



Inland Revenue
Te Tari Taake

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

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|------------------------|------------------|-----------------------|------------|
| Date: | 13 December 2017 | Priority: | Medium |
| Security level: | In confidence | Report number: | IR2017/641 |

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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|-------------|-------------------------------------|------------------|
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13 December 2017

Minister of Finance
Minister of Revenue

Business Transformation programme: Status update for joint Ministers – November 2017

1. This report summarises progress and highlights of transformation for November 2017. A high-level view of overall progress can be found in the attachment 'BT programme status November 2017'.
2. On 13 December 2017, the Minister of Revenue is scheduled to be briefed on transformation by the Commissioner, the Deputy Commissioner Policy and Strategy, the Chief Financial Officer and me. Ahead of this meeting we have provided the Minister with some more detailed information, setting out the background to transformation and what it will deliver for New Zealanders, and describing how we are going about transforming the revenue system (IR2017/602 refers).

Summary of progress since last report

3. We remain on track to implement Release 2 as planned in April 2018. Business system testing, making sure START (our new core tax and social policy technology platform) works as expected, is slightly behind schedule. It will overlap with scaled business simulation testing, practicing go-live step-by-step, which will begin in early 2018. This is manageable and also occurred during Stage 1. Preparations for the first mock go-live, practicing the tasks that occur during cutover weekend (go-live weekend when old systems are turned off and new systems are turned on), and the second readiness assessment checkpoint, which assesses our readiness to begin training, are well underway. Both of these are key milestones for Release 2 (refer to paragraphs 9 to 16 for more information).
4. Release 2 includes the introduction of the Accounting Income Method (AIM) option for provisional tax. Implementation is on track. We continue to work closely with software providers as they develop their AIM-capable software, and to build awareness and understanding of AIM through our engagement and communications activity (refer to paragraphs 17 to 23 for more information).
5. 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. The first hearing regarding one of the legal challenges from the Public Service Association (PSA) about aspects of the process we are using to move people into new roles has been held. The Employment Relations Authority decided in Inland Revenue's favour and the PSA has appealed this to

the Employment Court. A further hearing has been set for 15 December 2017 (refer to paragraphs 25 to 29 or more information).

6. Highlights in the coming weeks include:
 - continuation of business system testing for Release 2
 - completing making offers to staff moving into roles in our three new organisation groups.
7. Transformation's overall Red, Amber, Green (RAG) status for November is Amber.
8. As at the end of October 2017, we are tracking under budget for the Stage 2 Solution Delivery phase, which began on 1 March 2017. The actual spend to date is \$157 million, an under-spend of \$16 million against budget (excluding contingency). As a result of changes made to the timing of impacts resulting from our new organisation structure, some cost will occur in later periods. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking under budget.

Highlights for November 2017

Release 2 – April 2018

9. 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.
10. Business system testing, which is about making sure START works as expected and meets business and legislative requirements, is slightly behind schedule. This phase of testing is likely to overlap with the next phase. Scaled business simulation testing will begin in early 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.
11. Planning for the first mock go-live in December 2017 is well in hand. A mock go-live includes as many of the tasks that will be undertaken during cutover weekend as possible, including rolling back changes if necessary. There are three mock go-lives scheduled in the run up to cutover weekend, which is 13-16 April 2018.

¹ Subject to legislation

12. Training and internal communications activity for Release 2 is now underway. For Release 2, training will be delivered in four parts. Pre-learning, online learning and classroom training will be completed before go-live, supplemented by on-the-job learning after go-live. Pre-learning modules were made available on 27 November 2017, including modules on what's happening for Release 2, how START works, how to use START and managing work in START. The Release 2 training environment is also available for Inland Revenue people to practice using START.

13. Pre-learning is expected to take between 2 to 5 hours for most people. Just like Stage 1, people will complete their pre-learning followed by further training if required. Not everyone will require classroom training. For those that do, sessions will run across the country from 30 January 2018 to 12 April 2018 – one week before go-live. Further on-line modules will also be available from 30 January 2018.

14. A short series of three videos has been developed to make it easy for everyone at Inland Revenue to understand what's changing for Release 2. The videos are high level animations that provide an overview of the key changes. The first two videos were released on 20 and 30 November 2017 and the third was released on 8 December 2017.

15. Customer communication is also underway and will ramp up from early 2018. To date, we have largely used existing Inland Revenue ways of communicating, such as the Agents' Answers newsletter and webinars, to provide an overview of Release 2. Specific activity has also been in place to support uptake of AIM (refer to paragraphs 18 and 19). From 2018, there will be more direct communications with customers, including emails, advertising, and social media.

16. A business readiness framework tracks our preparedness for go-live. A detailed checklist measures progress across customers, service providers, Inland Revenue and transformation. It provides visibility of "are we where we expect to be?" at a particular point in time. As was the case with Stage 1, there will be six checkpoints in the lead up to go-live. The first checkpoint was mid-October 2017 and assessed our readiness to start testing. During November, information gathering for the second readiness checkpoint in mid-December 2017 began, and included a survey of our people. This checkpoint assesses our readiness to begin classroom training.

Accounting Income Method

17. AIM implementation is on track. We are working closely with Xero, MYOB, and Reckon as they develop their AIM-capable software to ensure that it is simple and easy to use. We understand that these three software providers are planning to release their AIM products after the New Year.

18. We are continuing to raise awareness of AIM through our communications and marketing activity. Around 3,500 people listened to the five AIM webinars we provided in September, October and November 2017. Our communications remind customers that recordings of past webinars are available on demand. There will be three more webinars on AIM in the New Year, one aimed at small businesses and two at tax agents.

19. General information about AIM was published on our website in late September 2017, and has received about 7,000 unique views. We have launched a marketing campaign to promote the use of software. While not specifically directed at AIM, it is likely to encourage customers to consider using AIM.

20. The AIM tax determinations were released in early November 2017. The determinations describe fully to software providers how AIM is going to work. However, the level of detail in the determinations has left some accountants feeling that AIM is going to be too complicated and too much work. We are working to make sure that tax agents understand that the software does all the tax calculations, and not the tax agent.

21. We believe this misapprehension may have prompted the results in a recent survey by Chartered Accountants Australia New Zealand (CA ANZ). This found that only a quarter of the approximately 400 CA ANZ members who responded to the survey will recommend AIM to their clients (down from over a third last year). We don't believe this viewpoint is shared across the tax industry – the feedback received from the AIM webinars is that many tax agents see immediate benefits for their clients.

22. The survey also found that most members continue to hold a positive opinion of Inland Revenue. The vast majority of members rate their experiences with us as either excellent (4%), very good (31%) or good (43%).

23. The focus of communications over the coming months is to continue to provide information to tax agents, particularly to emphasise that AIM is easy and not complicated. We will also focus on raising awareness among small businesses and encourage them to seek more information from their tax agent, if they have one.

Release 3 – April 2019

24. 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 is being made with in-depth design and scope working sessions held in early December 2017. The detailed scope of Release 3 is expected to be confirmed in early 2018.

Implementing the new organisation design

25. We are on track to implement the first wave of our new organisation design in early 2018, although this is not without its challenges. Customer and Compliance Services Individuals, Customer and Compliance Services Business and Information and Intelligence Services will be established from 12 February 2018.

26. As advised in last month's report (IR2017/593 refers), the Public Service Association (PSA) has initiated legal proceedings regarding aspects of the process for moving people into new roles.

27. In September 2017, the PSA advised that it intended to challenge the use of psychometric assessments as part of the selection process for team lead, specialist and support roles. The assessments are one of three components in the selection process. We agreed with the PSA that the case would be heard by the Employment Court. We have now been advised by the Employment Court that the case will be heard from 14-28 May 2018. In order to give people certainty before Christmas, the selection process has been amended and people have been asked to answer written questions based on the capabilities needed in these roles. This will help to fill the gap created by not using psychometric assessments. People will know what the outcome is for them by 15 December 2017.

28. In early November 2017, the PSA initiated further legal proceedings in relation to the offers of appointment made to staff in customer-facing roles. The proceedings challenged these offers in relation to collective bargaining. The case was heard by the Employment Relations Authority (ERA) on 20 November 2017. On 29 November 2017, the ERA decided in favour of Inland Revenue. On this basis, the process for moving staff into new roles is continuing. The PSA has appealed this decision to the Employment Court. A hearing date has been set for 15 December 2017.

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

Quality assurance

30. The next assurance reviews are planned for early 2018, ahead of the planned Release 2 go-live in April. We are in the process of agreeing the terms of reference for the reviews with the corporate centre.

31. An independent quality assurance / technical quality assurance (IQA 7 / TQA 6) review will be undertaken by KPMG, our independent assurance provider. Fieldwork is expected to take place from late January to mid-February 2018. The IQA 7/ TQA 6 will review general programme practices such as governance, management, benefits, risks and issues, and complete an in-depth review of our readiness for go-live of release 2. This will include looking at testing, change management, training, and customer and business readiness.

32. 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.

33. While the fieldwork is taking place, you will both be provided with the opportunity to meet with the assurance review teams should you choose to do so.

34. Once the reviews have been finalised, we will provide you both with a report about their findings and recommendations, and our responses to them. You will both also be provided with the opportunity to have a full debriefing with senior staff from transformation. Following that, we will publish the summaries of the reviews on our website.

Policy and legislation

35. Policy and legislative highlights for November 2017 include:

- Withheld under s18(c)(i) of the OIA
- working with the adviser to FEC on some questions concerning the Officials' Report
- Withheld under s18(c)(i) of the OIA
- Withheld under s18(c)(i) of the OIA
- preparing a briefing for the Ministerial meeting with the Online Tax Association of New Zealand (OTANZ) held on 1 December 2017
- Withheld under s18(c)(i) of the OIA
- assisting with the Business Transformation and operational considerations of the 100 day plans
- continuing with business as usual, such as the policy work to support Releases 2 and 3 and Withheld under s18(c)(i) of the OIA

36. Automatic Exchange of Information (AEOI) highlights for the last two months include:

- Our engagement with financial institutions (FI) continues. Industry Briefings have been held in Auckland, Wellington and via audio. These sessions focused on how domestic FIs will be reporting their account holder information to us. We walked through the three submission methods i.e. online form, spread-sheet and XML. In addition, a webinar was held on 20 November and 280 customers attended. This session had a "back to basics" focus due to the number of queries we are now receiving from customers who are starting to understand that they (or their clients) may be considered a FI under the Common Reporting Standard (CRS) and may therefore have reporting obligations.
- The testing of the technology solution is progressing. We plan to provide a test environment for our FIs to check that their information meets the required standard from mid-January 2018. The production solution will be available from mid-April 2018.
- The number of queries we receive from FIs has increased. This is due to the increased awareness of the CRS and customers wanting to ensure they understand their (or their clients) obligations.

Stakeholder engagement

37. Events in November 2017 included:

- Meetings with large businesses to build awareness and understanding of transformation – Withheld under s18(c)(i) of the OIA

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

- Webinar for tax agents, bookkeepers and businesses (6 November) providing an overview of Release 2 changes.
- AEOI briefings (6 and 7 November) to update industry stakeholders about implementation progress and showcase new reporting procedures. Attendees included the major banks, major accounting firms, the Law Society, the New Zealand Bankers Association, Chartered Accountants Australia and New Zealand (CA ANZ) and the Corporate Taxpayers Group (CTG).
- Engagement with other central and local government agencies continued at two levels - ensuring alignment of change programmes through meetings with the Department of Internal Affairs (DIA - 8 November), Statistics New Zealand (16 November) and the Ministry of Social Development (MSD - 24 November), and specific discussions regarding payday reporting Withheld under s18(c)(i) of the OIA (13 November), Ministry for Pacific Peoples (21 November), Ministry of Māori Development (29 November), and the Department of Conservation (30 November).
- Activity to support the introduction of the Accounting Income Method (AIM) option for provisional tax continued with two webinars (13 and 27 November) and presentations to CA ANZ members in Dunedin (22 November) and Invercargill (23 November) and via webinar (29 November).
- Discussions with the major banks continued – meetings with Withheld under s18(c)(i) of the OIA enabled lessons from Inland Revenue's implementation of RealMe to be shared, opening up the possibility of federated authentication. This would enable single sign-on by a user across multiple IT systems or organisations. Further meetings were held with Withheld under s18(c)(i) of the OIA to discuss PAYE, GST and Release 2 changes, and with Withheld under s18(c)(i) of the OIA to discuss opportunities for future payments.
- Engagements with tax professionals and their representatives bodies also continued – meetings this month included the Accountants and Tax Agents Institute of New Zealand (ATAINZ) in Napier (15 November) and at its board meeting (24 November), CA ANZ annual conference (16 and 17 November) and regional meeting in Christchurch (24 November).
- Industry group association engagements to provide visibility of transformation and the release 2 changes in April 2018, and to discuss potential opportunities to support their members included – Withheld under s18(c)(i) of the OIA

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

- Discussions with other agencies to ensure existing information sharing arrangements continue to work following Releases 2 and 3 are on-going – meetings this month were held with ACC (22 November), Statistics New Zealand (23 and 28 November), DIA (24 November) and MSD (27 November).

Commercial arrangements

38. During November 2017, a number of commercial agreements were progressed. These included:

- a further statement of work (SoW) was agreed with Deloitte for the on-going work providing an identity and access management solution
- selecting Vodafone as our provider for network connectivity to move us to the AoG common capability (Telecommunication as a Service). The other respondents to the request for proposal (RFP) have been informed. Debriefing sessions will be undertaken.

39. December is a busy month with market engagements for web content management, analytics and planning for an enterprise support services technology solution.

40. We continue to contribute to and learn from cross-government engagements. Discussions with the Department of Conservation regarding cloud services provided great insight into our preparing and planning for our adoption of Public Cloud Services.

Key risks and issues

41. Identifying and managing risks and issues across the programme remains a high priority. During November 2017, the key transformation risks and issues were reviewed by the senior leadership team and some changes were made to risk ratings as a result.

This month's issues

42. During November 2017, four issues with customer impacts were closed. Solutions for resolving these issues have been identified and endorsed through our governance processes. The issues resolved included:

- transitioning customer financial transaction information from FIRST to START
- providing tax agents with visibility of customer financial transaction information.

This month's risks

43. 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.

44. As at November 2017, the programme had a total of 55 open risks, of which 15 are reported to our Portfolio Governance Committee (PGC).

45. The status of one PGC-reported risk has improved since the last report. This relates to transformation being unable to attract and retain the right people. Retaining people is now being assessed as a separate risk. All risks are currently rated as either 'High' or 'Medium'.

46. The number of PGC-reported risks has not changed since the last report.

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

What's coming up in the next two months

48. Key activities over the next two months include:

December 2017

- Continue business system testing.
- Complete selection processes for team lead, specialist and support roles.
- Attend Employment Court hearing regarding offers for staff in customer facing roles.

January 2018

- Begin scaled business simulation testing.
- Complete preparations for the establishment of the first three of our new organisation groups.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation

Inland Revenue

13 December 2017

Hon Grant Robertson

Minister of Finance

/ /2017

Hon Stuart Nash

Minister of Revenue

/ /2017