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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: August 2020

Date:	01 September 2020	**Priority:**	Medium
Security level:	In confidence	**Report number:**	IR2020/341

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.

01 September 2020

Minister of Finance
Minister of Revenue

Transformation status update: August 2020

Executive summary

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

2. Work on Stage 4 is progressing well, with solution design for the first set of products (paid parental leave, unclaimed monies, duties and foreign trusts) well underway. On 20 August 2020, the Portfolio Governance Committee (PGC) agreed a go-live date of Monday 1 March 2021. This will be validated through testing and mock go-lives (a dress rehearsal for go-live), which are scheduled to begin from October 2020.

3. Transformation's Red, Amber, Green (RAG) status remains at amber overall this month (as shown in table 1 below). There has been no change in the status of any of the keys.

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 Amber	Light Amber	Light Amber	Green	Light Green	Green	Amber
PREVIOUS	Amber	Light Amber	Amber	Light Amber	Light Amber	Light Amber	Light Amber	Green	Light Green	Green	Amber

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

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	$159.6	$159.6	$0.0	$78.6	$78.6	$0.0
Transitional costs	1 Jul 20–30 Jun 21	$33.8	$33.8	$0.0	$0.0	$0.0	$0.0
Contingency	1 Jul 20-30 Jun 22	$14.8	$14.8	$0.0	$9.7	$9.7	$0.0
Total for current phase		$208.2	$208.2	$0.0	$88.3	$88.3	$0.0

Budget performance to date

5. Between 1 July 2014 and 30 June 2020, the programme spent $747.0 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.

6. In response to the Minister of Revenue's comments on our July *Transformation status update* (IR2020/268 refers), we have underspent in operating expenditure to date due to a combination of factors, including:

- Active commercial practices. One of the early decisions we made was to scale up our commercial expertise. We recruited a dedicated team of procurement professionals with significant experience in managing complex, multi-vendor environments. This has enabled us to achieve value for New Zealand taxpayers with our commercial arrangements and avoid paying a premium for goods and services.
- Tight scope management. Our decision to buy a commercial-off-the-shelf (COTS) solution for the replacement of our core system means that we have had to be very disciplined about adopting out-of-the-box processes wherever possible. This approach has minimised the amount of unnecessary configuration or customisation and avoided additional cost.
- A strong focus on delivery. The replacement of our core system is a significant proportion of the overall cost of the programme. FAST have not only been fair and reasonable to deal with commercially, they have also delivered consistently well. This has avoided the need for contract re-negotiations in this key area. Although some other areas of the programme have taken longer to implement changes than initially expected, overall, any delays have been short-lived and been managed within the contingencies we hold.
- Rigorous financial management practices. We regularly review budgets and forecasts to ensure we continue to deliver value for money.

7. We have a mixture of commercial arrangements with our suppliers – some are on fixed price contracts and others are time and materials contracts. We have a fixed price contract with FAST, who have clearly demonstrated they are committed to delivering the best outcomes and solutions for Inland Revenue. For example, of all the change requests raised during Release 4, none have had any cost implications.

8. There is still considerable uncertainty ahead as we complete the final stage and close out the programme. Child support implementations, for example, are notoriously complex. In addition, there is a risk the programme could be prolonged if resources are required to support other Government priorities, for example supporting responses to COVID-19. For these reasons, at this stage we have taken a prudent approach and moved any funding not yet spent to future years.

Stage 4 budget

9. Including the contingency held by the Commissioner for the next phase, Stage 4, the overall budget for transformation is $174.4 million for operating expenditure, and $88.3 million for capital expenditure. On 23 July 2020, the PGC approved drawdown of contingency funding of $0.3 million in operating expenditure and $0.7 million in capital expenditure for extending the rollout of guided learning. We introduced guided help functionality for our staff in March 2020 and will continue to add to this. We will extend guided help functionality to the website to help our customers self-serve more easily.

10. Transitional funding of $33.8 million in operating expenditure has been allocated in 2019/20 to support business groups transition to our future operating model.

Recommended action

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

Noted

Noted

Greg James
Deputy Commissioner, Transformation
01 September 2020

Hon Grant Robertson
Minister of Finance
/ /2020

Hon Stuart Nash
Minister of Revenue
/ /2020

Key risks and issues

12. 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.

13. We continue to monitor the issue (a risk that has been realised) regarding the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time. Our Auckland-based team members worked from home during alert level 3, and we continued with a mixture of flexible work arrangements for team members based in all other locations.

14. As at August 2020, the programme has a total of 55 open risks,[1] of which 14 are reported to the Portfolio Governance Committee (PGC).

15. There is no change to the status of any of the risks reported to the PGC this month.

16. The top risks for transformation are reliance on SAP, FIRST satellite functions, and KiwiSaver business-to-business exchanges after July 2022 preventing full decommissioning of our heritage data centres. We have strong mitigation plans in place for these risks.

Stage 4 update

17. Solution design for paid parental leave, unclaimed monies and foreign trusts is progressing well. We are placing significant emphasis on keeping product designs simple, to mitigate the risk of building in complexity for customers and our people.

18. We have begun writing test scenarios in preparation for the commencement of business system testing (making sure START works as expected) in October 2020.

Cutover date for the first set of products

19. As reported previously (IR2020/267 refers), we plan to move paid parental leave, unclaimed monies, duties, and foreign trusts to new systems and processes by April 2021.

20. We have now completed detailed analysis to determine the best time to go-live. On 20 August 2020, the PGC agreed closing down from 5pm on Friday 26 February 2021 and reopening at 8am on Monday 1 March 2021. This will be validated through testing and mock go-lives (a dress rehearsal for go-live) which are scheduled to begin from October 2020. There is a low risk that an extra day will be required. We expect to confirm the cutover duration in early December 2020 once we have completed the first mock go-live.

21. Unlike previous releases, there is no obvious cutover window that minimises the impact on both major business / customer events and the subsequent delivery of child support. Although multiple options are technically viable, each has differing impacts. We considered, and discounted, three other options:

- A cutover earlier in February 2021 is not preferred as we may not be able to complete all testing in time. Working for Families rollover (when entitlements for the following year are estimated and communicated to customers) is scheduled to occur on 16 February 2021. Our systems need to be fully available for

[1] The number of open programme risks has increased by 10 since the July 2020 report as 10 new programme risk have been opened. Many of these new risks were identified as part of a Stage 4 re-plan risk review session held in July 2020.

customers to access and for our people to resolve any errors and respond to customer contacts.

- A cutover in early March 2021 is not preferred as this would have considerable impacts on month-end reporting of Crown revenue. It would require the same people to be checking the reconciliation of Crown revenue following cutover and to be completing month-end reporting. From a programme perspective, this date would cause contention with child support in terms of both technical environments, which would delay the start of mock conversion runs of data for child support, and resources.
- A cutover in late March or early April 2021 (including over Easter weekend of 2 to 5 April 2021) is possible and avoids peak season processing events such as the Working Families rollover. However, the last date for tax agents to file 2020 tax returns is 31 March 2021 and the first run of annual student loan statements in START is scheduled to occur on 1 April 2021. Our systems and channels need to be available for customers on these days. From a programme perspective, this date would cause significant contention with child support.

22. The work to move KiwiSaver providers to new gateway services and to complete the replacement for e-File, which enables tax agents use to manage their clients' accounts with us, is also progressing well.

Child support and upgrade to eServices

23. The second release in 2021 will move child support to new systems and processes. At the same time, we will also upgrade GenTax (the proprietary name for the software provided by FAST which we have named START). This will mean a new look and feel for eServices with a new home page for myIR and an improved mobile-responsive design. The date for this release is not yet confirmed. We are making good progress in both these areas.

Other updates

Policy

24. Submissions on the Taxation (Annual Rates for 2020–21, Feasibility Expenditure, and Remedial Matters) Bill (the Taxation Bill) and the Supplementary Order Paper (SOP) closed on 12 August 2020. The SOP to the Taxation Bill contains amendments to simplify the administration of unclaimed money.

25. The Social Services and Community Select Committee will hear oral submissions on the Child Support Amendment Bill (the Child Support Bill) once a new Parliament is formed after the election. The Child Support Bill contains proposals to simplify the penalty rules, introduce compulsory employer deductions for newly liable parents, limit retrospective reassessments to four years, and amend the definition of income to include investment income.

26. On 23 July 2020, the Social Services and Community Select Committee called for submissions on the SOP to the Child Support Bill, which will repeal child support incremental penalties and simplify the penalty write-off rules. A delay in hearing submissions could slightly increase the risk that legislation is not passed by April 2021. For most of the items in the Child Support Bill, this is not an issue as child support will be moved to new systems and processes in October 2021. However, the amendments in the SOP are intended to apply from 1 April 2021. We are therefore working on a contingency plan for the SOP amendments in case the Child Support Bill is not passed by April 2021.

Tax policy website

27. We continue our work to improve our websites, with a test version of the new tax policy site available shortly for stakeholders to provide feedback on. The site has been refreshed to give it a cleaner and modern look and feel, in line with our other websites.

28. We will use feedback from users to refine and improve the site before content is finalised. This is one of the last big pieces of work to improve the online experience for our customers.

Coming up in the next two months

29. Key activities over the next two months include:

September 2020

- Complete the base configuration of START for the February 2021 release.
- Begin work on the next six-monthly transformation update to Cabinet.

October 2020

- Complete business function definitions (these describe what the solution needs to do for a particular activity, for example register a customer) for the February 2021 release.
- Begin business system testing for the February 2021 release.