



**Inland Revenue report: Transformation status update as at 29 June 2018**

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<b>Date:</b>	11 July 2018	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2018/409

**Action sought**

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	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the attached status update	None
Minister of Revenue	<b>Note</b> the attached status update	None

**Contact for telephone discussion** (if required)

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<b>Name</b>	<b>Position</b>	<b>Telephone</b>
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11 July 2018

Minister of Finance  
Minister of Revenue

## Transformation status update as at 29 June 2018

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1. This report summarises the progress and highlights of transformation as at 29 June 2018. Overall, transformation's Red, Amber, Green (RAG) status continues to track amber overall, with all the ten reporting keys stable (as shown below).

Table 1: Transformation's Red, Amber, Green (RAG) status

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

2. There are no significant changes or new risks within the programme since the last report.

3. Over the last three weeks, there have been a series of events that have degraded service and contributed to outages in MyIR. These events have slowly escalated over this period of peak demand.

4. Our heritage systems and processes are complex and fragile. As new systems and processes are introduced, co-existence (the need for old and new systems to connect with each other) has introduced a further layer of complexity. Meeting customer demand during peak filing periods has always been challenging and co-existence has added further to this challenge. Completing transformation as quickly as possible will minimise the amount of time the old and new systems need to co-exist and is the best way to manage this risk.

5. While most customers have been able to access our services and meet their obligations, there have been challenges with our online services. Specifically, some customers could not log-in within an acceptable timeframe and/or experienced issues with how content was displayed when they did log-in.

6. In particular, on 25 June 2018, we became aware that customers were experiencing significant issues with our online services. As a result, customers called our contact centre, putting our capacity under pressure. We re-prioritised resources to our voice channels.

7. We believe we have isolated the issue to load balancing equipment in the network infrastructure. Jointly with Spark, we have put in place remedial steps to minimise the impact to our customers. However we do recognise that customers are still experiencing intermittent issues.

8. Based on our investigations to date, the cause of the issues we have experienced sits in the infrastructure that enables customers to access our online services. The issues are not related to START, which is performing as it should.

9. We are continuing to carefully monitor our digital services in managing the peak period of demand. Customer experience through online channels has returned to the levels normally expected at this time of the year. Following the key filing date of 28 June 2018, approximately 83,000 GST returns had not been filed out of an expected 394,000 returns. This is comparable to the approximately 75,000 unfiled returns at the same time last year.

10. Once the peak filing period has passed, we will implement further enhancements to prevent issues occurring in the future.

11. We are also carefully monitoring the industrial action and do not expect it to have an impact on the programme at this stage.

12. A high-level view of overall progress is in the attachment *BT programme status as at 21 June 2018*.

### **Summary of progress since last report**

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13. Customer take up of the new products and services introduced as part of Release 2 continues to increase as expected. We have now formally exited Release 2 and the focus of future status updates will be Release 3. We will continue to provide information about customer uptake of new products and services in future updates as relevant. Please refer to paragraphs 18 to 20 for more information.

14. The overall status of Release 3 is amber. Good progress is being made in a number of areas and we are bringing additional capacity on where we need to, to ensure we meet our milestones. Business system testing (making sure START works as planned) commenced on schedule on 11 June 2018. We continue to proactively engage with customers and stakeholders to ensure they are ready for the changes coming in April 2019. We are investing considerable time in ensuring our people are ready to support customers. Please refer to paragraphs 21 to 35 for more information.

15. Highlights in the coming weeks include:

- The introduction of the Taxation (Annual Rates for 2018-19, Modernising Tax Administration and Remedial Matters) Bill.
- Completing the design and definition phase for Release 3.
- Completing contract negotiations with the successful suppliers of our data and intelligence platform and web content management solution.

16. The Release 2 solution delivery phase began on 1 March 2017 and will run until 30 June 2018. We are forecasting an under-spend of \$22.1 million for operating expenditure and \$3.7 million for capital expenditure as at 30 June 2018. We are on track to achieve these forecast results. As at 31 May 2018, actual spend to date is \$208.6 million

operating expenditure, an under-spend of \$21.2 million against budget, and \$105.3 million capital expenditure: an under-spend of \$4.9 million against budget (excluding contingency).

17. We have recently made some changes to the reports we provide to our governance bodies. As a result, information is now available slightly earlier in the month than previously. This means we will be able to provide you with status updates earlier than we have previously.

## **Release 2 highlights**

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### *Customer uptake*

18. Customer uptake of new services continues to grow. As at 29 June 2018:
- just under 3,000 payday returns had been filed by just over 500 customers
  - more than 30,000 withholding tax returns had been filed, and
  - more than 1,100 customers have filed an AIM return.
19. In addition, more than 500,000 employer monthly schedules had been filed, containing more than 10 million items of employee data.

### *Automatic Exchange of Information*

20. AEOI highlights since the last report include:
- A number of financial institutions have begun freezing or closing accounts where the financial institution has been unable to validate a customer's tax residency.
  - Financial Institutions have begun submitting their common reporting standard information.

### *Exiting Release 2*

21. On 21 June 2018, the Portfolio Governance Committee (PGC) approved exiting early life support (ELS) from Friday 29 June 2018. All Release 2 systems and processes will be managed by business-as-usual teams from 2 July 2018. ELS remains in place, as planned, for all first-time events run after 30 June 2018. A first time business event is the first time a key business activity or process is completed in our production systems.

## **Release 3 – April 2019**

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22. Release 3 is a group of changes being implemented from April 2018 through to the end of June 2019. It is a significant release as the products in scope—income tax and Working for Families—affect most New Zealanders. It is more complex and higher risk than the first two releases, as changes to systems, processes and legislation will affect businesses, individuals and Financial Institutions.

23. We expect to have completed detailed planning by September 2018, and will then be in a position to brief you on the implications for customers and work-flows. Our engagement activity continues (please refer to appendix 1) to ensure that customers are aware of the changes coming next year.

24. In addition to the changes being delivered by START and legislative reforms, other changes will be made to some of our key capabilities to enable us to better support customers. This includes changes to our digital services, a new data and intelligence platform, and changes to our workplace technology.

#### *Delivery progress*

25. The overall status of Release 3 is amber. Definition sessions for START design and heritage systems co-existence design continue and are expected to be complete by the end of June 2018 as planned.

26. Business system testing (making sure START works as planned) began on schedule on 11 June 2018.

27. While the first phase of testing is underway, progress on business function definitions (these describe what the solution needs to do for a particular activity, e.g. register a customer or file a return) and test scenarios for eServices is slower than we would like. There is some resource contention and this is on daily watch. We are adding capacity by seconding more people from the business and bringing in six professional testers. This should speed up the writing of test scenarios in particular.

28. We have identified the need to work with the industry to ensure that Release 3 changes do not inadvertently cause significant delays in processing times for eFile (e-File returns are currently sent to FIRST, from Release 3 they will be sent to START). This is underway and impact assessments have been completed with software providers. Completing impact assessments for tax agents is our next focus.

#### *Employment and investment income information changes*

29. Our account management team continues to work with customers to raise awareness of the new reporting requirements for employment and investment income.

30. A number of large customers are expressing interest in adopting payday filing earlier than the mandatory date of 1 April 2019. These include Withheld under s18(c)(i) of the OIA

We have established a working group to ensure we prioritise supporting customers appropriately as they begin to file employment information more regularly.

31. We have some concerns about the ability of software developers to be on board in time for mandatory payday filing as uptake rates continue to be low. Mandatory address fields are causing problems for some developers as they are struggling to fit their data

into the payday filing schema. We continue to work closely with software providers to ensure their products are ready for customers to use for payday filing from 1 April 2019.

32. Discussions regarding the implementation of more detailed and regular reporting of investment income are underway with major Financial Institutions including the NZ Bankers Association (NZBA) and Financial Services Council (FSC). We are also working with the major banks to ensure that implementation approaches and timelines are aligned.

#### *Design review workshops*

33. A successful design review workshop was held in Auckland from 12-14 June 2018. The workshop was attended by 60 people from around our business in roles that require them to use START. The majority were in customer-facing roles.

34. The purpose of the workshop was to:

- get current users to test the process and system early to understand how it will work for us and our customers and identify gaps which could trip us up later
- help us understand the impacts of the system and process design on our day-to-day work to see if this will change the way we work in future.

35. The design review workshop is an opportunity for people to get hands on with the system and to give us feedback about what works and what doesn't. There was good feedback on some improvements we could make.

36. A final design review workshop was held with the Executive Leadership Team on 20 June 2018. This focused on the outcomes of the earlier workshop, including customer and business changes. The objectives were to better understand what the impacts will be, when they will happen and agree what action we need to take to ready both customers and ourselves for the changes being made.

### **Supporting customers to adopt new products and services**

#### *Accounting Income Method (AIM)*

37. Our new gateway service has had nearly 3000 hits to date. These are first-time customers checking their eligibility for AIM, a large proportion of which have been successful. This indicates that the right businesses are considering using AIM.

38. The gateway service is running as planned and there is a smooth customer experience for first-time adopters of AIM.

39. Now that the 28 June filing date has passed, we will analyse who has taken up AIM and which agents have clients using AIM. This will enable us to target our communications and marketing activity.

40. We continue to work closely with software providers to help them support their customers throughout the process and work through any feedback received. Although businesses remain largely positive in their response, some accountants have continued to show a reluctance to promote AIM or use it on behalf of their clients in the first year.

41. We regularly meet with MYOB, Reckon and Xero's marketing teams. Feedback from the latest meeting with Xero is that they are continuing to promote AIM through their marketing collateral and are monitoring uptake. We met with MYOB on 25 June 2018 and a catch up with Reckon is scheduled for 5 July 2018. We will provide an update on their marketing activity in the July report.

## **Other highlights**

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### *Policy and legislation*

42. Policy and legislative highlights since the last report include:
- Good progress is being made on the PAYE error correction regulation drafting instructions.
  - Withheld under s18(c)(i) of the OIA

### *Commercial arrangements*

43. Market engagement activity has continued since the last report.
- The evaluation process for our advanced analytics platform has been completed and the recommendations paper has been submitted to our governance forums for approval. Commercial discussions are on-going with the recommended respondent with a plan to have all contractual terms finalised shortly.
  - The successful suppliers of our web content management system are Sitecore (solution provider) and AKQA (implementation partner). Contract negotiations will now commence with both suppliers and debriefs with the unsuccessful suppliers will be carried out. An external facing test site will be setup by end of August 2018 for customers to test the functionality, look and feel of our new website.
  - Oracle has been selected as our preferred technology provider for enterprise support services (pending successful negotiations). The next step is to select an implementation services company to help us with the configuration of Oracle Cloud. This will be a separate closed request for proposal which will be limited to those providers that Oracle has told us have the skills needed.
44. The service improvement plan agreed with Spark continues to be an area of focus. Progress and feedback are positive.

## **Key risks and issues**

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45. Identifying and managing risks and issues across the programme remains a high priority. During June 2018, the key transformation risks and issues were reviewed by the senior leadership team.

### *This month's issues*

46. No new issues were reported to the Portfolio Governance Committee (PGC) during June 2018.

47. One issue previously reported to the PGC (IR2018/265 refers) has been closed. The issue relating to customers not always being notified when a tax agent links to their account will be resolved as part of Release 3.

### *This month's risks*

48. 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.

49. As at June 2018, the programme had a total of 56 open risks, of which 14 are reported to the PGC.

50. One risk reported to the PGC has been closed since the last report. The risk relating to capacity limitations of key resources has been closed as it did not eventuate for Release 2. A similar risk has been opened for Release 3 and is currently being managed at programme level.

51. The status of one risk reported to the PGC has deteriorated since the last report. The current rating for the risk relating to benefit realisation has increased from high to very high, reflecting the benefits key reporting light amber as reported last month (IR2018/348 refers). A very high rating means the likelihood of this risk occurring is possible, with major consequences if it did. Once some key implementation decisions have been made that will influence where the impacts of Release 3 are felt, the rating of this risk will be revised.

52. Details on individual risks are available on pages 5 and 6 of the attachment *BT programme status as at 21 June 2018*.

## **What's coming up in the next two months**

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53. Key activities over the next two months include:

### **July 2018**

- Complete the definition and design phase for Release 3.
- Finalise July 2018 transformation update and Cabinet paper for consideration by the Cabinet Government Administration and Expenditure Review Committee.
- Complete the pilot of our new workplace technology.

### **August 2018**

- Brief the Finance and Expenditure Committee on transformation.
- Begin piloting our new website with customers.

## **Recommended action**

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

Noted

Noted

### **Greg James**

Deputy Commissioner, Transformation

11 July 2018

### **Hon Grant Robertson**

Minister of Finance

/ /2018

### **Hon Stuart Nash**

Minister of Revenue

/ /2018

## Appendix 1 – Stakeholder engagement June 2018

<b>Industry group associations</b>	
5 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
6 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
7 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
8 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
12 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
14 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
15 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
21 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
26 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
<b>Customers</b>	
6 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
7 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
8 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
12 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
13 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
14 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
15 June 2018	<ul style="list-style-type: none"> <li>Withheld u</li> </ul>
18 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
21 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
22 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
25 June 2018	<ul style="list-style-type: none"> <li>Withheld under s1</li> </ul>
26 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
27 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
29 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
<b>Software providers</b>	
6 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
11 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
13 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
15 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18</li> </ul>
18 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
20 June 2018	<ul style="list-style-type: none"> <li>Withheld under s</li> </ul>

25 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>
29 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18</li> </ul>
<b>Other Government agencies</b>	
5 June 2018	<ul style="list-style-type: none"> <li>Stats NZ</li> </ul>
7 June 2018	<ul style="list-style-type: none"> <li>ACC</li> </ul>
12 June 2018	<ul style="list-style-type: none"> <li>Stats NZ (Release 3 information sharing arrangements)</li> </ul>
13 June 2018	<ul style="list-style-type: none"> <li>Treasury (Release 3 information sharing arrangements)</li> </ul>
14 June 2018	<ul style="list-style-type: none"> <li>ACC (Release 3 information sharing arrangements)</li> </ul>
19 June 2018	<ul style="list-style-type: none"> <li>Stats NZ</li> </ul>
20 June 2018	<ul style="list-style-type: none"> <li>Ministry of Social Development (Release 3)</li> </ul>
21 June 2018	<ul style="list-style-type: none"> <li>ACC (Release 3)</li> </ul>
<b>Tax Pooling Intermediaries</b>	
7 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of th</li> </ul>
8 June 2018	<ul style="list-style-type: none"> <li>Withheld under s18(c)(i) of the OIA</li> </ul>