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**Inland Revenue**  
Te Tari Taake

## **Inland Revenue report: Transformation status update: May 2020**

<b>Date:</b>	27 May 2020	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2020/130

### **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.

27 May 2020

Minister of Finance  
Minister of Revenue

## Transformation status update: May 2020

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### Executive summary

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1. This report summarises the progress and highlights of transformation for May 2020. The report also includes information responding to the Minister of Finance's question regarding how we were able to successfully cutover to Release 4 remotely. This information can be found in the annex.

2. Release 4 continues to run smoothly, and we are on track to exit the hyper care phase of early life support on 29 May 2020 as planned. We are experiencing 60% fewer issues compared to Release 3 and are quickly resolving those we do find. A survey of customers in early May 2020 found that 8 out of 10 student loan customers say they are finding it easy to understand and do what they need to do in myIR and 60% of employers say they are finding it easy to file.

3. The Small Business Cashflow (loan) scheme went live on 12 May 2020. As at 26 May 2020, we had received approximately 55,000 applications and paid out \$897 million to customers. Almost all applications have been received through myIR and around 94% are approved without needing a review. This is testament to the design and functionality of START.

4. We continue to operate under considerable pressure and continue to balance work across the priorities of supporting customers, supporting the Government's response to COVID-19, supporting Release 4, and other priority work such as this year's automatic income tax assessments process. Priorities are being continually re-evaluated to ensure we use our capacity as effectively as possible. We are starting to see the impacts of COVID -19 on customers, with more requests to set up or adjust instalment arrangements and more requests for hardship write-offs. The level of customer frustration about not being able to get through to us and/or slow response times is reducing.

5. Transformation's Red, Amber, Green (RAG) status remains at amber overall this month (as shown in table 1 below). The scope key has deteriorated to light amber due to the impacts of COVID-19 on our people and our customers, and on the programme schedule and delivery approach. The resources key has deteriorated to amber reflecting the current priorities for Inland Revenue are supporting customers, supporting the Government's response to COVID-19 and ensuring Release 4 is successful. As a result, Release 4 resources have not yet moved onto Stage 4 (Release 5) and will not until we have re-planned the remaining work in the programme.

Table 1: Transformation's RAG status

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

6. Table 2, on the next page, 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		
		Budget	Actual	Variance	Budget	Actual	Variance
<b>Previous phases</b>							
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
<b>Current phase</b>		Budget	Forecast	Variance	Budget	Forecast	Variance
Delivery-Release 4	1 Jul 19-30 Jun 20	\$201.6	\$186.0	\$15.6	\$102.9	\$96.8	\$6.1
Contingency	1 Jul 19-30 Jun 20	\$4.2	\$4.2	\$0	\$0.1	\$0.1	\$0
Total for current phase		\$205.8	\$190.2	\$15.6	\$103.0	\$96.9	\$6.1

**Budget performance to date**

7. 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. Any under-spending to date has either been moved to later periods or returned to the Crown.

**2019/20 budget**

8. Excluding the remaining contingency held by the Commissioner in 2019/20, the overall budget for the transformation is \$201.6 million for operating expenditure and \$103.0 million for capital expenditure. On 21 May 2020, the Portfolio Governance Committee (PGC) approved the reclassification of \$4.0m from operating to capital budgets reflecting the rebuild of our website.

**Costs to complete transformation**

9. We had planned to complete detailed budget planning for Stage 4 (previously referred to as Release 5) and decommissioning activities by June 2020. We are now re-planning all remaining work and until this is complete, we will not be in a position to provide an updated risk assessment to help confirm our level of confidence in the remaining costs of transformation. The risk assessment will also determine our remaining contingency requirements.

**Recommended action**

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

Noted

Noted

**Greg James**

Deputy Commissioner, Transformation  
27 May 2020

**Hon Grant Robertson**

Minister of Finance  
/ /2020

**Hon Stuart Nash**

Minister of Revenue  
/ /2020

## **Key risks and issues**

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

12. Since the last report, one issue reported to the PGC has been closed. This issue related to potential impacts on customers and scheme providers resulting from challenges with our historical KiwiSaver data. Quarantine strategies for known anomalies were in place before go-live and issues arising from these anomalies are being actively managed as part of the Pou Whirinaki/early life support process.

13. One new issue (a risk that has been realised) was reported to the PGC during May 2020. It relates to the impact of the COVID-19 pandemic on the delivery of the programme. Re-planning of the remaining work to be completed as part of the transformation programme is underway. Supporting COVID-19 responses is being managed by a small group of people within the programme to enable the majority of the programme team to remain focussed on transformation-related work.

14. As at May 2020, the programme has a total of 47 open risks,<sup>1</sup> of which 16 are reported to the PGC.

15. Since the last report, six risks related to Release 4 and reported to the PGC have been closed:

- the Release 4 go live date not being met
- testing of the transitional KiwiSaver business-to-business solution not being completed before go-live
- timing of organisational design changes impacting the delivery of Release 4
- the cut-over window needing to run for longer
- inability of the wider business to support Release 4 due to business pressures, competing priorities and organisation design changes
- inability to decommission the Student Loans business-to-business heritage solution.

16. There is no change to the risk level of any of the other risks reported to the PGC.

17. The top risks for transformation are support for heritage systems ending in 2021, and reliance on SAP, FIRST satellite functions, and KiwiSaver B2B after 2021 preventing full decommissioning of our heritage data centres. We have strong mitigation plans in place for these risks.

## **Release 4 update**

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18. Release 4 continues to run smoothly and we are on track to exit the hyper care phase of Pou Whirinaki/early life support on 29 May 2020 as planned. The following paragraphs cover the period from 6 May 2020, when an update on Release 4 was last provided to you (IR2020/238 refers).

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<sup>1</sup> The number of open programme risks has decreased by 17 since the April 2020 report; 19 risks managed at programme level were closed, including 6 reported to the PGC, and 2 new programme risks were opened.

### **Customers as at 26 May 2020**

19. Customers are continuing to react to the things that are different or new to them.

20. Throughout May 2020, we are contacting customers and asking them to complete a short, online survey. During the first week after go-live, approximately 8 out of 10 student loan customers said they were finding it easy to understand and do what they need to in the Student Loan section of myIR. Around 60% of employers said they were finding it easier to file.

21. Our interactions with customers demonstrate the impact that COVID-19 is having on them. We are starting to see contact from customers:

- wanting to cancel, or reduce, existing arrangements as they can no longer afford the amounts they have previously agreed to
- who have had instalment arrangements declined due to outstanding returns or repayment timeframes they are unable to meet
- to set up instalment arrangements for the first 2021 provisional tax instalment due on 28 May 2020
- asking how to apply for a hardship write off
- anxious over getting refunds and contacting us to get their refund early
- unable to pay fringe benefit tax (FBT) in June and asking about not charging FBT on vehicles that were at employees houses during lockdown
- asking us to remit late filing penalties for paper returns, due to significant postal delays
- seeking more information about the tax deduction reimbursements for employees working from home.

22. Customers are expressing concern and stress about how they will pay the amounts they owe, as well as penalties and interest that have been applied. The accumulation of these penalties across multiple tax types and periods for some customers is adding to their stress.

23. We are starting to see an increasing number of student loan customers contacting us about the impacts of COVID-19. Our best estimate currently is that, in total, at least 500 customers have contacted us to advise that:

- they have now returned to New Zealand due to COVID-19 and are no longer overseas-based borrowers for student loans, so shouldn't have interest added to their loan
- although still overseas, they have lost their jobs due to COVID-19 and are asking whether they can have interest stopped on their loans or if there is any other help available
- they are unable to travel back to New Zealand because of travel restrictions and are applying for "physically present in NZ" status to stop interest being added to their loans. To date we have received a small number of enquiries and will monitor this.

24. Now that their annual student loan statements have been sent to them, customers are contacting us to query or correct travel date information.

25. We are managing a small number of issues employers are raising with us:

- PAYE amounts showing as owing in myIR not matching the amount that the employer thinks is owing

- overdue amounts or returns appearing in myIR, some of which are relatively old including from 2015 and 2016
- when setting up instalment arrangements for GST or provisional tax online, other amounts such as April PAYE are being added into the arrangement which they do not want. Employers are having to call us to set up the arrangement.

26. Overall complaints numbers and social media commentary continue to remain low.

### **People – as at 26 May 2020**

27. Booster training continues until the end of May 2020 for Release 4 and the automatically issued income tax assessments process. As at 20 May 2020, approximately 1,000 people had attended an online booster training session since go-live. Training for the Small Business Cashflow (loan) Scheme (SBCS) has been completed.

28. Desk side support and site co-ordinators continue to complete business-as-usual work in and around providing virtual support to our people as needed.

### **Operations – as at 26 May 2020**

29. Customer demand has been relatively quiet (however we are still capping calls in some areas) and from 19 May 2020 an increased number of staff have been working from our offices. The automatic issuing of income tax assessments began on 18 May 2020 and has resulted in some customers calling us.

30. We are continuing to balance work across supporting the Ministry of Social Development (MSD) to administer the wage subsidy, reviewing applications for the SBCS, voice calls and call-backs, and other priority work such as ensuring customers receive their refunds. Priorities are being continually re-evaluated to ensure we use our capacity as effectively as possible.

31. The SBCS successfully went live at 12.01am on 12 May 2020. During the first 5 to 10 minutes we had received 43 applications, with 600 received by 1:20am. We set up a separate 0800 number to manage queries from customers about the SBCS. We also have a call-back system available for customers. As at 26 May 2020, we had received 4,100 requests for a call-back and had completed all but 403 of them. We have not seen an upswing in calls resulting from the implementation of the SBCS. This is testament to the design and functionality of myIR; it is clear and easy for customers to use.

32. Of the approximately 55,000 applications for the SBCS we had received as at 26 May 2020, 99.9% were received through myIR, with just 104 applications processed manually. Of the total applications received, around 94% have been approved without needing a review, and the amount paid out to customers is \$897 million. The number of new applications we are receiving each day is beginning to slow.

33. The Loss Carry-back work continues at a slower pace than forecast. As at 26 May 2020, we had received around 1,300 applications and paid out \$5.4 million to customers. As at 26 May 2020, we had received 314 call-back requests to date, with 64 on hand.

34. The top 85 investment income payers (who make up 94% of the filing volume for investment income as a whole) filed their information by the deadline of 15 May 2020. This means customers' information from these payers will already have been pre-populated into their income profiles to be included in this year's automatic income tax assessments process, which began on 18 May 2020.

### **Technical – as at 26 May 2020**

35. As at 26 May 2020, we had resolved 2,086 issues, 1,108 of these through desk-side support, 749 through technical fixes and 229 through non-technical fixes such as START

Help updates, training, and communications. Compared to Release 3, we are seeing 60% fewer issues being raised.

36. We currently have no open high priority customer-impacting issues. We do have an intermittent START access issue which we are continuing to investigate. It has proven to be quite complex and we now have two vendors working together to try and resolve this for us. It affects the ability of some of our people to access START.

37. We are experiencing a few issues resulting from overnight processing jobs taking longer in START than anticipated. A team are working on remediation, including potentially running some work at a different time of the day. This year's automatically income tax assessments process has begun and is adding to the load. We will keep this under daily watch until the automatic assessments are complete. The impact is on START performance for our people.

38. We did experience two high priority issues on 11 May 2020. The first caused emails to fail and bounce back, due to an issue with Vodafone. A fix was applied overnight which took up to 24 hours to filter through to providers. The bounce back emails impacted START as any new emails generated sat in a backlog queue. This impacted customers who tried to reset passwords as they did not receive emails in time for the link to be valid. Both these issues were fully resolved by 12 May 2020.

39. Over the weekend of 16 and 17 May 2020, customers were unable to access child support information from myIR. This was due to a networking vendor failing over their production service to the disaster recovery capability due to an outage in their primary data centre and not having the correct network entry for the child support portal. None of our other online services were impacted and we received very little customer reaction.

## Other updates

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### Policy

40. The Child Support Amendment Bill has been referred to select committee.

41. Withheld under s18(c)(i) of the OIA.

### Cheques

42. Cheque volumes continue to decrease month on month. We experienced the largest decrease so far in April 2020 and we are now very close to the volumes we are aiming for.

	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Received last year	19,517	47,694	22,340	22,240	50,758	27,407	35,024	45,070
Received this year	12,600	28,189	11,657	12,025	27,107	13,101	4,498	2,262
% decrease	-35%	-41%	-48%	-46%	-47%	-52%	-87%	-94%

43. The number of cheques we have received so far in May 2020 is showing a similar reduction.

44. The proactive outbound calling we are doing, educating customers who continue to pay by cheque (without an approved exception) is going well. Most customers we contact have a viable alternative payment option.

45. To date we have made 429 exceptions based on the customer's specific situation (mainly rural/elderly customers) and declined 161 requests.

### **Tax technical website**

46. We are nearing the end of our work to modernise our website, with the first release of the new and improved tax technical site now live. People can access all rulings, determinations, interpretation statements and other tax technically focused documents on the tax technical site.

47. We have tested the site both internally with staff and externally with tax agents over the last few months and used this feedback to refine and improve the site before this first release.

48. We will make further improvements to the site throughout 2020.

### **Stage 4 (previously referred to as Release 5)**

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49. Following Stage 1, we moved to implementing changes in a series of releases to reduce risk and to minimise impacts on customers. The programme will conclude as identified in the new plan during 2022. We have previously referred to this as Release 5. As it is highly likely we will now be implementing changes progressively in a series of smaller blocks, rather than as a large, single block of change, it makes sense to refer to this work collectively as Stage 4.

50. Work on re-planning Stage 4 is continuing at pace. We expect to confirm the high-level scope and plan for Stage 4 at the June meeting of the PGC, and to confirm the detailed scope and plan at the August meeting.

51. We will continue to keep you informed as our thinking develops further.

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

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52. Key activities over the next two months include:

#### **June 2020**

- Continuing to prioritise and respond to requests for Release 4 support.
- Finalise the July 2020 Transformation Update for consideration by the Cabinet Government Administration and Expenditure Review Committee.
- Confirm high level scope and plan for Stage 4.

#### **July 2020**

- Continuing to prioritise and respond to requests for Release 4 support.
- Exit Pou Whirinaki/early life support for Release 4.
- The Cabinet Government Administration and Expenditure Review Committee considers the July 2020 Transformation Update.

## **Annex – what made a remote cutover for Release 4 possible**

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53. The Minister of Finance has asked how we were able to complete the Release 4 cutover remotely. There are two main factors that made this possible:

- People had the tools and technology they needed to enable them to work remotely.
- The cutover team were very well prepared and very clear about what was required of them.

54. The hard work and disciplines were already in place before COVID-19 required us to quickly pivot to a remote cutover. We were able to do something as significant as a remote release because of the groundwork put in over the previous two to three years.

### ***Tools and technology***

55. Inland Revenue as a whole was very well prepared to quickly shift to a remote working model once the impacts of COVID-19 became clear, in particular the programme team. This preparedness resulted from the Kaikoura earthquake in late 2016. At that time, it quickly became clear that Inland Revenue was grossly under-prepared for an event that meant we did not have physical access to our buildings. In late 2016, very few of our people had laptops and we did not have the network or security infrastructure to enable the few who did to work remotely effectively. Only a very small number could access our systems at any one time. The first release in our transformation, Stage 1, was imminent and was due to go live in February 2017. GST did go live as planned, as the lack of physical access to our buildings was fortunately not long enough to put the release at risk.

56. As a result of that experience and the realisation we could not afford for this to happen again, work was accelerated to ensure that as many of our people as possible could work remotely easily and effectively if the need arose again. For some roles, for example some contact centre roles, this is not possible as some of the software they use cannot currently be accessed remotely. We are now looking at solutions to enable this.

57. Led by the programme team, since 2017 we have progressively replaced our workplace technology. The majority of our people now have mobile devices, either laptops or tablets, changes have been made to our identity and access management systems and our network, and we have upgraded to Office 365. Together, these capabilities have enabled approximately 5,000 of our people to work from home during the pandemic and to remain connected to each other through the use of applications such as Microsoft Teams.

58. It is important to note however that there are limits to what can be achieved. We estimate that the productivity of our customer-facing people had reduced by up to 25% as some do not have the technology to enable them to work remotely as noted above, some have sub-optimal home set ups, and some have reduced availability due to childcare needs. This situation has improved under Alert Level 2 with productivity expected to be significantly restored by the end of May 2020. The programme itself has not experienced a noticeable drop in productivity at this stage.

### ***Cutover team***

59. All the foundational technology we have put in place in recent years meant that everyone involved in Release 4 cutover was ready and able to work from home.

60. In addition, the very good release management and change management processes we have developed through successive releases stood us in good stead when we moved to a remote cutover at short notice.

61. Before lockdown on 23 March 2020, everyone involved in cutover was very clear what was required of them during the cutover process, having practiced the execution of every required task multiple times. Each member of the approximately 200-strong cutover team had a clear and unambiguous role they had practiced through at least three mock go-lives (a dress rehearsal for go-live). Some data conversion processes had been practiced up to six times.

62. Everyone knew exactly what they had to do, in what order, and when. What had changed was that they would complete their tasks in a slightly different way. With some minor exceptions, a well-executed plan would now be taking place in different locations than planned. Only a small number of people were actually required to be on site in our Asteron building. During cutover weekend from 9 to 15 April 2020, there was a maximum of 8 people on site at any one time for Release 4, compared to a peak of approximately 100 people at any one time for earlier releases.

63. Our cutover processes are so well documented, so well understood, and so well practiced down to an individual task level that they made a relatively seamless remote cutover process possible.

64. Not everything worked perfectly as you would expect. The biggest area of risk was co-ordinating tasks between different areas to ensure hand-offs happened as they should. For example, data conversion takes varying lengths of time and people from the wider business (i.e. not programme people) verify that data is correct once it has been loaded into START. Previously, we would ask people to be in the office two hours prior to the expected finish time for loading data into START. With everyone working from home, it was more difficult to mobilise people if data conversion ran more quickly or more slowly than expected.

65. In addition, our ability to mobilise and respond to issues that came up took a bit longer than we expected. This meant that completing cutover took a few hours longer than planned.