Inland Revenue Te Tari Taake

Inland Revenue report: Business Transformation programme: Status update for joint Ministers – December 2017 / January 2018

Date:	7 February 2018	Priority:	Medium
Security level:	In confidence	Report number:	IR2018/052

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)

Name	Position	Telephone
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7 February 2018

Minister of Finance
Minister of Revenue

Business Transformation programme: Status update for joint Ministers — December 2017 / January 2018

1. This report summarises progress and highlights of transformation for December 2017 and January 2018. A high-level view of overall progress can be found in the attachment 'BT programme status January 2018'.

Summary of progress since last report

2. We remain on track to implement release 2 as planned in April 2018. Business system testing (making sure START works as expected) is now tracking close to schedule. The first round of scaled business simulation testing (practicing go-live step-by-step, including the migration of data and processes following go-live) and the first mock go-live (a practice run for go-live weekend) have been successfully completed. Classroom training for staff has begun and our communications and engagement activity is beginning to ramp up. The second readiness assessment checkpoint, in a series of six, has been successfully passed (refer to paragraphs 8 to 18 for more information).

3. Release 2 includes the introduction of the Accounting Income Method (AIM) option for provisional tax. Implementation and testing is on track. We have seen the AIM-capable software developed by MYOB, Reckon and Xero and have been impressed with the look, feel, and its simplicity. The tax adjustments needed to calculate provisional tax are included in the software and it has a well-designed user experience. We will begin marketing AIM to customers in late February 2018, including direct marketing, providing content for industry publications, and continuing to hold our own webinars and participate in events hosted by software providers. In our view there is a high level of interest in AIM and many small businesses have indicated they are interested in seeing how AIM-capable software works (refer to paragraphs 19 to 28 for more information).

4. Implementation of our three new organisational groups – Customer and Compliance Services - Individuals, Customer and Compliance Services – Business, and Information and Intelligence Services – is on track for February 2018. We have had positive discussions with the Public Services Association and have reached agreement on the way forward (refer to paragraphs 30 to 36 for more information).

5. Highlights in the coming weeks include:
    - continuing preparations for the implementation of release 2 including testing and classroom training
    - kicking off marketing activity for AIM

- moving into our three new organisation groups.

6.   Transformation's overall Red, Amber, Green (RAG) status for January remains Amber.

7.   The Stage 2 Solution Delivery phase began on 1 March 2017 and will run until 30 June 2018. We are forecasting an under-spend of $25.2 million for operating expenditure and $0.5 million for capital expenditure as at 30 June 2018. We are on track to achieve these forecasts. As at the end of December 2017, actual spend to date is $127.6 million operating expenditure, an under-spend of $16.3 million against budget, and $68.8 million capital expenditure, an under-spend of $5.1 million against budget (excluding contingency).

Highlights for December 2017 and January 2018

Release 2 – April 2018

8.   Release 2 remains on track for implementation in April 2018. Release 2 will:
- provide a pay-as-you-go option for small businesses for their provisional tax – the accounting income method (AIM)
- help combat global tax avoidance through the implementation of the Automatic Exchange of Information (AEOI) with international tax treaty partners
- enable employers to send their information to Inland Revenue digitally and on payday if they choose to do so[1]
- make it easier for customers to meet their obligations for withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty by moving them to new systems and processes
- collect income information in START so that pre-population of individuals' information can begin.

9.   Business system testing, which is about making sure START works as expected and meets business and legislative requirements, is tracking close to schedule. Scaled business simulation (SBS) testing began in mid-January 2018 and practices go-live step-by-step, including the migration of data and processes following go-live, such as return filing. Overlapping these phases is manageable and also occurred in the lead up to Stage 1 go-live.

10.   SBS uses scenarios to test that our systems work as they should. This phase of testing is all about scale, and examining full production cycles and key events. SBS takes place in a test environment that is as close to real-world conditions as possible. The transfer of information to and from software providers and other third parties is tested as part of SBS. Three rounds of SBS testing are scheduled between January and April 2018, each one following a mock go-live. The first round has been successfully completed.

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[1] Subject to legislation

IR2018/052: Business Transformation programme: Status update for Joint Ministers – December 2017 / January 2018

In Confidence

11.   We are running three dress rehearsals, called mock go-lives. These are practice runs for the real go-live weekend, 13-16 April 2018. This is to make sure we know exactly what needs to be done during the 4-day outage period and we can fit everything into that window. The first mock go-live was held in December 2017 and ran for two weeks. It included actions like migrating data to START. The second mock go-live started at the end of January 2018 and the third will be held in February 2018.

12.   Classroom training for release 2 kicked off from 30 January 2018. More than 250 sessions are scheduled in total, and in the first week alone sessions were held in Whangarei, Auckland, Hamilton, Tauranga, Wellington, Nelson, Greymouth, Christchurch and Invercargill. For those who don't need to attend classroom training, detailed online learning is available.

13.   One lesson learned from Stage 1 is that we need to provide our people with greater support following go-live. For release 2, key users will be introduced to help boost the desk side support team. Key users will be the go-to people in their areas and will have expert knowledge in a couple of functions and processes relevant to their role. They will be able to quickly identify and prioritise fixes and changes. Key users will provide support at every site and were identified by their business units.

14.   Plans are also in place to ensure a smoother customer experience for release 2 go-live. Tax agent feedback from Stage 1 indicated that details about the system came too late for them to have sufficient time to understand and prepare for the changes.

15.   For release 2, we are providing significant education before go-live to ensure tax agents understand the changes, and are clear on what they need to know and do for day one, and beyond. We are also providing opportunities for tax agents to have the policy changes explained to them, the system changes demonstrated to them, and to have their questions answered in real time. These opportunities include a series of webinars and face-to-face presentations.

16.   Alongside, there will be updates to our website and information in our newsletters, Tax Information Bulletin articles, industry publications, social media, videos, e-mails, and text messages. A series of how-to videos are being developed which are expected to be available to customers on the internet from February 2018, and day one quick reference guides.

17.   A readiness framework tracks our preparedness for go-live across customers, service providers, Inland Revenue and transformation. There are six checkpoints in the lead up to go-live checking "are we where we expect to be?". The results of the checkpoints are considered by the Portfolio Governance Committee (PGC) and approval given to proceed with the current plan and activity, and progress to the next assessment checkpoint.

18.   The first checkpoint was in mid-October 2017 and assessed our readiness to start business system testing. The second checkpoint in mid-December 2017 tested our readiness to begin scaled business simulation testing and begin training. Both checkpoints were passed. The outcomes of the next checkpoint, scheduled for late

January, will seek approval from the PGC to begin silent deployments (i.e. not visible to customers) and communications. The result of this checkpoint will be included in a future status update.

Accounting Income Method

19.   The next milestone for the successful implementation of AIM will be the release of AIM-capable software by MYOB, Reckon and Xero. We understand this is imminent and will be accompanied by marketing campaigns.

20.   We have seen the AIM-capable software of all three providers, and have been impressed with the look, feel, and simplicity. The tax adjustments needed to calculate the provisional tax are included in the software and it has a well-designed user experience. Once tax agents see the AIM-capable software, we believe they will be reassured that AIM is a viable option for them and their small business clients.

21.   From our perspective, the design for AIM is complete and testing is on track. All three providers are testing their software with us. We will be completing full end-to-end testing before and after 17 April 2018 (go-live for release 2).

22.   Withheld under s18(c)(i) of the OIA
              . Withheld under s18(c)(i) of the OIA   .
Although our own webinars have attracted upwards of 1000 tax agents, Withheld under s18(c)(i) of the OIA
                              . This confirms our view that there is a high level of interest in AIM.

23.   We are continuing our own communications and marketing activity to promote AIM and help customers understand how it works. We are supplying information to small business publications and newsletters, and asking industry groups to promote AIM through social media and on their own websites. Over the next couple of months we will emphasise in our communications to tax agents that there is no registration or enrolment required for AIM: all the customer needs to do is send in their first AIM statement of activity when prompted by the software.

24.   We will begin marketing AIM to customers in late February 2018. We will be targeting customers who can use AIM with personalised marketing based on whether they have a tax agent and if they already use accounting software. Customers will be directed to go to our website for more information.

25.   We are hosting around 250 seminars around New Zealand to update tax agents and businesses on the changes happening in April 2018. We expect about 16,000 customers in total to attend one of the seminars, which begin in February and run until early May. Two short promotional videos that introduce AIM, and then explain who AIM is for will be played during the seminars for business. The videos can be viewed on the memory stick accompanying this report. We have produced a wallet card outlining the key points of AIM and these will be distributed to attendees. A copy is attached to this report for your information.

26. Our webinar series will recommence on 12 February 2018 with a webinar for small businesses followed by two for tax agents. This builds on the four webinars held last year.

27. There have been around 9,500 total views of the AIM pages on our website since they were published on 25 September 2017 – this is about 2,500 more than when we last reported to you. Web statistics show that people are spending time on the pages; therefore they are finding the information relevant and interesting.

28. This is in line with the feedback we are receiving anecdotally and through customer surveys. There remains a cautious group of tax agents who don't think the benefits of AIM are enough to make them change their practice, but many others understand that AIM has great potential. Many small businesses have indicated they are interested in seeing how AIM-capable software works.

Automatic Exchange of Information

29. Automatic Exchange of Information (AEOI) highlights for the last two months include:
- The testing of the technology solution is progressing. The test environment for our financial institutions (FIs) to check that their information meets the required standard is now available. The production solution will be available from mid-April 2018.
- The initial on-boarding workshop has been held with the Organisation for Economic Co-ordination and Development (OECD) regarding New Zealand's connectivity to the OECD's Common Transmission System (CTS). New Zealand will connect to the CTS test environment by the end of February 2018; at which time bi-lateral testing will commence.
- The number of queries we receive from FIs remains high. However, the nature of the queries has generally shifted, with reporting requirements being more of a focus rather than account holder due diligence.

Implementing the new organisation design

30. We remain on track to implement the first wave of our new organisation design in early 2018. Customer and Compliance Services – Individuals (CCS-I), Customer and Compliance Services – Business (CCS-B), and Information and Intelligence Services (IIS) will be established from 12 February 2018.

31. As previously advised (IR2017/641 refers), the Public Service Association (PSA) has initiated legal proceedings regarding aspects of the process for moving people into new roles.

32. On 21 December 2017, following an appeal by the PSA, the Employment Court ruled that:
- We can make offers to PSA members while collective bargaining is taking place, as bargaining is a separate process

- We should have dealt directly with the PSA for those who authorised the PSA to represent them in this change process.

33. In January 2018, we had positive discussions with the PSA about the process for, and concerns of, the members the PSA are representing, and we reached agreement on the way forward. The agreement includes commitments about our relationship generally as well as a specific way forward in support of implementing CCS-I, CCS-B and IIS on 12 February. The agreed approach is:

- Everyone who has accepted a new role will start their role on 12 February.
- With the PSA, we will take more time to work through our transition processes for some PSA members.
- Everyone who is still in a transition process on 12 February will go into the new structure on their existing job expectation, until their transition process is completed.

34. We acknowledge that we didn't get right how we handled communicating with the PSA members who had specifically authorised the PSA to represent them. We have talked this through with the PSA and agreed how we'll do it in future.

35. A further hearing in the Employment Court is scheduled for 14-28 May 2018 regarding the use of psychometric assessments as part of the selection process for team lead, specialist and support roles. As a result of the PSA challenge, the selection process for these roles was amended so that the three new groups could be established as planned on 12 February 2018.

36. A further update on organisation design will be included in these monthly status reports once this hearing has taken place and a decision issued.

Policy and legislation

37. Policy and legislative highlights for December 2017 and January 2018 include:
- Working with FEC on the Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill.
- Withheld under s18(c)(i) of the OIA
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- Withheld under s18(c)(i) of the OIA

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- Analysing submissions on the Officials' paper on PAYE error correction and adjustment and developing advice for Ministers on options for the way forward.
- Withheld under s18(c)(i) of the OIA

   .
- Assisting with the development of Ministerial papers on the Tax Policy Work Programme, FEC Annual Review hearing and 2018 Legislative Bids.
- Assisting with the implementation of AIM, payday reporting and investment income information proposals for implementation as part of release 2.

- Assisting with the transformation and operational considerations of the 100 day plans.
- Continuing with business as usual, such as the policy work to support releases 3 and 4.

Stakeholder engagement

38.   Events in December 2017 and January 2018 are shown in the table below. This shows that a significant amount of engagement continues across a broad range of customers and stakeholders.

39.   Following last month's report, you asked for information about whether our engagements with large businesses were well received. To date we have engaged with approximately 50 of New Zealand's largest organisations including private sector, Māori authorities and financial institutions. All have welcomed the proactive, face-to-face approach and the detailed briefings provided. Most, with the exception of financial institutions, had a low level of awareness of transformation and how their organisation will need to respond. There is significant interest in further information and engagement, particularly as policy changes are finalised.

Industry group associations engagements	
1 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA
4 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld
5 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA
6 December 2017	• Withheld under s18(c)(i) of the OIA
7 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA
8 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA
12 December 2017	• Withheld under s18(c)(i) of the OIA
13 December 2017	• Withheld under s18(c)(i) of the OIA
15 January 2018	• Withheld under s18(c)(i) of the OIA
16 January 2018	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)( ) of the OIA
29 January 2018	• Wi hheld under s18(c)(i) of the OIA
Large businesses	
5 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of • Withheld
6 December 2017	• Withheld • Withheld • Withheld under s18(c)(i) of the OIA
7 December 2017	• Withheld under s18 • Withheld under s18(c)(i) of
8 December 2017	• Withheld under s18(
11 December 2017	• Withheld under s18(c)(i) of the • Withheld under s18(c)(i) of the OIA
12 December 2017	• Withheld under s18(c)(i) of the OIA • Withheld under s18(c)(i) of the OIA
13 December 2017	• Withheld under s18 • Withheld under s18(c)(i) of the OIA
16 January 2018	• Withheld
17 January 2018	• Withheld und
30 January 2018	• Withheld unde
Tax professionals and their representatives bodies	
5 December 2017	• Withheld under s18(c)(i) of the OIA

8 December 2017	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
12 December 2017	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
13 December 2017	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
14 December 2017	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(i) of the OIA
Financial institutions	
6 December 2017	• Withheld under s18(c)(i) of the OIA
Software providers	
8 December 2017	• Withheld under s1
	• Withheld under s18(c)(
12 December 2017	• Withheld under s
	• Withheld under s1
	• Withheld under s18(c)(I) of the OIA
13 December 2017	• Withheld under s18(c)(i) of the OIA
14 December 2017	• Withheld unde
11 January 2018	• Withheld under s18(c)(I) of the OIA
	• Withheld under s18(
16 January 2018	• Withheld under s18(c)(I) of the O
	• Withheld under s18(c)(I) of the OIA
25 January 2018	• Withheld under s18(c)(i) of the OIA
	• Withheld under s18(c)(I) of the OIA
	• Withheld under s18(c)(i) of the OIA
30 January 2018	• Withheld under s18(c)(I) of the OIA
Other Government agencies	
12 December 2017	• Withheld under s18(c)(i) of the OIA
13 December 2017	• Withheld under s18(c)(i) of the OIA
19 December 2017	• Withheld under s18(c)(i) of the OIA
20 December 2017	• Withheld u
21 December 2017	• Withheld under s18(c)(i) of the OIA
24 January 2018	• Withheld under s18(c)(i) of the OIA
29 January 2018	• Withheld under s18(c)(i) of the OIA
31 January 2018	• Withheld under s18(c)(I) of the O

40. In addition, the webinars we run continue to reach a wide range of participants in the revenue system – an overview of release 2 changes for bookkeepers (4 December) and the benefits of AIM were explained to small and medium businesses (11 December).

Commercial arrangements

41. During December 2017 and January 2018, a number of market engagements were progressed. These included:
    - A request for proposal (RFP) for a web content management solution was released on 28 November 2017.
    - An advanced analytics platform RFP was released on 5 December 2017, followed by a panel briefing.
    - An expression of interest (EOI) document for enterprise support services was released on 23 January 2018.

42. Evaluation of the responses to the RFPs and EOI will take place over February and March 2018.

43. Telecommunications Relationship Charters have been finalised for signature by Inland Revenue, Vodafone and Spark.

Release 3 – April 2019

44. Release 3 in April 2019 will implement income tax products and Working for Families on new systems and processes. The definition and design phase for release 3 began in October 2017 and is expected to run until mid-2018. Good progress continues with the definition and design sessions. A full day scope review session with programme leadership was held on 31 January 2018. The Executive Working Committee (EWC) and Portfolio Governance Committee (PGC) will be updated on the scope of release 3 at their March meetings.

Quality assurance

45. During the week commencing 12 February 2018, KPMG will be in Wellington to undertake their final interviews for Independent Quality Assurance review number 7 (IQA7) and Technical Quality Assurance review number 6 (TQA6). The review is covering general programme practices and an in-depth review of our readiness for go-live of release 2. You are scheduled to be briefed by KPMG on the findings of the review to date on Wednesday 14 February 2018 at 3pm.

46. A Gateway 4 (Readiness for Service) and Gateway 0 (Strategic Review) will be undertaken by a team facilitated by Treasury. Fieldwork is expected to take place from late February to early March 2018. Gateway 4 will investigate our readiness to implement release 2, and Gateway 0 will focus on our planning and preparation for release 3. The findings will be reported to you both.

Key risks and issues

47. Identifying and managing risks and issues across the programme remains a high priority. During December 2017 and January 2018, the key transformation risks and issues were reviewed by the senior leadership team and some changes were made to risk ratings as a result. For example, the likelihood of the risk of service providers being unable to deliver payday reporting for release 2 in April 2018 has reduced from likely to unlikely as service providers are now on-board.

This month's issues

48. During December 2017 and January 2018, one new issue was raised while one existing issue was closed, both of which have customer impacts:

- eServices is not tailored for use by intermediaries (new – this will be resolved after release 2)
- tax agent client access security changes (closed).

This month's risks

49.   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.

50.   As at January 2018, the programme had a total of 59 open risks, of which 17 are reported to the PGC. Risks reported to the PGC have increased by two since the last report – three risks have been reported to the PGC for the first time and one risk previously reported to the PGC has been closed.

51.   One new risk has been raised and reported to PGC since the last report. This relates to mainframe support for FIRST and the ability to recover from any service failures after June 2021, when the current mainframe support contract expires.

52.   Two existing risks have been elevated to PGC. One relates to staff retention and the other to resource demands on core subject matter experts, development leads and architects.

53.   These three risks are currently rated as 'extreme' (severe consequences if the risk occurs, with a likelihood of occurring ranging from possible to almost certain) with a residual risk level of 'very high' (major consequences if the risk occurs, with a likelihood of occurring ranging from possible to almost certain). The residual risk level is the predicted risk level after mitigations have been implemented. All other risks are currently rated as either 'high' or 'medium'.

54.   One PGC reported risk has been closed since the last report. This is because the risk of unknown legislation anomalies being incorrectly applied in existing systems for release 2 is increasingly unlikely to occur. A new and similar risk for release 3 has been raised.

55.   The status of one risk reported to the PGC has improved since the last report. This relates to insufficient funding to complete delivery of BT due to competing priorities. Following discussions with the Investment Panel and Treasury, this risk has a reduced likelihood of occurring.

56.   Detail on individual risks is available on pages 5 and 6 of the attachment 'BT programme status January 2018'.

What's coming up in the next two months

57.   Key activities over the next two months include:

February 2018
- Establish the first three of our new organisation groups.

- Continue training, and complete the second round of scaled business simulation testing and the first mock go-live.
- Ramp up customer education through regional seminars, communications and stakeholder engagement, including marketing activity for AIM
- Finalise the six monthly transformation update for Cabinet for your approval and submission to GOV.

March 2018
- Complete all preparations for go-live.
- Receive the findings of the independent quality assurance reviews (KPMG and Gateway) and consider the recommendations made.
- Evaluate the responses to the web content management solution and advanced analytics platform requests for proposal and the enterprise support services expression of interest.

Recommended action

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

Noted   Noted

Greg James
Deputy Commissioner, Transformation
7 February 2018

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