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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: September 2021

Date:	29 September 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/413

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

29 September 2021

Minister of Finance
Minister of Revenue

Transformation status update: September 2021

Executive summary

1. This report summarises transformation progress and highlights for September 2021.
2. While we have mostly absorbed the impacts of the Asteron building closure and COVID-19 alert level changes, there is still some risk to the release. We have had approval from our "Go-Live Committee" to proceed to the next checkpoint and, as such, we are still tracking towards go-live over the Labour Day weekend. Our planning assumption is that we will close to customers at 3pm on Thursday 21 October 2021 and re-open at 8am on Thursday 28 October 2021. This means that Inland Revenue will be closed for three business days.
3. There are some major customer events around the time of go-live. As we have for previous releases, we are working to ensure customers are not disadvantaged. We have shifted payment dates for Working for Families and paid parental leave so that customers receive their payments ahead of the closure. The filing and payment dates for GST and income tax are being extended from 28 October to 4 November 2021, as discussed with you by the Commissioner (IR 2021/415 refers).
4. We have evaluated contingency options should go-live be delayed for any reason. There are two final check points in the lead up to go-live. On 18 October 2021 we will seek permission to begin cutover and the go/no-go decision will be made on 27 October 2021.
5. As part of this report, we are seeking your agreement to the final monthly status update being provided to you in late February 2022/early March 2022. We propose to provide two further updates to you between March and June 2022 on the work underway to complete all deliverables, including decommissioning of heritage systems, and to close the programme.
6. This report also provides an update on our progress for the year ending 30 June 2021 with realising the benefits we committed to deliver in return for the government's investment in transformation.
7. Transformation's Red, Amber, Green (RAG) status remains amber overall, as shown in table 1 below. The schedule key has deteriorated to amber as we, our delivery partners and vendors continue to manage the impacts of the COVID-19 Alert Level changes.

Table 1: Transformation's RAG status

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

8. Table 2 on the next page shows programme expenditure to date on this page and planned expenditure on the next page.

Table 2: Transformation expenditure

		Operating expenditure (excluding depreciation and capital charge) \$ millions			Capital expenditure \$ millions		
Previous phases		Budget	Actual	Variance	Budget	Actual	Variance
Pre-Design/Design	1 Jul 14-31 Dec 15	\$85.1	\$74.4	\$10.7	\$1.4	\$0.6	\$0.9
Delivery - Stage 1	1 Jan 16-28 Feb 17	\$131.8	\$114.7	\$17.1	\$76.3	\$72.6	\$3.7
Delivery - Release 2	1 Mar 17-30 Jun 18	\$248.4	\$224.8	\$23.5	\$114.8	\$111.4	\$3.4
Delivery - Release 3	1 Jul 18-30 Jun 19	\$179.4	\$169.5	\$9.9	\$96.3	\$93.8	\$2.5
Delivery - Release 4	1 Jul 19-30 Jun 20	\$205.8	\$163.6	\$42.2	\$103.0	\$96.5	\$6.5
Total for completed phases		\$850.4	\$747.0	\$103.4	\$391.9	\$374.9	\$17.0
Current phase		Budget	Forecast	Variance	Budget	Forecast	Variance
Delivery - Stage 4	1 Jul 20-30 Jun 22	\$145.0	\$145.0	\$0.0	\$85.3	\$85.3	\$0.0
Transitional costs	1 Jul 20-30 Jun 22	\$89.3	\$89.3	\$0.0	\$0.0	\$0.0	\$0.0
Contingency	1 Jul 20-30 Jun 22	\$19.7	\$19.7	\$0.0	\$5.0	\$5.0	\$0.0
Total for current phase		\$254.0	\$254.0	\$0.0	\$90.3	\$90.3	\$0.0

Budget performance to date

9. Between 1 July 2014 and 30 June 2020, the programme spent \$747 million in operating, and \$374.9 million in capital. Any under-spending to date has either been moved to later periods or returned to the Crown.

Stage 4 budget

10. Including transitional funding until 30 June 2022, the overall budget for the current phase of transformation, Stage 4, is \$254 million for operating expenditure and \$90.3 million for capital expenditure. We are on track to come in on budget for Stage 4.
11. Transitional operating costs have changed this month, reflecting the amount actually drawn down to date.

Recommendations

12. I recommend that you:

- a) **Note** the contents of this report.

Noted

Noted

- b) **Agree** that the final monthly status update will be provided to you in late February 2022 or early March 2022, with two further updates to be provided between March and June 2022 on work to complete and close the programme.

Agreed / Not Agreed

Agreed / Not Agreed

- c) **Note** that for 2020/21, Inland Revenue has achieved seven out of the ten indicators tracking achievement of the investment objectives for transformation.

Noted

Noted

Greg James

Deputy Commissioner, Transformation
29 September 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 second release

13. This final release will move Child Support to new systems and processes and upgrade the online services all customers use and the START software our people use.
14. While the closure of the Asteron Centre and the COVID-19 Alert Level 4 lockdown have been very disruptive to the release, the team have mostly absorbed the impacts without any effect on the critical path.
15. Solution design for Child Support is now complete and is under change control. Business System Testing (making sure START works as expected) is 99.5% complete and is largely in defect management mode. The team are tracking test execution, dependencies, and defects daily. Development verification testing is 99.8% complete¹.
16. The second round of scaled business simulation (SBS) testing (testing of key end-to-end processes) has been completed, with a 98% test scenario pass rate. The third and final round of SBS testing is scheduled to begin on 27 September 2021.
17. The third and final round of mock go-live testing (a dress rehearsal for go-live) ran to schedule from 16 to 23 September 2021. We are still seeing data issues from FIRST as part of the conversion processes and continue to work to resolve them. Based on the results of the three mock go-lives, we expect the cutover to new systems and processes to take six days. Our current planning assumption is that customer-facing services and channels will shut down at 3pm on Thursday 21 October 2021 and re-open at 8am on Thursday 28 October 2021. This means Inland Revenue will be closed to customers for three business days.
18. While there is no ideal time to be closed to customers, going live over a public holiday weekend does allow us to minimise the impacts for customers and intermediaries as much as possible. There are some major customer events either side of the weekend and, as we have for previous releases, we will work to ensure that customers are not disadvantaged by our closure.
 - Working for Families and paid parental leave payments normally due to be paid on 26 October 2021 will be brought forward and paid on 21 October 2021.
 - The day we re-open, 28 October 2021, is a major filing and payment date for GST and a filing day for PAYE for most businesses. The filing date for returns and payment of income tax (including provisional tax) and GST has been extended to 4 November 2021 with your approval (IR2021/415 refers).
19. Further COVID-19 related support initiatives were not factored into our thinking at the time we chose Labour Day weekend to go live, as this was well before the current outbreak. If further rounds of support are required around the time we re-open, it could have an impact on our ability to support customers with any queries after go-live or with their applications for COVID-19 support if needed.
20. On 23 September 2021, the Portfolio Governance Committee (PGC) approved a further checkpoint in our readiness assessment framework. The checkpoint results indicate that, while there is still some risk remaining due to the COVID-19 alert level changes, the release is proceeding through its go live checkpoints.
21. The PGC agreed to delegate authority to the go-live committee for the checkpoints to be run immediately before we begin closing our customer-facing services and during the cutover to new systems and processes. The next check point will be on 18 October 2021 and will seek permission to begin cutover, followed by a checkpoint on 27 October 2021 which will be the go/no-go decision for go-live. As has been the case for previous

¹ For common areas we conduct verification testing, which focuses on fields, rules, and validations. Business system testing is undertaken for complex or high-risk areas.

releases, the go-live committee is chaired by the Commissioner and includes seven Deputy Commissioners.

22. As we do before each release, we have evaluated multiple contingency options should we need to delay go-live for any reason.

Readying our people

23. Our contingency plan for training has been implemented (IR2021/309 refers). The first two weeks of mandatory classroom training sessions for people who work with child support customers were delivered virtually, with positive feedback. All remaining classroom sessions will be delivered virtually. Mandatory online training for people who use START and/or support customers with myIR is also underway.

Readying our customers

24. We have continued directly contacting customers to let them know what the October 2021 changes mean for them or those they represent.

- On 2 September 2021, we sent information to tax agents about the changes coming to myIR for them and their clients. This is the second of four rounds of direct contact with intermediaries.
- On 6 September 2021, we also sent information to businesses and employers about the changes coming to myIR. This is the first of three rounds of direct contact with these customer groups.
- On 13 September 2021, we sent information to child support customers about the changes they can expect to see, including improvements to the payments process, legislation changes, and improvements to myIR. This is the first of three rounds of direct contact with child support customers.

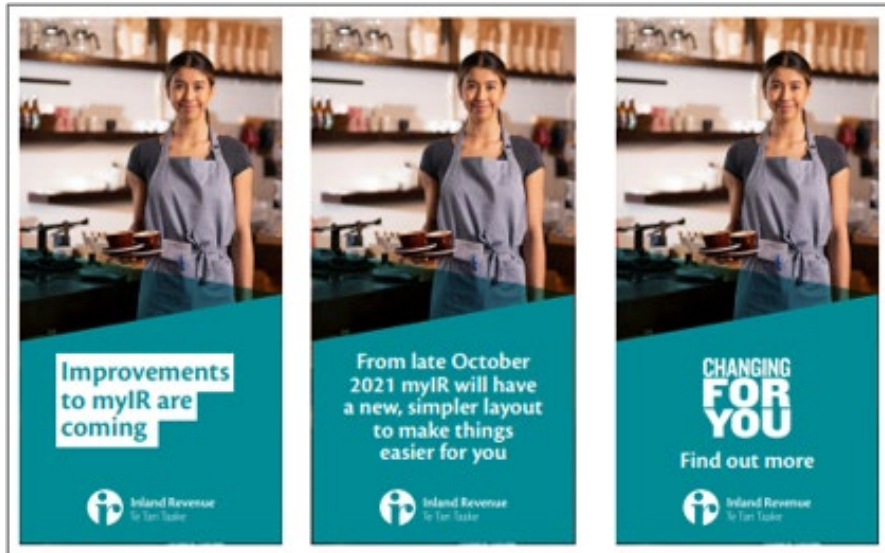
25. Targeted digital advertising began on 6 September 2021, with examples of the visuals used for targeting our key audiences shown below.

- There are approximately 5,500 **intermediary organisations** (including tax agents, PAYE intermediaries, payroll bureaus, and bookkeepers) with around 25,000 individual logins, representing around 2.5 million customers.



- There are approximately 680,000 **business customers**, including 200,000 employers, 40,700 significant enterprises, and 640,000 small businesses or sole traders.





- There are approximately 320,000 **child support customers**, including liable parents and receiving carers.



- In addition to digital advertising, we are also running "out of home" placements for child support customers, in family environments such as sports, leisure and recreation centres. This activity will cover the October 2021 school holiday period when families are more likely to visit these locations.

- There are approximately 1.5 million **individuals with a myIR account**.



26. A myIR login pop-up on the home page of our website will appear when customers login or hover over the login button, to explain the changes made. This functionality has not been available for previous releases.
27. We continue to update the information on our website, including directing customers and intermediaries to webinars as they are published. We will shortly publish two more webinars, one on child support and one on changes for employers and businesses. Animated videos are available on our website explaining the changes to myIR.
28. We have also included content about the changes in factsheets, our own newsletters and government newsletters and have provided content for industry groups to include in their own communications.
29. At the beginning of October 2021, we will hold an open home for other government agencies involved with child support changes.
30. Day 1 packs will be sent to intermediaries and businesses and employers on the day we re-open (Thursday 28 October 2021 is our planning assumption). These will also be available on our website.

Other updates

Online services performance

31. Previously we reported some concerns around our overnight batch window running late and impacting business day operations (IR2021/307 refers). A number of changes have been made that have dramatically improved performance. We are now confident that the additional processing required once child support has moved to new systems and processes can be completed overnight.

Independent quality assurance

32. In June 2021, we commissioned KPMG to complete a twelfth independent quality assurance review and eleventh technical quality assurance review (IQA12/TQA11). The review focused on readiness to go-live with the October 2021 release and also considered progress in other areas including decommissioning and payroll relocation.
33. Fieldwork took place in July 2021. We have now received KPMG's draft report. The draft report makes 27 recommendations raised across 21 review areas:
 - No recommendations were rated red (major risk/issue).
 - Thirteen recommendations were rated amber (medium risk/issue).

- Ten recommendations were rated yellow (low risk/issue).
 - Four recommendations were rated green (good practice).
34. The thirteen amber recommendations relate to automated controls and role mappings (two), change management, stakeholder engagement and communications (five), testing (four), and business continuity/disaster recovery planning (two).
35. We will provide a report on the findings of the review to the Minister of Revenue, once KPMG have finalised their report.

Monthly status updates

36. We have been providing monthly updates regarding the status of the transformation programme to the Ministers of Finance and Revenue since January 2014. As the programme is nearing completion, we have been considering when these updates should cease.
37. We propose to provide you with a final status update in late February or early March 2022, covering the period up until the end of February 2022. By that stage, we will have completed early life support for the final release and will be well advanced with decommissioning and programme close down activity.
38. In addition, the final progress update will have been provided to Cabinet (IR2021/309 refers..
39. We propose to provide you with two further updates between March and June 2022, with timings to be confirmed, to provide visibility of the progress we are making with completing remaining deliverables, including decommissioning of heritage systems and processes, and activity to close down the programme.

Benefit realisation

40. 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.
41. For 2020/21, we achieved 7 out of 10 of the lead and lag indicators that are the agreed basis for monitoring our progress in achieving these three outcomes. These are shown on the table on the next page.

Outcome	Investment objective	Indicator	2017/18		2018/19		2019/20		2020/21		2021/22	2022/23	2023/24
			Target	Actual	Target	Actual	Target	Actual	Target	Actual	Target	Target	Target
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 ²	26%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		Percentage of customers who find it easy to comply	82%	82%	85%	80%	87%	81%	88%	82%	89%	90%	90%
		Reduction in compliance time for SME customers (hours pa)	3 hours	10 hours	8 hours	9 hours	13 hours	9 hours (indicative) ³	15 hours	5 hours	16 hours	17 hours	18 hours
		System availability for customer facing e-channels	99.2%	98.9%	99.3%	99.4%	99.3%	99.3%	99.4%	99.6%	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 (six completed to date)										
		Cumulative reduction in compliance costs for SMEs	\$30m	\$80m	\$160m	\$280m	\$370m	\$500m (indicative)	\$590m	\$640m	\$820m	\$1,070m	\$1,330m
		Cumulative additional Crown revenue to Government ⁴			\$90m	Achieved	\$280m	Achieved	\$570m	Achieved	\$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 (four completed to date)										
		<i>Lag indicator</i>											
		Increased revenue system resilience as assessed by IR	Low	Partial	Low	Partial	Partial	Partial	Partial	Substantially achieved	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%	83%	54%	89%	72%	96%	75%	98%	78%	82%	85%
		<i>Lag indicators</i>											
		Annual reduction in Inland Revenue's administrative costs	\$5m	\$12m	\$10m	\$48m	\$80m	\$57m	\$100m	\$87m	\$100m	\$100m	\$100m
		Cumulative reduction in Inland Revenue's administrative costs ⁵	\$5m	\$12m	\$15m	\$60m	\$95m	\$118m	\$195m	\$205m	\$295m	\$395m	\$495m

² The 26% target used for 2017/18 in the 2015 business case related to the percentage of customers using cloud-based software. From 2018/19 onwards, Inland Revenue reports on the overall percentage digital uptake measured in returns filed electronically.

³ Inland Revenue had intended to run the SME compliance cost survey again in 2020, however the impacts of COVID-19, especially on smaller businesses, resulted in a decision being taken to delay the survey until 2021. The 2018 survey has been used as an indicative result.

⁴ The additional revenue is already included in the government's revenue forecasts. This indicator is rated as achieved based on increases in proxy measures.

⁵ These figures do not include investment decisions made by Ministers to support the Government's response to COVID-19 of \$36.9m in 2020/21, \$26.5m in 2021/22, and \$22.7m in 2022/23.

42. The indicators we achieved for the year ending 30 June 2021 are:

- 98% of returns were filed electronically against a target of 75%.
- Customer facing e-channels were available 99.6% of the time, above the target of 99.4%.
- The value of the time saved by small-to-medium sized businesses since 2017/18 is \$640 million, compared to a target of \$590 million. This indicator uses the results of our *2021 study on the time and cost of doing business incurred by small businesses* as one of the inputs to this calculation. We will report in full on the findings of the survey to the Minister of Revenue shortly.
- The increase in assessed Crown revenue is rated as achieved based on increases in proxy measures, given the difficulty of direct attribution. Both the percentage of returns filed on time and filed electronically increased to 94% and 98% respectively.
- We have rated the system resilience objective as substantially achieved, which is ahead of where we expected to be at this point in the programme.
- \$205 million in administrative savings have been achieved since 2017/18, compared to a target of \$195 million.

43. The indicators that were not achieved for the year ending 30 June 2021 are:

- 82% of customers said they find it easy to comply against a target of 88%. While most customers find it easy to comply, this measure is tracking up more slowly than expected.
- The *2021 study on the time and cost of doing business incurred by small businesses* indicated that businesses are spending 5 fewer hours a year (the target for 2020/21 was 15 hours) meeting their tax obligations than they were in 2013, which is the baseline.

The COVID-19 pandemic has created very challenging business conditions, particularly for small-to-medium sized businesses. There is a significant amount of Government support available to businesses affected by the pandemic, but they need to apply for and demonstrate they are eligible for this support. In addition, we have been encouraging businesses to stay on top of their compliance obligations by filing on time, even if they are not in a position to pay the amounts owing.

- For 2020/21, we achieved an annual savings target of \$87 million against a target of \$100 million, however, we are ahead of the cumulative target and the trend is positive with annual savings increasing year-on-year. Further cost savings will be realised in 2021/22 and 2022/23 following the completion of changes to our organisation design and the decommissioning of all our heritage systems and processes.

Key risks and issues

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

45. We are actively managing two issues.

46. One new issue (a risk that has been realised) was raised during the month regarding transferring historic child support suspense account balances to START. A proposed resolution will be presented to our Enterprise Priorities and Performance Committee (EPPC) at the end of September 2021. If accepted, this will close this issue.

47. We continue to monitor the issue relating to the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time.
48. The issue raised last the month regarding the need for alternative accommodation to be found for critical resources on the programme as a result of the closure of the Asteron building has been closed. Alternative accommodation has been secured for Wellington-based staff, including programme resources.
49. As at September 2021, the programme has a total of 45 open risks⁶, of which 10 are reported to the PGC.
50. The status of one risk reported to the PGC improved during the month. The residual⁷ rating of the risk relating to the potential for a delay in go-live of the October 2021 release due to the Asteron building closure improved from very high to high. This risk is now unlikely (a 3% to 10% chance) to occur as alternative accommodation has been found.
51. There has been no change in the status of any of the other risks reported to the PGC since the last report.
52. The top three risks for transformation are:
 - Realising the benefits we committed to deliver in the timeframes indicated;
 - Possible changes in payments once child support is moved to new systems and processes and;
 - The potential for delay of the final release as a result of the Asteron building closure.

Coming up in the next two months

53. Key activities over the next two months include:

October 2021

- Final checkpoints in our readiness assessment framework.
- Planned go-live of child support on new systems and processes and upgrade of our online services.
- Planned beginning of early life support.

November 2021

- Planned continuation of early life support.

⁶ During September 2021, one programme risk was closed.

⁷ The predicted level of risk once all proposed actions have been implemented.