



**Inland Revenue report: Business Transformation programme:
Status update for joint Ministers –
September / October 2017**

Date:	20 November 2017	Priority:	Medium
Security level:	In confidence	Report number:	IR2017/593

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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20 November 2017

Minister of Finance
Minister of Revenue

Business Transformation programme: Status update for joint Ministers – September / October 2017

1. This report summarises progress and highlights of transformation for the months of September and October 2017. A high-level view of overall progress can be found in the attachment 'BT programme status October 2017'.

Reporting arrangements for transformation

2. Each month, the Ministers of Finance and Revenue are provided with this report summarising progress we are making with transformation. The last report was provided to Ministers in August 2017 (IR2017-519 refers). This report summarises the progress made in the two months since then. The next report will be provided by mid-December 2017 and will summarise progress for the month of November 2017.

3. In addition, when Cabinet agreed to invest in the implementation of transformation (CAB-15-MIN-0249 refers), Inland Revenue was directed to report back twice each year to provide Ministers with visibility of delivery progress and any trade-offs that need to be considered. These reports are provided by July and December each year and consist of a paper to Cabinet from the Minister of Revenue and an accompanying *Transformation Update* from Inland Revenue. To date, three reports have been considered by Cabinet, and the next is ready for the Minister of Revenue to review.

4. We publish these monthly reports and the transformation updates and Cabinet papers on our website once they have been considered by Ministers. Very little, if any, material is withheld.

Overview of transformation

5. Transformation is inherently high risk. We are now operating two core systems and operational risk has increased due to co-existence. The co-existence of business functions and technical capabilities is amongst the most complex challenges to be managed for both customers and Inland Revenue. Migrating products and services to START as quickly as possible will limit the period of time that the core systems need to co-exist, is the best way to manage risk, and will minimise any confusion or disruption for customers.

6. New Zealand's revenue system will be transformed in four broad stages – digital services, tax, social policy and a final wrap up. The first stage, implementing GST, was completed in February 2017.

7. We have now moved to a release-based approach, meaning there will be more than one release in future stages. Taxes and entitlements will be moved to our new system, START, in smaller steps to carefully manage the amount of change being introduced for both customers and us.

8. Some of the releases will be technical only (i.e. not visible to customers and staff) some will be legislative only, some will implement new systems and processes, and some will be a combination. Major releases will typically occur in April in each of the next four years to align with the beginning of the tax year.

9. The next release, Release 2, will be implemented in April 2018. The key changes for customers in Release 2 include employers being able to provide PAYE information to us every payday if they choose to,¹ a new online service enabling them to correct payroll errors themselves, and the introduction of the Accounting Income Method (AIM) option for calculating provisional tax. Withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty will be moved to START.

10. This report updates you on the progress being made in implementing Release 2, and the work underway to ensure that customers understand the changes being made.

Summary of progress since last report

11. The current release plan sets out the sequence in which we propose to move taxes (other than GST) and social policy entitlements to new systems and processes. It is, in our view, the sequence that best balances delivery risk and impacts on customers. We recognise the need for further discussions with Ministers to ensure that the release plan is well aligned with the Government's priorities, and acknowledge it may need to be reassessed. We will be in a better position to do so towards the end of 2018 (refer to paragraphs 18 to 23 for more information).

12. We are on track to implement Release 2 as planned in April 2018. Testing is well underway and progressing as expected. We have confirmed a go-live date of 17 April 2017, taking into account major customer and business events and the timing of public holidays. This will mean our systems are unavailable to customers from Friday 13 to Monday 16 April 2017. This will be well signalled and regularly communicated to customers and stakeholders (refer to paragraphs 24 to 30 for more information).

13. Implementation of our three new organisational groups is on track for February 2018 – Customer and Compliance Services Individuals, Customer and Compliance Services Business and Information and Intelligence Services – although this is not without complications. We have received two legal challenges from the Public Service

¹ Subject to legislation

Association (PSA) about aspects of the process we are using to move people into new roles (refer to paragraphs 33 to 40 for more information).

14. Highlights in the coming weeks include:

- Continuation of business system testing for Release 2.
- On-going meetings with stakeholders, including industry briefings for the Automatic Exchange of Information (AEOI) with international tax treaty partners.
- Confirming leadership appointments to the three new organisation groups.

15. The programme's overall Red, Amber, Green (RAG) status for October is Amber (refer to paragraph 48 for more information).

16. As at the end of September 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 \$137m, an under-spend of \$7.7m against budget (excluding contingency). The amount of under-spend has reduced from that previously reported. As a result of changes made to the release schedule, some funding has now been shifted to later periods. The estimate at completion for the Stage 2 Solution Delivery phase, to 30 June 2018, is tracking within budget.

Highlights for September and October 2017

RealMe

17. RealMe was successfully deployed on 16 September 2017.

Release plan

18. Following the successful implementation of GST in February 2017, remaining taxes and entitlements will be moved to START in a series of releases over 2018 to 2021. This reduces risk and business and customer impacts.

19. The current release plan is, in our view, the sequence that best balances delivery risk and impacts on customers. We recognise the need for further discussions with Ministers to ensure that the release plan is well aligned with the government's priorities, and acknowledge it may need to be reassessed.

20. Based on current thinking, major releases will typically occur on an annual cycle in April in each of the next four years, to align with the beginning of the tax year.

21. Release 2 will go-live in April 2018 and will improve customer experiences, reduce the effort required by businesses to meet their obligations and improve customer compliance. It will also set the scene for more comprehensive changes to be introduced in Release 3 in 2019.

22. Remaining taxes and Working for Families will be implemented in April 2019, KiwiSaver and Student Loans in April 2020, and Child Support in April 2021. Moving taxes into the new system before social policies will ensure that the income information

these entitlements rely on is accurate. Alternative sequencing for the social policy products that we administer is possible and other options are currently being explored.

23. We will be better placed to reassess the release plan towards the end of 2018. By then, some key activities, including a high-level analysis of how the social policy products will work in START, will have been completed.

Release 2 – April 2018

24. We are on track for implementing Release 2 as planned in April 2018. Release 2 will:

- Provide a pay-as-you-go option for small businesses for their provisional tax - AIM.
- Help combat global tax avoidance through the implementation of 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.²
- 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.

25. Business system testing for Release 2 began in early August 2017 and will run until just before Christmas. This phase of testing involves our people testing the functionality within START and how it interacts with other systems. It's about making sure START works as expected and meets business and legislative requirements. Although this phase of testing is currently tracking slightly behind schedule, it is expected to be completed as planned by the end of 2017.

26. The next phase of testing is scaled business simulation testing. It will begin in early 2018 and continue up until go-live in April 2018. This phase practices the Release 2 go-live step by step including the migration of data, and processes following go-live such as return filing.

27. In October 2017, our Portfolio Governance Committee (PGC) approved the go-live date for Release 2. A lot of work went into determining the most suitable timing. Considerations included major customer events (e.g. key filing dates) and business processing activities in April 2017, the crucial batch jobs that we run at the end of the financial year, feedback from tax agents on their work patterns, the legislative dates for new services like AIM and the timing of public holidays.

28. After working through these considerations, a go-live date of Tuesday 17 April 2018 has been approved. This means all systems will be shut down from the afternoon of Thursday 12 April 2018, coming back online early on Tuesday 17 April 2018. We will be closed to customers on Friday 13 and Monday 16 April 2018, however these will be normal work days for staff. The time that systems will be unavailable is similar to Stage 1

² Subject to legislation

and customers and stakeholders will be notified well in advance and reminded regularly in the lead up to go-live.

29. It's fair to say there is no good time for this level of disruption and we have talked to customers in advance of making this decision. For example, tax agents have told us this is the best window for them in April as there is traditionally a lull between end-of-year processing at the start of April and the end-of-month processing.

30. A communications plan has been developed to ensure that all customers are aware of and ready for go-live – focussing on what it means for them and what they need to do before and after. Similarly to the approach used in Stage 1, a range of channels will be used to reach customers including direct marketing, face-to-face, online and social media, and paid advertising.

Release 3 – April 2019

31. Release 3 in April 2019 will implement income tax products and Working for Families on new systems and processes. Employers will be required to provide PAYE information on payday and more businesses will be required to file electronically. Payers of investment income will be able to provide detailed recipient information on a more frequent basis if they choose to.³

32. The definition and design phase for Release 3 began in October 2017 and is expected to run until mid-2018. The high-level co-existence strategy for Release 3 will be completed by mid-December, with a more detailed view available in early 2018. A small, focused team is working on Release 3, with the majority of transformation resources remaining focused on ensuring Release 2 is successfully implemented.

Implementing the new organisation design

33. We are currently undergoing a major redesign of our organisation to support transformation. The first wave of our new organisation design will be implemented in early 2018. This is an important step in becoming more agile, intelligence-led and built around the needs of customers. There is no reduction in frontline customer services staff and Inland Revenue will continue to have a presence in all the communities it is represented in today.

34. Significant changes for customer-facing areas and some of the key capabilities that support them were announced in July 2017. Three new groups will be established in February 2018 – Customer and Compliance Services-Individuals, Customer and Compliance Services-Business and Information and Intelligence Services.

35. Internal appointments have been made to roles that report to the Deputy Commissioners (known as level three roles). Internal and external applications for roles which weren't filled will be sought in the near future. Selection processes for roles reporting to the level three leaders have been completed. During October 2017, staff in customer facing roles received an offer to appoint or confirmation to a role.

³ Subject to legislation

36. Moving a large number of people into new structures, teams and roles is not without its challenges. We have received two legal challenges from the Public Service Association (PSA) on aspects of the process for moving people into new roles.

37. The selection process for team lead, specialist and support roles consists of three components – a written self-assessment, an interview, and a psychometric assessment. In September 2017 we were advised by the PSA that they intended to challenge the use of psychometric assessments in this selection process. We agreed with the PSA that the case would be heard by the Employment Court, meaning a shorter legal process and a quicker outcome. We have been advised by the Employment Court that a decision won't be known until February 2018 at the earliest. A hearing date has not yet been set. In order to give people certainty before Christmas, we have amended the selection process. People have been asked to answer written questions based on the capabilities needed in the team lead, specialist or support roles to fill the gap created by not using psychometric assessments.

38. In early November 2017, we received notice that the PSA has initiated further legal proceedings in relation to the offers of appointment made to staff in customer facing roles. The proceedings challenge these offers in relation to collective bargaining. The Employment Relations Authority (the Authority) will hear the case on Monday 20 November 2017 and we expect a decision soon after this. We have agreed with the PSA's request that, for PSA members, due to the legal action, offers made are currently suspended until the Authority decision. For everyone else, the offer and acceptance process will remain open until 27 November 2017. This gives time for the case to be heard and for people to know the outcome.

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

40. We are exploring alternatives if the new organisation design cannot be fully implemented on 12 February 2018 as planned. While this will not prevent the implementation of Release 2 in April 2018, it may compromise the effectiveness of our new ways of working.

Quality assurance

41. The next assurance reviews are currently planned for early 2018, ahead of the planned Release 2 go-live in April.

Policy and legislation

42. Policy and legislative highlights for September and October 2017 include:

- Finalising the official's report to the FEC on the Taxation (Annual Rates for 2017-18, Employment and Investment Income, and Remedial Matters) Bill.
- Withheld under s18(c)(i) of the OIA

- Withheld under s18(c)(i) of the OIA
- Writing a briefing for your office on AIM and the communications that have occurred to date and are planned.
- Withheld under s18(c)(i) of the OIA

- Continuing with business as usual, such as analysing submissions on recent discussion documents and developing papers for Ministers to consider.

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

- Our engagement with financial institutions (FI) continues. The focus is now on reporting and aimed at ensuring FIs understand their obligations and the technology options available to them for sending their account holder information to us by 30 June 2018. Industry Briefings have been scheduled for Wellington (6/11), Auckland (7/11), audio conference (15/11) and webinars (14/11 and 20/11).
- 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 decreased. However, as the level of FI knowledge increases the queries are becoming more legally complex and focused on how they need to meet their compliance obligations as they operationalize the regime.

Stakeholder engagement

44. Events in September and October 2017 included:

- Presentation at the ^{Withheld under s18(c)(i) of the OIA} national conference (1 September).
- Meeting with ^{Withheld under s18(c)(i) of the OIA} (1 September) to discuss how we can work together to ensure their regional partners and customers understand the changes being introduced.
- Webinar for tax agents (4 September) demonstrating the latest improvements to GST online services.
- Meetings to discuss the proposals in the social policy discussion document - **Withheld under s18(c)(i) of the OIA** (4 September), **Withheld under s18(c)(i) of the OIA** (11 September), ^{Withheld under s18(c)(i) of the OIA} (12 September).
- Meetings with financial institutions discussing the changes being made to systems, processes and policy and the introduction of AEOI – ^{Withheld under s18(c)(i)} (4 September), ^{Withheld under s18(c)(i) of the OIA} (4 and 8 September), ^{Withheld under s18(c)(i) of the OIA} (13 September), ^{Withheld under s18(c)(i) of the OIA} (14 September).
- Meetings with CA ANZ members – (Lower Hutt, Wellington 5 September), Wairarapa (12 September).
- Meetings with accounting and payroll software providers focusing on payday reporting – ^{Withheld under s18(c)(i) of the OIA} (12 September), ^{Withheld under s18(c)(i) of the OIA} (14 September), ^{Withheld under s18(c)(i) of the OIA} (15 September), ^{Withheld under s18(c)(i) of the OIA} (18 September) and ^{Withheld under s18(c)(i) of the OIA} (all on 25 September).
- Engagements with other government agencies continue discussing payday reporting and information shares – Stats NZ (14 September), ACC (15, 27 and 29 September) and GCSB (18 September), MSD (28 September), and Treasury (4 October).

- A webinar was held with payroll developers based in Australia to update them on payday reporting and new gateway services (27 September).
- MYOB Employer Essentials series (27 September).
- Monthly phone calls with ^{Withheld under s18(c)(i) of the OIA} (both on 28 September) to discuss progress on software marketing activities.
- Presentation at ^{Withheld under s18(c)} tax workshop on the accounting income method attended by 100 of their members (2 October), and update provided at their board meeting (3 October).
- Attendance at the **Withheld under s18(c)(i) of the OIA** conference (10 October).
- Meetings with large corporates to raise awareness of transformation and its implications – ^{Withheld under s18(c)(i)} (10 October), ^{Withheld under s18(c)(i) of} (12 October), ^{Withheld under s} (17 October) and ^{Withheld under s18(c)(i) of the OIA} (17 October).
- Meeting with the Australian Tax Office (11 October) discussing their single touch payroll initiative.
- Presentation at the ^{Withheld und} leadership conference (15 October). ^{Withheld under s18(c)(i) of the OIA}
- The Commissioner was a panel member at the CPA Australia Congress event held in Auckland (17 October) and presented at their Canberra conference (23 October).
- Meeting with **Withheld under s18(c)(i) of the OIA** (25 October).
- Meeting with the **Withheld under s18(c)(i) of the OIA** discussing payday and investment income reporting (26 October).

Commercial arrangements

45. During September and October 2017 a number of commercial agreements have progressed. These include:

- All Assurity Testing Service Orders have been signed and approved.
- The Digital Design Services request for proposal (RFP) has been awarded to Pikselian. The next step is to develop a statement of work (SoW) for the discovery phase.
- The master services agreement (MSA) and the first SoW for Alphero to provide user experience services have been agreed.
- Through our negotiations with Team Asparona we have managed to reduce the price that all agencies pay by 7% from January 2018, this means that the Department of Conservation and the Ministry of Justice will pay less for the content management solution.

Key risks and issues

46. Identifying and managing risks and issues across the programme remains a high priority. During September and October 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

47. As at October 2017, four issues with customer impacts have been closed. Solutions for resolving these issues have been identified and endorsed through our governance processes. The issues related to the:

- way START handles penalty due dates around reassessments
- conversion of data from FIRST to START at a transaction level
- expansion of the gateway services authentication model to cover off some business scenarios, and
- ability of START to display financial transactions at the same level of detail as is currently presented from FIRST.

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 October 2017, the programme had a total of 56 open risks of which 15 are reported to our Portfolio Governance Committee (PGC).

50. The status of the PGC-reported risks has not changed since the last report. All risks are currently rated as either 'High' or 'Medium'.

51. One risk has closed since the last report. This relates to the risk of disruption to the people transition processes caused by not having union support (BTR-175). This risk is being replaced with two, separate risks – one relating to union disruption and one relating to loss of union support.

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

What's coming up in the next two months

53. Key activities over the next two months include:

November 2017

- Provide November 2017 transformation update to the Minister of Revenue for review.
- Continue with selection processes for team lead, specialist and support roles.
- Attend Employment Relations Authority hearing regarding offers for staff in customer facing roles.

December 2017

- Complete business system testing.
- Complete selection processes for team lead, specialist and support roles.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
Inland Revenue
20 November 2017

Hon Grant Robertson

Minister of Finance
/ /2017

Hon Stuart Nash

Minister of Revenue
/ /2017