



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

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|------------------------|------------------|-----------------------|------------|
| Date: | 7 September 2017 | Priority: | Medium |
| Security level: | In confidence | Report number: | IR2017/519 |

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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7 September 2017

Minister of Finance
Minister of Revenue

Business Transformation programme: Status update for joint Ministers – August 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 August 2017'.

Summary

2. The remaining stages of transformation will be implemented in a series of releases from 2018 to 2021. Taxes and entitlements will be moved to new systems and processes in smaller steps, reducing risk and business and customer impacts. The next release in April 2018 will introduce the accounting income method (AIM) option for calculating provisional tax, enable employers to send us their information digitally and on payday if they choose to, move taxes such as withholding taxes and fringe benefit tax to new systems and processes, and implement the automatic exchange of information (AEOI) with international tax treaty partners (refer to paragraphs 9 to 18 for more information).

3. Work with tax agents to improve their experience of the new GST system continues. The first enhancements have been released to positive feedback, and more are planned for early September. Tax agents have now joined the transformation programme and are working directly with the design and development teams (refer to paragraphs 19 to 26 for more information).

4. We are on track to implement our three new organisational groups in February 2018 – Customer and Compliance Services Individuals (CCS-I), Customer and Compliance Services Business (CCS-B) and Information and Intelligence Services (IIS) - and move staff to roles in them. Selection processes for roles in these groups are well underway (refer to paragraphs 27 to 30 for more information).

5. The recent KPMG independent quality and technical assurance review confirms that transformation continues to be well managed. KPMG noted that "In general, the Programme overall continues to be managed in accordance with good industry practice, and we also noted some welcome improvements since our prior reviews" (refer to paragraphs 31 to 35 for more information).

6. Highlights in the coming weeks include:

- Release of the next set of enhancements to address feedback from tax agents about the new GST online services.

- On-going meetings with social policy stakeholder groups to discuss the proposals in the social policy discussion document.

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

8. As at the end of July 2017 we are tracking under budget for the Stage 2 Solution Delivery phase, which began on 1 March 2017. Actual spend to date is \$94.7m, an under-spend of \$43.0m against budget (excluding contingency). The under-spend is due to changes to the release schedule, which has resulted in some expenditure moving to later periods. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking within budget.

Highlights

Release plan

9. The release plan was endorsed by the Portfolio Governance Committee (PGC) on 24 August 2017. The remaining stages of transformation will be implemented in a series of releases from 2018 to 2021. The release plan moves taxes and entitlements to new systems and processes in smaller steps, which reduces risk and business and customer impacts.

10. Some of the releases will be technical only, i.e. not visible to customers and staff, some will be legislative only, some will implement new systems and processes, and some will be a combination. Major releases will typically occur in April in each of the next four years to align with the beginning of the tax year.

11. The next release, release 2, will be in April 2018 and will introduce the AIM option for calculating provisional tax, enable employers to send us their information digitally and on payday if they choose to, and move taxes such as withholding taxes and fringe benefit tax to new systems and processes. Income and provisional tax information will be collected in START so that pre-population of individuals' information can begin. AEOI, enabling us to exchange information with international tax treaty partners, will also be implemented from 1 April 2018.

12. Release three will be in April 2019 and will include all income tax products, the end-of-year square up process for Working for Families, and enable people to enrol digitally for products and services. Employers will be required send us PAYE information on payday and payers of investment income will be able to send us detailed recipient information if they choose to. Moving Working for Families to START at the same time as income tax will minimise the impacts of co-existence on both customers and us, and ensure that customers continue to receive timely payments.

13. Releases 4 (April 2020) and 5 (April 2021) will move the remaining social policies we administer to new systems and processes. KiwiSaver, Student Loans and the new assessment process for Working for Families will move in April 2020. Child Support will move in 2021. Customers will increasingly be able to manage their taxes and

entitlements themselves as they'll be able to do more and more using our online services.

Release 2 – April 2018

14. We continue to meet with software developers, payroll professionals, banks, government agencies and industry group representatives to talk to them about the release plan, in particular release 2.

15. Around 60 of our people met in early August to challenge the design and provide feedback on how release 2 will work for us and our customers. A design review workshop brought together people from different teams and locations who work day-to-day in START, or who will do so after release 2.

16. The workshops were run as a series of deep dives into four areas - customer, financials, returns and forms, and payments and disbursements, including hands on experience with START. People were asked to provide their feedback, thoughts and questions about the design of each of these areas, including identifying possible improvements or any gaps. The overall view was that the design is strong with no major gaps. Some changes and enhancements were suggested to improve the design further and some additions to our training and change management activities were suggested. We're currently working through these and will incorporate as many as we can into release 2.

17. Business system testing for release 2 began in early August and will run until just before Christmas. This phase of testing involves our people testing the functionality within START and how it interacts with other systems. It's about making sure START works as expected and meets business and legislative requirements. To date, the testing is progressing well and as expected.

Release 3 – April 2019

18. Planning for release 3 has begun. A small, dedicated team is working on confirming the scope and high-level plan for this release, incorporating the lessons learnt from Stage 1 implementation and planning for release 2.

Improving tax agents' experience of Stage 1 GST online services

19. We continue to work with tax agents to improve their experiences with new GST online services. Targeted improvements are being introduced to address the challenges some tax agents are having with some aspects of START. These have been identified and prioritised with input from tax agents.

20. On 3 August 2017, several enhancements were released and have been positively received by tax agents. They relate to the:

- traceability of GST transfers between systems,
- notifications and alerts sent to customers when there is something for them to do in myIR, and
- navigating between different periods when viewing GST transactions.

21. More enhancements will be released in early September 2017:
- The alerts we send will be consolidated so that customers only receive one notification (by email or text depending on their preference) for each 24 hour period letting them know they need to log in to myIR and read their messages.
 - Headers on each screen will include more customer details, including name, IRD number, time period and due date.
 - More information will be displayed on the confirmation screen that customers see after they have filed their returns, including name, address, IRD number, time period, and the date and time we received their return.
 - A new summary report will be available to tax agents to make it easier for them to prepare their clients' annual GST reconciliation.
 - More information will be provided about refunds so that it's easy to reconcile the amounts with the bank deposits or cheques received by customers. The information provided will include a breakdown of the amount, the cheque or bank account number, and the date the refund was issued.
 - Some enhancements have been made to how tax agents access their clients' information and how they move them within their own agency.
22. These enhancements will be implemented following a series of user labs where we work one-on-one with agents around the country to make sure we clearly understand their requirements in these areas. The solutions developed are then taken back to the same tax agents to validate before they are tested and implemented.
23. We are continuing to review and prioritise suggested enhancements with tax agents. This model of continuous improvement will be used through the rest of transformation.
24. A small number of tax agents have now joined the transformation programme to work alongside the design and development teams. We recognised that we need better design input from tax agents, so we've seconded agents from a range of businesses, from the big four through to smaller firms, to work with us on a daily basis. This will help give us a better understanding of what works, which areas tax agents may be struggling with, and why. The tax agents who have joined transformation help us to co-design certain aspects of the system as well as testing it to see if it works as expected.
25. Monthly teleconferences with tax agents are now in place and have resulted in positive engagements. We're also exploring other ways to ensure we stay close to tax agents, such as assigning some of our people to work with a small group of agents to understand what it's like for them to use our systems and interact with us.
26. We are looking to adopt a similar approach with payroll professionals.

Implementing the new organisation design

27. We are on track to implement our three new groups in February 2018 - CCS-I, CCS-B and IIS - and move staff to roles in them.

28. Selection and appointment processes for senior leader roles in these groups are well underway. The new Deputy Commissioners for CCS-I and CCS-B have now joined Inland Revenue and are participating in the selection process. Offers will be made by mid-September 2017 for roles that report to the Deputy Commissioners (known as level three roles). Shortly after, offers will be made for roles reporting to the level three leaders.

29. The expression of interest process for team lead, specialist and business support roles is underway. Interviews for these roles are expected to begin in early October 2017. Staff in customer facing roles will receive an offer to appoint or confirmation to a role in October 2017.

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

Quality assurance

31. The recent KPMG independent quality assurance and technical assurance review (IQA6 / TQA5) was positive. KPMG noted that "In general, the Programme overall continues to be managed in accordance with good industry practice, and we also noted some welcome improvements since our prior reviews". Positive improvements were noted in "Programme structure and accountabilities, methodology, and the introduction of 'user-experience' insights". In KPMG's view, these improvements will reduce the risks associated with Stage 2.

32. Overall, KPMG rated transformation as amber.

33. KPMG made 16 recommendations rated amber. Of these, we accepted 11, did not accept three, and partially accepted two. We have developed management responses to the amber recommendations and the four "do now" recommendations from the July 2017 Gateway 0 review. These have been reported to you (IR2017/486 refers), including our rationale for not accepting or partially accepting some recommendations, along with updates on open recommendations from earlier assurance reviews.

34. We are proposing to close eight of the amber recommendations from the KPMG review, including the recommendations we did not accept or partially accepted. Actions to respond to the remaining eight recommendations and the four Gateway recommendations are underway and will be completed by November 2017. Of the 23 formerly open recommendations from previous reviews, 20 are now closed and the remaining three are being acted on. Of these, two will be complete by September 2017 and one remains an on-going activity. This relates to the continuing need to reinforce the linkages between business change activities and technology delivery to ensure that customer experience expectations are met.

35. The next assurance reviews are currently planned for early 2018, ahead of the planned release 2 go-live in April.

Policy and legislation

36. Policy and legislative highlights for the month include:

- Withheld under s18(c)(i) of the OIA
- An issues paper on PAYE error correction and adjustment was released on 9 August 2017 following Cabinet's approval. Submissions on this paper close on 15 September 2017.
- We are analysing the submissions to the FEC on the Taxation (Annual Rates for 2017-18, Employment and Investment Income and Remedial Matters) Bill and preparing the officials' report.
- Meetings are underway with social policy stakeholder groups to discuss the proposals in the social policy discussion document.
- Submissions and comments on the social policy online forum are being received at a steady pace, and 275 survey responses have been received to date. Submissions close on 15 September 2017.
- Withheld under s18(c)(i) of the OIA

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

- Our engagement with financial institutions (FI) continues as we actively seek the involvement of our small-to-medium-sized FI group, large FI group, and industry associations in providing feedback on both the technology solution and the legislative guidance tools being developed.
- The technology development is progressing and we have now commenced testing. The solution will go-live in April 2018 and provide FIs with three different options for submitting their information to Inland Revenue (based on volume). FIs need to provide their information to us by 30 June 2018.
- There has been a significant number of queries from FIs since 1 July 2017 when the requirement to carry out due diligence on account holders commenced. The queries are broad-ranging in both subject matter and complexity. We aim to provide answers to queries within 10 working days.

Stakeholder engagement

38. The AIM option for provisional tax is developing well. Three vendors, ^{Withheld under s18(c)(i) of the OIA}, are progressing their design for AIM. These vendors represent a large portion of the small business accounting software market. We have been focused on end-to-end design review workshops, confirming our internal design first and then how that will interact with software providers. AIM specifications have been shared with software providers over the last month and we've had detailed workshops with ^{Withheld under s18(c)(i) of the OIA}

The workshops have been successful and we have seen some initial versions of their AIM software. The upcoming months will be focused on the technical integration and testing aspects of AIM.

39. Events in August 2017 include:

- Workshop with ^{Withheld under s18(c)(i) of the OIA} to discuss digital engagement opportunities (1 August).
- Meeting with ^{Withheld under s18(c)(i) of the OIA} on a range of initiatives, including requests for information under section 17 of the Tax Administration Act, the investment income and employment income proposals, and digital opportunities (2 August). A further

meeting with ^{Withheld under} (17 August) was held to discuss the investment income and PAYE items in the Taxation (Annual Rates for 2017-18, Employment and Investment Income and Remedial Matters) Bill.

- Meeting with Education Payroll Limited to discuss PAYE changes (2 August).
- Meetings with Chartered Accountants Australia and New Zealand (CA ANZ) in Dunedin (2 August), New Plymouth, (3 August), Invercargill (10 August), and in Auckland with the CA ANZ special tax interest group (14 August).
- Briefings with Withheld under s18(c)(i) of the OIA (TMNZ) in Christchurch (3 August), Dunedin (9 August), and Auckland (15 August).
- Meetings with the Ministry of Social Development (MSD) - Withheld under s18(c)(i) of the OIA

- A liaison meeting with members of CA ANZ and the Accountants and Tax Agents Institute New Zealand (ATAINZ) discussed the improvements we're making to GST online services for tax agents, and AIM and payday reporting (16 August).
- Meetings with a number of the major banks have been held to discuss the impact of changes to resident withholding tax and non-resident withholding tax – Withheld under s18(c)(i) of the OIA
- A webinar for tax agents was held to demonstrate the first enhancements made – refer to paragraph 20 – and seeking feedback (21 August).
- A workshop with payroll developers covered the release plan and a technical update (23 August).
- We presented at the New Zealand Payroll Practitioners Association's (NZPPA) annual summit (24 August).
- MYOB Employer Essentials series (31 August).

40. A number of engagements have focused specifically on discussing the proposals in the social policy discussion document. Meetings have been held with:

- Withheld under s18(c)(i) of the OIA
- Withheld under s18(c)(i) of the OIA
- Withheld under s18(c)(i) of the OIA

41. Three reference group meetings were also held during the month:

- The AEOI customer reference group representing small to medium FIs (3 August)
- The Commissioner's transformation reference group (8 August)
- The taxpayers' simplification advisory board (23 August).

Commercial arrangements

42. Over the last month a number of commercial agreements have progressed. These include:

- The scope of Assurity test services has been confirmed following the finalisation of the release plan.
- The advanced analytics proof of concept request for proposal (RFP) has been awarded to PWC and Smart Associates. Agreeing a statement of work (SoW) with each is the next step.

- The customer experience RFP has been awarded to two New Zealand suppliers, Davanti and Alphero, each with a defined and distinct scope of work. The next step is to agree a SoW for each supplier.
- We're looking at options for making our website more customer friendly, and are working through a process to select a supplier by December 2017 to help us.
- We're in the process of selecting a supplier to provide our network connectivity and move us to the all-of-government (AoG) common capability (Telecommunications-as-a-Service).

43. A memorandum of understanding has been signed between Inland Revenue and the Government Chief Information Officer for us to adopt the AoG Cloud Framework Agreement for the provision of Amazon Web Services.

44. While we await the establishment of the AoG Consultancy Services panel (expected in December 2017), we have joined the New Zealand Defence Force ICT Professional Services syndicated panel. This provides an interim solution and allows us to access specialist ICT services quickly.

Key risks and issues

45. Identifying and managing risks both at a programme and work-stream level remains a high priority. 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

46. As at August 2017, two issues with customer impacts were reported to the Portfolio Governance Committee (PGC). An issue relating to concerns raised by the tax agent community about the end-to-end design of eServices for Stage 1 is rated as "high". An emerging issue relating to the ability of START to show the same level of detailed transactions, primarily penalties and interest, as FIRST is rated as "extreme".

This month's risks

47. The programme's risk profile remains Amber with a future trend of Amber. The risk profile continues to be refreshed as a result of the confirmed release plan for Stage 2.

48. As at August 2017, the programme had a total of 52 open risks of which 16 are reported to the Portfolio Governance Committee (PGC).

49. 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'.

50. Detail on individual risks is available on pages 5 and 6 of the attachment 'BT programme status August 2017'.

What's coming up

51. Key activities over the next two months include:

September 2017

- Release next set of enhancements to GST online services.
- Continue engagement on the social policy discussion document – Withheld under s18(c)(i) of the OIA

- On-going engagement with tax professional groups – CA ANZ Lower Hutt (5 September), Waikato tax agents' liaison meeting (7 September), and Wairarapa (12 September).
- Begin making offers for senior leader roles in the three new organisation groups.
- Begin analysis of submissions on the social policy discussion document.

October 2017

- Conduct interviews for team lead, specialist and business support roles, and send offers to appoint or confirmation to a role to staff in customer facing roles.
- Provide the draft November 2017 transformation update to the Minister of Revenue for review.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
Inland Revenue
7 September 2017

Hon Steven Joyce

Minister of Finance
/ /2017

Hon Judith Collins

Minister of Revenue
/ /2017