



Inland Revenue
Te Tari Taake

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

Date:	6 June 2017	Priority:	Medium
Security level:	In confidence	Report number:	IR2017/332

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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6 June 2017

Minister of Finance
Minister of Revenue

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

Summary

2. Stage 2 work on systems is progressing well with the focus on solution design and baseline solution build. Initial solution testing starts in July.

3. Consultation on the new organisational design concluded on 29 May. We expect to share final decisions with staff in July 2017.

4. The paper 'Stage 2 of transforming New Zealand's revenue system', outlining scope, costs, and benefits, was considered by the State Sector Reform and Expenditure Control (SEC) Cabinet Committee on 3 May 2017. We are now preparing a July transformation update for Cabinet to consider. The first draft will be sent to the Minister of Revenue on 20 June, for SEC's proposed consideration at its meeting on 26 July.

5. On 12 May we began meeting with each of the major banks to discuss mutual opportunities, and innovative ways to resolve compliance issues in a digital environment.

6. Highlights in the coming weeks include:

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

- A targeted public awareness campaign on the Automatic Exchange of Information (AEOI) running from 1 June to 14 July 2017. (See para 22 for detail.)

7. The programme's overall RAG (Red, Amber, Green) status for April is Amber, including both Stage 1 and 2 work programmes.

8. As at the end of April 2017, we are tracking under budget for the Stage 2 Solution Delivery phase that began on 1 March 2017. Actual spend to date is \$39.80m, an underspend of \$10.47m against a pro-forma budget (excluding contingency). The

underspend is driven by changes in the expected timing of expenditure, and some later contract initiation with teams still ramping up. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking to plan.

Highlights

Programme

9. Stage 2 solution design and build is tracking slightly behind schedule, largely due to resource constraints, and is being managed back to plan. Key activities include deployment planning to meet legislated delivery dates, engaging with third parties, and securing resources for the programme (particularly Inland Revenue subject matter experts).

10. Since Stage 1 go live, we have been seeing some reduction in service performance. Phone calls have been taking longer than planned and some debt-related tasks such as instalment arrangements, are taking more time to complete. We are actively assessing the causes of this and preparing targeted customer improvements. For example, introducing a new phone queue for tax agents which will allow them to get any GST-related matters dealt with in a more timely manner. (See para 24 for further work with tax agents.)

11. As noted last month, work on the Independent Quality Assurance review IQA6 is in train. The review started on 29 May and will run to 16 June 2017. The next Gateway review is scheduled from 3 to 7 July 2017.

12. Deputy Commissioner Transformation, Greg James, and Chief Technology Officer, Gary Baird, visited the United States and Finland between 24 April and 5 May to talk with FAST and FAST clients, suppliers Oracle and Accenture, and the Finnish tax administration (Vero). The trip was highly valuable. Key learning centred on the use of the Gentax (START) product, models to deploy change and support, and what research and development initiatives we can expect in the next few years.

13. On 17 May 2017, Inland Revenue hosted approximately 30 officials at a forum for public sector Chief Information/Technology Officers. The session covered governance and planning of a large scale transformation programme, and was an opportunity to talk about capabilities that can be shared across government. Feedback has been very positive.

Policy and legislation

14. Policy and legislative highlights for the month:

- Following the Minister of Revenue's approval of the next steps for Business Tax 2 officials have begun:
 - planning further consultation with external stakeholders, and
 - Withheld under s18(c)(i) of the OIA

- Officials are advancing their analysis and discussions with stakeholders on how to use the principles of AIM for both middle and large enterprises, and will report on progress during August.
 - Withheld under s18(c)(i) of the OIA
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- Withheld under s18(c)(i) of the OIA
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- The Taxation (Annual Rates for 2017-2018, Employment and Investment Income, and Remedial Matters) Bill was introduced on 6 April and the first reading was completed on 24 May. As per the report to Joint Ministers in April, meetings are occurring with Chartered Accountants Australia and New Zealand (CA ANZ) Tax Advisory Group, along with some representatives from the Corporate Tax Group (CTG) and the NZ Law Society to discuss the proposals and submissions on the 'Making Tax Simpler: Proposals for modernising the Tax Administration Act' discussion document.

Our new organisation

15. On 9 May, we released a consultation proposal to all Inland Revenue staff on the design and structure of our three new organisation groups: Customer and Compliance Services – Individuals; Customer and Compliance Services – Business; and Information and Intelligence Services.

16. The consultation proposal provides detailed information on the proposed new structures for each group, roles, transitions, and change management processes. It also sets out what implementation would mean for current Inland Revenue business groups.

17. The consultation period concluded on 29 May 2017. Feedback is now being reviewed before final decisions are made. We expect to share final decisions with staff in July 2017.

18. The new groups would be implemented in January 2018 and, subject to consultation, people confirmed into new roles between July and December 2017.

19. This is an important step in our work to build a different, and smaller, organisation than we have today; one that is intelligence-led and agile, designed around customers, and has broader-based roles for our people.

Implementing Stage 2 tax products and customer improvements

20. Accounting Income Method (AIM): in May officials presented to two large groups of accountants at events, in Auckland and Christchurch, organised by Reckon (an accounting software provider with whom we have been working closely). The presentation covered Business Transformation, how Inland Revenue is working with software providers, and AIM. Due to demand a third event has been scheduled in Tauranga. MYOB has also approached us to do some joint communications in the coming months.

21. On 29 May 2017 Inland Revenue held an AIM workshop in Auckland with software providers, and representatives from the accounting industry and the business sector. The session covered the AIM strategic plan and joint approach to implementing communications, and joint planning and design for the technical stage of the rollout.

22. Automatic Exchange of Information (AEOI): we continue to work actively with financial institutions and their industry associations to help them prepare for 1 July new due diligence obligations.

- On 1 June the Minister of Revenue launched a targeted public awareness campaign 'Sharing information to combat global tax evasion'. This will run to 14 July. The campaign highlights the impacts of AEOI, responsibilities of account holders, and how the information will be used, and involves a two-minute video and targeted social media advertising. It also features on the Inland Revenue website.
- Final Inland Revenue guidance on the Common Reporting Standard is on track for release in early June.
- The brochure for Account Holders has been published and is available from the Inland Revenue website. It is also available to financial institutions for use with their customers.
- The Cabinet Paper (including Order In Council) regarding Reportable Jurisdictions is with the Minister of Revenue's office.
- The list of participating jurisdictions is being finalised internally and will be published by the end of June.
- Determinations were published in the *Gazette* on 26 May, excluding KiwiSaver from AEOI due diligence and Common Reporting Standard obligations.
- In early June we are holding industry information sessions in Wellington, Auckland and via teleconference. In addition to a general update, we have requested stakeholders to contact us with particular topics they would like us to cover.

Stakeholder engagement

23. We are increasing contact with industry organisations, banks, software developers and other parties in preparation for Stage 2 and beyond. This month we met with:

- Industry groups: New Zealand Bankers' Association Executive and Tax Working Group members; CPA Australia's New Zealand country head, and ATAINZ (Accountants and Tax Agents Institute of New Zealand) board members. We also met with the CA ANZ Rural Advisory Committee and 30 public practice members of the CA ANZ Special Interest Group.
- Accountancy software developers: including MYOB, Reckon, TaxLab, Wolters Kluwer (CCH), and Xero to discuss AIM and sharing transactional data to support our mutual customers.
- ACC – PAYE changes (entitlements) and opportunities for tax agent services.

24. We are working closely with tax agents both on the upcoming Stage 2 changes and any follow-up issues to be addressed from Stage 1. This includes:

- Working with tax agents to identify their top five issues on the functionality of the new GST system. We are currently exploring which of these we can fix before Stage 2. We will keep you informed.
- Setting up tax agent focus groups which we expect to start in the coming month. We have contacted tax agent professional bodies and software providers to ask for representatives and volunteers. Both Stage 1 and Stage 2 functionality will be discussed.

25. Other engagements include presenting at a number of tax practitioner workshops hosted separately by Xero and Reckon (topics included Stage 2 scope, AIM, and lessons from Stage 1), and participating in the Ministry of Business, Innovation and Employment small business road shows in West Auckland and Whanganui.

Key risks and issues

26. The programme puts a high priority on identifying and managing risks both at a programme and workstream level. This risk management process involves our programme leadership actively identifying and managing risks, as well as identifying and implementing effective mitigations and controls. Our governance bodies also have oversight of and regularly review our more highly rated risks.

27. The risk management process is a key programme tool that supports us to achieve outcomes, and we have recently enhanced our systems to enable live tracking of risks, issues and dependencies at all levels of the programme.

28. To date, none of the significant programme-level risks have materialised.

This month's risks

29. For this month the Programme's risk profile is Light Amber with a future trend of Light Amber.

30. As at 23 May 2017, the Programme had a total of 56 open risks of which 16 are reported to the Portfolio Governance Board (PGB).

31. Since April, one new risk has been raised at PGB level. This was the risk that the amount of time Business Transformation requires from business groups will significantly disrupt business-as-usual activities (BTR-1634). It is currently rated as 'High'.

32. The status of the other PGB-reported risks has been stable since last month's report. All risks are currently rated as either 'High' or 'Medium'. As reported in April, the exception was a risk relating to unforeseen legislative changes identified post high-level design (BTR-742), which had a current risk level of 'Very High', and is residually rated as 'High'.

33. Detail on individual risks is available on slides 5 and 6 of the attachment 'BT programme status May 2017'.

What's coming up

34. Key activities over the next two months include:

June 2017

- Withheld under s18(c)(i) of the OIA
- Completion of Stage 2 solution design;
- Continuing work on the KPMG independent quality assurance review;
- Preparing the July transformation update for Cabinet to consider (the first draft will be sent to the Minister of Revenue on 20 June);
- Reviewing staff feedback on proposed organisation design;
- Staff workshops to validate initial view of customer and staff changes; and
- Engagement: AEOI forums, MYOB SME workshops, CA ANZ fraud conference and NZ Bookkeepers' conference.

July 2017

- Receiving and analysing submissions on the Individuals and Social Policy discussion documents;
- Organisation design decisions announced to staff;
- Initial Stage 2 solution testing starts; and
- Customer validation sessions for new eServices which includes representation from businesses, tax agents, and individuals.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
Inland Revenue
6 June 2017

Hon Steven Joyce

Minister of Finance
/ /2017

Hon Judith Collins

Minister of Revenue
/ /2017