Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: February 2020

Date:	2 March 2020	**Priority:**	Medium
Security level:	In confidence	**Report number:**	IR2020/060

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

2 March 2020

Minister of Finance
Minister of Revenue

Transformation status update: February 2020

Executive summary

1. This report summarises the progress and highlights of transformation for February 2020.

2. Release 4 remains on track. We have revised our planned go-live date to Thursday 16 April 2020, as our second mock go-live (a dress rehearsal for go-live) identified that data conversion is taking longer than we initially planned for. This is not entirely unexpected as there is three times more data to migrate for Release 4 compared to Release 3 and some of it is very complex.

3. We are now approximately 97% of the way through our business system testing (ensuring START works as expected) and have run our second rounds of mock go-live and scaled business simulation testing (practicing go-live step-by-step). Some data conversion issues were identified during the second mock go-live which we are in the process of resolving. As a result, we moved our third mock go-live out by a week to allow time for two supplementary mock conversions to be completed to test that the issues have been resolved.

4. Training is well underway to ensure our people can support customers after go-live, and customer communication and engagement activity is ramping up. Advertising and direct marketing has begun and webinars continue. Seminars for employers and tax agents will begin on 23 March 2020.

5. While our focus remains firmly on Release 4 successfully going live, we continue to support business-as-usual events the first time they run on new systems and processes. For example, the first Working for Families rollover in START occurred overnight on 18 February 2020 and was a resounding success. More than 300,000 customers had their entitlements for the coming year estimated. The rollover took 34 minutes to run in START, compared to more than 12 hours in FIRST the previous year, with approximately 65% fewer errors and a 10% increase in customers receiving their notifications in myIR.

6. Work on Release 5 is beginning to ramp up.

7. Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 below). The stakeholder engagement and delivery partners keys have improved to green, as we continue to work constructively and effectively with our stakeholders and partners.

Table 1: Transformation's RAG status

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

8. Table 2 below provides information about expenditure on the programme to date and planned expenditure for the current year.

Table 2: Transformation expenditure

$ millions		Operating expenditure *(excluding depreciation and capital charge)*			Capital expenditure		
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
Total for completed phases		$644.6	$583.4	$61.2	$288.9	$278.4	$10.5
Current phase		Budget	Forecast	Variance	Budget	Forecast	Variance
Delivery-Release 4	1 Jul 19–30 Jun 20	$206.6	$199.3	$7.3	$96.2	$96.3	($0.1)
Contingency	1 Jul 19-30 Jun 20	$4.1		$4.1	$1.6		$1.6
Total for current phase		$210.7	$199.3	$11.4	$97.8	$96.3	$1.5

Budget performance to date

9. As previously reported (IR2020/007 refers), between 1 July 2014 and 30 June 2019, the programme spent $583.4 million in operating and $278.4 million in capital. We are tracking within budget and expect to complete transformation within the funding envelope approved by the government. Any under-spending to date has either been moved to later periods or returned to the Crown.

2019/20 budget

10. Excluding the remaining contingency held by the Commissioner in 2019/20, the overall budget for the transformation is $206.6 million for operating expenditure and $96.2 million for capital expenditure.

11. On 20 February 2020, the Portfolio Governance Committee (PGC) approved a contingency drawdown of $0.1 million in operating expenditure and $6.2 million in capital expenditure for the third release of Ātea, our new enterprise support services. The overall cost of replacing our internal systems and processes is still within the high-level estimate included in the November 2015 business case.

Costs to complete transformation

12. We have started detailed budget planning for Release 5 and decommissioning activities. We expect to complete this by June 2020. This will include completing an updated risk assessment, which will help confirm our level of confidence in the remaining costs of transformation. The risk assessment will also determine our remaining contingency requirements.

Recommended action

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

Noted

Noted

Greg James
Deputy Commissioner, Transformation
2 March 2020

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Key risks and issues

14. 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.

15. No new issues (risks that have been realised) were reported to the PGC during February 2020.

16. As at February 2020, the programme has a total of 66 open risks,[1] of which 22 are reported to the PGC.

17. Since the last report, one risk previously managed at programme level has been escalated to the PGC. The risk level of one risk reported to the PGC has improved.

18. In response to the Minister of Revenue (IR2020/007 refers), the likelihood matrix in Inland Revenue's enterprise risk framework considers "possible" as an 11% to 20% chance of the risk occurring.

19. The newly escalated risk relates to the cutover window for Release 4 needing to run for longer than initially expected. During our second mock go-live (a dress rehearsal for go-live) we encountered some issues around data conversion. This is not entirely unexpected as there is three times more data to migrate for Release 4 compared to Release 3 and some of it is very complex. Two additional mock data conversion cycles have been put in place to test the fixes and to make sure are no other issues ahead of our third mock go-live.

20. The risk level is currently rated as high as the likelihood is almost certain (a greater than 50% chance of occurring). The consequences would be moderate if the risk did eventuate. On 20 February 2020, the PGC approved an extra day for cutover to ensure there is enough time for all data to be converted and to allow for sufficient time to roll-back if necessary.

21. The status of one risk reported to the PGC has improved during the month.

22. The current rating of the risk relating to our ability to decommission E-File remains unchanged at very high. However, the likelihood of this risk occurring has improved from likely (a 21% to 50% chance of occurring) to possible (an 11 to 20% chance of occurring). E-File is an online service that enables tax agents, through their tax practice management software, to manage their clients' accounts with us. Providers of tax practice management software (CCH, MYOB, Reckon, TaxLab and Xero) are aware that they will need to transition to the new solution before 31 March 2021. We are working with these providers to agree how we will support tax agents through this process.

23. The top risks for transformation are support for heritage systems ending in 2021, reliance on SAP, FIRST satellite functions, and KiwiSaver B2B after 2021 preventing full decommissioning of our heritage data centres[2], and testing of the KiwiSaver business-to-business transitional solution. Mitigations are in place for all risks.

[1] The number of open programme risks has increased by one since the December 2019/January 2020 report; two new risks managed at programme level were opened during February 2020; and one risk managed at programme level was closed during this period.
[2] The risks relating to continued reliance on our enterprise data warehouse, E-File, and the Student Loan business-to-business exchange after 2021 have a lower rating.

Release 4

24. Release 4 remains on track for April 2020, albeit with increased risk associated with the data conversion challenges identified following our second mock go-live.

Solution design and testing

25. Testing is on track but continues to be under pressure in some areas. We are keeping track of our progress on a daily basis. As at 21 February 2020, we had completed approximately 66,000 scenarios and tested approximately 65,000 of them as part of business system testing (making sure START works as expected). Overall, we are about 97% of the way through business system testing, which is where we expected to be.

26. As noted, we completed our second mock go-live during the month, however we identified two significant data conversion issues. The issues identified resulted in a number of customer records not being converted and some long-term student loan balances being incorrectly converted. In addition, new tasks were identified leading to longer cut-over times than expected.

27. As a result, we moved our third and final mock go-live out by one week to allow time for two supplementary mock conversions to be run. The change in dates for our third mock go-live to 5 to 12 March 2020 brings them in line with the dates for Release 3.

28. The supplementary mock conversions focused on the core cutover processes for data conversion and aimed to provide assurance that the issues encountered have been resolved. The first supplementary mock conversion has been completed and we achieved both of the goals we set. We confirmed:

- that the two significant issues we encountered were resolved, and
- our estimated conversion times as they have the largest impact on our cutover window.

29. As expected, the two significant issues were masking other issues. We have now identified these and are working through resolving them. At the time of this report, the second additional conversion cycle was underway but not yet completed.

30. By way of comparison, for Release 3 we transferred $500 million worth of transactions and for Release 4 that number is $1.4 trillion. Converting Kiwi Saver data in particular is complex and it is still possible that we might uncover some hidden problems given the volume of the data that we are converting. The Central Administration System (CAS) is used to administer KiwiSaver. CAS holds some master data (shared information such as customer and product details) about KiwiSaver. Having an additional master system adds complexity to many of the key cutover activities, including data conversion, data validation.

31. The second round of scaled business simulation testing (practicing go-live step-by-step) began on 10 February 2020 as planned. All but 4 of the 565 planned scenarios were able to be executed with no impact from the data issues encountered in the second mock go-live. There will be another round of testing of these four scenarios after the supplementary mock conversions, which will be completed before the third and final round of scaled business simulation testing.

Readiness checkpoint 3a

32. On 20 February 2020, the PGC approved the results of checkpoint 3a in our readiness-assessment framework. This checkpoint includes assessing whether we are on track for go-live in terms of sequencing and timing, that testing and training are on track, and that our customers and people are aware of and understand the changes and many being ready for them.

33. The checkpoint results confirm that we remain on track for delivery in April 2020. However, given the complexity of the data to be converted and the data conversion issues identified in the second mock go-live, the PGC approved an extra day for cut-over in April 2020.

34. Our planned go-live date is now Thursday 16 April 2020. We previously advised you we were planning to go-live on Wednesday 15 April 2020 (IR2019/510 refers). This means we will close to customers at 3pm on Thursday 9 April and re-open at 8am on Thursday 16 April 2020.

35. The results of the customer readiness assessments found that business partners[3] continue to have high levels of awareness and understanding of the upcoming changes. However, there are still some challenges. For example, the uptake of new reporting requirements for investment income (electronic and more frequent reporting) is slow.

36. Of the approximately 100 organisations that pay the vast majority of investment income (accounting for around 70% of the monetary amount paid), 16 had opted in and begun filing as at 24 February 2020. We continue to closely monitor uptake. As we saw with payday filing, which also had a year-long voluntary period, the majority of customers will not move to the new reporting requirements until they have to. Annual returns for the 2019/20 year are due on 15 May 2020 (slightly earlier than the due date in previous years of 31 May) and the first monthly returns under the new reporting requirements are due by 20 May 2020.

37. Following last month's report (IR2020/007 refers), the Minister of Revenue asked about software developers experiencing complexity with the ring-fencing of rental losses. At the time (early December 2019), there was a lack of information available to developers. Since then we have provided developers with a lot more clarity and supporting information (including various worksheets) to help them understand the changes relating to rental ring-fencing and residential income. All software developers are now on track.

38. Overall our customer-facing people are feeling more ready than they were at the December 2019 checkpoint and are in about the same place as they were at this checkpoint for Release 3. Our customer-facing business groups report they are ready and are confident they can "get through Release 4". However, our performance is still under some pressure and work continues to identify the most effective strategies to manage our performance in the lead up to and following go live.

39. The next checkpoint, checkpoint 3b, will be on 19 March 2020. Checkpoint 4a on 3 April 2020 will be when we make the decision to proceed to shut down or not.

Readying our people

40. Training for team leads and their people is well underway, with positive feedback received from both trainers and attendees. As at 25 February 2020, 1,222 of our people across 162 classroom sessions in 16 sites had received some of their START training.

41. People in customer-facing roles are allocated to different learning pathways depending on their role and the work they do. For example, some people are attending up to three classroom sessions and for others their learning is self-directed using online modules.

42. High levels of engagement with our internal communications activities continue. For example, the deep-dive teleconference on digital changes was held on 27 February 2020, with 170 lines dialled in.

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[3] Employers, payers of investment income, financial institutions, payroll developers, the Ministry of Social Development, the New Zealand Customs Service and Stats NZ.

Readying our customers

43. We are continuing with a wide range of activity to help customers get ready for go-live. Direct marketing to employers began during the month and information about what the changes mean for employers was published on our website. Advertising began on 17 February 2020, including a series of videos running on social media, YouTube, NZ Herald and Stuff. Examples of the advertising are included in the appendix.

44. Our webinars continue. On 5 February 2020, 73 people watched live the webinar for Māori authorities. The webinar provided an overview of the upcoming changes and more details on investment income reporting changes. We had 133 registrations in total and those who did not watch the webinar live will likely watch it on demand at some point.

45. On 19 February 2020, a webinar for employers and not for profit organisations about KiwiSaver and Student loan changes was watched live by 432 people. We had 678 registrations.

46. Seminars for employers begin on 23 March 2020 and for tax agents on 1 April 2020.

Post go-live support

47. The approach for the Release 4 early life support period leverages the Pou Whirinaki support model established for Release 3. Apart from a few exceptions, the team who will be providing support for Release 4 Pou Whirinaki has now been agreed and are meeting weekly to co-ordinate activities.

48. Our planning assumption is that the initial hyper-care period (when heightened support will be available to respond to any issues raised by customers or our people) will run from go-live until Friday 29 May 2020. Our target is to exit early life support on 31 July 2020.

49. There are some business-as-usual events in the lead up to and after go-live which also require heightened support, including the Working for Families rollover (when entitlements for the following year are estimated and communicated to customers) and the 2020 automatically issued income tax assessments.

50. The first Working for Families rollover in START occurred overnight on 18 February 2020 and was a resounding success. More than 300,000 customers had their entitlements estimated. A few of the noticeable benefits have been:

- A run time of 34 minutes in START compared to more than 12 hours in FIRST.
- Approximately 4,700 errors in START compared to approximately 13,400 errors in FIRST.
- 93% of customers received notifications in myIR from START compared to 83% from FIRST.

51. We are testing myIR to ensure it can continue to handle high volumes during this year's automatically issued income tax assessments process. We are planning to run this process over a shorter timeframe this year so peak logins could exceed last year's peak. We are testing 52,500 logins per hour. Last year's peak was 41,435 logins per hour.

Other updates

Tax agents

52. We are aiming to have the first meeting of the tax agent cohort (IR2020/007 refers) by the end of March 2020. This will be followed by monthly, virtual meetings. The cohort will remain in place for a minimum of 12 months and could be extended with the agreement of all parties.

53. The cohort will provide feedback and input into tools, products, and services for tax agents and their customers. Key areas of focus may include:

- Identifying issues.
- Completing a health check of services already provided.
- Concept testing of proposed changes.

54. In total, we will invite approximately 12 agents to be part of the cohort. The big four firms will be asked to nominate a representative each. Representative bodies, such as Chartered Accountants Australia & New Zealand and the Accountants and Tax Agents Institute of New Zealand, will also be asked to nominate members. For non-affiliated agents, our community compliance team will be asked to nominate tax agents from within their region. There will be flexibility to adjust membership depending on the topic being discussed.

Cheques

55. On 10 September 2019, we announced that we would stop accepting cheques from 1 March 2020. Since then we have been regularly communicating with customers, tax agents, professional bodies, and not for profit and community organisations through direct marketing and webinars to ensure they are aware of this change and have sufficient time to change to alternative payment methods.

56. As a result, from October 2019 to January 2020, the number of cheques we receive reduced by 45% compared to the same period last year.

57. Shortly we will issue final reminders:

- A media release at the beginning of March.
- Final letters to tax agents and customers.
- Reminders in our regular newsletters.
- Approximately 350 industry and community organisations will be provided with content to include in their own newsletters or magazines.

58. Customers who continue to pay by cheque after 1 March 2020 will be asked to contact their bank in the first instance to discuss alternative payment options, as banks often offer services customers are unaware of. If no alternative payment options are suitable, customers will be asked to apply for an exception.

59. Customers can apply for an exception over the phone, in person, or by sending us a letter or web message. As at 27 February 2020, we had received approximately 320 applications for an exception. We had accepted approximately 40%, declined approximately 10% and are considering the remaining applications. We decline requests if the customer has not been reasonably able to show that they do not have an alternative way to pay.

60. A new payment option is being introduced as part of Release 4 in April 2020. Customers can currently make payments over the phone. However, to do so they need to ring us and then be transferred to our payment line. Once Release 4 has gone live a self-

service 0800 line will be available 24 hours a day for customers to pay us using their debit or credit card. Customers will be able to store their card details for future use. Card details will be securely held by our card payment provider. We will only receive the card type (Visa / Mastercard) and the last four digits of the card.

61. From 1 July 2020, all payments made to us in branch at a Westpac, or using a Westpac SmartATM, will need to be accompanied by a barcode. Barcodes will be added to most of our payment notices and letters from April 2020. Customers can also generate their own barcode on our website. On average, 15% of payments made at Westpac currently include a barcode. To support our customers, in November 2019 we provided Westpac with flyers to give to customers paying without a barcode, reminders have been included on all Westpac receipts since January 2020, and in February 2020 we wrote directly to customers.

Enterprise support services

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

62. On 20 February 2020, the PGC approved the scope for the third and fourth releases of Ātea.

63. The third release will go live in stages between March and June 2020. There will be no ESS releases during late March to late May 2020, leaving clear space for Release 4 go-live of START. The third release of Ātea will progressively complete the move of our finance and human resources functions and move our performance management functions to new systems and processes.

64. Work on the fourth release, which will determine how we support our payroll and any remaining back office processes in future, is underway. We continue to work closely with the all-of-government Payroll Programme leadership group.

65. We are working with other agencies to test how much our investment can be re-used. Read only access to the common process model (focused on HR, finance and procurement) has been provided to 33 other agencies. We have already shared some of our documentation and configuration workbooks for the first release of Ātea with Customs, as an accelerator for their programme. We are about to repeat the process with StatsNZ, building on what we are learning through working with Customs. We are also looking into how we can work with NZTA to provide them with access to the model that will allow them to document the next level of detail across their HR / payroll processes as part of their investment. The intention is that anything the NZTA develops will also be shared with other agencies.

Independent quality assurance reviews

66. KPMG completed their fieldwork for their eleventh independent quality assurance and tenth technical quality assurance review (IQA11/TQA10) on 14 February 2020. This review primarily focused on our readiness to go live with Release 4. We are expecting to receive KPMG's draft report in March 2020 for review.

67. A Gate 4, readiness for service, Gateway Review for Release 4 will take place from 9 to 13 March 2020. We will report the results to you once we have considered our responses to any recommendations reviewers make. You are both scheduled to meet with the reviewers on 9 March 2020.

Release 5

68. While our main focus remains Release 4, we are making good progress with Release 5 as we slowly ramp up. We have completed 14 business function definitions (these

describe what the solution needs to do for a particular activity, for example register a customer) for child support.

69. From now until 2021, the transformation programme is running in parallel with the newly established He Kōtuitui Programme. He Kōtuitui is focused on ensuring that:

- we are embedding the capabilities that have been invested in;
- organisational change processes are managed with as little disruption as possible; and
- there is a smooth hand-over to business-as-usual as the programme winds down.

Coming up in the next two months

70. Key activities over the next two months include:

March 2020

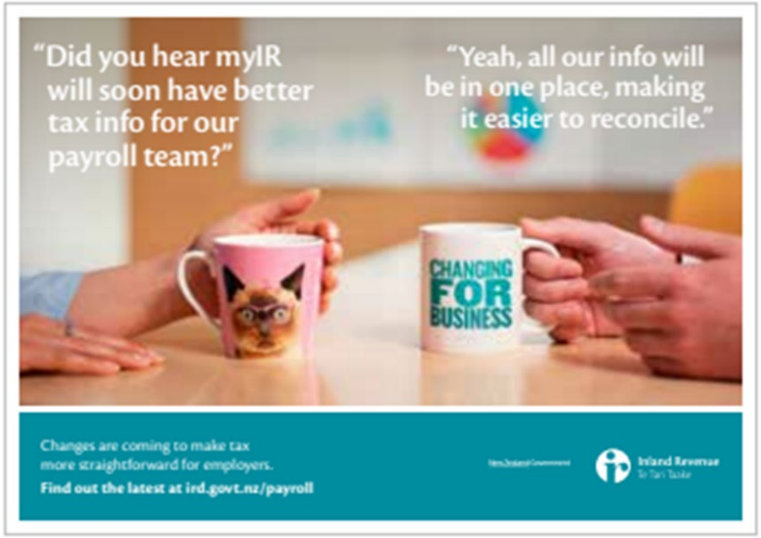
- Gateway review.
- Third round of mock go-live testing.
- Completion of business system testing and scaled business simulation testing.

April 2020

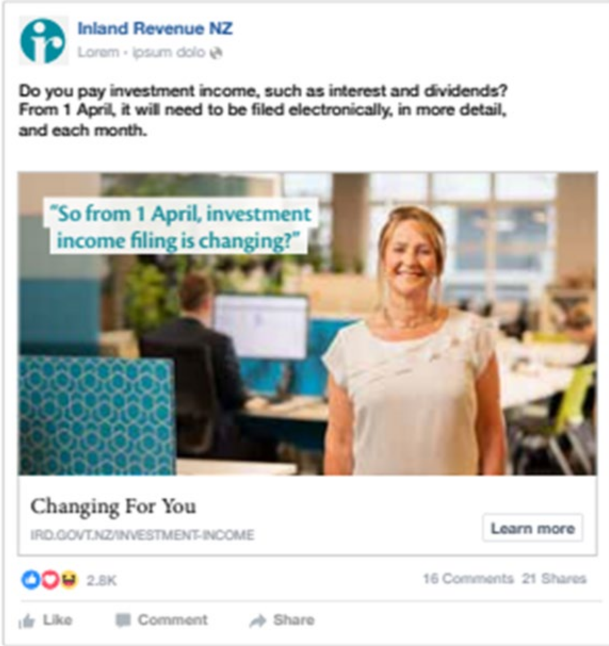
- Final checkpoints in our readiness assessment framework.
- Release 4 go-live.
- Pou Whirinaki/early life support begins.

Appendix – advertising material

Employers – example of a newspaper ad



Investment income payers – example of a facebook ad



Student loans – example of a banner ad