



**Inland Revenue**  
Te Tari Taake

**Inland Revenue report: Transformation status update: July 2019**

<b>Date:</b>	01 August 2019	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2019/346

**Action sought**

	<b>Action sought</b>	<b>Deadline</b>
Minister of Finance	<b>Note</b> the contents of this report	None
Minister of Revenue	<b>Note</b> the contents of this report	None

**Contact for telephone discussion (if required)**

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

01 August 2019

Minister of Finance  
Minister of Revenue

## **Transformation status update: July 2019**

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### **Executive summary**

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1. This report summarises the progress and highlights of transformation for July 2019.
2. The automatic assessment process was completed during July for approximately 2.9 million customers. We automatically issued approximately \$572 million of refunds to 1.2 million people. Around 271,000 people have received a bill to pay, totalling approximately \$96 million.
3. Release 4 is tracking at a similar position Release 3 was at the same time last year and remains on track for April 2020. Most work-streams are either slightly ahead of or on track. More people are now working on Release 4 as we exited hyper-care for Release 3 as planned at the end of June 2019. Testing is underway, as is engagement with internal and external stakeholders.
4. Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 below). The resources key has improved to light amber as the risk of people burning out has improved. The mitigations for this risk identified by the programme leadership team have largely been addressed. People are taking leave and working in smarter ways.

*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	Amber	Light Green	Light Green	Green	Light Amber

## **Recommended action**

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

Noted

Noted

### **Greg James**

Deputy Commissioner, Transformation

01 August 2019

### **Hon Grant Robertson**

Minister of Finance

/ /2019

### **Hon Stuart Nash**

Minister of Revenue

/ /2019

## **Key risks and issues**

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6. The 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.

7. No new issues (risks that have been realised) were reported to the Portfolio Governance Committee (PGC) during the month.

8. As at July 2019, the programme had a total of 48 open risks,<sup>1</sup> of which 13 are reported to the PGC. There has been no change in the status of any of the risks reported to the PGC.

9. The top risks for transformation are support for heritage systems ending in 2021, the time taken to resolve major incidents, retaining people, timing of benefit realisation, and meeting the planned go-live date for Release 4. Mitigations are in place for all risks.

## **Finances**

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10. The overall budget (excluding the contingency held by the Commissioner) for the transformation programme, from 1 July 2018 until 30 June 2019, is \$182.3 million for operating expenditure and \$93.5 million for capital expenditure.

11. From 1 July 2018 to 30 June 2019, operating expenditure was \$9.9m under budget and capital expenditure was \$2.6m under budget. The underspends will be transferred to future years.

12. From 1 July 2019 to 30 June 2020, the overall budget for operating expenditure is \$218.1 million and for capital expenditure is \$89.8 million. During this period, the PGC is holding contingencies of \$10 million in operating expenditure and \$8 million in capital expenditure. In response to the Minister of Revenue (IR2019/203 refers), these amounts are within the multi-year funding envelope approved by Cabinet in 2015. The October Baseline Update will adjust the multi-year appropriation forecast for 2019/20 to align it with the approved budget.

## **Automatic assessment process**

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13. On 24 July 2019, we completed the automatic assessment process for the year ending 31 March 2019. Approximately 2.9 million people now know whether they have a refund or tax to pay or need to provide us with more information.

14. The vast majority, 2,579,172, know what their outcome is:

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<sup>1</sup> The number of open programme risks has increased by one; one new risk was opened and is managed at programme level.

- 1,330,484 million people were automatically issued refunds totalling \$572,223,260, at an average amount of \$430;
- 354,015 small refunds (under \$1) have been held, at an average amount of \$0.20;
- 528,667 bills for tax to pay were written off as the amount owed is less than \$50, at an average value of \$6.86;
- 270,952 people automatically received bills for tax to pay totalling \$95,542,379, at an average value of \$353; and
- 95,054 people paid exactly the right amount of tax.

15. There are 319,304 customers who need to provide more information before their assessment can be finalised.

16. In response to the Minister of Revenue (BN2019/401 refers), the reassessments issued to some BNZ customers were the result of human error at Inland Revenue.

## **Release 4**

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17. Release 4 is tracking at a similar position as Release 3 was at the same time last year and remains on track for April 2020. Most work-streams are either slightly ahead of or on track. The exception is the core START work-stream which is behind schedule but improving.

18. More people are now working on Release 4, with the exception of some key areas, as Release 3 exited hypercare as planned at the end of June 2019. A significant number of people took leave in July 2019 to mitigate the risk of burnout. This has limited our ability to fully catch-up.

### ***Solution design and testing***

19. As at 24 July 2019, we had completed approximately 55% of the nearly 690 business function definitions (BFDs) currently planned for Release 4. BFDs describe what the solution needs to do for a particular activity, for example, register a customer. We are targeting to complete 80% by the end of August 2019. This will keep us ahead of where Release 3 was at this time last year.

20. There are more BFDs to design, build and test for Release 4 compared to Release 3. However, while the number of BFDs is an indicator of scale, it is not perfect as complexity plays a significant role.

21. We have approximately 16,000 test scenarios ready to test. This is just ahead of where Release 3 was at the same point in time last year.

22. Business system testing (making sure START works as expected) kicked off on schedule on 18 July 2019. We are testing in both Wellington and Hamilton for Release 4 as a significant number of subject matter experts for student loans and KiwiSaver are based in Hamilton. For previous releases, all testing has been completed in Wellington

which has required people to commit to travelling and basing themselves away from home for long periods.

23. End-to-end PAYE design is as complex as expected with some significant design decisions for areas such as negative adjustments and account consolidation being worked through. Resource contention with Release 3 is having an impact on the progress of end-to-end PAYE.

### ***Internal communications and engagement***

24. The design review workshops were well attended (60+ people) with higher engagement levels than previous years and very positive feedback. Those who attended could see tangible benefits from moving student loans and KiwiSaver to new systems and processes, however data quality is key to unlocking these. Open Homes were held between 10–24 July 2019 with more than 500 of our people registered to attend.

25. A business planning workshop will be held on 7 August 2019 to ensure there is good visibility of the work required to get ready for April 2020. The workshop will include planning for accelerated customer enablement (ACE) teams following on from their success in Release 3. Data cleansing and burndown work for student loans and KiwiSaver will also be a focus. As always, prioritisation will be key to success.

### ***External communications and engagement***

26. We are working with Customs to deliver an improved information exchange as part of Release 4. This includes exchanging arrivals and departures information daily (rather than weekly as at present) to ensure visibility of borrowers returning to New Zealand. We also continue to work closely with Callaghan Innovation to implement the research and development tax incentive.

27. A workshop with KiwiSaver scheme providers was held on 9 July 2019 and feedback was very positive. The workshop covered a range of topics including timelines for the development and testing of information exchanges.

28. Planning for the communications and engagement activity needed to support customers to adapt to the Release 4 changes is underway and will be completed by the end of August 2019. We will provide further details in the report we send to you in September 2019.

## **Other updates**

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### ***Enterprise support services***

29. In response to the Minister of Revenue (IR2019/203 refers), enterprise support services (ESS) are the internal processes and systems that support the day-to-day running of Inland Revenue, for example finance, procurement and human resources.

30. As we did with moving customer-facing services from FIRST to START, we are transitioning to a more modern tool set for our internal services in bite-sized chunks. We moved our budgeting and forecasting processes into Ātea (the name we have chosen for our ESS platform) in February 2019. On 1 October 2019, we will move more of our processes into Ātea. When we go live with the second release, many of the system-enabled day-to-day tasks our people do will look different. We are trying to make sure our new system looks and feels more like the applications people use every day on their phones and other devices.

31. During the month, the third mock data conversion for the second release was successfully completed as was the first payroll simulation.

### **Policy**

32. The Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill had its first reading on 23 July 2019 and has been referred to the Finance and Expenditure Committee. This Bill contains the policy proposals to support the design of Release 4.

33. A draft Cabinet paper was provided to the Minister of Revenue on 19 July 2019 (IR2019/334 refers) seeking agreement to child support policy proposals to be implemented as part of Release 5.

### **Coming up in the next two months**

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34. Key activities over the next two months include:

#### **August 2019**

- Continue business system testing;
- Programme readiness checkpoint for Ātea; and
- Complete design of changes to heritage systems for Release 4 products.

#### **September 2019**

- Continue business systems testing; and
- Finalise preparations for implementing the second release of Ātea.