

**Proactive release** This document was released by Inland Revenue under section 81(1B) of the Tax Administration Act 1994. Some information has been withheld as the Government has yet to make decisions on the matter, or it is not able to be released under tax secrecy provisions. This release supports the purposes of the Official Information Act 1982 by increasing progressively the availability of official information to the people of New Zealand



## **Inland Revenue report: Transformation status update: June 2019**

<b>Date:</b>	4 July 2019	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2019/203

### **Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	None
Minister of Revenue	<b>Note</b> the contents of this report	None

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

<b>Name</b>	<b>Position</b>	<b>Telephone</b>
Ron Grindle	Acting Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA

4 July 2019

Minister of Finance  
Minister of Revenue

## **Transformation status update: June 2019**

---

### **Executive summary**

---

1. This report summarises the progress and highlights of transformation for June 2019.
2. As at 3 July 2019, more than 1 million refunds had been issued, totalling more than \$443 million. Approximately 217,000 tax bills were issued, totalling just under \$80 million. Approximately 454,000 tax bills were written-off. The automatic calculation process is now nearly complete. We expect to finish the last run of assessments by 12 July 2019.
3. Tax products and Working for Families continue to operate successfully on new systems and processes. From 26 April to 30 June 2019, approximately 4.6 million returns were processed, and just under 1.6 million Working for Families payments were made.
4. We are continuing to see high volumes of customer interactions. Demand for myIR is double what it was last year. We are receiving feedback from customers who are frustrated with delays in getting through to us on the phones.
5. Issues continue to be actively managed and resolved. We have established a dedicated team to improve how things are working for tax agents.
6. We exited hyper-care as planned on 28 June 2019.
7. Transformation's Red, Amber, Green (RAG) status has improved to light amber overall this month (as shown in table 1 below) following the commencement of the automatic assessment process for individuals and the good progress being made on Release 4. While the status of the individual keys has not changed since the last transformation status update (IR2019/201 refers), we are seeing improving overall trends with the Release 4 plan re-baselined (by comparing to where Release 3 was at a similar time last year) and the extended support period (Pou Whirinaki) continuing to effectively direct post Release 3 go-live activities. Collectively, these improvements have contributed to the change in the overall rating.

Table 1: Transformation's RAG status

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

**Recommended action**

---

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

Noted

Noted

**Ron Grindle**

Acting Deputy Commissioner, Transformation

4 July 2019

**Hon Grant Robertson**

Minister of Finance

/ /2019

**Hon Stuart Nash**

Minister of Revenue

/ /2019

## **Key risks and issues**

---

9. The programme's risk profile has improved to light amber. A light amber profile means that appropriate mitigations are in progress and are expected to be successful. There is no expected impact on key dates.
10. No new issues (risks that have been realised) were reported to the Portfolio Governance Committee (PGC) during the month.
11. As at June 2019, the programme had a total of 47 open risks,<sup>1</sup> of which 13 are reported to the PGC.
12. Two risks reported to the PGC were closed during the month.
13. One of the closed risks relates to the time commitment required from business groups to support transformation. This risk has been superseded by a new risk, which is being managed at programme level. The new programme-level risk relates to conflicting priorities for the resources required for transformation, which may result in a lower level of focus and engagement on transformation than necessary.
14. The other closed risk relates to our ability to recruit the right people. This risk has not materialised and the programme has less than two years left to run.
15. These changes do not impact on our ability to deliver Release 4. There has been no change in the status of any of the other risks reported to the PGC.
16. The top risks for transformation are support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, timing of benefit realisation, and meeting the planned go-live date for Release 4. Mitigations are in place for all risks.

## **Finances**

---

17. The overall budget (excluding the contingency held by the Commissioner) for the transformation programme, from 1 July 2018 until 30 June 2019, is \$182.3 million for operating expenditure and \$93.5 million for capital expenditure.
18. From 1 July 2018 to 31 May 2019, operating expenditure was \$19.9m under budget and capital expenditure was \$2.1m under budget. We expect to complete the delivery of Release 3 within budget (including the contingency held by the Commissioner).
19. On 20 June 2019, the PGC approved the overall budget for transformation for the period from 1 July 2019 to 30 June 2020. The budget for operating expenditure is \$218.1 million and \$89.8 million for capital expenditure for the year ending 30 June 2020. During the period, the PGC is holding contingencies of \$10 million in operating expenditure and \$8 million in capital expenditure.

---

<sup>1</sup> The number of open programme risks has declined by five; seven risks were closed during the month including two reported to the PGC, and two new risks were opened, both of which are managed at programme level.

## **Automatic assessment of individuals' income tax position for the 2018/19 year**

20. As at 3 July 2019, we had completed automatic assessments for 2,279,528 customers. Of this, 1,861,417 assessments had been completed:

- 1,002,165 refunds were issued totalling \$443,063,120 at an average of \$442 per customer;
- 162,400 refunds were less than \$1 and will be held until the amount reaches \$1 (total value of \$40,733 with an average of \$0.25 per customer);
- 454,408 bills for tax to pay were less than \$50 and will be written-off (total value \$3,173,508 at an average of \$6.98 per customer);
- 216,850 bills for tax to pay of more than \$50 were issued (total value \$79,572,377 at an average of \$367 per customer); and
- 25,594 were nil assessments (people paid exactly the right amount of tax).

21. We have sent 555,478 requests for more information to customers, for example, asking them about other income or deductions they may be able to claim. Customers have 45 days to provide any additional information required. Approximately 137,000 customers have already responded and are included in the refunds and bills to pay numbers above.

22. Bills to pay haven't generated the level of concern we expected. However, it is clear that many customers see refunds as the natural order of things and are surprised that having a bill to pay could even be a possibility.

23. However as we can now associate more of an individual's income with them, we are now more easily able to identify errors as a result. We have already identified a number of areas which have proven difficult for people to get right, including prescribed investor rates, and we will report to you on these separately.

## **Maintaining services for customers**

24. Tax products and Working for Families continue to operate successfully on new systems and processes. From 26 April to 30 June 2019, approximately 4.6 million returns were processed, including approximately:

- 1.35 million employment information returns;
- 666,000 GST returns;
- 1.8 million individual income tax returns; and
- 556,000 resident withholding tax returns.

25. In addition, more than 1,566,000 Working for Families payments were made.

26. Around 90% of employers have now filed a payday return. We surveyed selected employers from 12 April to 30 May 2019 about their experience of payday filing. In total, 5,910 employers responded. The survey focused on the experience of first-time filers, including how easy it was to file (or not). Overall, the ease of payday filing was low for first-time filers and relatively high for repeat filers (with scores averaging over 80%). It is

possible that first-time filers may have been resistant to payday filing. Businesses filing via a software provider are finding payday filing the easiest.

27. Call volumes are in line with what we expected both in terms of number and type of contact. We have received feedback about frustrations regarding delays in handling calls, as is usual at this time of the year, and customers waiting for their refunds.

28. Some groups of customers have required reassurance. Some older customers have come into our offices in person concerned about the changes and needing reassurance. Other contacts have come from customers worried about scams and seeking reassurance about what is or is not valid.

29. The unexpected closure of our Palmerston North office on 13 June 2019 has reduced the number of people we have available to answer calls. We have provided all our people with mobile devices so they can work from home and are continuing to work on finding temporary accommodation. From 27 June 2019, around 40 of our people will be working out of the Ministry of Social Development's StudyLink site in Palmerston North. Until we find temporary accommodation, our Palmerston North team will be working on other work and not taking customer calls.

30. From 17 June 2019, we brought on board an additional 40 people from our temporary labour force to help us process donations tax credits more quickly. We have been receiving feedback from customers frustrated about the time taken to process these. With the additional staff we were able to process an additional 5,000 returns in the first week and expect this to ramp up quickly once the additional staff are fully trained.

31. Customers are continuing to use digital channels. As at 30 June 2019, there had been 16.9 million logins in to myIR since go-live. This is a 90% increase on the 8.9 million logins for the same period last year.

32. Early life support continues to go well, with the total number of open issues (a request for help raised by one of our staff) and incidents (created when we have determined we need to fix something) having stayed reasonably flat in recent weeks.

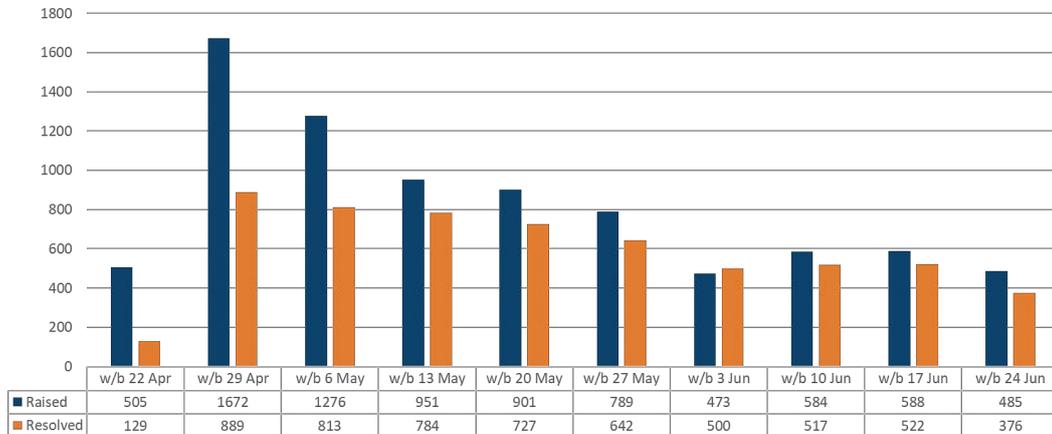
33. As shown in the graph on the next page, we are now resolving issues which need an enhancement almost as quickly as new ones are being raised. As at 30 June 2019, we had resolved approximately 72% of the issues raised which require enhancements to resolve since go-live.

34. The majority of issues raised since go-live have been resolved without needing any system or process enhancements. Of the approximately 9,100 issues raised since go-live, more than 6,500 have already been resolved.

35. Since go-live we have deployed over 1,800 technical changes. In addition, over 800 non-technical changes have been completed, for example updates to START Help or training material. Approximately 3,800 issues have been resolved by teams working together or with the desk side support teams.

Graph 1: Issues raised and resolved since 26 April 2019

## Issues raised and resolved



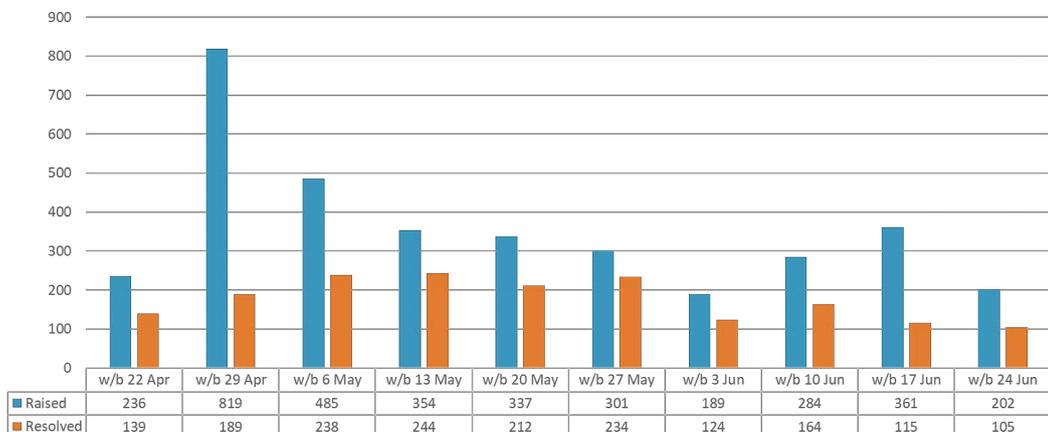
37. The dedicated team working to address the issues tax agents have raised is making good progress. We have now closed approximately a third of the priority issues identified. Tax agents have responded positively to the progress made and our dedicated page (address provided below) continues to get a large amount of views.

<https://www.classic.ird.govt.nz/campaigns/2019/top-solutions/progress-updates/>

38. As shown in the graph below, we are steadily resolving incidents. As at 30 June 2019, approximately 50% of incidents raised since go-live have been resolved. As at 30 June 2019, we had two open priority 2 incident (these are high impact incidents). All other open incidents have been assessed as low priority.

Graph 2: Incidents raised and resolved since 26 April 2019

## Incidents raised and resolved



39. The deskside support team continue doing a fantastic job providing support to our staff. Online services and call centre 0800 numbers continue to have good stability and there have been no major issues or systemic functionality failures.

40. We have now decreased the frequency of governance forums to match the low level of major issues occurring. The "In the Know" report continues, on a twice weekly rather than daily basis, and has been well received by our people.

41. We exited hyper-care as planned on 28 June 2019. The extended support period will run until 30 September 2019. If any major issues arise between now and then, we can re-enter hyper-care if necessary.

## **Release 4**

---

42. We have updated our schedule for Release 4, based on a comparison of where we were at with Release 3 at the same time last year. Based on the new schedule, most work-streams are on track or slightly ahead of plan.

43. Business system testing (making sure START works as expected) is scheduled to begin mid-July 2019. Development of test scenarios is progressing well, although we are tracking slightly behind where we expected to be.

44. Releasing resources from Release 3 early life support remains the biggest challenge. We are addressing this by consolidating the management of tests in START, providing more co-ordination support for teams writing test scenarios, and introducing new ways of working such as using dedicated design rooms.

45. As we did for Release 3, we will establish Accelerated Customer Enablement (ACE) teams. At this stage, we have identified a need for three ACE teams for Release 4. One will focus on KiwiSaver scheme providers, one on reducing cheque and over the counter payments, and one on driving the uptake of international banking services for overseas customers making payments, for example overseas-based student loan borrowers. As the design progresses and we further evaluate customer impacts, we will consider whether further teams are required.

46. A design review workshop from 24 to 26 June 2019 tested business processes for KiwiSaver and Student Loans with subject matter experts from our front-line teams. The objective of the workshop was to test:

- whether the designs developed so far will work for customers and for Inland Revenue;
- whether there are any gaps; and
- the areas we should focus our attention on during testing.

47. The workshop went well and the overall design of services for Release 4 will be improved as a result.

## Other updates

---

### ***Enterprise support services***

48. On 20 June 2019, the PGC approved a new go-live date of 1 October 2019 for the second release in the replacement of our enterprise support services (ESS) platform. This release will shift finance, procurement, and some of our HR functions onto the new platform.

49. This means we will have to manage other changes, including:

- We will need to bring some data across from our heritage financial systems for the first few months of the financial year.
- How financial and HR delegations will work from 1 July 2019 needs to be determined.
- Our staff will continue to record their time the same way they do today.
- Upgrades being released by Oracle (the supplier of our new platform) on 3 August 2019 and 2 November 2019 will need to be implemented.

50. The risks which caused the go-live date of the second release to be deferred are being mitigated. Daily meetings are in place to manage and resolve data issues and an additional mock data conversion will take place during August 2019. An additional payroll simulation will also be run, with contingency time to run another simulation if needed. We expect to complete the payroll simulations by mid-August 2019.

51. We have decided to call our new system *Ātea*. *Ātea* means space – the space, courtyard or open area in front of the whareniui (meeting house on a marae) where visitors are formally welcomed. This area is commonly known as the marae ātea. It can also refer to the expanse or space above us, linking nicely with the 'cloud' in the Oracle Cloud.

52. There are approximately 13 weeks to get our people ready to use *Ātea*. During July 2019, information sessions will be run for key users including demonstrations of what the new system will look like.

53. Training on *Ātea* will begin from August 2019. This will include training for leaders about their role in the successful implementation of *Ātea*. Some classroom training will be required for some teams, for example our People and Culture, Performance, Facilities and Finance, and Corporate Integrity and Assurance groups. For most other groups, e-learning, quick reference guides and in-system guided learning will be provided.

54. The next readiness checkpoint will be considered by the PGC on 19 August 2019. This checkpoint will assess programme readiness:

- Does the solution meet the required levels of quality?
- Can cutover be achieved within the agreed timeframe and at an acceptable level?
- Can the changes be supported once implemented?

## **Policy changes**

55. The KiwiSaver and Student Loans policy changes to be implemented as part of Release 4 are included in the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill introduced to the House on 27 June 2019.

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

## **Office of the Auditor General review**

57. The Office of the Auditor General (OAG) have begun a performance audit of benefits management for transformation. The OAG will look at our measures, and measurement systems, for assessing and reporting on the benefits (to customers, the Crown, the department, and others) derived from transformation. We will be meeting regularly with the OAG as they undertake their review. We understand the OAG expect to complete their review by the end of 2019.

## **Coming up in the next two months**

---

58. Key activities over the next two months include:

### **July 2019**

- Complete the automatic tax assessment process for 2018/19 for individuals.
- Begin business system testing for Release 4.
- Finalise the July 2019 Transformation Update for consideration at the Cabinet Government Administration and Expenditure Review Committee on 25 July 2019.
- Finalising our programme of independent assurance reviews for Release 4 in consultation with central agencies.

### **August 2019**

- Programme readiness checkpoint for Ātea.
- Complete design of changes to heritage systems for Release 4 products.
- Hold Release 4 open homes for a wider group of our people.