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**Inland Revenue**  
Te Tari Taake

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

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<b>Date:</b>	04 August 2020	<b>Priority:</b>	Medium
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2020/268

### **Action sought**

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	<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)

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

04 August 2020

Minister of Finance  
Minister of Revenue**Transformation status update: July 2020****Executive summary**

1. This report summarises the progress and highlights of transformation for July 2020.
2. We exited Pou Whirinaki/early life support for Release 4 on 31 July 2020 as planned. New systems and processes continue to run smoothly and efficiently, with the processing of the government contribution claims for KiwiSaver being a prime example. In the first 9 working days of the month, we had processed 2.7 million claims, more than 95% of the expected claims, and transferred more than \$901 million to KiwiSaver providers. Last year at the same point in time we had transferred \$285 million to providers. At peak we transferred \$250 million to KiwiSaver providers in a single day, the highest ever. About 900,000 claims were processed one day in 14 minutes.
3. Work on Stage 4 is ramping up with design sessions for the first set of products (paid parental leave, unclaimed monies, duties and foreign trusts) well underway. Decommissioning activity achieved two key milestones during the month with all applications that needed to be decommissioned following Release 3 last year now removed and our cheque processing machines having run for the last time. A further release in Ātea, our new enterprise support services platform, went live during the month providing more tools for our people.
4. Transformation's Red, Amber, Green (RAG) status remains at amber overall this month (as shown in table 1 below). The status of two of the keys, inter-dependencies and delivery partners, has deteriorated slightly this month as we are reliant on third parties for the next phases in the implementation of our enterprise support services and our document management system. We are closely monitoring progress and continue to work closely with third parties. The status of one of the keys, resources, has improved slightly following approval of the high-level plan for Stage 4.

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 Green	Light Amber	Amber	Green	Green	Green	Amber

5. 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

		Operating expenditure (excluding depreciation and capital charge) \$ millions			Capital expenditure \$ millions		
		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
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
<b>Current phase</b>		Budget	Forecast	Variance	Budget	Forecast	Variance
Delivery-Stage 4	1 Jul 20–30 Jun 21	\$159.3	\$159.3	\$0.0	\$77.9	\$77.9	\$0.0
Contingency	1 Jul 20-30 Jun 21	\$15.1	\$15.1	\$0.0	\$10.4	\$10.4	\$0.0
Total for current phase		\$174.4	\$174.4	\$0.0	\$88.3	\$88.3	\$0.0

### **Budget performance to date**

6. 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. The programme underspent in 2019/20 as we did not require further drawdown on the operating expenditure contingency. The funding not spent during 2019/20 will be transferred to later years to support completion of the programme.

### **Stage 4 budget**

7. 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.

8. These costs reflect the scope of Stage 4 approved by the Portfolio Governance Committee in June 2020. We are still working through transitional funding costs that may be required to support the business.

**Recommended action**

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

Noted

Noted

**Greg James**

Deputy Commissioner, Transformation  
04 August 2020

**Hon Grant Robertson**

Minister of Finance  
/ /2020

**Hon Stuart Nash**

Minister of Revenue  
/ /2020

## **Key risks and issues**

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10. 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.

11. We continue to monitor the issue (a risk that has been realised) relating to the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time.

12. As at July 2020, the programme has a total of 45 open risks,<sup>1</sup> of which 14 are reported to the Portfolio Governance Committee (PGC).

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

- The effectiveness of Pou Whirinaki/early life support being diluted due to competing demands on the management team over the same period. We exited hyper care on 4 June 2020 and exited early life support as planned at the end of July 2020.
- Lack of coordination between Release 4 and key business-as-usual events, such as the automatic income tax assessment process. The majority of key events have already successfully concluded, for example the processing of government contributions for KiwiSaver members (refer to paragraphs 17 and 18). The remaining upcoming events are being actively managed.

14. The risk level of one risk reported to the PGC has improved. The current rating of the risk relating to products remaining on FIRST after 1 July 2022 when support for heritage systems ends remains unchanged at very high. However, the residual<sup>2</sup> likelihood of this risk occurring has improved from likely (a 21% to 50% chance of occurring) to unlikely (a 3% to 10% chance of occurring). Now that the high-level scope and implementation plan for the final stage has been approved by the PGC (IR2020/267 refers), it is unlikely there will be a delay in moving all products to START by July 2022. This was previously the top rated risk for the programme.

15. 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.

## **Release 4 update**

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16. We exited Pou Whirinaki/early life support on 31 July 2020 as planned. Accordingly, this will be the last time we report in depth on Release 4 as part of these status updates. Information about Release 4 will still be included when relevant, for example when key business events for KiwiSaver or student loans run for the first time on new systems and processes. However, the main focus of these status updates will now shift to Stage 4.

### **Customers**

17. In the first 9 working days of the month, we had processed 2.7 million government contribution claims for KiwiSaver and transferred more than \$901 million to KiwiSaver providers. This is more than 95% of expected claims. At peak we transferred \$250 million

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<sup>1</sup> The number of open programme risks has decreased by 2 since the June 2020 report; 3 risks managed at programme level were closed, including 2 reported to the PGC, and 1 new programme risk was opened.

<sup>2</sup> The predicted level of risk once all proposed actions have been implemented.

to KiwiSaver providers in a single day, the highest ever. Last year at the same point in time we had transferred \$285 million to providers.

18. KiwiSaver providers are very pleased with the speed with which claims have been processed, and there has been significantly less manual work and intervention required by both us and providers than in the past. START processed the claims with impressive speed and efficiency, with about 900,000 claims being processed one day in 14 minutes.

19. From August 2020, we will begin sending out 1.3 million letters to customers advising them that they are on the wrong prescribed investor rate (PIR). Following legislative changes introduced to support Release 4, we can now inform KiwiSaver scheme providers at the same time what PIR to apply to a customer. This takes a lot of pain away from customers most of whom do not understand what a PIR is or what to do. After sending out 1.5 million letters last year to customers who were on the wrong rate asking them to contact their provider to correct their rate, only 15% did so.

20. For student loans, we are using the analytical capabilities within START to help ensure borrowers are paying the right amount. For example, we have been able to identify and notify 4,700 customers who appear to be eligible to pay a lower rate for their repayments, and around 2,000 customers who appear to be having too much deducted from their wages. We have also identified some customers who may be underpaying their obligations using data held in START.

21. We have now completed this year's automatically issued income tax assessments process. Customers are continuing to contact us about the use of refunds to offset debt.

22. Tax agents have commented positively about how we have helped customers during COVID-19. They particularly value being able to advise us through myIR about COVID-19 affected customers, as this is much more efficient for all concerned.

23. We are seeing a reduction in the number of customers telling us that COVID-19 has had an impact on their ability to meet their obligations. In addition, the range of issues customers are contacting us about is narrowing:

- Some Working for Families customers, responding to us contacting them about their income estimate being too low, are expressing concerns for the security of their employment.
- Customers recently returned from overseas or unable to return to New Zealand are concerned about a range of tax-related issues, for example student loan overseas borrowing rules and their knowledge about KiwiSaver and tax residency.
- Customers are contacting us to request an extension of time to file their IR3 as they have had delays in receiving or accessing information.
- Customers are advising us that they have received an IR3 but they only earn salary and wages. Many making contact have previously had rental income or business income that has now stopped.

24. Complaints remain low and a high proportion of the feedback received has been positive, praising the patience and support that our people have provided.

25. Social media commentary also remains low, with no strong themes or trends being observed.

## **People**

26. Deskside support for Release 4 finished at the end of July 2020. We are currently gathering lessons on how this process has gone this year so we can keep the good areas and improve where needed for the future.

**Operations**

27. We continue to balance all our priority work; COVID-19 initiatives, resuming work that was halted during lockdown, and encouraging customers to shift to web services.

**Technical**

28. Systems and processes are working as they should and as at the date of this report we had no critical or high priority issues.

**Other updates**

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**Policy**

29. Submissions on the Child Support Amendment Bill closed on 24 June 2020. The Social Services and Community select committee received 35 submissions. Officials briefed the committee on 1 July 2020 (BN2020/327 refers). Submissions are being heard on 29 July and 5 August 2020. Officials will then prepare a report.

30. On 26 June 2020, the Government released a Supplementary Order Paper (SOP) which contained the amendments to simplify the administration of unclaimed money. The SOP has been referred to the Finance and Expenditure Committee for consideration and submissions close on 12 August 2020.

31. On 9 July 2020, the Government released a SOP to the Child Support Amendment Bill which will repeal child support incremental penalties and simplify the penalty write-off rules. The SOP has been referred to the Social Service and Community Select Committee.

**Culture survey and staff numbers**

32. In response to the Minister of Revenue (IR2020/267 refers), we have been running wellbeing pulse surveys since April 2020, shortly after we moved to alert level 4 lockdown. The theme of the questions is around how people are feeling about their overall wellbeing and how they are feeling about their day to day experience of doing their work.

33. The response rate has been between 61% and 70% and results for each of surveys are shown in table 3 below.

Table 3: Wellbeing survey results

	Thinking about the last week, how are you feeling about your overall wellbeing?			Thinking about the last week, how do you feel about your day-to-day experience of 'doing your work'?		
	Very good or good	OK	Not very good or not good at all	Very good or good	OK	Not very good or not good at all
Survey 1	59%	32%	9%	61%	30%	9%
Survey 2	70%	24%	6%	70%	24%	6%
Survey 3	73%	21%	6%	75%	20%	5%
Survey 4	77%	18%	5%	78%	18%	4%
Survey 5	72%	21%	7%	78%	18%	4%
Survey 6	75%	19%	6%	81%	16%	3%

34. Also in response to the Minister of Revenue (IR2020/267 refers), the numbers of permanent and fixed term staff and contractors as at 30 June 2020 are shown in table 4 below. Please note that the contractor information is not exact. The number includes contractors who use our systems to do the work they are contracted to do for us but does not include those contractors who do not use our systems.

Table 4: Staff and contractor numbers as at 30 June 2020

<b>Category</b>	<b>Number</b>
Permanent	4,069
Fixed Term	771
<b>Total full-time equivalent headcount</b>	<b>4,840</b>
Contractors	1,011

35. As we are continuing to work on our future operating model, we cannot provide a view of what our full-time equivalent headcount will be at the end of transformation. However, we can say that would expect to have very few contractors once transformation has been completed.

## **Stage 4**

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36. As reported last month (IR2020/267 refers), we plan to move paid parental leave, unclaimed monies, duties, and foreign trusts to new systems and processes by April 2021 and move child support in October 2021.

### **Changes for paid parental leave customers**

37. Paid parental leave (PPL) customers will have significantly improved digital services that will provide them with much greater visibility of their payments. Online services will include the ability to apply for PPL and track the progress of an application, view next payment details, and view and maintain personal details. Currently everything is paper-based and PPL payments are not in myIR.

38. Customers and their employers will no longer have to provide an income estimate as we will pre-populate customers' income for them as part of the application process. We will only ask for information we do not already have and automate as many applications as possible, i.e. minimise those that need human intervention.

39. Once PPL is in START, all of a customer's information will be available to our people, so that when a customer contacts us whoever answers the call will be able to respond rather than having to refer the customer to the PPL team.

40. These changes will reduce effort for PPL customers and provide them with greater certainty and a better customer experience.

### **Changes for unclaimed monies**

41. Proposed policy changes will make it easier for the owners of unclaimed funds to track their money down and claim it and for the organisations holding the funds to comply with the rules. The proposed changes include:

- Enabling us to use the data we already hold to more efficiently locate owners.
- Reducing the length of time before money is treated as unclaimed from 6 or 25 years to a standard 5 years.
- Clarifying the information organisations need to send to us.
- Introducing a 60-year limit on the ability of owners to claim their money.

42. New online services will enable the owners of the funds to claim their money through myIR. Currently they have to email us or write to us. Having applications in myIR will reduce the information claimants need to provide as we already know who they are. They will just need to prove ownership.

43. Organisations that hold unclaimed monies will be able to more easily provide information to us, resulting in some of their compliance effort reducing. They will be required to provide us with information electronically and in a standard format. It will be easier for them to provide information to us as they will be able to upload files securely into myIR and use the standard e-service functionality. Currently they have to email information to us. They will no longer have to maintain a physical register of unclaimed monies.

44. There will also be efficiency gains for us as information will be held on START and will no longer be on spreadsheets or in a separate database. This will reduce our manual effort.

### ***Changes for duties***

45. Customers will be able to upload files securely into myIR and will no longer have to send us a PDF.

46. Similarly to unclaimed monies, duties will move from a separate database into START reducing administration cost and effort for us.

### ***Changes for foreign trusts***

47. Customers will be able to register, and file, in myIR. They will also be able to view all the information they have previously, making it easier for them to meet their compliance obligations.

48. We will be able to administer foreign trusts more efficiently. The amount of manual work we have to do will reduce. Spreadsheets and files relating to foreign trusts will not have to be maintained as the information will move into START with upfront validations which will flag any issues. We will be able to allocate fees automatically.

### ***START delivery workstream***

49. Solution design is progressing at pace. Business function definitions (BFDs) describe what the solution needs to do for a particular activity, for example, register a customer. Definition sessions are in full swing across all products for the first release.

50. Data conversion and cleansing activities are ongoing, the testing approach has been finalised and heritage work is on track, with designs endorsed and the build and technical testing underway.

51. The deployment team is currently working through the deployment strategy, including the cutover window for the first release. On 23 July 2020, a preferred go-live date was endorsed by the Transformation Executive Working Committee. The Portfolio Governance Committee will be asked to approve the go-live date at an upcoming meeting. The cutover window is expected to be considerably shorter than previous releases. However, a full outage of our systems and channels, including myIR and our contact centres, will still be required due to the need for data migration.

### **Technology landscape optimisation workstream**

52. In the decommissioning and archiving workstream we recorded a couple of significant milestones during the month. All the applications that needed to be decommissioned following Release 3 have now been removed from our heritage data centre. We have begun decommissioning the applications no longer required following Release 4. The second milestone is the decommissioning and physical removal of our cheque processing machines. The machines ran for the very last time on 30 June 2020. During July 2020, we received 499 cheques, a 98% reduction on the 20,865 cheques received in July 2019.

### **Enterprise support services workstream**

*(the internal systems and processes that support the day-to-day running of Inland Revenue)*

53. We have deployed more functionality in Ātea this month, increasing the toolset for our people. The release which went live on 6 July 2020 implemented:

- capability to manage training, learning and development for our people;
- career management functionality to help people map their careers at Inland Revenue; and
- functionality to help integrate our investment management with the Crown's Financial and Information System (CFIS).

54. In addition, in this release we moved the New Zealand Productivity Commission into Ātea for their financial management and human resources processes. We have received good early feedback from the Commission on the cutover process and the toolset. We provide financial, human resource and payroll systems and services to the Commission. Payroll replacement is our next major piece of work and we are closely aligned with the all-of-Government payroll programme to ensure our requirements and approach are consistent with the broader government sector.

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

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55. Key activities over the next two months include:

#### **August 2020**

- Confirm detailed scope and plan for Stage 4.
- The Auditor-General's report into transformation's benefit management practices is expected to be tabled on 4 August 2020.

#### **September 2020**

- Begin work on the next six-monthly transformation update to Cabinet.