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Inland Revenue report: Transformation status update: July 2021

Date:	02 August 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/307

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

02 August 2021

Minister of Finance
Minister of Revenue**Transformation status update: July 2021****Executive summary**

1. This report summarises transformation progress and highlights for July 2021.
2. The closure of the Asteron building has come at a critical time for the October 2021 release and has increased delivery risk. We still have development and testing to complete, which benefit from a collaborative approach, and we are seeing some early indications of reduced productivity as the teams work remotely. We have relocated some of our people to our Upper Hutt and Hamilton sites and have secured some temporary office space in the Wellington CBD. However this does not fully mitigate the risk to the release. Whilst as at the date of this report, we remain on track to move child support to new systems and processes and upgrade our online services in October, we are now monitoring our progress very closely to ensure that we do not see any further productivity loss.
3. Transformation's Red, Amber, Green (RAG) status has deteriorated to amber overall, as shown in table 1 below. We expect the status to remain at amber until we get a clear view of the impact of the closure of Asteron on 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 Green	Amber	Light Amber	Light Amber	Light Amber	Light Amber	Green	Light Amber	Green	Amber
PREVIOUS	Light Amber	Light Green	Amber	Light Amber	Light Amber	Light Amber	Light Amber	Green	Light Amber	Green	Amber

4. Table 2 below shows programme expenditure to date and planned expenditure.

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	\$144.6	\$144.6	\$0.0	\$80.5	\$80.5	\$0.0
Transitional costs	1 Jul 20-30 Jun 22	\$89.3	\$89.3	\$0.0	\$0.0	\$0.0	\$0.0
Contingency	1 Jul 20-30 Jun 22	\$20.1	\$20.1	\$0.0	\$9.8	\$9.8	\$0.0
Total for current phase		\$254.0	\$254.0	\$0.0	\$90.3	\$90.3	\$0.0

Budget performance to date

5. Between 1 July 2014 and 30 June 2020, the programme spent \$747 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.

Stage 4 budget

6. Including transitional funding until 30 June 2022, the overall budget for the current phase of transformation, Stage 4, is \$254.0 million for operating expenditure and \$90.3 million for capital expenditure. We are on track to come in on budget for Stage 4.

7. Transitional costs and the contingency have changed this month for operating expenditure.

- On 5 May 2021, our Strategic Governance Board provisioned funding for transitional costs for business groups.
- Contingency funding has increased slightly this month as a result of business groups not requiring all the funding set aside for the 2020/21 year.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
02 August 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 second release

9. This final release will move child support to new systems and processes and upgrade the online services all customers use and the START software our people use.

10. As at the date of this report, the release remains on track for the October 2021 go-live, dealing with the usual pressure points at this stage of a release of completing development, verification, and testing. Business system testing (making sure START works as expected) is slightly behind schedule and will overlap scaled business simulation testing (testing of key end-to-end processes). This decision was made prior to the closure of the Asteron building and has occurred in previous releases. It is not a cause for concern. Scaled business simulation testing began on 26 July 2021 as planned.

11. However, we now have the closure of the Asteron building to contend with, which has unfortunately come at a critical time for the release. Our delivery risk profile has significantly increased and we are seeing some early impacts on productivity. We have some challenges we need to address, particularly in the areas of software development and testing which benefit from teams working collaboratively. Both of these areas are on the critical path for the release. While we can work remotely effectively as we proved when we implemented Release 4 last year, we are at a very different point in the delivery cycle for this release compared to where we were last year. We still have development, testing and cutover activity to complete, whereas for Release 4 we largely had just cutover activity to complete.

12. We are closely monitoring progress to ensure the critical path is maintained. Obtaining more accommodation in the Wellington CBD quickly is key. While we have secured some short-term office space, this is only a temporary solution and does not fully mitigate the risk to the release. We are using this space to rotate release-critical teams on a one week in the office and one week from home basis.

13. Data conversion is tracking to schedule, with conversions now including the full reconciliation process. A full reconciliation means matching the data extracted from our old system to the data converted to our new system to ensure everything has migrated correctly and that if there are any issues, we identify them and understand what we need to do to resolve them.

14. The first round of mock go-live testing (a dress rehearsal for go-live) was completed as planned on 16 July 2021, with a similar level of issues identified to the first mock go-lives for previous releases. The second round of mock go-live testing is scheduled to begin on 9 August 2021 and planning is underway.

15. On 22 July 2021, the Portfolio Governance Committee (PGC) approved the second checkpoint in our readiness assessment framework. The checkpoint results indicate that this release is on par or slightly better than Release 4 (the April 2020 release) was at the same point in time.

Readying our people

16. Train the trainer sessions and the training pilot are now underway. Training will take place from August to November 2021 and will again be a mix of classroom sessions and online learning.

17. We are holding a number of “masterclasses” for our people about the changes to online services. Five sessions in total are being held, with the sessions on navigation, look and feel, intermediaries, and individuals and families already completed. More than 320 people dialled into the first session, around 300 to the second, and just over 330 to the third. Feedback has been positive, and the sessions are available on demand for people to view.

18. Two further masterclasses are scheduled. On 12 August 2021, a masterclass about changes for micro, not for profit, and small to medium-sized businesses will be held. On 26 August 2021, the second masterclass about changes for significant enterprises, will be held.

19. We are again holding “deep-dive” sessions for our people, as we have for previous releases. Two sessions on the changes for child support customers were held during the month, with around 200 of our people dialling in to each.

Readying our customers

20. We have begun directly contacting customers to let them know what the changes mean for them or those they represent. On 16 July 2021, we sent information to tax agents directing them to information on our website, including webinars.

21. During the month, we made a further three webinars available on our website:

- Introduction to the myIR upgrade. This is for all audiences and introduces the changes to look, feel, and navigation in the new version of myIR.
- Introduction to the new navigation in myIR. There are two webinars on this topic, one for businesses and individuals and one for tax intermediaries. This webinar goes into more detail about navigating in the new version of myIR.

Other updates

Independent quality assurance

22. Fieldwork for KPMG’s twelfth independent quality assurance and eleventh technical quality assurance (IQA 12/TQA 11) review has been completed. We expect to receive the draft report during August 2021.

23. The Gateway “4/0” review was completed on 23 July 2021. Reviewers rated the programme amber/green, which means “Successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery”. The review team sounded a note of caution about the Asteron building situation. They note that if this “endures for more than a few weeks, there is the potential for productivity to be severely impeded and delivery confidence (mainly related to timing) of the next release could decrease rapidly”. The review team made six recommendations, three were rated “do now” or do by go-live and three were for us to consider. We will report the findings of the review in full to the Minister of Revenue shortly.

Online services’ performance

24. We have identified a risk that our overnight batch processes may run longer into the business day (i.e. post 8am), and potentially have an impact on online performance. We have identified a number infrastructure changes that could help mitigate this. At this stage, due to the tight timeframe and high workload on the team, we have determined that the risk does not warrant making these changes prior to the October go-live. We will continue to monitor the situation and prepare to react if this becomes a material issue after go-live.

Follow-up reports to our July 2021 Transformation Update

25. We are preparing two reports in response to questions asked when the Commissioner and I appeared before the Cabinet Government Administration and Expenditure Review Committee on 8 July 2021 to discuss our *July 2021 Transformation Update*. The reports cover:

- The investment made in analytical capabilities and how this supports a right from the start approach.

- How we are working with other agencies to contribute to data management frameworks and standards and sharing our experiences.

26. We expect to provide these reports to the Minister of Revenue by mid-August 2021.

Key risks and issues

27. The transformation programme's risk profile remains amber¹, with a future trend of amber. An amber profile means that risks and mitigations are reasonably defined and understood, and support is needed from senior leaders to actively manage specific issues in some areas.

28. Please note that the issues and risks in this report, and their respective ratings, were updated just prior to the closure of the Asteron building so do not reflect any impacts that may have.

29. We are monitoring one issue (a risk that has been realised) relating to the impact of the COVID-19 pandemic on the delivery of the programme. The rating of this issue has improved from very high to high as we can continue to operate effectively when alert levels escalate.

30. As of July 2021, the programme has a total of 49 open risks², of which 11 are reported to the PGC.

31. The status of four risks reported to the PGC, all related to decommissioning of our heritage systems, improved during the month. Three of the risks were reported as having an improved status last month (IR2021/243 refers) and have since improved further.

32. The current rating of the risk relating to delays in decommissioning the heritage business-to-business KiwiSaver solution by 30 June 2022 improved from very high to high. This risk is unlikely (a 3% to 10% chance) to occur as there is a contingency solution in place. A full risk assessment was approved by our Enterprise Priorities and Performance Committee (one of our governance bodies) on 15 July 2021.

33. The current rating of the risk relating to decommissioning our data warehouse (an application our staff use to analyse data) has improved from very high to high. This risk is unlikely to occur (a 3% to 10% chance) as it has largely been mitigated.

34. The residual³ rating of the risk relating to delays in decommissioning SAP, which we use for our payroll solution, has improved from high to medium. The residual likelihood of this risk occurring has improved from unlikely (a 3% to 10% chance of occurring) to rare (a less than 2% chance of occurring). The project to move our payroll solution to the cloud is now underway.

35. The residual rating of the risk relating to delays in decommissioning FIRST satellite functions (processes that are attached to our heritage core system FIRST) has improved from high to medium. The residual likelihood of this risk occurring has improved from unlikely (a 3% to 10% chance of occurring) to rare (a less than 2% chance of occurring), as we have begun work on the archiving solution for FIRST.

¹ The risk RAG status is separate from the overall programme status which is light amber as stated on page 2. Table 1 on page 2 shows the RAG key for risk as amber and the overall programme rating as light amber.

² During July 2021, three programme risks were closed. The status of eight programme level risks improved.

³ The predicted level of risk once all proposed actions have been implemented.

36. The top three risks for transformation are:

- Realising the benefits we committed to deliver in the timeframes indicated.
- Possible changes in payments once child support is moved to new systems and processes.
- Changes to the scope and timeframes of the programme resulting from external factors.

Coming up in the next two months

37. Key activities over the next two months include:

August 2021

- Complete a further readiness assessment checkpoint for child support and upgraded online services to assess if we are where we expect to be.
- Complete the first round of scaled business simulation testing and begin the second round.
- Complete the second mock go-live.

September 2021

- Complete business system testing.
- Complete the second round of scaled business simulation testing and begin the third round.
- Complete the third mock go-live.
- Complete a further readiness assessment checkpoint for child support and upgraded online services to assess if we are ready to begin cutover in October 2021.