

February 2018 Transformation Update

Implementing release 2

February 2018

Version: Final

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Executive summary

A modern, digital, revenue system will serve the needs of all New Zealanders. Customers will spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements, as tax will be correctly withheld and assistance provided at the time it is needed.

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 and is a significant and public step forward.

GST accounts for 25% of the revenue Inland Revenue collects for the government. So successfully moving it to new systems and processes, albeit not without its challenges for some stakeholders, is significant.

Since GST went live, Inland Revenue has worked with tax agents in particular to improve their experiences with the new online GST services.

Transformation is now moving into delivering the other tax products, and the changes being made will deliver significant benefits for customers.

Stage 2 will be implemented in a series of releases over 2018 and 2019 to carefully manage the amount of

change being introduced. The next release, release 2, in April 2018 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 on payday if they choose to do so.¹
- Make it easier for customers to meet their obligations for withholding taxes,² 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.

Release 3 in April 2019 will implement income tax products on new systems and processes; require employers to provide PAYE information on payday and more businesses to file electronically;³ and enable payers of investment income to provide detailed recipient information on a more frequent basis if they choose to.⁴

From 2019, it will be easier for customers to calculate and pay what they owe. They'll be able to use their own systems and processes to meet their obligations as they

¹ Subject to legislation.

² Including resident withholding tax, non-resident withholding tax, dividend withholding tax, resident land withholding tax, and approved issuer levy

³ Subject to legislation

⁴ *ibid*

will be integrated with Inland Revenue's systems and processes. The revenue system itself will be more resilient and agile.

Compared to GST, release 2 has much wider implications for employers, tax agents, bookkeepers, payroll intermediaries, software developers, and financial institutions. For the majority of other customers, there will be no major changes in 2018.

Inland Revenue is working directly with the businesses that need to make the most changes. This includes working closely with large enterprises with customised payroll systems including government agencies, and communicating directly with businesses still filing on paper.

To administer a modern revenue system, Inland Revenue is changing the way it works.

Implementation of the first wave of Inland Revenue's new organisation design began on 12 February 2018. This is an important step in becoming more agile and intelligence-led, and built around the needs of customers.

Those delivering customer services will be enabled and empowered to make more decisions and resolve customers' issues more quickly. New delegations combined with broader roles means customers will have their issues responded to more quickly and will be able to talk to one person to get more of their queries resolved.

Inland Revenue has adopted a more collaborative approach to the design of future stages based on the lessons learned from implementing GST.

Customers are actively involved in the remaining stages of transformation. Tax agents have joined transformation, opportunities for customers to validate new services before go-live are being provided, and considerable efforts were made to engage a wide range of New Zealanders in the social policy proposals.



Inland Revenue is working across the public sector to ensure that New Zealanders continue to receive the services they do today, following the changes being introduced by transformation.

Work on policy and legislative settings is continuing.

Legislative improvements to the collection and use of PAYE and investment income information are currently before Parliament. Withheld under s18(c)(i) of the OIA

Transformation remains inherently high-risk.

Transformation is complex and challenging. Inland Revenue is now operating two systems and the department's risk profile has increased. It will remain high until the completion of transformation due to the need for old and new systems to co-exist.

Inland Revenue is currently undergoing a major redesign of its organisation to support transformation. Significant changes for customer-facing areas and some of the key capabilities that support them were announced in July 2017.

Moving a large number of people into new structures, teams and roles is not without its challenges. During the change process, the Public Service Association initiated legal proceedings regarding aspects of the process for moving people into new roles.

A ruling by the Employment Court on 21 December 2017 resolved some issues.

In January 2018, Inland Revenue and the Public Service Association had good discussions about the process for and concerns of the members the union represents, and reached agreement on the way forward. The agreement

includes a specific way forward in support of implementing the first three new organisation groups.

A further hearing in the Employment Court is scheduled for 14-28 May 2018 regarding some aspects of the selection process for some roles. As a result of the Public Service Association challenge, the selection process for these roles was amended so that the three new groups could be established as planned on 12 February 2018.

However, Inland Revenue understands that the PSA has since withdrawn proceedings.

Robust risk management processes are in place to identify and mitigate risks, and the independent quality assurance programme forms an integral part of the management of risks.

Transformation remains on schedule and costs are tracking as expected, and within the funding approved by Government.

Background

This update outlines the progress being made by Inland Revenue in implementing transformation. It has been reviewed by the corporate centre.

In March 2013, Cabinet accepted that transformation of the revenue system was required.

A number of potential investment options for modernising the revenue system were presented to Cabinet in 2013, ranging from “do nothing” through to an all of government solution. Cabinet agreed to invest in modernising the revenue system through business process re-engineering, supported by new technology (known as Option 3B). Design activity commenced, and delivery partners (Accenture and FAST Enterprises) were secured to support Inland Revenue.

In November 2015, Cabinet agreed to invest in the implementation of New Zealand’s future revenue system. A multi-year funding envelope was approved, together with a financial delegation of \$1,870 million to complete transformation. The funding envelope comprises new funding from the Crown of between \$800 million and \$1,005 million with the balance of funding provided by Inland Revenue through administrative savings and capital reserves (CAB-15-MIN-0249 refers).

Business transformation is a long-term programme to modernise New Zealand’s revenue system.

A modern, digital, revenue system will serve the needs of all New Zealanders. It will help customers to get their tax and social policy payments right first time, avoid errors and give them a clearer view of what they’ve paid and what they owe during the year.

The revenue system will be simple to comply with and responsive to customers’ changing circumstances. People will spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements, as tax will be correctly withheld and assistance provided at the time it is needed.

Transformation involves far more than an upgrade of technology.

Transformation is enabled by a combination of changes to policy, process, technology and the organisation design of Inland Revenue. It is an opportunity to fundamentally review how the revenue system is administered and consider what changes may be needed.

Delivering New Zealand’s future revenue system involves:

- Simplifying policy and legislative settings.
- Making more intelligent use of information to proactively ensure customers get it right from the start.
- Designing and delivering services with others inside and outside of government that enable customers to self-manage.
- Creating an organisation that works together better to improve outcomes for customers.
- Implementing a modern technology platform (START) that is highly automated, more resilient and more responsive to change.

Central to the modernisation of the revenue system is delivery of the new tax and social policy platform

(START). In addition, a number of other changes are being made to support digital services and intelligence-led outcomes.

There are significant benefits from transformation for customers and the Crown.

The changes being delivered by transformation will:

- Provide confidence in the continued collection of tax revenue and distribution of entitlements.
- Improve the Government’s ability to make policy changes faster and more cost-effectively.
- Grow voluntary compliance by making it easier for people to get it right.
- Create an information asset to deliver improved outcomes for New Zealand.
- Deliver cumulative additional Crown revenue of \$2,880m–\$6,175m by 2023/24.
- Deliver cumulative compliance cost savings (economic benefits) for small- medium sized enterprises in particular, until 2023/24 of between \$1,330m to \$2,265m.
- Enable Inland Revenue to realise administrative savings of \$495m–\$580m by 2023/24.

In addition, transformation will make a significant contribution to improving digital interactions with government, improving cross-government outcomes and a growing healthy economy.



Customers' interactions with government and Inland Revenue will fundamentally change.

Only by improving and modernising its technology can Inland Revenue significantly enhance experiences for customers and meet their needs.

In the future, most customers will not need to interact with Inland Revenue as their information will be provided to Inland Revenue on their behalf.

Those with less complex needs will only need to confirm their details using automated, straight-through digital services. Customers who do have to provide information will use their own systems and processes to do so as part of their everyday business activities. Information will be checked when it is received and errors fixed wherever possible.

Earlier, more complete information will be available to Inland Revenue which will lead to greater accuracy and mean fewer under or over payments for customers.

Together, new systems, processes and services and legislative changes, will simplify customers' tax affairs and make it easier for them to meet their obligations.

There are four broad stages in transformation.

The programme roadmap (please refer to appendix 1) sets out the high-level order in which products and services will be implemented.

The first stage has already been completed.

GST has been successfully implemented.

In February 2017, GST was successfully moved to START. New services mean it's now quicker and easier for customers with straight-forward transactions to manage their GST online.

Changes to the new online GST services were made monthly from July to October 2017 to improve the experiences of customers with more complex circumstances.

Inland Revenue is on track to realise the benefits committed from the implementation of GST. These are improved experiences for customers, compliance cost reductions for small-medium sized businesses and administrative savings for Inland Revenue.



The next release will move more taxes to new systems and processes, improve customer experiences, and introduce legislative change.

Stage 2 will be implemented in a series of releases over 2018 and 2019, significantly reducing the effort required by businesses to keep on top of their tax obligations so they can spend more time running their businesses.

The likelihood of errors will be much reduced, resulting in greater certainty, fewer interactions, less debt, and

less need for compliance checks. Businesses will have a clearer view of their tax position during the year and will be able to meet their tax obligations at minimum cost and minimum disruption.

Once Stage 2 has been fully implemented in 2019 customers will have:

- on-line services for all tax products - for example customers will be able to file returns, set up payment plans and include attachments on-line
- integrated tax and business processes
- faster, more accurate tax information, providing near real-time visibility of tax
- faster tax refunds
- less likelihood of tax debt and more payment options.

Transformation will make a significant contribution to wider government outcomes.

Modernising the revenue system will significantly contribute to improving outcomes for New Zealanders – ensuring they pay and receive the right amounts, and making it easy for them to interact with government when they need to.

Enhancing GST online services

Moving GST to new systems and processes in February 2017 was a very significant and public step forward in the modernisation of New Zealand's revenue system.

It's now quicker and easier for customers with straightforward transactions to manage their GST online.

However it hasn't been as easy for customers with more complex circumstances. Tax agents in particular experienced some challenges from having to work in two systems.

GST accounts for 25% of the revenue Inland Revenue collects for the government. So successfully moving it to new systems and processes, albeit not without its challenges for some stakeholders, is significant.

Inland Revenue is continuing to improve stakeholders' experiences with GST.

Since GST went live, Inland Revenue has been working with tax agents to improve their experiences.

Working together, tax agents and Inland Revenue identified the biggest challenges and agreed the improvements needed to address them. To ensure the most important issues were addressed first, Inland Revenue ran:

- focus groups with tax agent administrators to better understand the practical aspects of tax agents' work
- sessions with tax agents to better understand the impacts on their day-to-day operations of viewing and processing GST transactions
- surveys of small groups of tax agents throughout New Zealand

- one-on-one sessions with tax agents in user experience labs.

Changes have already been made, however others will take longer as a result of co-existence between FIRST (Inland Revenue's old system) and START (Inland Revenue's new system).

Improvements have been implemented on a monthly basis.

Changes were made in July, August, September, and October 2017. Of the twenty-five improvements made, the most significant were:

- Making it easier for tax agents to identify their client names and IRD numbers.
- Consolidating the number of letters, notifications and alerts sent to customers when there is something for them to do in myIR.
- Improving traceability of GST transfers between systems.
- Improving customers' ability to navigate between different periods when viewing GST transactions.
- Providing tax agents with a new summary report that makes it easier for them to prepare their clients' annual GST reconciliation.

Improvements were implemented following user labs where Inland Revenue worked one-on-one with agents around the country to make sure their requirements were clearly understood. The solutions developed were then taken back to the same tax agents to validate before they were tested and implemented.

The changes made have been positively received by tax agents.

A monthly cycle provides sufficient time for tax agents and Inland Revenue's front line staff to prepare for each release of improvements. Each month tax agents and their professional bodies are provided with an update on changes ready to be implemented, as well as a view of what is in the pipeline.

Notwithstanding the challenges, customer uptake of new services is strong.

Shifts in customer behaviour are evident. At the end of December 2017, more than 1.7 million returns had been filed using the new web service and just over an additional 220,000 returns were filed by approximately 70,000 customers through their accounting software.

For the year to date to December 2017, 85% of customers filed their GST returns electronically, compared with 83% for the year to date to December 2016 and 77% for the year to date to December 2015.

Stage 1 was about more than GST.

GST was not the only thing Inland Revenue delivered as part of Stage 1.

In September 2017, Inland Revenue implemented RealMe as an option for customers to use when identifying themselves to the department. As at the end



of January 2018, more than 40,000 customers had linked their myIR login to a RealMe account.

New migrants can now register with Inland Revenue as part of their visa application process. To the end of December 2017, more than 35,000 new migrants, visa holders and organisations registered for IRD numbers through the new digital registration service. This helps to ensure that migrants are ready for work when they arrive, making it easier for them to settle into New Zealand.

Some of the foundations for the remainder of transformation were also put in place. Some foundational technology was replaced to set Inland Revenue up for the future, including new data centres and the workflow management system used by contact centres.

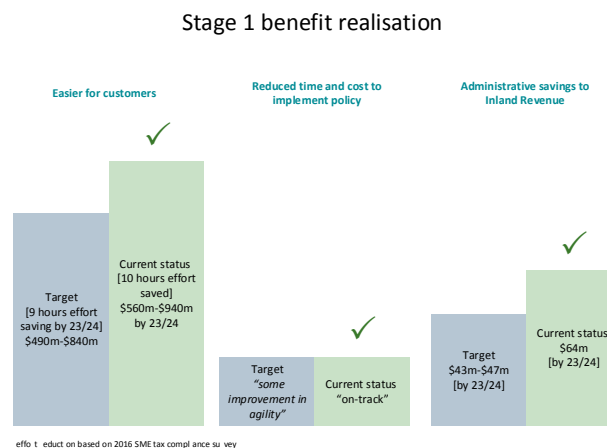
Inland Revenue remains on track to realise the benefits committed from the implementation of Stage 1.

These are improved experiences for customers, compliance cost reductions for small–medium sized businesses and administrative savings for Inland Revenue:

- Customers using their accounting software to manage their GST obligations are providing positive feedback on their experience and on other enhancements to Inland Revenue’s services.
- Customers perceive that the level of effort in meeting their GST obligations has reduced since 2013.

- Administrative savings are being achieved as customers increasingly self-manage and use digital channels.

The diagram below shows Inland Revenue’s current progress in realising the benefits committed from Stage 1.



A Gateway 0 (strategic assessment) and 4 (readiness for service) review completed in March 2018 found that the benefit realisation framework for transformation “... continues to be an excellent example of good practice across government in New Zealand, Australia and the UK”. While noting that there is always room for residual improvement, they noted that “... the outcomes and benefits management framework is world class...”

Changing policy and legislative settings

Work on policy and legislative settings is continuing.

- Legislative improvements to the collection and use of PAYE and investment income information are currently before Parliament.
- Withheld under s18(c)(i) of the OIA

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

Social policy

To ensure that people were aware of the social policy proposals and that submissions were representative of the people who would be affected by them, Inland Revenue met face-to-face with a variety of groups around the country.

Groups met with face-to-face included:

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

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As well as widening engagement beyond the audiences who would traditionally respond to policy consultation, Inland Revenue looked at what could be done differently to encourage feedback from as many people as possible. This included making information available in languages other than English, using animations to simply explain the proposals, and raising awareness amongst those without internet access at home.

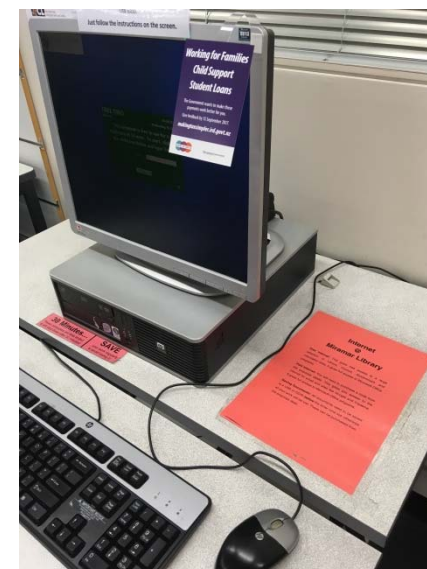
As many social policy customers are not native English speakers, summary information, videos and a short survey were translated into nine other languages. The languages were Cantonese, Hindi, Khmer, Korean, Mandarin, Samoan, Tongan and Vietnamese. Translations also included Te Reo Māori and New Zealand sign language.

The languages chosen were based on those most commonly spoken by customers, groups with low levels of English speakers, and which of those language speakers were most likely to receive Working for Families, child support, or have student loans.

Animations explaining the proposals were developed and published on the *Making tax simpler* website. Written transcripts were also published and Deaf Radio created a sign language version for hearing impaired audiences.

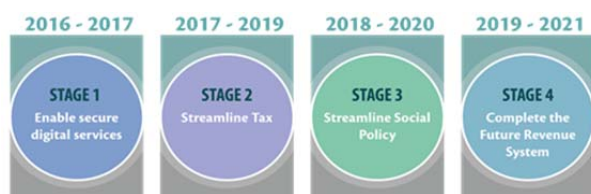
“Wobblers” were used to raise awareness amongst people without internet access at home. They were placed in the computer area of public libraries so people

could check out the online consultation forum using the library computers. The photo below shows one of the wobblers in Miramar Library, in Wellington.



Making it easier for people to manage their obligations and entitlements

The four broad stages in transformation are digital services, tax, social policy and a final wrap up. From now on there will be more than one release in each stage so that the amount of change being introduced for both customers and Inland Revenue can be carefully managed.



Transformation has moved to a series of releases within stages.

The remaining stages of transformation will be implemented in a series of releases from 2018 to 2021. The release plan (please refer to appendix 2) is Inland Revenue's current view of the sequence in which remaining taxes and entitlements will be moved to new systems and processes. It was endorsed by Inland Revenue's Portfolio Governance Committee (PGC) on 24 August 2017.

Moving to a release based approach means the four stages will overlap. Taxes and entitlements will be moved to START in smaller steps, reducing risk and business and customer impacts. At the same time, transformation will move into social policy products (Stage 3) earlier than planned.

Working for Families will be aligned with income taxes. This will minimise the difficulties for both customers and

Inland Revenue from having to work off both old and new systems.

Major releases will typically occur on an annual cycle in each of the next four years to align with the beginning of the tax year.

Other 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, some will provide Inland Revenue staff with new capabilities, and some will be a combination.

Stage 2 will be delivered in two major releases over 2018 (release 2) and 2019 (release 3).

Moving the remaining taxes to new systems and processes will be split across two major releases in 2018 and 2019 to minimise the impact on customers.

Proposed improvements to how PAYE and investment income information are collected, and the implementation of the automatic exchange of information (AEOI) with international tax treaty partners will be made progressively, beginning from release 2 in April 2018.

Based on current thinking, the first release in Stage 3 – Working for Families - will be included in the April 2019 release. Stages 2 and 3 will run concurrently for a period given the strong inter-dependencies between them. Calculation of Working for Families tax credits is highly dependent on information about family circumstances and family income information.

Customers are actively involved in release 2 and the remaining stages of transformation.

Inland Revenue has adopted a more collaborative approach to design based on the lessons learned from implementing GST.

Inland Revenue recognised the need for better design input from tax agents in particular, so agents have been seconded from a range of businesses, from the big four through to smaller firms. Tax agents and design and development teams working together on a daily basis has helped to give Inland Revenue a better understanding of what works, what doesn't, and why.

The tax agents who have joined transformation are co-designing certain aspects of the system as well as testing it to see if it works as expected.

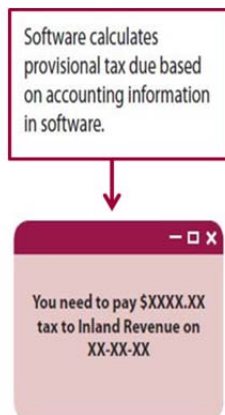
A similar approach will be adopted with payroll professionals. This will help to ensure that businesses and their representatives can interact smoothly with government to meet their PAYE filing obligations through their software.

Opportunities for customers, including tax agents, to validate the new services being introduced in release 2 are being provided throughout the testing process.

Inland Revenue is on track to implement release 2 in April 2018.

Release 2 will include:

- Introducing the accounting income method (AIM) option for calculating provisional tax.
- Implementing the automatic exchange of information with international tax treaty partners.
- Enabling employers to send their information to Inland Revenue on payday if they choose to do so.⁵
- Moving withholding taxes, fringe benefit tax, payroll subsidy, and gaming machine duty to new systems and processes.
- Collecting income information in START so that pre-population of individuals' information can begin.



FIRST will process income tax returns for the 2017/18 tax year and process all prior period returns until 31 March 2019.

Once release 2 has been implemented customers will be able to choose a pay-as-you-go option for paying their provisional tax, employers can choose to meet their PAYE obligations at the same time they're completing their payroll processes, and it will be quicker and easier

for customers to meet more of their obligations with more on-line services for a wider range of taxes.

Release 3 in April 2019 will include:

- Moving all income tax products and Working for Families to new systems and processes.
- Enabling customers to enrol digitally for products and services.
- Enabling payers of investment income to send detailed recipient information to Inland Revenue every month, or the months in which income is paid, if they choose to do so.⁶
- Employers being required to send their PAYE information to Inland Revenue on payday.⁷
- More businesses will be required to file electronically following the reduction in the electronic filing threshold.⁸

Any challenges with historical income tax and related data will be resolved in FIRST before being migrated to START on 1 April 2019.

The 2020/21 year will be the first full year of pre-populated information for PAYE



⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

and investment income.

Once release 3 has been implemented employers will have integrated tax and business processes making it quicker and easier for them to meet their obligations, and all customers will have access to faster, more accurate tax information, providing near real-time visibility of all their tax obligations. Customers will have a lot more certainty as there will be much less chance of them going into debt and any refunds will be paid more quickly.

Costs and benefits are in line with expectations.

Costs for the implementation of Stage 2 in a series of releases over 2018 and 2019 are within the funding approved by Cabinet in November 2015.

Stage 2, once complete following the implementation of releases 2 and 3, will deliver both financial and non-financial benefits. The non-financial benefits are:

- Customer experiences will improve as a result of more online services, more integrated tax and business processes, and faster more accurate tax information.
- The resilience of the revenue system will improve. However, co-existence between the old and new systems means the inherent risk profile remains high until transformation is complete.
- Government will have greater agility for tax products. However the complex inter-relationships between income and social policy will place some limits on agility. Full policy agility will be provided once transformation is complete.

⁵ Subject to legislation.

The financial benefits are:

- Administrative savings for Inland Revenue resulting from being a smaller, more efficient organisation.
- Increases in assessed Crown revenue as a result of improved customer compliance. Inland Revenue will have a greater focus on helping customers get it right from the start, and there will be greater integration between customers' natural business systems and Inland Revenue's systems. Opportunities for non-compliance will reduce as Inland Revenue will receive core accounting transactions through accounting software.
- The effort required for businesses to meet their obligations will further reduce.

Testing for release 2 is well underway.

Business system testing began in July 2017 and involves Inland Revenue staff testing the functionality within START and how it interacts with other systems. This phase of testing is progressing well and tracking to plan, and will continue until early 2018.

The next phase of testing is scaled business simulation testing. It began in early 2018 and will continue up until go-live on 17 April 2018. This phase practices the go-live step by step including the migration of data, and processes following go-live such as return filing.

Preparing and verifying data is an on-going activity and will continue right up until go-live on 17 April 2018. To date, no major issues with customer data have been identified.

The lessons learned from Stage 1 have informed Inland Revenue's approach to testing for release 2:

- Opportunities for customers to validate new services will be provided throughout the testing process.
- Formal arrangements for testing have been established with organisations whose systems integrate with Inland Revenue's systems.
- Testing is being increasingly automated for external customer facing services and services used by Inland Revenue's contact centre.
- Professional testing resources are working directly with the design and development teams.
- Management of defects has been enhanced to improve the detection, testing and resolution of incidents.

There is a larger volume of testing required for release 2 compared to implementing GST. The testing effort is approximately four times as great in terms of time for release 2, and the number of scenarios to be tested is approximately five times that required for GST.

Customer experiences will improve over 2018 and 2019, complementary to the major releases.

Frequent releases of solutions and enhancements will make compliance easier, simpler and more efficient for both customers and Inland Revenue. While there is a particular focus on improving digital experiences, the experiences of all customers will be enhanced regardless of how they choose to interact with Inland Revenue.

Work is underway in a number of areas to:

- Reduce the time and effort customers spend in finding the right information, and then understanding it.
- Help customers understand what they need to do to meet their obligations and making it easy for them to do so.

Work on the look and feel and integration with www.ird.govt.nz is progressing for a digital solution to the "what's my IRD number" customer pain point.

A Business Survival Guide has been developed for young businesses. In September and October 2017, just under 100,000 customers received information about the site. Work is underway with the Community Compliance team who provide Inland Revenue's face-to-face services in the community, to determine how it might be used as a frontline support tool in the future. As the site has recently been launched, customer reaction and feedback is not yet available.



Over the 2018 and 2019 period, customer experiences will be further improved as:

- More information and returns will be able to be filed through software as new gateway services are made available.
- Customers will more easily be able to find the information they need following a re-design of Inland Revenue's website.
- It will be easier for customers to talk to the right person in Inland Revenue and have their query resolved first time as a result of improved contact centre technology and the implementation of a new organisation design.
- Regardless of how they contact Inland Revenue, customers will have their queries resolved more quickly as channels will be better integrated.
- Customers will receive their GST refunds more quickly as Inland Revenue invests in analytical tools to enable improved decision making.

Work continues on building Inland Revenue's analytical and knowledge management capabilities.

Improved analytical capabilities will enable Inland Revenue to better use the information and data it has about customers to deliver more timely and targeted services. Releases of analytical capabilities can be made independently of, however are complementary to, major releases of the core tax and social policy system.

One key component of being intelligence-led is having a fit-for-purpose analytics technology platform – one that will help Inland Revenue make sense of big, disparate data sets and view customers from many perspectives.

A proof of concept for an advanced analytics platform was completed in December 2017 to better inform and de-risk future investment.

The proof of concept confirmed there is value in such an investment, and in December 2017 Inland Revenue began the procurement process for an advanced analytics platform. Implementation of a new analytics platform is expected to be complete by the end of 2018.

This will give Inland Revenue a better view of a customer's relationships or network, their obligations, entitlements and interactions. Decision making will be enhanced, as Inland Revenue will better understand why customers are calling and what is needed to help them get things right from the start.



By the end of 2019, Inland Revenue intends to integrate the analytics platform with START. This will provide Inland Revenue with better insights into customer behaviour and compliance, enabling more targeted activities where compliance needs addressing. Where customers are consistently compliant, any on-going interactions with Inland Revenue will be increasingly straightforward and automated.

A pilot of an enterprise content management solution began in October 2017 with Inland Revenue's legal

functions. This will provide staff with multiple ways to search for and access information and help to ensure customers receive consistent and timely advice. A phased roll out to all of Inland Revenue will begin in 2018.

This will make customer and business information more readily accessible to Inland Revenue staff, enabling them to provide more consistent customer service.

Major releases will occur annually until 2021.

Releases 4 (2020) and 5 (2021) will move the remaining social policies Inland Revenue administers to new systems and processes.

The current sequencing has KiwiSaver and Student Loans being implemented in 2020, and Child Support being implemented in 2021. Alternative sequencing is possible.

As major releases are implemented, customers will increasingly be able to manage their taxes and entitlements themselves as they'll be able to do more and more using online services.

The release sequence may change as Inland Revenue becomes more experienced in deploying the new system, as new opportunities are identified, and as government priorities change. The current release plan is Inland Revenue's view of the sequence that best balances delivery risk, cost to deliver, and impacts on customers at this point in time.

The release plan will be regularly reviewed to ensure the optimal plan is being delivered. This will take into consideration:

- government priorities
- customer experience and benefits
- co-existence
- business needs.

Inland Revenue is also continuing to explore options to accelerate the modernisation of its enterprise support systems (ESS). In January 2018, Inland Revenue released an expression of interest to the market for ESS.

Transformation is the key vehicle for delivering Inland Revenue's contribution to wider government outcomes.

Transformation will make a major contribution to making it easier for New Zealanders to interact with government.

As a result of the changes being made businesses will be able to spend more time on running their businesses with tax as a secondary consideration. Both businesses and individuals will have greater confidence that they are paying and receiving the right amounts, with the minimum of effort required on their part.

Inland Revenue is an active contributor to cross-government initiatives, most recently being involved in the development of Te Hokinga ā Wairua – end of life services.



Inland Revenue is moving to a more open approach to information-sharing. Protecting taxpayers' confidentiality and privacy is still vital. However Inland Revenue can make life easier for customers, support "tell government only once", help protect people from crime, and become a more intelligence-led organisation by sharing information across government.

Work with other agencies continues to ensure that existing information sharing arrangements continue to operate following go-live of release 2 in April 2018.

Supporting customers to adapt to release 2 changes

Release 2 has implications predominantly for business customers, particularly employers, tax agents, bookkeepers, payroll intermediaries, software developers, and financial institutions.

The release plan delivers changes in smaller steps for customers.

Compared to GST, the significantly larger scope and complexity of tax types and proposed legislative changes for release 2, means there are much wider implications for customers.

Reporting requirements will increase. Employers will be required to provide PAYE information to Inland Revenue on payday, on a voluntary basis as a first step.⁹ Financial institutions will also be required to report more information about non-residents. Implementing more products in START will require more customers to work between the old and new systems.

Building on the successes and lessons learnt from Stage 1, Inland Revenue is committed to supporting customers to prepare for the changes earlier by providing them with relevant information in a timely manner.

Existing channels that achieved good awareness will be used again for release 2 to help customers understand the changes. New approaches will be introduced to help target groups who may need more support.

Inland Revenue will provide information to other groups such as industry associations, service providers and tax

professional bodies to help reach a wider audience. These advocacy/industry groups will play an important change leadership role in their respective industries.

The change approach for all groups of customers is twofold:

- Getting ready for the changes being introduced in release 2 (from now until March 2018).
- Encouraging adoption of new services (from now and also from April 2018 onwards).

Communications and engagement will vary by customer group depending on their needs.

Business customers, tax intermediaries, and software developers will experience the most change.

Release 2 will implement legislation, the myIR service, and how these customer groups interact with Inland

Revenue. There will be an increased need for these customers to work across two systems.

Business customers

The key changes for business customers in release 2 are:

- Proposed changes to legislation mean PAYE information will need to be provided to Inland

Revenue every payday – businesses can choose to do so from April 2018 and must do so from April 2019.¹⁰

- Larger businesses with in-house IT systems will need to start thinking about changes to their customised software as, under current proposals, PAYE information will need to be reported to Inland Revenue every payday from April 2019.
- An enhanced myIR service will enable businesses to correct payroll errors themselves once they have adopted payday filing, and also to manage withholding taxes, gaming machine duty, and fringe benefit tax.
- The introduction of the accounting income method option for calculating provisional tax.

In the lead up to the go-live of release 2 in April 2018, Inland Revenue will work directly with the businesses that need to make the most changes. This will include working closely with large enterprises with customised payroll systems including government agencies, and communicating directly with businesses still filing on paper.

In addition, Inland Revenue will:

- Leverage established relationships with customers through existing account management arrangements
- Work with industry association groups, software developers and tax agents to provide content and information for their members and clients. Inland Revenue recognises that businesses rely on others to provide advice and support.



⁹ Subject to legislation.

¹⁰ Ibid

- Increase the visits made to businesses by the Community Compliance team.
- Communicate directly with businesses about changes they need to be aware of – this will be targeted to their situation and needs.
- Increase the use of social media, such as making videos available on YouTube.

Prior to go-live, opportunities will be provided for customers to validate the new services being introduced in release 2.

Government agencies who share information with Inland Revenue will have early visibility of specifications and test plans to ensure that existing information shares continue to work effectively after go-live.

Financial institutions

From 1 July 2017, financial institutions have been required to identify accounts held by non-residents, collect information, and report this information annually to Inland Revenue. The information collected includes identity details, account balance, and income and payment information.



From April 2018, financial institutions will have three different options for submitting their information to Inland Revenue (based on volume). They will need to provide their information to Inland Revenue by 30 June

2018. The technology development is progressing well and testing is underway.

Financial institutions are also impacted by a number of other changes being introduced over 2018 and 2019. These include the investment income and employment income proposals, and changes to resident withholding tax and non-resident withholding tax. Inland Revenue is working closely with financial institutions, the major banks in particular, to ensure these are implemented as smoothly as possible.

Software developers

Accounting and payroll software developers will need to make changes to their products to accommodate the introduction of the accounting income method (AIM) option for calculating provisional tax as well as the move to payday reporting¹¹.

Software developers have a critical role to play in communicating change and providing education/training to their customers.

To ensure changes are introduced smoothly, Inland Revenue will provide software developers with a fully integrated test environment to enable new services to be tested end-to-end before release.

From now until go-live of release 2, Inland Revenue will meet frequently with key developers, continue workshops to discuss changes and issues as they arise,

¹¹ Subject to legislation.

and provide content for them to communicate to their customers. Following go-live, Inland Revenue will work with software developers to drive uptake of filing through software.

Further work with software developers is required to develop PAYE filing through software and to develop alternative solutions to providing tax agents with transactional data.

Tax agents, payroll intermediaries and bookkeepers will need to make changes to how they operate.

These groups are key influencers with their clients regarding uptake of digital services, use of software and the adoption of the accounting income method option for calculating provisional tax.

The release 2 changes for tax agents, intermediaries and bookkeepers include:

- The introduction of payday reporting, initially on a voluntary basis.¹²
- The introduction of the accounting income method option for calculating provisional tax.
- Improved functionality and some navigation changes for myIR for PAYE, withholding taxes, gaming machine duty, fringe benefit tax, and provisional tax (including the accounting income method option).
- There will be continued impacts resulting from working in two systems for transfers until April 2019. This is an issue for tax agents in particular.

¹² Ibid.

In the lead up to go-live of release 2 in April 2018, Inland Revenue is continuing to:

- attend industry conferences, forums and road-shows
- meet regularly with professional bodies
- hold webinars, and
- communicate through existing newsletters such as Agents Answers.

Since early 2018, Inland Revenue has:

- Communicated directly with all tax agents, intermediaries and bookkeepers.
- Increased the use of social media, such as making videos available on YouTube.
- Held seminars regionally to ensure tax agents, intermediaries and bookkeepers are aware of what they need to do on day 1. Manuals, guides, “how to” videos and system demos will be developed and made available during these seminars.
- Increased the number of on-site visits made by the Community Compliance team.

Focus groups have been established to assess and provide advice about the readiness of tax agents, payroll intermediaries and bookkeepers for go-live.

Tax agents

There is an approximate 60/40 split between tax agents who are members of professional bodies, such as Chartered Accountants Australia and New Zealand (CA ANZ), and those who are not.

Agents who are members of professional bodies will receive communications from both Inland Revenue and from the body they are a member of. Inland Revenue will provide content to tax professional bodies to communicate to their members. This will be co-ordinated so that communications are complementary.

Tax agents who are not represented by a professional body will have the opportunity to have more one-on-one contact (as appropriate) with Inland Revenue’s Community Compliance team and will receive communications from software developers.

Further work with tax agents is required to develop alternative solutions for how they access transactional data, and with intermediaries on gateway services.

Other customers are less affected however they will still need to be aware of the changes being made.

For the majority of customers, there will be no major changes in 2018. Customers will continue to use myIR for online services and there will be more time for them to become familiar with the new system and prepare for future releases.

Now that consultation has concluded, proposals to make individuals’ tax obligations simpler and more certain will be finalised for Ministers to consider.



Engagement with key stakeholders and industry groups has focussed on the release plan in recent months.

Tax agent professional bodies

Inland Revenue continues to work closely with tax professional bodies including CA ANZ, the Accountants and Tax Agents Institute of New Zealand (ATAINZ) and the New Zealand Bookkeepers’ Association.

The key focus in recent months has been ensuring these groups understand the release plan and what it means for them and their members.

Regular meetings are underway with CA ANZ members in various locations around the country to ensure they understand what changes are being introduced when.

Inland Revenue continues to attend conferences, having had representatives at both the CA ANZ fraud conference and the Bookkeepers’ Association annual conference. In addition, the department attended the ATAINZ board meeting. The department also presented at the New Zealand Payroll Practitioners Association’s (NZPPA) annual summit.

Members of both CA ANZ and ATAINZ have had the opportunity discuss the improvements to GST online services, the accounting income method option for calculating provisional tax, and payday reporting. Submissions on the proposals for Modernising the Tax Administration Act Discussion Document have been discussed with the CA ANZ Tax Advisory Group.

Business and industry groups

Inland Revenue continues to be actively involved in the MYOB Employer Essentials series, MBIE small business road-shows, and Tax Management New Zealand road-shows.

MBIE's small business road-shows have also provided the opportunity to engage with Māori businesses in Kaitiaki and Whakatane, and Chinese businesses in Auckland, to better understand their difficulties with estimating provisional tax and amending returns in particular.

The E RERE!

– The Future of the Māori Economy – conference in Rotorua, jointly hosted by MBIE and Te Puni Kōkiri, provided



another opportunity to discuss business tax.

Meetings with software providers and payroll developers are continuing to ensure that the changes to payday reporting¹³ and the introduction of the accounting income method option for calculating provisional tax are successfully implemented. A key focus in recent months has been working with them to ensure they understand the release plan.

¹³ Subject to legislation

Inland Revenue has made good progress on the development of options for making the accounting income method concept available to larger businesses.

Phil O'Reilly, formerly Business NZ, has worked with Inland Revenue, to help test the issues identified with relevant medium-sized businesses. A two-week series of workshops was held in Christchurch, Dunedin, Tauranga, Wellington and Auckland in late June to early July 2017 with key stakeholders and their medium-sized business clients.

Following this successful series of workshops, Inland Revenue held a Service Innovation Lab to look at possible solutions to the problems that have been defined.

Financial sector

The department continues to work with financial industry representatives to help ready them for the changes being introduced.

A lot of work has already been done to ready financial institutions for the automatic exchange of information with international tax treaty partners, and this will continue in the lead up to the first reporting deadline on 30 June 2018.

Around 150 people attended financial industry information sessions in early June 2017 to help prepare institutions for the account holders' due diligence procedures that took effect from 1 July 2017. The sessions took place in Wellington, Auckland and via teleconference.

Guidance material for financial institutions was published in June 2017, and brochures were also produced and distributed to industry associations. A list of participating jurisdictions was published in the Gazette at the end of June 2017 and in the July 2017 edition of the Tax Information Bulletin.

A targeted public awareness campaign 'Sharing information to combat global tax evasion' ran from 1 June until 14 July 2017. The campaign highlighted the responsibilities of account holders and how the information



collected will be used. The campaign attracted approximately 10,000 visits to its landing page. Facebook and LinkedIn advertisements also provided good exposure with approximately 3 million impressions (the number of times the post was displayed), and more than 4,000 clicks. A video explaining the automatic exchange of information was viewed about 1,000 times in the English language version and approximately 9,000 times in the Chinese version.

Engagement with small-to-medium-sized financial institutions, large financial institutions, and industry associations continues. Inland Revenue is actively seeking their involvement to provide feedback on both the technology solution and the legislative guidance tools being developed.

The major banks and Inland Revenue are also exploring the opportunities arising from a more digital environment. Several workshops have been held with the major banks to discuss automation opportunities for requests for information under section 17 of the Tax Administration Act, and requests for deduction of tax from payments under section 157.

Government

Inland Revenue is working across the public sector to ensure that New Zealanders continue to receive the services they do today, following the changes being introduced by transformation.

This means working collaboratively with other government agencies to ensure:

- They are well informed about the changes being introduced.
- They are on track to meet legislative requirements such as payday reporting.¹⁴
- The relationships they have with their customers can be leveraged so that customers receive messages from sources they are familiar with and trust.

There has been a particular focus in recent months on meeting regularly with the agencies most critical to the changes being made. These are the Accident Compensation Corporation (ACC), the Ministry of Education/Education Payroll Limited, the Ministry of Social Development (MSD) and Statistics New Zealand.

¹⁴ Subject to legislation

Inland Revenue and Education Payroll Limited meet regularly to discuss PAYE changes.

On-going meetings are taking place with MSD to discuss how the benefit management and revenue systems can work together to ensure people are paid their correct entitlements.

Statistics New Zealand and Inland Revenue are working together to ensure existing information sharing arrangements continue to work effectively following the go-live of release 2. Information sharing arrangements have also been discussed with the Treasury and the Ministry of Justice.

In addition, regular meetings continue with MSD and ACC to align transformation programmes.

At this stage, there is no cause for concern about the readiness of any these agencies for release 2 in April 2018. Inland Revenue will continue to work alongside ACC, MSD, Education Payroll Limited, and Statistics New Zealand to ensure that any issues are highlighted and dealt with early.

Communications and marketing activity is raising awareness of the Accounting Income Method.

Communications and marketing activity is continuing to raise awareness of AIM.

Five AIM webinars were run in late 2017, listened to by around 3,500 people, and a further three webinars were held in February and March 2018, one for businesses and two for tax agents. Inland Revenue also co-presented at

two webinars hosted by Xero in early February 2018 for their tax agents.

General information about AIM was published on Inland Revenue's website in late September 2017, and has received about 9,500 unique views. Information is being provided to small business publications and newsletters, and industry groups are being asked to promote AIM through social media and on their own websites.

The focus of communications is to continue to provide information to tax agents, particularly to emphasise that AIM is easy and not complicated. There is also a focus on raising awareness among small businesses, encouraging them to seek more information from their tax agent, if they have one. Marketing AIM to customers began in late February 2018.

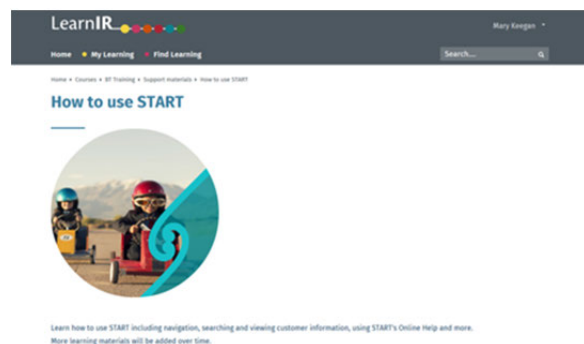
Around 250 seminars will be held around New Zealand to update tax agents and businesses on the changes happening in April 2018, including AIM. About 16,000 customers in total are expected to attend one of the seminars, which began in February and run until early May 2018.

Plans for readying staff to support customers with release 2 changes are well in hand.

Inland Revenue people will need to be ready to support customers to adapt to the changes being introduced in release 2. There will be a strong focus on providing education and information, either proactively through the community compliance and account management teams or reactively through customer contacts.

A total of 4,700 people will experience the release 2 changes and for many this will mean a change to some part of their jobs:

- Many people will need to work across both FIRST and START.
- More than 700 people will use START for the first time.
- A large portion of employer information work will move into START. This is a core information source for most tax types. Making amendments and resolving errors will require working across two systems.
- The look and feel and navigation for employer information in START is very different to FIRST and will take time to learn.
- There will be changes to how cases are managed.
- There will be new workflow and security permissions in START based on the new roles that are part of the new customer facing organisation groups and the associated new delegations.



People have been segmented into four groups based on the level of change they will experience:

- Individuals and groups who could not continue to work if they were not ready for go-live (group A).
- Individuals whose work would be disrupted if they were not ready for go-live (group B).
- Individuals whose work could be disrupted if they were not ready for go-live (group C).
- All other non-customer facing people (group D).

To ready people for release 2, Inland Revenue will:

1. Deliver training – on-line, on-the-job and classroom training: the latter will be delivered close to go-live.
2. Put in place user support - on-line help.
3. Introduce key users - to embed the changes.
4. Tailor communications.
5. Undertake change readiness assessments.
6. Provide early life support - help following go-live.

This approach builds on the lessons learned from Stage 1. The key adaptations are the introduction of key users, providing more time for informal and on-the-job learning, focusing on the big things people need to know well for day 1 and week 1, and providing more time to practice with START before go-live. Each group will require different levels of training, communication and support.

At the same time, many, if not all, of the 4,700 people who will experience release 2 changes will be moving into a new organisation design. People will be moving into new roles and teams in a new structure, and may be responding to increased customer contacts at the same time.

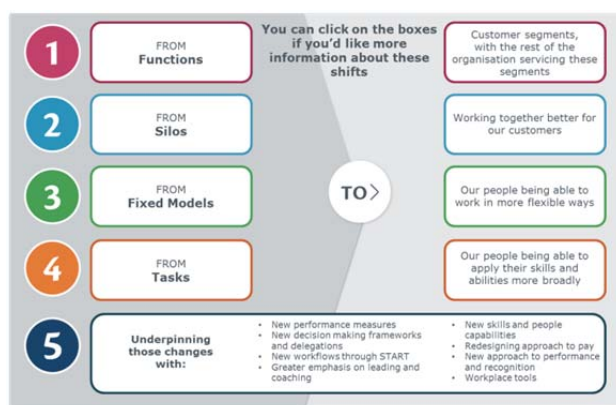
Moving a large number of people into new structures, teams and roles, at the same time as changing the processes and systems they use to do their work, is not without its challenges. This will continue to consume significant amounts of management attention.

Implementing a new organisational design for Inland Revenue

Inland Revenue implemented the first wave of its new organisation design in February 2018. This is focused mostly on customer facing areas and is an important step in becoming more agile and intelligence-led, and built around the needs of customers.

Those delivering customer services will be enabled and empowered to make more decisions and resolve customers' issues more quickly.

Five key shifts underpin the new organisation design as shown below.



A new organisation design will enable people at Inland Revenue to:

- Apply their skills more broadly to a range of work.
- Work together more closely.
- Provide better services to customers.
- Make the most of a new and evolving working environment, supported by technology.

In July 2017, the first steps towards a new organisation design were confirmed.

In May 2017, Inland Revenue consulted with all staff on the proposed design for three new organisation groups and the proposed process for moving people into roles within these groups. The final design was confirmed in July 2017, with changes made based on the feedback received.

Three new groups were implemented from 12 February 2018:

- Customer and Compliance Services – Individuals, Customer and Compliance Services – Businesses
- Information and Intelligence Services.

Selection processes for senior leaders, team leads, specialists and business support roles in these groups were completed by December 2017. Staff in customer facing roles received an offer to appoint or confirmation to a role in October 2017.

Changes are being made to Inland Revenue's working environment to support the new organisation design.

To support the new organisation design and the implementation of release 2, how Inland Revenue works will change:

- A new decision making model and broader delegations will be introduced so people are clear about what decisions they can make and how to get help if they need it.

- New internal organisation measures will be developed that show the impact of the changes being made.
- Workflows will be configured to new roles so that people get work relevant to their customer segment, skills and abilities.
- Programmes will be developed for new leaders and tailored, on-going support provided for leaders at all levels.
- Performance, recognition and pay approaches will be redesigned.

New delegations, combined with broader roles, means that customers will have their queries responded to more quickly and will be able to talk to one person to get more of their queries resolved. Inland Revenue will coach and train people to be able to provide better service to customers.

Inland Revenue is investing in its people to grow their capabilities.

The new, broad roles focus on the outcomes that need to be achieved and the capabilities required for a role. Capabilities are a person's unique mix of skills, knowledge, experience and attitudes.

Inland Revenue has identified 12 people capabilities that describe what is important for the future, transformed organisation. They are:

- business acumen and partnering
- change management
- complex compliance management
- customer advisory

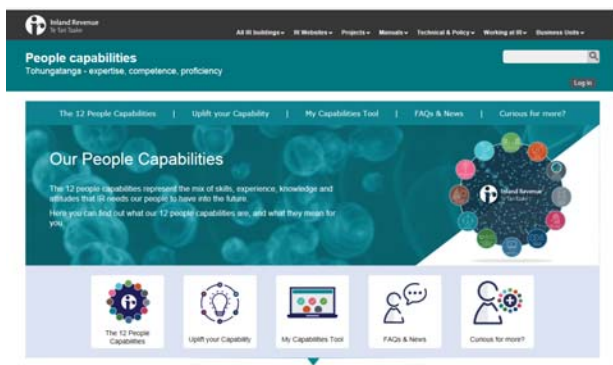
- data, analytics and insight
- design and integration
- digital literacy
- information and knowledge management
- leadership
- policy quality and agility
- quality decision making, and
- workforce management.

Help will be provided so that people develop the skills and capabilities they need now and in the future.

Supported by their leader, people will grow and build their capabilities over time, mostly as they gain experience in their role. A range of learning opportunities will be available:

- On the job – for example through taking on new things, trying new ways of working, working in a project team, acting in a higher level role, reviewing how something went and working out what could be done differently next time.
- Self-directed learning – for example having a coach or mentor, buddying up with someone or looking at information online.
- Training – for example through face-to-face courses, e-learning, workshops and webinars.

The most significant part of people’s learning and development will be on the job. Inland Revenue will provide tools to support people to do that, and has already made resources available to give people more information about the capabilities and how they can be developed.



Further change will occur in 2019.

Once transformation is complete, Inland Revenue will be a smaller, different and more efficient organisation. The overall workforce is expected to reduce by 25–30%, although total workforce numbers are not expected to change significantly until 2019/20. Implementing a new organisation design will enable delivery of the administrative savings committed to as part of Inland Revenue funding contribution towards transformation.

The changes being introduced by transformation will mean that Inland Revenue will need fewer people in the future.

Customers will be easily able to get their tax and social policy payments right first time, avoid errors and have a clear view of what they’ve paid and what they owe during the year. They’ll spend far less time and effort ensuring they meet their obligations and receive their correct social policy entitlements, as tax will be correctly withheld and assistance provided at the time it is needed.

As much as possible, any reductions in the numbers of people working in particular roles will be managed through attrition and flexible workforce arrangements.

Since mid-2016, Inland Revenue has adopted a deliberate approach of filling the majority of vacancies with fixed-term employees. As at 31 December 2017, the department had approximately 560 people on fixed term agreements representing around 10% of the total workforce. The conclusion of fixed-term arrangements will contribute significantly to the future reduction in workforce.

If there is a need to reduce the number of people in particular roles, Inland Revenue will look at options for doing that and will discuss them with staff and the unions as appropriate.

Inland Revenue continues to work with the unions to implement the new organisation design, although this is not without its challenges.

During the change process, the Public Service Association (PSA) initiated legal proceedings regarding aspects of the process for moving people into new roles.

A ruling by the Employment Court on 21 December 2017, the Employment Court resolved some aspects of the process.

In January 2018, Inland Revenue and the PSA had good discussions about the process for and concerns of the members the PSA represent, and reached agreement on the way forward. The agreement includes commitments about the relationship generally as well as a specific way

forward in support of implementing the three new organisation groups.

A further hearing in the Employment Court is scheduled for 14-28 May 2018 regarding aspects of the selection process for some roles. As a result of the PSA challenge, the selection process for these roles was amended so that the three new groups could be established as planned on 12 February 2018.

However, Inland Revenue understands that the PSA has since withdrawn proceedings.

Procuring the products and services required for transformation

All procurement processes continue to be consistent with Government Rules of Sourcing.

Since the July 2017 update, Inland Revenue has completed further procurement activity to select the services and products required for transformation.

A number of agreements have been signed in recent months. These include:

- A support contract with Deloitte which consolidates the management of Deloitte support activities across IT.
- Contracts with Assurity and Team Asparona – our testing and information and knowledge management solution partners respectively.
- Two new statements of work (SoW) with Prismac and Ebit Asia Pacific to continue progressing changes to the cheque payment processing system and an Automated Remittance Processing solution (ARP Solution).

A number of commercial agreements have also been progressed. These include:

- The scope of Assurity test services was confirmed following the finalisation of the release plan.
- The advanced analytics proof of concept request for proposal (RFP) was awarded to PWC and Smart Associates.
- The customer experience RFP was awarded to two New Zealand suppliers, Davanti and Alpherio.

Market engagement is underway in a number of areas:

- requests for proposals (RFP) for a web content management and an advanced analytics platform
- an expression of interest (EOI) document for enterprise support services.

Inland Revenue continues to consume common capabilities and ICT capabilities where they exist, meet the department's business needs and are cost-effective.

Infrastructure-as-a-Service (IaaS), Software Framework Agreements and Telecommunications-as-a-Service (TaaS) are being used by Inland Revenue.

Inland Revenue has selected Vodafone to provide network connectivity and move additional services to the all-of-government (AoG) common capability (TaaS).

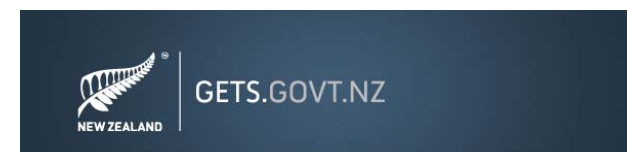
A memorandum of understanding has been signed between Inland Revenue and the Government Chief Digital Officer for Inland Revenue to adopt the AoG Cloud Framework Agreement for the provision of Amazon Web Services.

The AoG Consultancy Services panel is expected to be established in December 2017. In the meantime, Inland Revenue has joined the New Zealand Defence Force ICT Professional Services syndicated panel. This provides an interim solution and allows the department to access specialist ICT services quickly.

New Zealand businesses have secured a considerable amount of transformation work.

Inland Revenue seeks a wide range of providers for transformation and will continue to do so. Opportunities are actively promoted to the market place, including

New Zealand businesses – for example, advertising on GETS and communications with vendors.



From 1 July 2014 to 31 December 2017, \$303m has been spent on companies and individual contractors providing services to transformation, of which \$221m (73%) has been spent on New Zealand resident businesses.

Both delivery partners, FAST and Accenture, have recruited New Zealand staff. FAST has employed 23 New Zealanders as START developers out of 65 total employees in New Zealand. Accenture have employed in excess of 40.

Inland Revenue continues to share its commercial expertise with other agencies.

Lessons learned have been shared with the Ministry of Health and Land Information New Zealand (LINZ). Inland Revenue also shared insights with the Ministry and LINZ regarding improved vendor segmentation, vendor management processes and partner governance.

Inland Revenue continues to work with DIA and MBIE to explore options for a single integrated solution for vendor sourcing, contract management, purchasing and payments for vendor relationship management. The Ministry of Education and Inland Revenue are continuing to work closely together to help the Ministry reduce the time it takes to pay vendor invoices.

Managing and governing transformation

Transformation is tracking to plan.

Release 2 is on schedule and costs are tracking as expected.

Monitoring focuses on delivery progress and realisation of benefits.

Inland Revenue and the Treasury have worked together to agree the key performance indicators (KPIs) and outcome measures that will be used to monitor progress in realising the benefits and outcomes from transformation.

Unlike the single product implemented in Stage 1, future stages will overlap and be implemented through a series of releases. To reflect this, progress is being monitored through a set of time-bound indicators, rather than indicators related to a particular stage.

There are three main measures of success for transformation:

- easier for customers
- reduced time and cost to implement policy (policy agility), and
- administrative savings to Inland Revenue.

Progress towards achieving these outcomes will be measured against a number of lead and lag indicators (please refer to appendix 3), and through case studies (please refer to appendix 4). Case studies will be used to show observable changes for:

- improved outcomes for customers from more secure sharing of information

- agility, and
- revenue/compliance uplift.

Transformation remains inherently high risk.

Transformation is complex and challenging. Inland Revenue is now operating two systems and the department's risk profile has increased. It will remain high until the completion of transformation due to the need for old and new systems to co-exist.

Transformation is recognised as a high risk initiative. Robust risk management approaches are in place, and the assurance programme forms an important part of management of risks.

The key risks facing transformation were identified and communicated to Ministers as part of the 2015 business case.

The most significant risks and the risk profile for transformation are reported regularly to the Portfolio Governance Committee and to the Ministers of Finance and Revenue.

At the end of January 2018, the risk profile for transformation was amber. The change since the July 2017 update, which reported a light amber risk profile, is due to the work required to confirm the release plan for future stages.

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.

Current risks reported to the Portfolio Governance Committee relate to:

- The need for legislative change that has not been anticipated, resulting in Inland Revenue being unable to meet legislated timing.
- Changes to scope, timescales and funding.
- The scale of change impacting revenue distribution and collection, Inland Revenue's ability to achieve performance targets, and source and retain people with the right skills.
- Inland Revenue not meeting expectations regarding the realisation of benefits, adoption and/or delivery of all-of-Government capabilities.
- Government losing confidence in Inland Revenue's ability to deliver.
- Co-existence.

Please refer to appendix 5 for a summary of the most significant risks for transformation as at January 2018.

The risk profile has been refreshed following the endorsement of the release plan by the Portfolio Governance Committee in August 2017. The most significant risks have been re-assessed on the basis of release 2, rather than over the life of the programme as was previously the case.

Four new risks have been raised since the last update, two have been closed and the status of one has changed.

The new risks raised relate to:

- Managing the time demands on key core resources

- Inland Revenue’s ability to retain people with the right skills
- The Unisys mainframe, on which FIRST resides, becoming unsupported and end of life in June 2021 (this is a known risk that is now reported to the PGC given its approaching proximity)
- Inland Revenue’s ability to attract people with the right skills.

Two risks have been closed since the July 2017 update. One related to disruption to transition processes caused by not having union support. This has been replaced with two, new separate risks regarding union disruption and loss of union support. These risks are not reported to the Portfolio Governance Committee.

The other closed risk related to previously unknown anomalies being discovered during detailed design. This risk has been closed for Stage 1 and release 2, and a new risk has been raised for release 3. This risk is not reported to the Portfolio Governance Committee.

The rating of one risk has improved since the July 2017 update. This relates to insufficient funding to complete delivery of transformation due to competing priorities. Following discussions in late 2017 with the Investment Panel and Treasury, Inland Revenue’s view is that this risk has a reduced likelihood of occurring.

While risks may become issues from time to time, this is not unexpected. Should any opportunities or issues arise that may impact timelines, costs, benefits or risk profile these will be highlighted for Ministers to consider.

Assurance reviews are on-going to provide confidence that transformation continues to be well managed and governed.

Inland Revenue undertakes regular independent quality assurance (IQA) and technical quality assurance (TQA) reviews. The outcomes of previous assurance reviews are included in earlier business cases and transformation updates. Three external assurance reviews have been completed since the last update in July-2017.

A Gateway 0 (strategic assessment) review was completed in July 2017. The review team’s view was that transformation is on a positive trajectory, due in large part to the strength of leadership and governance. The review team commented that *“the quality and capability of its leadership and governance is first rate and provides a basis for confidence”*.

A Gateway 0 (strategic assessment) and 4 (readiness for service) review completed in March 2018 found that transformation *“... continues to be strongly led, governed and managed”*.

The review team noted positive momentum within Inland Revenue, *“... there is a high degree of confidence arising from considerable system testing in readiness for release 2 in April 2018”*. Overall, the Gateway review team rated transformation as amber/green.

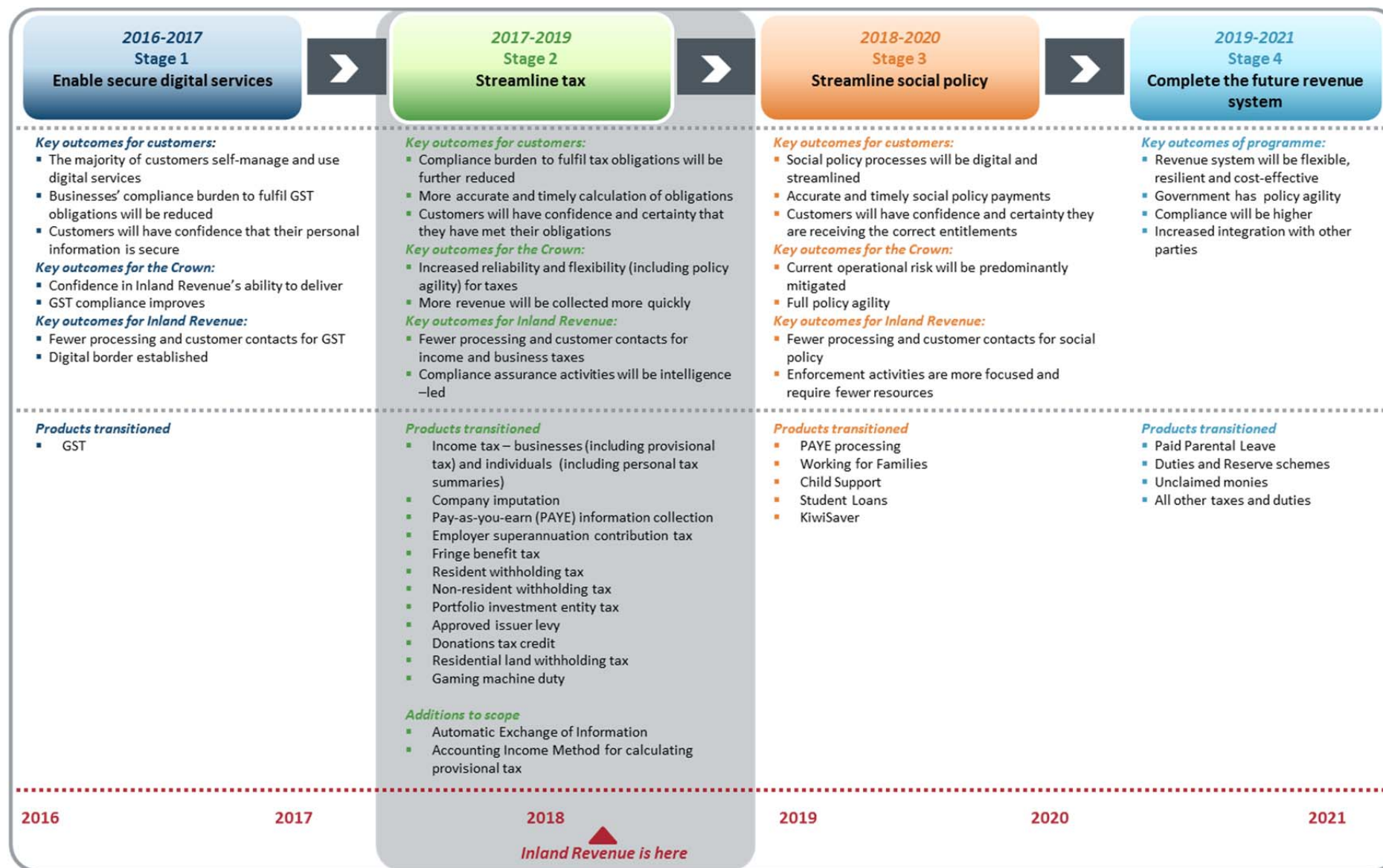
In their August 2017 IQA6/TQA5 report, KPMG noted that *“In general, the Programme overall continues to be managed in accordance with good industry practice, and we also noted some welcome improvements since our prior reviews”*.



Fieldwork for IQA7/TQA6 is currently underway. This review is assessing Inland Revenue’s readiness for go-live of release 2.



Appendix 1 – Transformation roadmap



Appendix 2 – Release plan

2016/17	2017/18	2018/19	2019/20	2020/21
<p>Stage 1 Enable secure digital services</p>	<p>Stage 2 Streamline tax</p>	<p>Stage 3 Streamline social policy</p>	<p>Stage 4 Complete the future revenue system</p>	
<p>Major Release 1</p> <p>Customer experience</p> <ul style="list-style-type: none"> Self-service for GST <p>End-to-end solution</p> <ul style="list-style-type: none"> GST Foundational technology 	<p>Major Release 2</p> <p>Policy</p> <ul style="list-style-type: none"> Accounting Income Method (provisional tax – 1.4.18) Payday reporting (voluntary – 1.4.18) ** <p>Customer experience</p> <ul style="list-style-type: none"> Digital submission of employer information <p>End-to-end solution</p> <ul style="list-style-type: none"> Withholding taxes Fringe benefit tax Payroll subsidy Gaming machine duty Automatic Exchange of Information 	<p>Major Release 3</p> <p>Policy **</p> <ul style="list-style-type: none"> Payday reporting (mandatory – 1.4.19) Reduction in PAYE electronic filing threshold Investment income filing (voluntary – 1.4.19) New annual income tax process Withheld under s18(c)(i) of the OIA <p>Customer experience</p> <ul style="list-style-type: none"> Digital submission & improved self-service for income tax Improved self-service for PAYE <p>End-to-end solution</p> <ul style="list-style-type: none"> Income tax, including provisional tax Imputation taxes Working for Families Independent earner tax credit 	<p>Major Release 4</p> <p>Policy **</p> <ul style="list-style-type: none"> Investment income filing (mandatory – 1.4.20) Withheld under s18(c)(i) of the OIA <p>Customer experience</p> <ul style="list-style-type: none"> Improved digital submissions for KiwiSaver providers Improved self-service for KiwiSaver and Student Loans <p>End-to-end solution</p> <ul style="list-style-type: none"> PAYE KiwiSaver Student Loans 	<p>Major Release 5</p> <p>Policy **</p> <ul style="list-style-type: none"> Withheld under s18(c)(i) of the OIA <p>Customer experience</p> <ul style="list-style-type: none"> Improved self-service for child support Full customer view available <p>End-to-end solution</p> <ul style="list-style-type: none"> Child Support

** Subject to legislation being enacted and further discussion with Ministers regarding priorities

Appendix 3 – Indicators and thresholds

Outcome	Investment objective	Indicator	2017/18	2018/19	2109/20	2020/21	2021/22	2022/23	2023/24	
Easier for customers	<ul style="list-style-type: none"> Delivering new and more effective services to improve customer compliance and help support the outcomes of social policies Improving the customer experience by making it easier and simpler for our taxation and social policy customers, with a particular focus on enhanced digital provision of services Increasing the secure sharing of intelligence and information to improve delivery of services to New Zealanders and improve public sector performance 	<i>Lead indicators</i>								
		Digital uptake by customers	26%	54%	72%	75%	78%	82%	85%	
		Percentage of customers who find it easy to comply	82%	85%	87%	88%	89%	90%	90%	
		Reduction in compliance time for SME customers (hours per annum)	3 hrs	8 hrs	13 hrs	15 hrs	16 hrs	17 hrs	18 hrs	
		System availability for customer facing e-channels	99.2%	99.3%	99.3%	99.4%	99.4%	99.5%	99.5%	
		<i>Lag indicators</i>								
		Customer outcomes achieved from information sharing and security of information	Measured through a series of case studies (refer to appendix 4)							
		Cumulative reduction in compliance costs for SMEs	\$30m	\$160m	\$370m	\$590m	\$820m	\$1,070m	\$1,330m	
Cumulative additional Crown revenue to Government		\$90m	\$280m	\$570m	\$1,110m	\$1,860m	\$2,880m			
Reduced time and cost to implement policy	<ul style="list-style-type: none"> Improving agility so that policy changes can be made in a timely and cost effective manner Minimising the risk of protracted system outages and intermittent systems failure 	<i>Lead indicator</i>								
		Reduction in the time and cost to implement policy	Measured through a series of case studies (refer to appendix 4)							
		<i>Lag indicator</i>								
		Increased revenue system resilience as assessed by Inland Revenue	Low	Low	Partial	Partial	High	High	High	
Inland Revenue is more efficient	<ul style="list-style-type: none"> Improving productivity and reducing the cost of providing IR's services 	<i>Lead indicator</i>								
		Digital uptake by customers	26%	54%	72%	75%	78%	82%	85%	
		<i>Lag indicators</i>								
		Annual reduction in Inland Revenue's administrative costs	\$5m	\$10m	\$80m	\$100m	\$100m	\$100m	\$100m	
		Cumulative reduction in Inland Revenue's administrative costs	\$5m	\$15m	\$95m	\$195m	\$295m	\$395m	\$495m	

Appendix 4 – Case studies

	2017		2018		2019		2020		2021
	Mid 2017	End 2017	Mid 2018	End 2018	Mid 2019	End 2019	Mid 2020	End 2020	Mid 2021
GST and other tax types ¹⁵	Information sharing Policy agility ✓		Information sharing Policy agility			Information sharing Policy agility Crown revenue			
Investment income	Information sharing Crown revenue ✓					Information sharing Crown revenue		Information sharing Crown revenue	
MSD (AISA)		Information sharing ✓		Information sharing Policy agility			Information sharing Crown revenue		
BPS R7		Information sharing ✓			Information sharing		Information sharing		
Accounting Income Method			Information sharing Policy agility		Information sharing Crown revenue		Crown revenue		
NZ Business Number			Information sharing			Information sharing		Information sharing	
Payday reporting				Information sharing Policy agility Crown revenue		Information sharing Policy agility Crown revenue		Information sharing Policy agility Crown revenue	
Automatic Exchange of Information				Information sharing Policy agility Crown revenue		Information sharing Crown revenue		Information sharing Crown revenue	
Return on Investment					Crown revenue		Crown revenue		Crown revenue

¹⁵ GST and additional tax types where customers use accounting/payroll software to submit information

Appendix 5 – Key transformation risks

Type of Risk	Risk Name	Current risk	Residual risk
People	There are greater calls on key core resources such as subject matter experts, development leads and architects than the time they have available	Extreme	Very High
People	There is a risk that the programme will not be able to retain the right people with the right skills at the right time. This is a long running transformation programme that is mid-way through delivery which means this risk requires closer monitoring than recruitment risk.	Extreme	Very High
Interdependencies	Unisys has confirmed that Inland Revenue's mainframe goes unsupported and end of life by June 2021. As FIRST resides on the mainframe and isn't due to be fully decommissioned until after June 2021 (at this stage), there is a risk that if FIRST develops a fault it could frustrate Inland Revenue's ability to collect tax and pay disbursements until the fault is fixed, which would be best efforts.	Extreme	Very High
External Environment	There is a risk that the scope, timing and priorities of transformation may change.	High	High
External Environment	There is a risk that external decision-making takes longer than planned and timescales are extended.	High	High
Interdependencies	There is a risk that the disaster recovery plans in place for heritage components that are required for co-existence are not robust.	High	Medium
Financial	There is a risk that the size, scale and nature of changes being brought about by transformation could impact the timing and quantum of collection and distribution of government revenue.	High	Medium
Stakeholders	There is a risk that Inland Revenue cannot meet the date new legal requirements take effect from – relating to transformation (e.g. law passed but Inland Revenue is not ready to go-live.)	High	Medium
Stakeholders	There is a risk that the benefits to the Crown, customers and Inland Revenue that were committed to Cabinet in the 2015 business case are not realised and/or are not realised within required timeframes.	High	Medium
Interdependencies	There is a risk that an increase to the time, effort and complexity in completing operational business-as-usual tasks, manually, during co-existence, (as a result of the heritage development scope being reduced to enable committed timelines to be met), will put at risk Inland Revenue's ability to meet its agreed performance targets throughout the duration of transformation.	High	Low
Stakeholders	There is a risk of misalignment between the programme's agreed scope, roadmap and delivery timeframes, and expectations on the programme to deliver all-of-government (AoG) capabilities, irrespective of whether they meet Inland Revenue's requirements and are sufficiently mature.	Medium	Medium
Stakeholders	There is a risk that government loses confidence in Inland Revenue's ability to deliver transformation.	Medium	Medium
Organisational Compliance	There is a risk that the detailed design phase and subsequent phases identifies legislative changes that are or may be required for a Stage, which were not signalled during high level design.	Medium	Medium
People	There is a risk that the programme will be unable to attract and source the right people with the right skills at the right time.	Medium	Medium
Financial	There is a risk that the contingency agreed by Cabinet as part of the business case funding approval is applied to fund other competing priorities/pressures, creating a risk of insufficient funding to complete delivery of transformation.	Medium	Medium
Organisational Compliance	There is a risk that the large amount of time BT requires from business groups significantly disrupts Inland Revenue's business-as-usual activities, or that business groups don't participate in BT in order to maintain business-as-usual activities.	Medium	Medium
Business Process	There is a risk that transformation becomes a technology replacement rather than a true business transformation.	Medium	Low