Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: July 2018

Date:	7 August 2018	Priority:	Medium
Security level:	In confidence	Report number:	IR2018/494

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)

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IN CONFIDENCE

7 August 2018

Minister of Finance
Minister of Revenue

Transformation status update: July 2018

1.   This report summarises the progress and highlights of transformation for July 2018. Overall, transformation's Red, Amber, Green (RAG) status continues to track amber overall (as shown below), and we continue to carefully monitor progress in a number of areas.

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.   The recent industrial action has had a minimal impact on the programme to date. Nevertheless, we will continue to review our contingency plans to ensure we can maintain our momentum in the event that there is further industrial action.

4.   Testing is progressing, albeit on a slightly slower track than we would like. We have a number of go-to-green plans in place or being worked on to ensure that we can continue to meet our testing milestones. We are actively tracking progress and taking action to ensure that any issues are resolved quickly.

5.   The performance of myIR has stabilised since our last report. Since 27 June 2018, myIR has been available 100% of the time, and on average over 99% of our customers have been able to log in within six seconds.

6.   This report now only includes content that has not been reported elsewhere. For example, details about our engagement with individual customers are no longer attached, as this information is reported to the Minister of Revenue as part of the weekly status reports.

Release 3 – April 2019

7.   Release 3 of transformation is a significant release, as:

- a new year-end process for finalising income for individuals will be introduced

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- legislative changes with new reporting requirements for employers and payers of investment income will take effect, and
- new systems and processes for income tax and Working for Families will be introduced.

8.   Release 3 is more complex and has higher risk than the first two releases, as the changes being made will affect businesses, individuals and financial institutions.

9.   The overall status of Release 3 remains amber. An amber status means that there are some risks to delivery, and support is needed from senior leaders to mitigate them effectively.

Employment and investment-income information changes

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

11.   We have released an external document that describes the operational impact of the changes to the collection and use of investment-income information. The document will assist people to work out how the changes will affect their organisational processes.

12.   After we released the document, we held briefings in Auckland and Wellington for interested customers, where we discussed the changes and shared the beginnings of our design. These workshops were aimed at people who are responsible for overseeing the initiative within their organisations, and helped us to gather more information about customers' change requirements.

13.   We also held detailed technical workshops to discuss the electronic channels that payers of investment income will use to send us information. The workshops were attended by customers with expertise in the technical aspects of the changes they will need to make within their organisations.

14.   We continue to engage with a wide variety of customers, advisors and influencers to ensure employers are aware of the requirement to file PAYE information every payday from 1 April 2019. As we get closer to go-live, this will be supplemented with communications and engagement activity that worked well for previous releases, such as seminars, webinars and online content.

15.   Subject to appropriate approvals, we are planning to run nationwide campaigns of mainly personalised mail and email from September 2018 to April 2019. We will include details of the campaigns in these *Transformation status update* reports in future months.

16.   An area of emerging concern is the ability of software developers and payroll providers to have their solutions ready with enough time for their customers to test them before payday filing becomes mandatory on 1 April 2019.

17.   We are continuing to engage proactively with developers, intermediaries and payroll bureaux to ensure they have the necessary technical documentation and

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requirements, so they can make an informed decision about the most appropriate filing option for them and their clients. We will continue to work closely with these customers through the on-boarding, testing and deployment phases.

Delivery progress

18.   Business system testing continues. To date, we have completed approximately 10% of the total number of tests we need to complete for Release 3. As expected, we are finding a small number of defects; these make up approximately 7% of the total number of tests completed so far. The defects are being resolved quickly: around 80% have already been resolved, and no critical defects have been identified to date.

19.   The development of business-function definitions (these describe what the solution needs to do for a particular activity, for example, register a customer) and test scenarios remains behind schedule for eServices in particular. The scale of testing required, some 24,000 scenarios for eServices, is presenting some schedule challenges. We have prioritised developing the critical business-function definitions and test scenarios, and have streamlined the review and approval process to remove unnecessary dependencies. Additional professional test-case writers and subject-matter experts from the business are now on board. We have a go-to-green plan in this area.

20.   We are forecasting our peak testing period to be from now to December 2018.

21.   Good progress has been made on designing the e-File solution, which is nearing completion, with recoverable impact to the build and test schedules. As noted last month (IR2018/409 refers), we are working with the industry to ensure that e-File processing times are not affected by Release 3. We have completed interviews with software developers and tax agents.

22.   Work is underway to support preparation and planning for business deployment. The deployment team is developing the cut-over strategy and calendar, to present to the August meeting of the Portfolio Governance Committee.

23.   Data cleansing is tracking to schedule.

Readying our people

24.   A well-attended and well-received two-day Release 3 workshop was held on 3 and 4 July 2018 with delegates from the three unions: PSA, Taxpro and NUPE. A second workshop will be held in mid-November 2018 to focus on readiness, training, go-live and early-life support, with a focus on how the unions can support their members.

25.   Open homes and leadership briefings on the impacts of Release 3 on Inland Revenue and on our customers will commence from 17 August 2018.

Other updates

The automatic exchange of information with tax-treaty partners

26.   The 30 June 2018 deadline for submission of common reporting standard (CRS) and Foreign Account Tax Compliance Act (FATCA) disclosures has now passed. However, disclosures are still being received. Banks have begun freezing customer accounts if they are unable to complete the validation of a customer's tax residency. Large banks have been given until the end of August 2018 to file an updated CRS disclosure.

27.   To date, more than 1,800 customers have registered to report under the CRS, and more than 400 have registered to report under FATCA.

28.   Stakeholder tension is high and is being actively managed, as we work with the industry to resolve what the obligations of financial institutions are when opening, freezing and closing accounts. In addition, we are working with customers and industry bodies to clarify when corporate trustees and professionally managed funds will be covered by CRS requirements.

29.   The deadline for transferring information to/from foreign jurisdictions is 30 September 2018. We have completed bilateral testing with Singapore, and testing is underway with Canada, India, Hong Kong, Ireland, Austria and the United Kingdom.

Commercial arrangements

30.   Market engagement activity has continued since the last report:

- Negotiations with Sitecore and AKQA for our web-content management system continue. An agreement to begin the discovery phase has been drafted and is with the two suppliers for review.
- Licence negotiations have commenced with Oracle, the preferred technology provider for enterprise support services, and we have released a request for proposal for an implementation provider.

31.   Spark's performance continues to be managed by the service improvement plan. We have increased our executive-level engagement with Spark.

Finances

32.   The Release 2 solution delivery phase began on 1 March 2017, and was completed on 30 June 2018 as planned. As at 30 June 2018, operating expenditure was $224.8 million, an under-spend of $23.5 million against budget, and capital expenditure was $111.4 million, an under-spend of $3.4 million against budget (excluding contingency). These under-spends are in line with what we forecast and will be carried forward to future periods.

33.   The Portfolio Governance Committee has approved a budget of $219.6 million for operating expenditure and $91.7 million for capital expenditure for Release 3 delivery for the period 1 July 2018 to 30 June 2019. These amounts exclude contingencies.

Independent quality assurance

34.   The Minister of Revenue has requested an update on the recommendations regarding customer experience from the recent KPMG independent quality assurance review (IR2018/157 refers) that were noted as "to be confirmed".

35.   KPMG recommended that we should clearly define what customer experience means for the entire programme, and ensure that all work-streams are aligned behind that definition (IQA 7 / 15).

36.   The outcomes and experiences we intend to deliver for customers are described in the *Customer Blueprint,* developed as part of the high-level design phase in 2015. Based on the blueprint and responding to KPMG's recommendation, by September 2018, we will have developed an overall definition of customer experience to help ensure that all this work is aligned.

37.   In addition to readying customers for the April 2019 changes, we have already made changes to improve experiences for customers. We have:

- re-organised our service design and delivery around customer segments
- developed customer-segment strategies to guide the development and evolution of our services, and
- introduced new services as part of the first two releases of transformation.

38.   As noted, other work currently underway includes:

- simplifying tax and social-policy products, and streamlining the associated customer-facing processes
- designing solutions by collaborating with our customers and focusing on customer outcomes
- re-engineering our digital customer-facing channels to provide better self-service options, and
- proactively managing customers' readiness for changes.

39.   KPMG also recommended that we clarify the tangible value from investing in customer experience by defining specific, measurable goals, key performance indicators and expected business outcomes (IQA 7 / 16).

40.   We are quantifying the contribution that Release 3 will make to the realisation of business-case benefits. This work will be completed by September 2018, with the results included in the *Transformation Update* to be provided to Cabinet by December 2018. The *Transformation Update* will include the expected contribution from the investment in customer experience.

Key risks and issues

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

42.   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.

43.   As at June 2018, the programme had a total of 53 open risks,[1] of which 14 are reported to the PGC. There have been no changes to the status of any of the risks reported to the PGC since our last report.

44.   The top three risks remain as reported to Cabinet in our July 2018 *Transformation Update*:

- Unisys support for FIRST ending in 2021. This risk will be reassessed by the end of 2018.
- The complexity of the Employer Monthly Schedule. This risk will be reassessed by the end of 2018.
- Retaining the people we have working on transformation. This is an ongoing risk.

Coming up in the next two months

45.   Key activities over the next two months include:

August 2018
- Brief the Finance and Expenditure Committee on transformation.
- Hold open homes for our staff about the impacts of Release 3.

September 2018
- Brief you on the implications of Release 3 for customers and our workflows.
- Subject to appropriate approvals, begin nationwide campaigns to ready customers for the changes being introduced in Release 3.

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[1] Last month, the programme reported 56 open risks. During the month, three risks managed at programme level were closed. Two risks related to Release 2 and did not materialise, and one risk has been incorporated into another existing programme risk.

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Recommended action

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

Noted   Noted

Greg James
Deputy Commissioner, Transformation
7 August 2018

Hon Grant Robertson   **Hon Stuart Nash**
Minister of Finance   Minister of Revenue
      /   /2018   /   /2018

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