



Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: September 2019

Date:	4 October 2019	Priority:	Medium
Security level:	In confidence	Report number:	IR2019/440

Action sought

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

Contact for telephone discussion (if required)

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

4 October 2019

Minister of Finance
Minister of Revenue

Transformation status update: September 2019

Executive summary

1. This report summarises the progress and highlights of transformation for September 2019.
2. The extended support period for Release 3, known as Pou Whirinaki, ended on 27 September 2019 as planned. The lessons learned from Pou Whirinaki are being incorporated into our planning for Release 4, and into our organisation design work for our future change capability.
3. Release 4 remains on track. We have completed 87% of the business function definitions (which describe what the solution needs to do for a particular activity) required for the release. This is slightly behind plan as some business function definitions have been revisited in light of design decisions. It is not a cause for concern. Testing is also slightly behind plan, and again this is not a cause for concern. Overall, we are comfortable with the progress we are making. We held a successful open home for other government agencies during the month.
4. The second release in Ātea¹, which will move finance, procurement, and some of our human resources functions to new systems and processes, went live successfully on 1 October 2019.
5. Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 below). There has been no change in the status of any of the ten reporting keys.

Table 1: Transformation's RAG status

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

6. The overall budget (excluding the contingency held by the Commissioner) for the transformation programme, from 1 July 2019 until 30 June 2020, is \$221.7 million for operating expenditure and \$90 million for capital expenditure.
7. From 1 July 2019 to 31 August 2019, operating expenditure was \$2.3 million over budget and capital expenditure was \$0.8 million under budget. Operating expenditure was over budget because some of the changes in our information technology team, which resulted in people leaving Inland Revenue, occurred earlier than forecast.
8. Based on current forecasts, we expect to complete delivery within budget (including contingency) for operating and capital expenditure. The Commissioner holds a contingency of \$6.4 million for operating expenditure and \$7.8 million for capital expenditure.

¹ Ātea is the name we have chosen for our new enterprise support services platform. These are the internal processes and systems that support the day-to-day running of Inland Revenue.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
4 October 2019

Hon Grant Robertson

Minister of Finance
/ /2019

Hon Stuart Nash

Minister of Revenue
/ /2019

Key risks and issues

10. The transformation programme's risk profile remains light amber with a future trend of light amber. A light amber profile means that appropriate mitigations are in progress and are expected to be successful. There is no expected impact on key dates.

11. One new issue (a risk that has been realised) was reported to the Portfolio Governance Committee (PGC) during the month. The issue relates to the platform we are planning to use to deliver webinars to tax agents and employers. We are confirming our technical support requirements, to ensure we can continue to successfully host webinars in the lead up to Release 4 in our new workplace technology environment.

12. As at September 2019, the programme had a total of 55 open risks,² of which 13 are reported to the PGC.

13. The statuses of three of the risks that were reported to the PGC have improved during the month. These are detailed below.

14. The consequence of the risk relating to the support for heritage systems ending in 2021 has improved from severe to major as, once Release 4 has been implemented, only child support and a handful of duties and minor taxes will remain on heritage systems. In addition, we are now actively planning our approach to decommissioning heritage systems. The current rating for this risk has improved from extreme to very high.

15. During the month, the likelihood of two risks specific to Release 4 occurring have improved. All the mitigations for these risks have now been completed and Release 4 delivery is on track.

16. The likelihood of the risk relating to business pressures and competing priorities affecting our ability to deliver Release 4 has improved from likely to possible. However, the current risk level remains high. The likelihood of the risk relating to meeting the planned go-live date for Release 4 has improved from possible to unlikely. This has improved the current risk level from very high to high.

17. The status of one risk reported to the PGC has deteriorated during the month. This risk relates to Release 4 implementation and key business events³ all occurring during the period April to July 2020 and not being co-ordinated properly. The current rating for this risk has deteriorated from high to very high. The likelihood of this risk occurring remains possible, while the consequences if it did occur have deteriorated from moderate to major. This reflects the findings of the planning and impact assessment work we have done so far. We have identified additional mitigations that we believe will bring this risk back to an acceptable level and will keep a close watch on this as we progress.

18. In response to the Minister of Revenue's comment on the Transformation status update for August 2019 (IR2019/371 refers), the risk of not retaining Inland Revenue people for the remaining two releases is being mitigated by:

- developing a multi-release succession plan
- proactively identifying and responding to factors that will significantly influence people's decisions to remain with the programme, and
- running an annual survey to understand how people feel about their current working environment.

² The number of open programme risks has increased by eight; eight new risks were opened during the month and all are managed at programme level.

³ Key business events include the second round of automatic assessments and some first-time events such as the rollover of Working for Families in START (this is when entitlements for the following year are estimated and communicated to customers).

19. The top risks for transformation are support for heritage systems ending in 2021, the timing of benefit realisation, and Release 4 and key business events occurring concurrently during April to July 2020. Mitigations are in place for all of these risks.

Release 4

20. Release 4 remains on track for April 2020, and continued focus is required to ensure the release remains on schedule.

Solution design and testing

21. Solution design is tracking slightly behind plan and solution development is tracking slightly ahead of schedule. The remaining business function definitions (BFDs, which describe what the solution needs to do for a particular activity) are complex and require additional focus to complete. We completed 87% of BFDs by the end of September against a target of 90%. This is the result of some design decisions requiring some BFDs to be revisited that had previously been approved. Recent decisions regarding account types have resulted in some changes. These decisions, while delayed, were important and we are comfortable with our current position. As a comparison we still remain slightly ahead of where we were at the equivalent period for Release 3.

22. Writing test scenarios for business system testing (ensuring START works as expected) is slightly behind plan. However, test execution is tracking to plan. We are seeing good progress on some of the key decisions for the complex employment activities scenarios. As at 27 September 2019, we had completed approximately 41,000 scenarios and tested approximately 19,000 of them.

23. Definition and development are complete for both the research and development tax incentive and short process rulings. The short process rulings service came into effect on 1 October 2019 and will provide more certainty for any individual or business with an annual gross income below \$20 million and a question involving tax below \$1 million. Testing is complete and training for our people is underway.

24. Testing for the research and development tax incentive is progressing well. The Memorandum of Understanding between Inland Revenue and Callaghan Innovation, regarding how the core team administering the tax incentive will operate, is on track to be signed off in October 2019. To share information, the Commissioner needs to delegate her powers relating to the disclosure of information to members of the core team employed by Callaghan Innovation.

25. The project is still working towards deploying the second release of functionality in October 2019 however recent feedback from some customer testing has identified a few areas that could be improved to simplify the customer experience. Our preference is to get the best possible solution delivered and we are looking at what this might mean to the planned October delivery. If we need to push out the deployment date this will have very minimal impact for most customers. This date is not critical as it was set as a pilot for early filing customers, and most customers will only use the solution from April 2020.

26. Last month's report (IR2019/371 refers) indicated that testing with KiwiSaver providers had commenced. However, testing with providers does not in fact begin until November 2019. The testing currently underway relates to ensuring that the various components that make up the end-to-end system are working before we start business system testing for KiwiSaver.

27. This includes testing the new START KiwiSaver system with the old system that will still be used by KiwiSaver providers when we go live with Release 4. KiwiSaver providers will still use the old system after go-live, to ensure they have the time they need to update their systems to accommodate the new business-to-business interface.

28. Next month, we will complete the first of our readiness assessment checkpoints.

Customer readiness

29. In response to the Minister of Revenue's comment on our customer communication report (IR2019/482 refers), we will provide information about the final spend on customer communication activity for Release 4 once this information becomes available. We will also provide information about the effectiveness of our activity (refer to paragraph 44 in IR2019/482) as it comes to hand. Information about the results of our Release 3 activity is included in the annex for your information.

30. The advertising media mix for Release 4 will be determined based on analysis and understanding the media habits of our specific target audiences and in conjunction with our advertising agency. Customer segmentation will help us to be more targeted and efficient with media selection and buying.

31. We will revisit our objective of ensuring that the majority of customers are aware of changes in light of the high awareness results from Release 3. In July 2019, there was 76% awareness of the changes to tax refunds process (a very clear majority), and exceptionally high change awareness results for businesses and intermediaries of over 90%. Will we be surveying customers as part of the readiness checkpoints to determine their level of awareness of the Release 4 changes.

Business readiness

32. We will hold our regional people leaders' forums from 8 to 17 October 2019. The objectives of the forum include: recognising our achievements to date and the role leaders have played, understanding what is on the road ahead, and understanding how we can maximise the value of the changes we have made so far. The forums will be held in Auckland, Hamilton, Wellington and Christchurch.

Government agencies open home

33. On 16 September 2019, we held an open home, which was attended by approximately 35 people from 13 agencies. We had already consulted with a number of the agencies who attended about Release 4, and this was an opportunity to show the full picture. We also picked up some further valuable feedback as part of this event.

34. The open home provided attendees with information about what we have achieved so far and an overview of Release 4. Attendees then broke into smaller groups for six rotating 'speed dating' sessions, focusing on what is coming up in Release 4. We received some very good feedback:

"It was great to have the ability to dive into some depth on the coming changes, what you are delivering and being able to understand how they impact on what we do." Housing New Zealand

"'Speed dating' at various stations, although more work for presenters, was quite audience-centric. It allowed for smaller groups to engage with key players and meant it was easier to comprehend and ask relevant questions. Well done to the IR team for connecting with its stakeholders in this forum." Commission for Financial Capability

35. We will send out a summary of the open home to the attendees and will add the attendees to our mailing list for ongoing information on Release 4 progress.

Other updates

Enterprise support services/ Ātea

(Internal processes and systems that support the day-to-day running of Inland Revenue)

36. The second release in Ātea went live on 1 October 2019 as planned and shifted finance, procurement, and some of our human resources functions to new systems and processes.

37. There are changes for our suppliers resulting from this release:

- Our purchase order format and numbering sequence will change from 1 October 2019.
- Businesses that invoice us will need a purchase order before they supply us with goods and services. After 1 October 2019, we will start returning invoices received without a valid purchase order number.
- Businesses that currently provide us with a batch or upload file as part of their invoice payment will be given new cost centre and GL codes to use. These new codes will need to be on uploaded files from 1 October 2019.
- Businesses that have a current purchase order in place will be sent a replacement purchase order between 28 September and 11 October 2019.
- Invoices must now be sent to a dedicated email address.

38. We wrote to approximately 2,000 suppliers during August and September 2019 to ensure they were aware of these changes. Follow up emails were also sent. However, some suppliers may not have read the information sent to them and may contact us to query why an invoice has not been paid.

Data and intelligence platform

39. We continue to develop our capability to work with our new data and intelligence platform (DIP). Through the DIP, we have a better understanding of the needs of our customers than ever before. We have used the DIP to identify the 100 customers who have called us the most recently, to identify opportunities to support them. We are working proactively with these customers to better understand their reasons for calling us.

40. As an example, a member of our community compliance team visited the individual who had called us the most (99 times), as it had become clear that this was a customer with complex circumstances and for whom English was a second language. We have not received a call from this customer in the eight weeks since the visit, resulting in a better customer experience for them and reducing the cost of providing services to this customer.

Independent assurance reviews

41. Fieldwork for KPMG's tenth independent quality assurance review and ninth technical quality assurance review (IQA10/TQA9) took place between 16 and 30 September 2019. We will report the results of the review to Ministers once KPMG has finalised its report.

42. The next Gateway review will take place between 7 and 11 October 2019. We expect to report the results to Ministers by the end of October.

43. As previously reported (IR2019/203 refers), the Office of the Auditor General (OAG) is undertaking a performance audit of benefits management for transformation. The OAG team is meeting with the Gateway and KPMG reviewers as part of its audit.

Lessons learned from Pou Whirinaki

44. During August 2019, we completed a 'lessons learned' exercise for the extended support period for Release 3, known as Pou Whirinaki. This will inform our approach to providing support to customers and our people after go-live for Releases 4 and 5.

45. Things that went well and will be retained for future releases are listed below.

- The deskside support provided by key users, testers and trainers was again well received.
- A standard approach to managing major and sensitive issues was established, including nominating an owner to manage the issue to completion. This enabled facts to be quickly established so the issue could be understood and responded to in a coordinated way.
- Product owners were introduced, with defined and documented accountabilities. They were instrumental in guiding prioritisation, leading major issue resolution, ensuring readiness for key business events, and providing guidance on the importance of issues and risks.
- The Pou Whirinaki approach, combined with clear accountabilities and processes and broad inclusive involvement, has helped to unlock cross-functional team work. Pou Whirinaki objectives were to keep things simple, trust each other, provide visibility and transparency, and strive for collaborative decision-making where required. New workplace tools enabled real-time, transparent access to key information.
- A cross-functional team was established to co-ordinate our response to concerns raised by the tax agent community. The team reviewed all the issues raised, grouped them into key themes, prioritised resolution work, and ensured progress was communicated.

46. Areas for improvement for future releases are noted below.

- Although our approach to prioritising issues to be fixed has developed, there is room for improvement in how we manage the backlog of issues. All items in the backlog are low priority, but there are a number of them. Prioritisation has been business-led in terms of identifying the next most important thing to fix. However, this has not included considering the materiality and impact of the items in the backlog. To address this, we will broaden participation beyond the teams currently involved in assessing and clearing the backlog.
- The use of digital services has more than doubled from last year. It became clear during the early weeks after go-live that, although there was a very strong focus on understanding and managing work volumes for calls and correspondence, there was no active management or visibility of digital volumes. It was also clear that the teams developing our new digital services could be better linked-in with the channel and demand-planning functions of the business. Digital services will be an integral aspect of core business planning for future releases.
- New design features and performance improvements quickly become the accepted new standard. We are most likely on a never-ending journey to improve the usability and features of our digital services, so we need to ensure we have the appropriate resource and governance for user-experience design.
- We could manage customer experiences more proactively by aligning services to customer segments. We will consider this as part our work to establish our new operating model.

- Teams were brought together and used the same source of data to work through feedback from customers to reach a shared understanding of activities, events and demand. We need to ensure this is ongoing, so we have an integrated view of business events and responses to customers. This will ensure that we can communicate consistent messages. We will look at developing our capability and capacity to manage issues directly with customers, for example the outbound email campaign capability in START, or using our outbound calling teams.

Coming up in the next two months

47. Key activities over the next two months include:

October 2019

- Go-live of finance, procurement and some human resources functions on Ātea.
- Checkpoint 1 for Release 4 in the readiness assessment framework.
- Provide a draft November 2019 Transformation Update to the Minister of Revenue for review.

November 2019

- Cabinet considers the November 2019 Transformation Update.
- Trial run of scaled business simulation (practicing go-live step by step) testing.

Annex – Release 3 communications activity results

Businesses and intermediaries

Highlights:

- 10 waves of direct marketing activity to 674,000 business customers and 9 waves to 24,000 intermediaries and bookkeepers.
- The peak open rate for emails was 70% for businesses and 58% for intermediaries.
- The advertising channels used were radio, print, digital/online, and social media.
- Results from May 2019 research showed that 96% of businesses, 98% of tax agents, and 95% of bookkeepers were aware that payday filing was mandatory from 1 April 2019.
- The budget was \$3.13 million and the actual cost was \$2.42 million.

Key learnings:

- Using multiple channels and multiple waves of activity generated high awareness and relevant messages were delivered.
- More customer pre-testing of messaging and approach would be beneficial.
- We need to find ways to better understand which customers might require more reassurance.
- We have more intelligence now, which can help inform our approach to specific groups and sub-segments of customers.

Individuals and families

Highlights:

- We targeted 2.46 million customers using direct marketing (1.6 million customers), radio, digital/online, social media, print, bus shelter, street posters.
- The average open rate for emails was 60.6%, and direct activity reached customers 3.6 times (average times each).
- Broadcast advertising channels reached 90.7% of target customers.
- Digital advertising resulted in 56 million adverts served, 183,000 clicks, and a click-through rate of 0.32% (the industry average is 0.08%).
- In July 2019, there was 76% awareness of the changes to tax refunds process, and 81% of Working for Families customers had checked their details were up to date in myIR.
- There were 1.65 million visits to the campaign web page.
- There were 17.45 million logins to myIR over campaign period (customers updating/checking details or accessing their income tax assessment).
- There were 504,958 updated bank account details in myIR and 55,874 new registrations for myIR.
- The budget was \$5.95 million and the actual cost was \$4.07 million.

Key learnings:

- There is a strong correlation between marketing activity via multiple channels and awareness levels.
- Sub-segmentation and direct activity worked well, but more visibility of communications generated by START is required to avoid inconsistency and customer confusion.
- The networked group for contact planning worked well.
- Research activity gave confidence that the channel approach and messages were resonating with customers.
- More sub-segmentation analysis is required – intelligence from past behaviour can help inform the future approach.
- Promote myIR early and often.