

An error was identified in paragraph 18 of this report after it was sent to Ministers. The change in the go-live date was incorrectly referenced as a change in payment dates in the version of the report received by Ministers. This error has been corrected in this version.

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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: December 2018/January 2019

Date:	13 February 2019	Priority:	Medium
Security level:	In confidence	Report number:	IR2019/002

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	04 890 3381 (wk)

13 February 2019

Minister of Finance
Minister of Revenue

Transformation status update: December 2018/January 2019

Executive summary

1. This report summarises the progress and highlights of transformation for December 2018 and January 2019. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown in table 1 below), and we continue to carefully monitor progress in a few areas.

Table 1: Transformation's RAG status

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

2. We have shifted our go-live date slightly to 26 April 2019. During our first mock go-live it became apparent that we needed more time to complete and test some activities to ensure everything works as it should. Shifting the go-live date has reduced the risk during cutover to new systems and processes.

3. While delivery remains on track, we continue to manage some areas closely. These include testing, payday filing, Personal Tax Summary Intermediaries (PTSI's), and tax agents. We are making good progress in these areas, and now have a clearer view of where we expect to be in April 2019.

4. The status of testing remains amber. As at 8 February 2019, we had run approximately 70,100 (or 95%) of the required test scenarios overall. We are 98% through the baseline testing we expect to complete by 18 February 2019. We are undertaking additional testing for changes we have approved during baseline testing. Most of this testing will also be complete by 18 February 2019 (83% complete), and some by 22 March 2019 (47% complete). Testing of our heritage systems is 99.9% complete.

5. We successfully ran the first mock go-live (a dress rehearsal for go-live) during January 2019. Our first round of scaled business simulation (SBS) testing (practicing go-live step-by-step) began on 28 January 2019. Two further mock go-lives and two further rounds of SBS testing are scheduled during February and March 2019.

6. Employers have been slow to register for payday filing, despite awareness of it becoming mandatory being high at 92%. As at 8 February 2019, approximately 21,500 (or 10%) of employers had registered. We want employers to begin using myIR to file their employment

information. To encourage employers to familiarise themselves with submitting information in myIR before 1 April 2019, ir-File will no longer be available from 11 March 2019. We are continuing to encourage employers to make the shift to payday filing as soon as possible. However, we know from customer feedback that most will not adopt payday filing until they must.

7. We have received customer data from 22 of the 31 Personal Tax Summary Intermediaries (PTSIIs), representing 68% of the total customers who are clients of PTSIIs. We expect to receive data from the remainder by 22 February 2019. We continue to validate and load data into our systems and are confident this will be fully completed before go-live. This is a very good result and far better than anticipated in some of our earlier forecasts.

8. We continue to work closely with tax agents to ensure they are ready for go-live and can continue to support their clients. Our webinar and direct mail activity have recommenced, and further seminars and face-to-face visits are planned in the lead up to go-live. While we are doing all we reasonably can, some tax agents may not take the preparatory steps they need to.

Recommended action

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

Noted

Noted

Greg James
Deputy Commissioner, Transformation
13 February 2019

Hon Grant Robertson
Minister of Finance
/ /2019

Hon Stuart Nash
Minister of Revenue
/ /2019

Key risks and issues

10. 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.

11. One new issue has been reported to the PGC relating to the direct debit interface for international payments. There is no impact for Release 3 if this issue is not resolved in the immediate future. It does need to be resolved in time for Release 4 in April 2020 however. We will continue to push this to conclusion so that we can start to receive direct debit payments for student loans from the UK and European banks. This may however happen post the go live of R3.

12. We have been working with ^{Withheld under s18(c)} for some time to confirm their requirements for direct debits and received late notice in November 2018 that they had made some changes to those requirements. We continue to work closely with ^{Withheld under s18(c)} and are confident that this issue will be resolved.

13. As at January 2019, the programme had a total of 51 open risks,¹ of which 13 are reported to our Portfolio Governance Committee (PGC). These are longer term risks relating to the programme, rather than shorter-term risks related to individual releases.

14. There has been no change in the status of any of the risks reported to the PGC since the last report. The top risks for transformation are unchanged (support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, and timing of benefit realisation) and mitigations are in place for all risks.

Release 3 go-live target date – 26 April 2019

15. As advised to the Minister of Revenue, we have shifted our target go-live date slightly from 23 to 26 April 2019. As Easter and Anzac Day fall in the same week this year, it makes sense to use the public holidays to minimise the time we will be closed and not available to customers, and to reduce the risk during the cutover to new systems and processes.

16. ^{Withheld under s18(c)(i) of the OIA}

17. The slight shift in the go-live date means that some customers will have fewer working days to prepare and provide us with the information they are required to. This includes, for example, employers filing their final employer monthly schedule on 26 April 2019. We will ensure that no customers are disadvantaged by the closedown. For example, we will not send warning letters or apply late filing penalties for April for employers filing

¹ Last month we reported 55 open risks. Five risks have been closed since the last report – all managed at programme level and not reported to the PGC. One new risk managed at programme level has been opened.

their PAYE returns which would have been due on 20 April 2019, during our closedown period.

18. We are currently working through, with Treasury, whether there will be any cashflow impacts resulting from the go-live date moving from 23 to 26 April 2019.

19. We expect heavy call volumes on Friday, 26 April 2019 due to the extended closure, go-live queries, and Working for Families' customers advising us of changes in their circumstances ahead of the first payment run in START on 29 April 2019. To ensure we are in the best possible position to meet customer demand, we are:

- reducing work on hand as much as possible ahead of go-live
- building the product knowledge and capabilities of our people so we have a wider base of people to call on if necessary
- clarifying work priorities for our people on 26 April 2019 so that everyone is clear what the highest priorities are
- approving leave on 26 April 2019 for our people by exception only.

Release 3 delivery progress

20. 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. We continue to closely manage challenges relating to Release 3 including testing, payday filing, Personal Tax Summary Intermediaries (PTSI's), and tax agents.

21. There is intense work underway to ensure we are well prepared for Release 3 go-live. We are very conscious of the pressure our people are under, particularly our testers, and are managing workloads as well as we can.

Release 3 testing

Current status

22. Overall, the status of testing remains amber. As at 8 February 2019, we had completed approximately 70,100 test scenarios of the approximately 73,700 required (95% complete).

23. Of the baseline testing we expect to complete by 18 February 2019, we are 98% complete having run approximately 62,300 of the 63,300 tests required.

24. We are undertaking additional testing for changes we have approved during baseline testing. We expect to complete approximately 70% of this additional testing by 18 February 2019 and the remaining 30% by 22 March 2019. Of the testing we expect to complete by 18 February, we are 83% complete having run approximately 6,200 of the 7,300 tests required. Of the testing we expect to complete by 22 March 2019, we are 47% complete having run almost 1,500 of the approximately 3,100 tests required.

25. An additional 15,500 tests have been completed in our heritage systems (99.9% complete).

What we are doing

26. We expect to finish our baseline tests for business system testing (making sure START works as planned) by 18 February 2019. Progress is being managed daily to ensure we remain on track and promptly resolve defects. The number of defects is now trending downwards. We expect that there will be tests still to complete post 18 February as we focus on closing out the defects identified during our testing phase. We will also carry some testing over for some changes that we to make to the eServices channel (customer-facing digital services) based on feedback from our latest customer validation activity.

27. We have successfully completed the first mock go-live (a full dress-rehearsal for go-live), which ran from 7 to 18 January 2019. There are four criteria to be met before new systems and processes go-live which are tested during the mock go-lives:

- i. Has all the required data been extracted (from FIRST) and migrated (to START) correctly?
- ii. Has the correct revenue been successfully transferred to Crown accounts?
- iii. Have all the critical cutover tasks been successfully completed?
(these include criteria i and ii above, and zeroing out data in FIRST)
- iv. Have we passed all the business scenarios (for example, can customers make payments or file a return) we expected to?
(this is known as business post-implementation verification)

28. The business post-implementation verification results are a key input into the go/no-go decision over the real go-live weekend.

29. For the first mock go-live we successfully met the first three criteria in full and partially met the fourth. We passed 35 of the 73 business scenarios, failed 17 and descoped 21 scenarios. This result was within expectations as testing is still underway, and as finding and resolving issues is one of the key objectives of testing and is standard for the first of three tests in this regard. The 17 failed scenarios have been raised as defects and will be resolved before the next mock go-live. The 21 descoped scenarios are the result of the scenarios not being ready for the first mock go-live. They are planned to be ready for future mock go-lives. The number of scenarios is likely to reduce as the areas requiring validation become clearer.

30. Our first mock go-live showed we needed more time to complete the load of all data from our legacy systems whilst at the same time getting our new systems ready to transact and finally to test that everything is working as expected. For example, from Release 3 all customer data will be held in START, so a very large amount of data needs to be migrated from FIRST. It took approximately 140 hours for all the data to load to START, which was longer than we expected but indicative of the scale of Release 3. In comparison, Release 2 took 40 hours but with much less data. There are an estimated 19 million accounts to be migrated for Release 3, compared to 1 million for Release 2. We expect that the time to load data will reduce a little and the next two mock go-lives will give us a firmer view of this.

31. Our first round of SBS testing (practicing go-live step by step) began on 28 January 2019 as planned. The first round is designed to find issues that we can improve on for the second and third rounds of SBS testing. We are pleased with the results. As at 7 February 2019, we had passed 340 scenarios of the approximately 800 scenarios to be tested.

What we have planned

32. Two further mock go-lives are scheduled (11 to 22 February 2019 and 11 to 24 March 2019) and we will use these to further refine the timing and sequencing of go-live. A further two rounds of SBS testing are scheduled for 25 February to 8 March 2019 and 24 March to 5 April 2019.

Payday filing

Current status

33. Employers have been slow to register for payday filing. We know from customer feedback that most will not adopt payday filing until close to the mandatory date of 1 April 2019. As at 8 February 2019, just under 21,500 employers had registered for payday filing, representing around 10% of the approximately 200,000 employers in New Zealand. We expect the number of registrations to increase markedly over February and March 2019 as software providers start onboarding their customers.

34. As at 1 February 2019, twelve central and local government agencies are either payday filing or have opted-in to begin payday filing. Withheld under s18(c)(i) of the OIA

35. Many small and medium sized businesses (SMEs) and micro businesses are also waiting for payroll software providers to make a payday filing solution available. As at 1 February 2019, of the 117 software providers, payroll intermediaries and payroll bureaus we are working with:

- 28 have already developed a solution for payday filing and some are testing the solution with groups of their customers
- 12 are currently testing their solution with us
- 77 have informed us they will have their solution ready by 1 April 2019.

36. The top ten developers provide solutions for 90% of customers who use payroll software. Based on the forecasts provided to us by these developers, all their customers will have access to payday filing-compatible software by April 2019.

37. Please note that having a solution available does not mean that their customers have started using it.

What we are doing

38. Since late August 2018, we have:

- Sent 117,000 employers three emails and 18,000 employers three letters. Email open rates ranged from 51-71%, which is well above government benchmarks.
- Run advertising throughout November 2018, using a combination of print, radio, social media, digital display and video advertising.

39. The results so far are pleasing. Independent research conducted by Colmar Brunton in December 2018 found that 85% of businesses were aware of the changes overall, with 92% awareness that payday filing becomes compulsory from 1 April 2019.

40. We have seen a 65% increase in conversations on our social media channels during January 2019, mostly relating to payday filing. The sentiment² amongst business customers has tracked at 21.4% positive, 71.4% neutral and 7.1% negative. Negative sentiment around payday filing is often related to the cost of compliance. For example, where only one person runs the payroll, or the perception that it will take more time because it will be done more frequently. Some positive sentiment came from businesses who found that filing at the same time as doing their payroll was easier than anticipated, and the online guides and videos have been helpful.

41. We ran 350 payday filing seminars during 17 September to 13 December 2018, attended by just under 12,000 customers. The seminars took between 1 to 1 and a half hours and were supplemented with fact sheets (in five languages) and "how to" videos on our website. In addition, we have visited approximately 2,000 tax agents.

42. From Monday 11 March 2019, employers and payroll intermediaries will no longer be able to submit their employer monthly schedules and employer deduction forms using ir-File. Instead they will need to file employment information using the 'payroll returns' account in the business section of myIR.

43. We are doing this to encourage employers to familiarise themselves with submitting information via the new 'payroll returns' account in myIR before it becomes mandatory. We have written to all ir-File users, including professional bodies, to inform them of this change.

44. We are aiming to contact approximately 93,000 SME and micro businesses to educate them about payday registration and filing requirements. As at 15 January 2019, we had contacted approximately 42,000 employers, targeting those who file using MyIR or paper returns. The general feedback we have received is:

- Many employers want to hold off and register closer to 1 April 2019. We are scheduling call backs to either confirm their registrations or walk them through what they need to do.
- There is some concern from smaller employers that payday filing will increase their workload.

² Negative, positive or neutral sentiment means the attitude or opinion expressed within a given post towards a specific subject. It is based on algorithms evaluating whether the words included in a post are related to positive, negative or neutral emotions.

- There is excellent awareness of payday filing.
- Some employers who previously filed by paper are willing to move to electronic filing.

What we have planned

45. We are continuing our communications with all employers about payday filing, to build awareness and encourage employers to make the shift as soon as possible. We will contact employers directly by email or letter a further seven times between January and May 2019, to explain the changes coming. The second round of advertising for employers started on 14 January 2019 and will run until the end of April 2019.

46. Webinars for employers on payday filing will be run during February and March 2019. We have more than 1,000 registrations for the first webinar on 11 February 2019.

47. We will continue to actively engage with government agencies and significant enterprises and continue with our outbound calling campaign to SMEs and micro businesses.

Where we expect to be at 1 April 2019

48. We expect most employers to move to payday filing close to the mandatory date of 1 April 2019 and we are planning accordingly. We will continue to educate and support employers after payday filing becomes mandatory. This will include the following:

- From early April 2019 we will send emails and letters to employers reminding them that payday filing is here.
- From April to 30 June 2019 we will call employers who have not begun payday filing.
- We will ensure our people have the information and tools they need to resolve issues when employers contact us, for example queries about variations and exemptions.
- Advertising will run during April and May 2019 reminding employers to file their employment information every payday.
- Direct Marketing in May 2019 will be targeted at employers who have not yet submitted their employment information.

Personal Tax Summary Intermediaries

Current status

49. All 31 Personal Tax Summary Intermediaries (PTSI) have now agreed to provide us with their clients' contact and bank account details.

50. As at 8 February 2019, 22 PTSIs have provided their data to us and we are validating files that contain approximately 540,000 customers' details. This represents 68% of the 792,000 customers we are expecting to receive data about.

51. Of the remaining 8 PTSIs, we have sent section 17 requests³ to 7 PTSIs and expect them to provide their data by 22 February 2019 or earlier. We are following up with the remaining PTISI which has less than 450 customers.

What we are doing

52. We continue to validate and load data into our systems. We are in the process of loading data for the largest PTISI and once this is complete, approximately 42% of all PTISI customers' details will be updated in our systems. We have also received and validated data from the third largest PTISI and will begin loading this to our systems next. These two PTSIs together account for approximately 50% of all PTISI customers.

What we have planned

53. We expect to receive data for the second largest PTISI, accounting for 21% of customers, by 15 February 2019.

54. As part of validation, we are checking the data we have received against the data we already hold about a customer. Some data provided by PTSIs is older than the data we hold about a customer. For example, some PTSIs have not updated bank account details for some customers since before 2017. In other cases, some information is missing.

55. Our advertising campaign will reinforce the need for individual customers to check their personal details in myIR to validate that all their information is up to date.

Where we expect to be at go-live

56. Although we are confident we will receive data from the remaining 9 PTSIs in the timeframes they have committed to, there is always a risk the data may be delayed or not of high quality. We will regularly engage with these PTSIs until we have received and validated their data.

57. We are confident that all the data we receive will be validated and loaded into our systems before we begin calculating year-end outcomes for the 2.2 million people who only earn income that is taxed at source.

³ Section 17 of the Tax Administration Act 1994 enables us to require information to be provided to us where it is not provided in a voluntary or timely manner.

Tax agents

Current status

58. To ensure tax agents understand what Release 3 means for them and their clients, our approach is based around education, engagement and improving our responsiveness to issues they raise. Overwhelmingly tax agents have told us they want direct communication (such as email) and webinars and seminars.

59. More than 1,000 tax agents attended the webinars run during November and December 2018 and the open rate of 57% for emails is well above government benchmarks.

What we are doing

60. Direct communication recommenced on 4 February 2019 and will run up until go-live.

61. We are continuing to work closely with professional bodies. For example, we presented at the Chartered Accountants Australia and New Zealand (CA ANZ) training day on 23 January 2019, providing an update on myIR functionality for tax agents and on legislative changes.

62. In the lead up to go-live, we are getting a better handle on existing issues – including from the first two releases – and looking at what we can do to address them. We have approximately 100 issues we are working through.

What we have planned

63. Our next webinar is scheduled for 18 February 2019 and has more than 1,000 registrations. We will run 152 seminars (31 for bookkeepers and 121 for tax agents) in 61 locations across the country from 1 to 16 April 2019, with capacity to present to more than 10,000 attendees.

64. Face-to-face visits to high priority tax agents will continue in the lead up to and after go-live.

65. We are meeting with CA ANZ, the Institute of Certified Bookkeepers of New Zealand (ICBNZ) and the Accountants and Tax Agents Institute of New Zealand (ATAINZ) at events throughout February and March 2019.

66. After go-live, we will look at building a better system for managing issues and requests for support. Our aim is to improve how we provide feedback to tax agents about the issues we know about and, of course, what we are doing about them.

Where we expect to be at go-live

67. Although we are confident that we are doing all we reasonably can to ensure tax agents are ready for go-live, there will be some who do not take the preparatory steps they need to. Realistically, there may also be unforeseen issues which arise after go-live.

Other updates

Training

68. Classroom training for our people began on 28 January 2019 and will run until April. Our 32 trainers will be training 3,600 people face-to-face across the country to ensure they are well prepared to support customers after go-live. As at 1 February 2019, 76 sessions had been delivered, with good feedback from attendees.

Independent assurance reviews

69. Fieldwork for KPMG's ninth independent quality assurance (IQA) review and eighth technical quality assurance (TQA) review began on 28 January and runs until 22 February 2019.

70. Fieldwork for the Gateway 4 review (Readiness for Service for Release 3 will run from 25 February to 1 March 2019).

71. We expect to report the findings of these reviews to you, along with our responses to recommendations, by the end of March 2019.

Enterprise support services

72. Modernisation of our infrastructure to support a new and more efficient operating model is a key component of transformation. On 11 February 2019, the first of four releases in our new enterprise support services (ESS) successfully went live. This release delivered a new budgeting and forecasting tool that will simplify, streamline and, where possible, automate these processes.

73. ESS includes everything from human resources and asset management through to finance and procurement. ESS releases are independent of the major releases in April each year, e.g. Release 3 this year, when we move products to new systems and processes.

Finances

74. The overall budget (excluding contingency) for the business transformation programme from 1 July 2018 until 30 June 2019 is \$208.6 million for operating expenditure and \$92.5 million for capital expenditure. The budgets for operating and capital expenditure have changed since the last report to you (IR2018/571 refers) as a result of drawing down on the contingencies held by Inland Revenue.

- The budget for operating expenditure has increased by \$1.8 million to allow for the first year's licence costs for our new enterprise support services platform.

- The budget for capital expenditure has increased by \$1.5 million to allow for the additional hardware required for our new workplace technology.

75. From 1 July to 31 December 2018, operating expenditure was \$11m under budget and capital expenditure was \$0.1m under budget. Based on current forecasts, we expect to complete the delivery of Release 3 within budget (including contingency) for operating and capital expenditure by 30 June 2019.

Release 4 legislative changes

76. During January 2019, we reported to the Minister of Revenue on some proposed changes to student loans and KiwiSaver for inclusion in the 1st Omnibus Tax Bill for 2019. These changes are a result of taking the opportunity to improve the delivery of student loans and KiwiSaver when they move to the new systems and processes in April 2020.

77. A Cabinet paper outlining the student loan changes has been supplied to the Ministers of Education and Revenue (IR2019/011 refers) for consideration by the Cabinet Social Wellbeing Committee on 13 March 2019. The changes will make it easier for borrowers to meet their obligations and enhance the administration of the student loan scheme.

78. A draft Cabinet paper outlining the KiwiSaver changes has been supplied to the Minister of Revenue (IR2019/023 refers) for consideration by the Cabinet Economic Development Committee on 13 March 2019. The changes will improve KiwiSaver members' experience by ensuring their employer contributions are transferred to their accounts more quickly and enhance the administration of KiwiSaver.

Coming up in the next two months

79. Key activities over the next two months include:

February 2019

- Complete second mock go-live.
- Complete second round of scaled business simulation testing.
- Begin pre-deployments.
- Undertake readiness checkpoint 3a.

March 2019

- Complete third and final mock go-live.
- Complete third and final round of scaled business simulation testing.
- Undertake readiness checkpoint 3b.
- Report the findings of the independent quality assurance reviews to you.