

Proactive release: This document has been released by Inland Revenue under section 18(3) of the Tax Administration Act 1994. This release supports the purposes of the Official Information Act 1982 by increasing progressively the availability of official information to the people of New Zealand.



Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: December 2019/January 2020

Date:	4 February 2020	Priority:	Medium
Security level:	In confidence	Report number:	IR2020/007

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.

4 February 2020

Minister of Finance
Minister of Revenue

Transformation status update: December 2019/January 2020

Executive summary

1. This report summarises the progress and highlights of transformation for December 2019 and January 2020.
2. Release 4 remains on track, albeit with increased risk regarding the KiwiSaver business-to-business transitional solution, and some work required following our first mock go-live (a dress rehearsal for go-live). A new risk relating to the KiwiSaver solution has been raised and reported to the Portfolio Governance Committee.
3. We are now approximately 88% of the way through our business system testing (ensuring START works as expected) and have run our first mock go-live and scaled business simulation testing (practicing go-live step-by-step). Activities to ensure we are ready, and our customers and third parties are ready for the changes, are well underway. The working group for Pou Whirinaki/early life support is now up and running.
4. The high-level scope of Release 5 has been agreed, and detailed scoping and planning is now underway.
5. Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 below). The scope key has returned to light green, as the scope for Release 4 is stable and there is increasing clarity about the scope of the work as part of Release 5 to decommission our heritage technology and optimise our technology environment (IR2019/371 refers).

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	Light Green	Light 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

6. In response to the Minister of Revenue's comments on the Transformation status update for October 2019 (IR2019/509 refers), the table on the next page provides information about expenditure on the programme to date and planned expenditure for the current year.

<i>\$ millions</i>		Operating expenditure (excluding depreciation and capital charge)			Capital expenditure		
		Budget	Actual	Variance	Budget	Actual	Variance
Previous phases							
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	\$206.5	\$200.7	\$5.8	\$90.0	\$87.5	\$2.5
Contingency	1 Jul 19-30 Jun 20	\$4.2		\$4.2	\$7.8		\$7.8
Total for current phase		\$210.7	\$200.7	\$10.0	\$97.8	\$87.5	\$10.3

Budget performance to date

7. 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.

8. Any under-spending to date has either been moved to later periods or returned to the Crown. We have returned \$25.773 million in operating expenditure savings to the Crown to date, as well as the Ministers' operating contingency of \$101.272 million. In addition, we have also returned the Ministers' capital contingency of \$34 million.

2019/20 budget

9. Excluding the contingency held by the Commissioner in 2019/20, the overall budget for the transformation is \$206.5 million for operating expenditure and \$90.0 million for capital expenditure. The change in budget for operating expenditure since the last report reflects the drawdown from contingency of the items approved by our Portfolio Governance Committee in November 2019 (IR2019/510 refers).

10. We have made additional investments in Release 3 production support and Release 4 testing and are managing this through savings in other workstreams.

Costs to complete transformation

11. 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

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
4 February 2020

Hon Grant Robertson

Minister of Finance
/ /2020

Hon Stuart Nash

Minister of Revenue
/ /2020

Key risks and issues

13. 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.
14. No new issues (risks that have been realised) were reported to the Portfolio Governance Committee (PGC) during December 2019 and January 2020.
15. As at January 2020, the programme has a total of 65 open risks,¹ of which 21 are reported to the PGC.
16. Since the last report, four new risks have been raised and reported to the PGC and one risk has been closed. The status of three risks reported to the PGC has deteriorated.
17. The closed risk relates to the time, effort and complexity in completing business-as-usual tasks during co-existence potentially impacting our performance. This risk has been transferred to the business to manage. There will be a significant decrease in co-existence impacts for our people once Release 4 is implemented, especially with PAYE processing moving into START.
18. One of the new risks relates to testing of the KiwiSaver business-to-business transitional solution, with providers not being completed on schedule. The risk level is currently rated as very high as the consequences would be major if the risk did eventuate. The likelihood of this risk occurring is rated as possible. Since this risk was reported to the PGC, we have validated that the changes we have made should have no impact on the providers systems. As a result, we have reviewed and optimised our overall test approach to ensure that we have full coverage of the test scenarios without having to test each scenario with every provider.
19. There is a risk that Pou Whirinaki/early life support for Release 4 will not be as effective as previous releases given the competing demands on the management team over the same period, including planned changes to our organisation design. The risk level is currently rated as high, with moderate consequences if it did occur. We are identifying other people within Inland Revenue with the capability to run Pou Whirinaki for Release 4, with guidance from those who ran Pou Whirinaki for Release 3. Weekly planning sessions are underway, and those who ran workstreams during Release 3 have been asked to oversee and provide quality assurance over the plans being developed.
20. There is a risk that the changes we have planned to our organisation design could distract key resources in the programme in the lead-up to Release 4 go-live. The risk level is currently rated as high, with moderate consequences if the risk did eventuate. A detailed design of the new organisation groups is not yet complete, as it is too early to say which roles and individuals will be impacted. Communications and engagement planning for these changes is underway at a high level and will become more detailed as the design becomes clearer.
21. A further risk has been raised relating to decommissioning activity. This risk relates to our ability to decommission the Student Loan business-to-business solution, which enables us to exchange information with other government agencies. The application that underpins this exchange resides in our heritage data centre. The risk level is currently rated as medium, as we have assessed the likelihood of this occurring as rare.
22. The status of three risks reported to the PGC deteriorated during January 2020.

¹ The number of open programme risks has increased by four since the last report in November 2019; six new risks were opened during December 2019/January 2020, two managed at programme level and four reported to the PGC; two risks were closed during this period, one managed at programme level and one reported to the PGC.

23. The current rating of the risk of the planned Release 4 go-live date not being met has deteriorated from high to very high. This is a result of the likelihood of this risk occurring having deteriorated from unlikely to possible, given the risk regarding testing of the transitional KiwiSaver business-to-business solution and the results of our first mock go-live (a dress rehearsal for go-live) indicating that more work is required in some areas. We are actively managing these risks to deployment. The consequences of the risk occurring remain unchanged at major. Since this risk was reported to the PGC, the further work completed on the transitional KiwiSaver business-to-business solution means that there is very little risk that testing with providers will delay go-live.

24. The current rating of the risk relating to our ability to decommission E-File (IR2019/510 refers), has remained unchanged at very high. However, the likelihood of this risk occurring has deteriorated from possible to likely. We have not yet been able to confirm that all users will be able to transition to the new solution.

25. The current rating of the risk relating to our ability to decommission the application underpinning the KiwiSaver business-to-business exchange (IR2019/510 refers) has also remained unchanged at very high. However, the likelihood of this risk occurring has deteriorated from possible to likely, based on our current view of customer readiness and the readiness of the new solution.

26. The top risks for transformation are support for heritage systems ending in 2021, reliance on SAP, FIRST satellite functions, E-File and KiwiSaver B2B after 2021 preventing full decommissioning of our heritage data centres², and testing of the KiwiSaver business-to-business transitional solution.

Release 4

27. Release 4 remains on track for April 2020, albeit with increased risk regarding the KiwiSaver business-to-business transitional solution, and some work required following our first mock go-live.

Solution design and testing

28. Business function definitions (BFDs), which describe what the solution needs to do for a particular activity, are 99.7% complete. The remaining two BFDs are under active management. Controls are in place to ensure any new or amended BFDs are achievable within the planned schedule. Overall the design remains relatively stable.

29. Testing is on track but continues to be under pressure in some areas. We are exploring all possible levers to increase the effectiveness of our test execution, including daily stand-ups, co-locating developers with testing teams in Hamilton, reviewing all outstanding test scenarios to identify any which are low risk and not required, and offering overtime. As at 24 January 2020, we had completed approximately 63,000 scenarios and tested approximately 59,000 of them as part of business system testing (making sure START works as expected). Overall, we are about 88% of the way through business system testing, which is where we expected to be.

30. Our first mock go-live (a dress rehearsal for go-live) was successfully run before Christmas. Although the results show that the cutover plan is solid, there are some challenges in particular areas which will require more work to resolve. The mock go-live confirmed that we can complete cutover within the allowed five-day window. However, there would be limited contingency time left to roll back in the event of a no-go decision.

² The risks relating to continued reliance on our enterprise data warehouse and the Student Loan business-to-business exchange after 2021 has a lower rating.

We are looking at fine-tuning and other enhancements to reintroduce some contingency into the timeline if we can.

31. Our second round of mock go-live testing began on 27 January 2020 as planned.

32. Our first round of scaled business simulation testing (practicing go-live step-by-step) began on 13 January 2020 as planned. The first round is designed to find issues we can improve on for the second and third rounds.

Readiness checkpoint 2

33. On 12 December 2019, the PGC approved the results of checkpoint 2 in our readiness-assessment framework. At this checkpoint, we assessed whether we are on track for go-live. The checkpoint results confirm that we remain on track for delivery in April 2020. However, some components which are not critical to go-live are at risk and testing remains under pressure.

34. The results of the customer-readiness assessments found that business partners, such as the Ministry of Social Development, the New Zealand Customs Service, payers of investment income and software developers, had high levels of awareness and understanding of the upcoming changes. There are still some challenges for these groups, for example software developers are experiencing complexity with the ring-fencing of rental losses. Intermediaries had a medium level of awareness. At the time of the assessment we had not begun communicating with all customer segments. We are continuing with our account-management activities, webinars and direct marketing for intermediaries, and our business-led focus areas (IR2019/510 refers).

35. Our customer-facing people are still under pressure due to increased customer demand and the proactive notifications we have been sending customers, for example letting them know they are on the wrong prescribed investor rate (PIR) or tax code. We recognise that Release 4 will bring further challenges, but the experience we have gained from previous releases about how we can respond in an adaptive manner is proving invaluable. We will again bring extra people on board to support the go-live of Release 4.

36. The next checkpoint will be on 20 February 2020.

Readying our people

37. Training started at the end of January as planned.

38. We have a myriad of internal communications activities underway including animated videos, teleconference calls that deep-dive into the changes being made, and intranet updates. There is a high level of engagement in all of these.

Readying our business

39. Preparation for the deployment of Release 4 is progressing well. We have rehearsed our shut-down plans, and the product-specific cutover approaches are being reviewed in detail by our Customer and Compliance Services teams. An integrated planning forum has been established to coordinate both Release 4 and key business-as-usual events (such as estimating Working for Families entitlements for the coming year, and the 2020 automatically issued assessments).

Readying our customers

40. External communication and engagement is ramping up.

41. We have begun communicating a target go-live of Easter. Emails were sent to Government Agencies and to the central agencies on 16 December 2019, and key

messages have been provided to our account-management team for them to use when engaging with business associations and representative groups:

- We have just completed Readiness Checkpoint 2 and we are on track to hit our targeted go-live over Easter 2020.
- In February we will know more and will confirm the specific timings of the cutover and the systems and services that will be impacted.

42. Subject to PGC approving the results of the second round of mock go-live testing in February 2020, we will begin communicating the actual go-live date.

43. Direct marketing to a range of customer groups, including intermediaries, individuals and businesses, will begin in February and continue through until May 2020.

44. The webinar held on 12 December 2019 was attended by approximately 480 tax agents and bookkeepers. The post-webinar survey indicated that most participants are aware of upcoming changes. A webinar was held on 22 January 2020 for employers and not-for-profit organisations, with approximately 100 watching live on the day out of approximately 230 registrations. Many people registered to watch the webinar not live but later in their own time, using the "on demand" link sent to them after the session. Further webinars are planned for February and March 2020.

45. Seminars for businesses will take place during late March to early April 2020, with seminars for tax agents and bookkeepers taking place during the first week in April 2020.

Post go-live support

46. The working group for Pou Whirinaki/early life support is now up and running to help drive planning and provide the detailed schedule. The approach for Release 4 is to reuse the Release 3 processes where possible. The same leadership team that was in place for Release 3 will also be in place for Release 4. Ownership for leading workstream leads has passed from the programme to the business, with mentoring provided by the leadership team and the workstream leads from earlier releases, to build capability in those teams for the future.

47. A view of the key events during the Release 4 go-live period (for example automatically issued assessments and Working for Families rollover) that Pou Whirinaki will need to wrap extra support around has been established, and further work is underway to confirm the extent of support required for each event. Initial risk planning is also underway.

Other updates

Policy

48. The Finance and Expenditure Committee reported the Taxation (KiwiSaver, Student Loans and Remedial Matters) Bill back to Parliament on 18 December 2019. The Bill reported back includes the amendment to square up PIE income as part of the automatically issued assessment process for the 2020/21 tax year. This will ensure that all people pay tax on their PIE income at the correct PIR. People who are on a PIR that is too high will be able to have their overpaid tax refunded.

49. The Bill now awaits its second reading.

Tax agents

50. We continue to update the Top Solutions webpage regularly. We have received great feedback, and usage of the webpage is very high. We are looking to streamline the look and feel of the site and archive older content, to make the site easier to use and easier to find information. <https://www.classic.ird.govt.nz/campaigns/2019/top-solutions/>

51. We have created a new team of tax agent experts at Inland Revenue. They will work with our developers and resolution team, to make sure tax agents' concerns are prioritised and are being dealt with as quickly as possible. They will also identify gaps in our current information and help create collateral and practical support to help fill those gaps, for example through quick reference guides.

52. We propose to establish a "tax agent cohort", with a representative cross-section of tax agents. We envisage the cohort as a touchstone group we can work with to:

- develop roadmaps and strategies for the future
- test concepts and ideas with
- seek detailed feedback on the solutions being designed, and
- ask for direct feedback from after go-live on how things are going and ensure the right issues are being prioritised for fixes.

53. The cohort will provide us with first-hand insights and feedback. The cohort will have an early view of design, with opportunities to influence it and provide direct feedback.

54. A networked team from across Inland Revenue will work to ensure we have the right support in place to work alongside tax agents, intermediaries and software developers to prepare for Release 4 and beyond. The team will include people such as account managers, as well as those who work more in the background, such as our marketing team and the team working on our transformation.

55. We have been invited to attend this year's CA ANZ roadshow from 15 April to 26 May 2020. Representatives from our Account Management and Community Compliance teams will attend the 21 events to answer questions, take feedback and correct misunderstandings on the spot. This is a very positive step forward from the previous year.

Release 5

56. On 12 December 2019, the PGC noted the high-level scope for Release 5. This is the final release of transformation and includes:

- Migrating child support, paid parental leave and other minor duties and taxes to new systems and processes.
- Upgrading START to version 12, taking advantage of new features.
- Transitioning all core tax and social policy products and services to START, meaning no further transaction processing will take place in FIRST or any of the satellite systems from the end of June 2021.
- Concluding the decommissioning of heritage systems and applications including FIRST (and all satellite processes and functions), our enterprise data warehouse and SAP (for paid parental leave).
- Optimising our technology landscape so that Inland Revenue will have a simplified and stable set of services and infrastructure post-transformation.

57. Detailed scoping and planning for Release 5 is taking place between January and April 2020. We will formally agree the scope of Release 5 by mid-2020, enabling the 2020/21 costs for transformation to be confirmed.

58. From early 2020 until the end of June 2021, the transformation programme will progressively transition enduring capability to business-as-usual groups in Inland Revenue. At the completion of Pou Whirinaki/early life support for Release 5, the programme will formally close down. There may be some last decommissioning and archiving activity, which could be managed with a light-touch transformation programme team.

59. Although there may be ongoing physical decommissioning to complete after 1 July 2021, we expect that this could be accommodated with business-as-usual teams with minimal resources remaining in transformation to close out the programme.

60. The transformation programme will conclude with a final closure report that will be made available to Ministers and stakeholders. This is planned for post-September 2021.

Coming up in the next two months

61. Key activities over the next two months include:

February 2020

- Checkpoint three in our readiness assessment framework.
- Direct marketing to customers begins.
- Fieldwork for independent quality assurance reviews.

March 2020

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