



Inland Revenue report: Transformation status update: February 2019

Date:	07 March 2019	Priority:	Medium
Security level:	In confidence	Report number:	IR2019/051

Action sought

	Action sought	Deadline
Minister of Finance	Note the contents of this report	None
Minister of Revenue	Note the contents of this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone
Greg James	Deputy Commissioner, Transformation	Withheld under s18(c)(i) of the OIA

07 March 2019

Minister of Finance
Minister of Revenue

Transformation status update: February 2019

Executive summary

1. This report summarises the progress and highlights of transformation for February 2019. Transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown in table 1 below), and we continue to monitor progress carefully in a few areas.

Table 1: Transformation's RAG status

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

2. Delivery remains on track for go-live on 26 April 2019. We are making good progress and continue to manage some areas closely.

3. We have just received the results of the latest Gateway review. This review was a readiness for service review and concluded that "IR is as well prepared as it can be for such a momentous milestone, for those things it can control". Reviewers also concluded that "Notwithstanding the inherent risk of the unknown, and the potential for things to go wrong, IR will be well placed to proceed with Release 3 go-live".

4. The status of testing remains amber. As at 22 February 2019, we had run approximately 90,500 (or 98%) of the required tests for Release 3 overall. Testing our heritage systems has been completed. We successfully ran the second mock go-live (a dress rehearsal for go-live) and passed significantly more test scenarios than during the first round. We are 98% through business systems testing, which is 74,500, or 81%, of our total testing effort for Release 3. Our second round of scaled business simulation (SBS) testing (practicing go-live step-by-step) is underway.

5. We continue to make steady, but slower than hoped for, progress in moving employers to payday filing. You have recently been provided with a comprehensive update (IR2019/096 refers) on the activity we have underway to encourage uptake.

6. We are making excellent progress with Personal Tax Summary Intermediaries (PTSI's). As at 1 March 2019, we have received customer data from 27 of the 31 PTSI's, representing 92% of the total customers who are clients of PTSI's.

7. Our marketing campaign to encourage individuals to find out what the changes being made mean for them recently resumed. This will be complemented with direct customer contact (email/mail, text, and follow-up emails and letters as required) beginning from late March 2019. This will encourage customers to provide or check their details and update them if necessary.

8. We intend to use this report as the basis of our briefing with the Minister of Revenue on 11 March 2019.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
07 March 2019

Hon Grant Robertson
Minister of Finance
/ /2019

Hon Stuart Nash
Minister of Revenue
/ /2019

Key risks and issues

10. The programme's risk profile remains amber, with a future trend of amber. An amber profile means risks and mitigations are reasonably defined and understood, and support is needed from senior leaders to actively manage specific issues in defined areas.

11. No new issues have been reported to our Portfolio Governance Committee (PGC) since the last report.

12. As at February 2019, the programme had a total of 51 open risks, of which 13 are reported to the PGC. These are longer-term risks relating to the programme, rather than shorter-term risks related to individual releases.

13. There has been no change in the status of any of the risks reported to the PGC since the last report. The top risks for transformation are unchanged (support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, and timing of benefit realisation). Mitigations are in place for all risks.

Finances

14. The overall budget (excluding contingency) for the transformation programme from 1 July 2018 until 30 June 2019 is \$208.6 million for operating expenditure and \$92.5 million for capital expenditure.

15. From 1 July to 31 January 2019, operating expenditure was \$16m under budget and capital expenditure was \$2m under budget. Based on current forecasts, we expect to complete the delivery of Release 3 within budget (including contingency) for operating and capital expenditure by 30 June 2019.

Release 3 go-live target date – 26 April 2019

16. An error was identified in paragraph 18 of last month's report (IR2019/002) after it was sent to Ministers. In discussing whether there would be any cashflow impacts, the change in the go-live date was incorrectly referenced as a change in payment dates.

17. The payment date remains unchanged, and customers will have all their current payment options available to them right through our closedown period. As a result, there are no cashflow impacts resulting from the change in go-live date.

18. Regarding our preparations for the expected heavy call volumes on 26 April 2019, the Minister of Revenue asked whether any of the staff we have brought on board from our temporary labour force will be answering calls (IR2019/002 refers).

19. We have brought on board an additional 325 staff from our temporary labour force. Of these 325, we expect that approximately 280 of them will be answering calls. The

remaining 45 temporary staff are assisting us with other work, such as processing Working for Families applications.

20. We will closely monitor the types of calls the 280 staff from our temporary labour force handle. They will typically be the less complex calls, enabling customers to have their queries resolved as quickly as possible and freeing our permanent people up to deal with the more complex customer calls.

Readying ourselves for go-live

21. As mentioned in last month's report, we are reducing work on hand as much as possible ahead of go-live. Some examples of the work we have been doing are:

- We have corrected approximately 138 million items of data being migrated as part of Release 3. The corrections vary in size and complexity.
- From March 2015 to September 2018, we cleared (repaid or retained) \$138 million of old credits. This means they do not have to be transferred into START.
- We have corrected cell-phone numbers for approximately 457,000 customers.

22. Members of our senior leadership teams are increasing their proactive engagement with the key external stakeholders who are affected by Release 3. This will complement the extensive engagement we have already undertaken with a range of stakeholders. We have identified approximately 50 key stakeholders (individuals, organisations and professional bodies), and assigned members of our tier 2 and tier 3 leadership groups to engage with them. This will ensure that they are kept informed and know who in Inland Revenue to contact, if they need to, before or after go-live.

Release 3 delivery progress

23. The overall status of Release 3 remains amber. An amber status means there are some risks to delivery, and support is needed from senior leaders to mitigate these risks effectively. We continue to closely manage challenges relating to Release 3 including testing, payday filing, Personal Tax Summary Intermediaries (PTSI's), and tax agents.

24. As noted (IR2019/096 refers), we successfully passed checkpoint 3b on 21 February 2019.

Testing

Current status

25. Overall, the status of testing remains amber. In total as at 25 February 2019, we have completed 90,500, or 98%, of an expected 92,300 tests across all phases of testing. This compares with approximately 46,000 for Release 2 and approximately 15,500 for Stage 1.

26. We have completed 15,700 tests in our heritage systems, and this testing is now complete.

27. We successfully completed our second mock go-live (full dress rehearsal for go-live) on 22 February 2019. During the second mock go-live, we passed many more scenarios compared to the first round. We passed 51 out of 56 scenarios (the remainder are waiting for defects to be fixed) and further confirmed our timings for cutting over to new systems and processes during our closedown period. The Crown reconciliation, an important process which checks that Crown revenue has been correctly transferred, was successful.

28. We tested data migration to START and reversed out the data in FIRST. It took us 56 hours to load data into START, compared to less than 10 hours for Release 2, and around 54 hours to remove data from FIRST, compared to around 11 hours for Release 2. As a result, it will take us almost four days during our closedown period to load data into START and zero it out in FIRST. This is a result of the significantly greater volume of data to be migrated during Release 3 compared to Release 2, as shown in the table below.

Table 2: Comparison of data to be migrated

	Release 2	Release 3
Accounts to be migrated	1 million	19.5 million
Returns to be migrated	13 million	16 million
Transactions to be migrated	1 million	100 million
Web logons to be migrated	0	8 million

29. As at 22 February 2019, we had completed approximately 72,800 test scenarios (98% completed) of the approximately 74,500 required for business system testing (making sure START works as expected).

30. We expected to complete the baseline business system testing by 18 February 2019, and this is now 99.7% completed. Of the additional testing for changes we expect to complete by 18 February 2019, we are 92.2% complete, and of the testing we expect to complete by 22 March 2019, we are 74% complete. We have approximately 800 tests left to complete of the baseline and additional testing we expected to complete by 18 February 2019. Many of these result from defects we have identified and cannot be passed until they are resolved.

31. The Minister of Revenue asked how many defects we currently have (IR2019/096 refers). As at 22 February 2019, we have approximately 380 defects open, only a handful of which are a critical priority to resolve. All critical and high priority defects will be resolved before go-live. We will carry some lower priority defects into go-live and fix them once our systems are up and running again. They will be considered and prioritised alongside any issues which arise after go-live.

What we are doing

32. Our second round of scaled business simulation testing (practising go-live step-by-step) began on 25 February 2019 and is progressing well.

33. The Minister of Revenue asked whether every test is equal (IR2019/002 refers). We consider all the testing we do to be important, as we run different tests for different reasons. However, tests vary in scale and complexity depending on what is being tested. For example, checking that returns are posting correctly is less complex than ensuring Working for Families calculations are correct.

What we have planned

34. Our third and final mock go-live is scheduled for 11 to 24 March 2019. This will mimic the cutover weekend as we will run 24/7. A further round of scaled business simulation testing is scheduled for 24 March to 5 April 2019.

35. The Minister of Revenue asked whether a go/no-go decision is still an option over go-live weekend (IR2019/096 refers). We can confirm that this is still an option. The go-live committee, consisting of members of the executive leadership team including the Commissioner, will be involved at key points during the closedown period. The Committee will receive regular progress updates and a number of face-to-face briefings are planned in the days immediately after Easter. There is sufficient contingency time allowed in the schedule to rollback systems and processes if required, although this will be challenging.

Payday filing

36. As we have recently provided you with a comprehensive update on payday filing (IR2019/096 refers), there are few substantive updates on progress to report this month. The number of employers registered for payday filing is approximately 53,000, as at 5 March 2019, representing approximately 25% of employers. This has been growing at the rate of about 3,000 employers a day; however, on the 5th of March 2019, we saw a significant uptake to 5,800 employers on-boarded. Early feedback from employers who have begun payday filing includes:

- Being able to file and pay at the same time is good.
- Payday filing is pretty straight forward using payday filing compatible software.
- Once employers have started payday filing, it is not as bad (difficult, complicated) as they thought it would be.

37. The payday filing report (IR2019/096 refers) included a response to the Minister of Revenue's question (IR2019/002 refers) about the point at which we start enforcing compliance with the new reporting requirements. Also, in response to a question from the Minister of Revenue (IR2019/002 refers), this report included a list of government organisations who have registered for payday filing as an annex.

38. The Minister of Revenue also asked whether any of the major software providers were among the group who have informed us they will have a solution ready by 1 April 2019 (IR2019/096 refers). ^{Withheld under} now have payday filing available across all their products. ^{Withheld un} are currently testing and intend to pilot their solutions with a large group of their customers during March 2019. Together, these two providers account for approximately 75% of the employers using payroll software.

39. As at 1 March 2019, of the 110 software providers, payroll intermediaries and payroll bureaux with bespoke software we are working with:

- 45 have already developed a solution for payday filing, and some are testing the solution with groups of their customers. These developers represent approximately 95% of employers using software.
- 22 are currently testing their solution with us through Gateway services (this enables customers to file directly from their software). These developers represent approximately 3% of employers using software.
- 34 have informed us they will have their solution ready by 1 April 2019. These developers represent approximately 1 % of employers using software.
- Nine have informed us they are not providing a solution and have communicated this decision to their clients. These developers represent approximately 0.3% of employers using software.

40. Please note these percentages have been provided by software developers themselves. We have not independently verified them.

Personal Tax Summary Intermediaries

Current status

41. As at 1 March 2019, 27 PTSIs have provided their data to us, and we are validating files that contain approximately 740,000 customers' details. This represents approximately 92% of the customers we expect to receive data about. We have received information from all eight of the largest PTSIs.

What we are doing

42. Of the remaining three PTSIs, we have sent section 17 requests¹ to two PTSIs. In response to the Minister of Revenue (IR2019/002 refers), 22 February 2019 is the date these PTSIs committed to providing us with their information by. We have not yet received their information and are following up with them. In total, these PTSIs have approximately 8,800 customers. The remaining PTSI has agreed to provide their information shortly, without the need for a section 17 request. This PTSI has approximately 450 customers.

¹ Section 17 of the Tax Administration Act 1994 enables us to require information to be provided to us where it is not provided in a voluntary or timely manner.

43. We continue to validate and load data into our systems. We have uploaded details for approximately 295,000 clients of PTSIs, representing approximately 37% of the total customers we expect to receive information about.

44. We will continue to upload data and to regularly engage with the PTSIs until we have received and validated their data.

Tax agents

Current status

45. More than 1,000 tax agents attended the webinar on 18 February 2019.

46. We are resolving the issues that tax agents have pointed out. As at 22 February 2019, we had approximately 80 open issues to resolve, a decrease of around 20 since the last report.

47. The Minister of Revenue asked what the consequences will be for tax agents who do not take the necessary preparatory steps before go-live (IR2019/002 refers). If tax agents do not set up their delegations (either at all or correctly) before go-live, people in their business will not have the appropriate access to client information after go-live. Tax agents would experience some disruption to the day-to-day running of their business, with potential impacts on the experiences of their clients.

What we are doing

48. We have a back-up plan to ensure that we have provided everything we possibly can to ensure tax agents can self-manage if they do not take the steps they need to before go-live. We will be sending a "Day 1 pack" to agents the week before go-live and sending it again on 26 April 2019. The "Day 1 pack" will include:

- Information about shut-down dates, advising when our key services will be unavailable.
- A reminder that any draft messages and returns will be deleted.
- Information on the account/tax types moving into the new system, including what historical data is being moved.
- A link to the new myIR home page.
- Instructions for "Owners", who will need to delegate access.
- Instructions about where to find secure mail in the new system.
- Information about changes to correspondence including the new subscription to client notifications.
- How to access extension-of-time (EOT) information via the new EOT dashboard.
- Instructions for navigating new reports and information on changes to existing reports.
- How to access clients' accounts (a quick-access function).
- How to register clients for donations tax credits and file claims online.

- How to redirect refunds.

49. This information will be supplemented with screen-shots.

50. We have further webinars, seminars and face-to-face visits planned, and will continue to work closely with professional bodies.

Other updates

New year end process for individuals

51. Our Release 3 customer engagement strategy for individuals and families is to deliver steady, timely and targeted information to relevant customer segments via a range of channels.

52. To ensure we can provide relevant information and services, we have established three major sub-segments: PTSI customers, previous personal tax summary customers, and customers who have little or no previous contact with us. For each of these, there are further sub-segments based on their likely outcome (a refund, a bill, or no action required), their prior customer experience, their myIR status, whether we have available contact information, and the products customers use.

53. From late March 2019, we will begin sending personalised communications to customers using email/mail, text, and follow-up email and letters as required. Customers will be informed about the changes coming, what our closedown period is, and ask them to provide, check or update their details. The first communications will go to customers who have previously used tax refund companies. We are aiming to reach every affected customer before the new year-end process for individuals gets underway from mid-May to mid-July 2019.

54. From 14 February 2019, marketing activity resumed to increase individuals' awareness of the proposed changes. This is a continuation of the *Changing for You* campaign activity, which began in November last year. A range of advertising channels, emails and letters are being used to build awareness of the changes and encourage customers to visit the *Changing For You* website, which provides examples of how the changes could affect them.

New website

55. As part of Release 3 go-live, our website will be revamped. The new content available from 26 April 2019 will be income tax, Working for Families and Child Support. Other products and content areas will follow over the rest of the year. Please refer to the appendix for screenshots of the new page design.

56. We have validated the design and features of the new site with users. Since January 2019, 87% of users reported they were satisfied or very satisfied with the new homepage and navigation.

Independent assurance reviews

57. The Gateway 4 review (Readiness for Service) has just been completed. We will report the full findings to you shortly and have included a summary here.

58. Reviewers have again rated the programme amber/green, which means successful delivery appears probable; however, constant attention will be needed to ensure risks do materialise into major issues threatening delivery.

59. In relation to Release 3, reviewers concluded that "IR is as well prepared as it can be for such a momentous milestone, for those things it can control". In addition, reviewers also noted that "notwithstanding the inherent risk of the unknown, and the potential for things to go wrong, IR will be well placed to proceed with ... go-live".

Release 4

60. On 21 February 2019, the PGC approved the scope of Release 4. This release in April 2020 will introduce new systems and processes for KiwiSaver and Student Loans. Some of the planned changes being introduced are:

- Straight-through processing for KiwiSaver employer contributions, meaning contributions will be transferred to scheme providers more quickly. Customers will have visibility of their and their employers' contributions much sooner than they do today.
- Consolidation of employer accounts, meaning that employers will receive streamlined and clearer correspondence from us.

Coming up in the next two months

61. Key activities over the next two months include:

March 2019

- Complete third and final mock go-live.
- Complete third and final round of scaled business simulation testing.
- Report the findings of the independent quality assurance reviews to you.
- Decommission ir-File.

April 2019

- New year-end process for individuals takes effect (subject to legislation).
- Go-live.

Appendix – screen shot of home page of new website pages

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