the PGC since our last report. The top three risks as at August 2018 are:

- Unisys support for FIRST ending in 2021. This risk will be reassessed by the end of 2018.
- Retaining the people we have working on transformation. This is an on-going risk.
- The timing of benefit realisation. The overall benefits we committed to are not at risk; rather the issue is one of timing. At this stage, administrative savings may be realised slightly later than originally planned. We are currently re-assessing what we can achieve by when, taking into account the impacts of Release 3 on our customers. For example, we may need to support customers for a longer period of time than anticipated. This work will be completed by October 2018, and we will report to you on the outcomes. Any material implications will be highlighted for discussion.

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

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43. Key activities over the next two months include:

#### **September 2018**

- Brief the Minister of Revenue on the implications of Release 3 for customers and our workflows.
- Begin campaigns to ready customers for the changes being introduced in Release 3.
- Start to implement our new data and intelligence platform.
- First transfer of information to foreign jurisdictions in the automatic exchange of information (AEOI).

#### **October 2018**

- Brief the Minister of Revenue on the work we are doing to ensure software providers and business customers are ready for Release 3.
- 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.