Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: November 2019

Date:	3 December 2019	**Priority:**	Medium
Security level:	In confidence	**Report number:**	IR2019/510

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.

3 December 2019

Minister of Finance
Minister of Revenue

Transformation status update: November 2019

Executive summary

1.   This report summarises the progress and highlights of transformation for November 2019.

2.   Release 4 remains on track. We are now more than half-way through our business system testing (ensuring START works as expected). Our Portfolio Governance Committee (PGC) have approved a go-live date of 15 April 2020, which is the Wednesday after Easter. This means we will be closed to customers from 4pm on Thursday 9 April and reopen at 8am on Wednesday 15 April 2020. We will be closed for one full business day; Tuesday 14 April 2020. The date will not be confirmed publicly until February 2020 at the earliest. However we will begin to communicate from mid-December 2019 that we are targeting Easter weekend. Activities to ensure we are ready, and our customers and third parties are ready for the changes are well underway.

3.   Scoping and planning for Release 5 continues to progress well. A number of new risks were raised or escalated to the PGC during the month relating to decommissioning of heritage systems and services. This is not a cause for concern and is expected as we work to confirm our approach to fully decommissioning FIRST and all its satellite connections.

4.   Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 below). The scope key has deteriorated slightly to light amber reflecting emerging expectations of what will be included in the final scope for Release 5 and the risks relating to decommissioning.

Table 1: Transformation's RAG status

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

5.   The overall budget (excluding the contingency held by the Commissioner) for the transformation programme, from 1 July 2019 until 30 June 2020, is $219.8 million[1] for operating expenditure and $90 million for capital expenditure.

6.   Based on current forecasts, we expect to complete delivery within budget (including contingency) for operating and capital expenditure. The remaining contingency available for the period to 30 June 2020 is $8.3 million for operating expenditure and $7.8 million for capital expenditure. On 21 November 2019, the PGC approved two items that will be covered by the contingency. They relate to the website rebuild and transitioning our enterprise content management system to a cloud-based "as-a-service" solution. Both will draw down approximately $2.1 million each from the operating expenditure contingency. The website rebuild will draw down $0.3 million from the capital expenditure contingency.

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[1] The budget for operating expenditure has decreased as a result of the customer awareness campaign returning some funding to contingency.

7.   In response to the Minister of Revenue's comments on the Transformation status update for October 2019 (IR2019/509 refers):

- We were $2.3 million over budget for the period 1 July to 31 August 2019 for operating expenditure largely due to the earlier timing of staff exit payments (redundancy payments) related to planned changes within our information technology team. The costs are within the overall budget for transformation for the year and we incurred some payments earlier due to voluntary redundancies.

- We will provide financial information in the format requested from our next monthly report.

8.   Our next monthly report will be sent to you in February 2020 and will cover the months of December 2019 and January 2020.

Recommended action

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

Noted   Noted

Greg James
Deputy Commissioner, Transformation
3 December 2019

Hon Grant Robertson   **Hon Stuart Nash**
Minister of Finance   Minister of Revenue
     /   /2019   /   /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.   No new issues (risks that have been realised) were reported to the Portfolio Governance Committee (PGC) during the month.

12.   As at November 2019, the programme had a total of 61 open risks,[2] of which 18 are reported to the PGC.

13.   One of the key challenges we have to manage by the end of the programme is decommissioning and exiting our heritage technology environment. This work forms part of Release 5. We have established a team to focus on this work and have raised new risks to ensure the key risks areas are actively managed and mitigations are in place. The team is focussed on detailed analysis of all services and systems located in the heritage data centres. Mitigations include moving any systems/ services that may be enduring to another location including the cloud. In addition, we have put in place an arrangement with Unisys to provide a potential extension of 12 months should that be required, however that would be a last resort.

14.   Since the last report, two new risks have been raised and reported to the PGC and three risks have been escalated to the PGC which were previously managed at programme level. All five of the risks newly reported to the PGC relate to decommissioning of heritage systems and services. This is not a cause for concern and reflects the work already undertaken by the decommissioning team.

15.   Five specific risks have been reported to the PGC relating to our ability to decommission FIRST satellite systems, E-File, the KiwiSaver business-to-business (B2B) exchange, SAP, and our enterprise data warehouse. Information about each of these risks is provided in the following paragraphs.

16.   FIRST and its satellite systems reside in our heritage data centres. This risk relates to our ability to collect revenue and pay social policy entitlements if a fault occurs in the FIRST satellite systems and services after 2021 that could not be recovered. Following Release 4 there will be only minor tax products remaining on FIRST. The final social policy product, Child Support, will migrate to START in Release 5. This means that if there was a fault that could not be recovered, the impact on our ability to collect revenue would be minimal. However, there could be an impact to child support payments. The risk level is currently rated as very high as the consequences would be major if it did eventuate. We will consider moving technology that supports Child Support and remaining minor tax products from our heritage data centre to our new data centre if other options are not available.

17.   E-File is an online service that enables tax agents to manage their clients' accounts with us. Tax agents use E-File to send us income tax and GST returns, donations tax credit claims and correspondence. They can also request or confirm personal tax summaries for back years (2014 to 2018) through E-File. The application that underpins E-File resides in our heritage data centre. To decommission E-File we are reliant on customers moving to myIR or the replacement gateway service by the end of March 2021 at the latest. While a number of customers have indicated they will be ready to do so, there are a potentially large number who may not be ready. As a result, we are considering options for keeping E-File beyond the target date in a different location. We will consider moving this technology from our heritage data centre to our new data centre if other options are not

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[2] The number of open programme risks has increased by three; five new risks were opened during the month, three managed at programme level and two reported to the PGC; two risks were closed during the month, including one transferred to business-as-usual.

IR2019/510: Transformation status update: November 2019

IN CONFIDENCE

available. The risk level is currently rated as very high, with major consequences if it did eventuate.

18.   The KiwiSaver B2B exchange enables the exchange of information and messages between us and scheme providers. Similarly to E-File, the application that underpins this exchange resides in our heritage data centre and we are dependent on scheme providers moving to the replacement gateway service before the end of March 2021. While a large number have indicated they will do so, there are a potentially large number who may not be ready. The risk level is currently rated as very high, with major consequences if it did eventuate. We are considering options for keeping the KiwiSaver B2B exchange beyond the target date in a different location, including moving it from our heritage to our new data centres.

19.   Paid Parental Leave and our payroll application run off SAP. Paid Parental Leave is scheduled to migrate to START as part of Release 5 in April 2021. Ātea, our new enterprise support services solution, will integrate with SAP until a replacement payroll solution is sourced. We are continuing to work with public sector functional leaders, the Ministry of Business, Innovation and Employment and the Government Chief Digital Officer, on the replacement of our payroll system. Once a solution has been sourced, implementing it and decommissioning SAP may not be able to be done in the required timeframe, i.e. before transformation concludes in 2021. The risk level is rated as very high as it is possible for this risk to occur, with major consequences if it did. We are currently exploring options for moving SAP out of our heritage data centres.

20.   Our enterprise data warehouse (EDW) houses business and customer information and is being replaced by the analytical capabilities within START and our new data and intelligence platform. The EDW is hosted within our heritage data centres and if it is not able to be fully decommissioned, we may need to find a different location, such as our new data centres, and archive it. The risk level is currently rated as very high as it is possible for this risk to occur, with major consequences if it did.

21.   There was no change in the status of any of the other risks reported to the PGC during the month.

22.   The top risks for transformation are support for heritage systems ending in 2021, reliance on SAP, FIRST, E-File and KiwiSaver B2B after 2021 preventing full decommissioning of our heritage data centres.[3]

Release 4

23.   Release 4 remains on track for April 2020. Continued focus is required to ensure the release remains on schedule.

Solution design and testing

24.   Now that the solution design has been baselined and is under change control, we have caught up with testing. Writing test scenarios for business system testing (ensuring START works as expected) and test execution have accelerated. As at 22 November 2019, we had completed approximately 58,000 scenarios and tested approximately 44,000 of them. We are about 60% of the way through business system testing. This is slightly behind where we expected to be but is not a cause for concern.

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[3] The risk relating to continued reliance on our enterprise data warehouse after 2021 has a lower rating.

IR2019/510: Transformation status update: November 2019

IN CONFIDENCE

Go-live

26.   This will be our fourth major release. As a result we now have a well-established deployment approach. The basic team structures, cutover sequence, use of a central deployment function and governance structures will be reused. However, every major release has its own unique characteristics that require refinements to our general approach. The characteristics unique to Release 4 are outlined in the following paragraphs.

27.   There is a high dependency on external integration with third parties, that is scheme providers for KiwiSaver processing, and the Ministry of Social Development (MSD) and Customs for Student Loan processing. Changes on both sides of connections mean there is a risk that go-live becomes tied to the successful implementation of changes by others. To mitigate this we are separating Release 4 go-live from the implementation of third-party changes. This means scheme providers, MSD and Customs are able to choose what they go live on, i.e. make changes so they can use the new method or continue with the current approach. The go-live approach has already been locked down with all external parties.

28.   In previous releases FIRST and START have been the core systems impacted by the cutover process. Release 4 introduces a third system, the Central Administration System (CAS), which we use 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, and the shut-down approach. To mitigate this we are working with our business groups to ensure data cleansing and burndown work puts us in the best position possible before go-live. In addition, the shut-down process for the business-to-business exchange with KiwiSaver providers will ensure all KiwiSaver processing has been completed.

29.   The timing of Release 4 go-live coincides with a number of month and year-end processes, including some key Student Loan activities. April is also the beginning of the annual tax year and of our peak processing season. START is now the core system for Income Tax and Working for Families, so there will be significant annual events running for the first time in START. To mitigate this we are collaborating closely across our business groups to ensure all needs are met and creating detailed transition plans for each product and/or process impacted by Release 4 go-live.

30.   Data migration for Release 4 is expected to be at least as complex as for Release 3. In some areas there is significantly more data to be migrated, however the types of data are much simpler (e.g. an individual transaction versus a whole return). The inclusion of CAS as a second master system is expected to make data verification/reconciliation more complex than for Release 3. To mitigate this we will use the "parallel processing" approach developed for Release 3 to process large amounts of data, with additional improvements to further speed up the process. We will also move some tasks outside the shutdown window to minimise the time we are closed to customers. The table on the next page provides an indicative view of data volumes for Release 4.

IR2019/510: Transformation status update: November 2019

IN CONFIDENCE

	Release 1 Feb 2017	Release 2 April 2018	Release 3 April 2019	Release 4 April 2020
Accounts migrated	880,000	1 million	19.7 million	7 million
Returns migrated	8.1 million	13 million	15 million	23 million
Transactions migrated	23.6 million	2 million	142 million	184 million
Contributions migrated	0	0	0	470 million
Load data into START	17 hours	11 hours	33 hours	38 hours
Remove data from FIRST	12 hours	10 hours	30 hours	28 hours

Readying our people

31.   On 21 November 2019, the PGC approved the training plan for Release 4. Training will again be delivered online and in a classroom setting. The maximum amount of compulsory training will be three days for approximately 440 people. Approximately a further 2,700 people will have classroom training of one day. Training will take place over a 9-week period and comprise around 63,000 hours, compared to 14 weeks and approximately 87,000 hours for Release 3.

32.   We have selected trainers for Release 4 and they joined the programme on 25 November 2019. All trainers are from our business areas and, as such, bring business experience to the training role. The classroom schedule is being developed and training material will be piloted from December 2019.

Readying our business

33.   Business-led focus areas (known as accelerated enablement teams during Release 3) are gaining momentum. In contrast to Release 3, and as expected, only some are directly related to the Release 4 changes. Areas up and running are optimising the 2020 automatic income tax assessments process, investment income, the move away from cheques and over-the-counter payments, and tax agents and intermediaries. Further focus areas are to be established for Working for Families rollover (when entitlements for the following year are estimated and communicated to customers), burndown of work on hand before go-live, employer readiness, and managing customer demand.

Readying our customers

34.   Marketing activities to inform our customers of the upcoming Release 4 changes are underway.

35.   In mid-September 2019, we emailed tax agents and customers who still use cheques, to let them know this payment option will no longer be available to them from 1 March 2020.

36.   We also sent approximately 22,000 emails and 400 letters to tax agents and bookkeepers on 4 November 2019. It was the first wave of direct marketing to these customers for Release 4 and included a reminder about some recent changes and a heads up that more changes are coming.

37.   On 6 November 2019 we began sending emails and letters to over 43,000 businesses and organisations who pay investment income; to remind them that reporting of investment income payments becomes mandatory from 1 April 2020. We'll contact business customers again in the new year with further information.

7

38. We've kicked off our webinar series for Release 4, to provide more information to our customers on upcoming tax changes. Webinars began on 23 October 2019, with approximately 1,000 tax intermediaries watching live on the day out of approximately 1,800 registrations. Many people register even though they know they won't watch it live as they watch it in their own time using the "on demand" link sent to them after the session. The 6 November session for employers and not-for-profit organisations was watched by just under 140 live out of just under 300 registered. The 27 November webinar for all customer groups was watched by 800 on the day, with more than 1,300 registered.

Other updates

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

39. In response to the Minister of Revenue's question about our payment terms (IR2019/509 refers), we will provide a fuller update about payments to our suppliers following the implementation of the second release of Ātea on 1 October 2019. This report is expected to be sent to the Minister of Revenue by 13 December 2019.

Helping customers to pay and receive the right amounts

40. In response to the Minister of Revenue's comments on the Transformation status update for October 2019 (IR2019/509 refers), we estimate that approximately 1.5 million people have used an incorrect prescribed investor rate (PIR) for the year ended 31 March 2019. This means that approximately 1.7 million accounts, or over 45% of portfolio investment entity (PIE) investments (by number rather than value), have an incorrect PIR attached to them. The numbers of people and accounts are different as people can have more than one PIE investment. As you are aware, we have sent notifications to these customers and we expect to see an improved position going into the 2020 automatic assessment process. We will continue to focus on these customers over the next few years as required.

41. We have identified approximately 350 tax agents using cheques to pay us. More than half of those tax agents who pay us by cheque also use myIR and/or pay through digital channels. Our Community Compliance team will shortly begin visiting approximately 85 tax agents who pay us by cheque to help them move to alternative payment options from 1 March 2020.

Policy

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

Independent quality assurance reviews

43. We will report the findings of KPMG's tenth independent quality assurance review and ninth technical quality assurance review (IQA10/TQA9) to you in the new year. The findings and our responses to the recommendations will be provided to the Portfolio Governance Committee in December 2019.

Release 5

44. Release 5 scope and planning is progressing well, definition sessions have commenced and 6 of 97 Child Support business function definitions (which describe what the solution needs to do for a particular activity, for example registration) have been approved. Another 5 are ready for approval and 17 are in progress. We reviewed the Child Support solution with the FAST Development Centre in Denver at the end of November.

45. As reported to Cabinet (GOV-19-MIN 0045), significant improvements are planned by FAST for online services as part of version 12 of their GenTax software (which we have named START). We plan to implement these as part of Release 5 and impact analysis is underway.

46. The decommissioning and archiving team are progressing with the services and systems that are being discontinued following Release 3. In addition, there is a significant amount of discovery and analysis work underway to confirm the approach to fully decommissioning FIRST and all its satellite connections. We are working with Unisys, the provider of our heritage data centres, to identify all business systems contents of the data centres which will lead to a comprehensive plan, the target for this is before the end of 2019. Planning has commenced for the migration of the Customer Contact Centre to an alternative environment at the end of 2020 (this date is to be confirmed). The team are reviewing the approach to SAP in conjunction with Ātea, as SAP will require decommissioning or migration to an alternative environment to enable the closure of our heritage data centres.

Coming up in the next two months

47. Key activities over the next two months include:

December 2019
- Checkpoint 2 for Release 4 in the readiness assessment framework.
- Mock go-live testing begins.

January 2020
- Classroom training for our people begins.