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**Inland Revenue**  
Te Tari Taake

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

<b>Date:</b>	26 March 2020	<b>Priority:</b>	Low
<b>Security level:</b>	In confidence	<b>Report number:</b>	IR2020/061

### **Action sought**

	<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)**

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

26 March 2020

Minister of Finance  
Minister of Revenue

## **Transformation status update: March 2020**

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### **Executive summary**

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1. This report summarises the progress and highlights of transformation up until 26 March 2020. Much has changed in the last week and Inland Revenue's priorities have shifted. Supporting the Government's response to COVID-19, ensuring customers continue to pay the taxes and receive the entitlements they should, and successfully implementing Release 4 are the key priorities.
2. Release 4 remains a priority to ensure that Inland Revenue has increased flexibility to respond to any further Government priorities related to COVID-19. It will also make this year's automatically issued income tax assessment process run more smoothly. We are supporting the Government's COVID-19 response without impacting anyone working on Release 4.
3. However, we are re-planning all other transformation-related work, including Release 5, to assess the impacts of the disruption resulting from COVID-19.
4. Release 4 remains on track for go-live on 16 April 2020. We have completed all testing except for the third round of scaled business simulation testing (practicing go-live step-by-step) which was underway at the time of this report. Our focus has now shifted towards fixing defects. We are managing our progress with resolving defects on a daily basis. It is likely we will stagger the start-up of customer-facing channels when we reopen.
5. We are finalising the number of people who will actually need to be on site for cutover, ensuring this is as small a number as possible. We will locate the cutover team on level 5 of the Asteron Centre in Wellington in large meeting rooms which will allow for sufficient space between individuals.
6. We are well advanced with training our staff and readying our customers for change. In light of COVID-19, we have revised our plans for the remaining activity we had planned.
7. Seminars for employers and tax agents were scheduled from late March to mid-April 2020 and have now been pre-recorded and made available online. Although customers' awareness and understanding of the upcoming changes is high, we recognise that COVID-19 may impact their ability to continue to prepare for Release 4 changes.
8. All remaining classroom training sessions are being delivered virtually.
9. Transformation's Red, Amber, Green (RAG) status remains at light amber overall this month (as shown in table 1 on the next page). The risks and issues keys have deteriorated to amber, as a result of the data challenges that have come to light during mock go-live testing (a dress rehearsal for go-live) for Release 4.

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	Amber	Amber	Light Green	Light Amber	Light Amber	Green	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

10. We will review the status of all keys over the next few weeks as the impacts of COVID-19 become clearer.

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

Table 2: Transformation expenditure

\$ millions

Previous phases		Operating expenditure (excluding depreciation and capital charge)			Capital expenditure		
		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
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	\$206.1	\$194.7	\$11.4	\$96.2	\$93.4	\$2.8
Contingency	1 Jul 19-30 Jun 20	\$4.6	\$4.6	\$0	\$1.6	\$1.6	\$0
Total for current phase		\$210.7	\$199.2	\$11.4	\$97.8	\$95.0	\$2.8

**Budget performance to date**

12. As previously reported (IR2020/007 refers), 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. Any under-spending to date has either been moved to later periods or returned to the Crown.

**2019/20 budget**

13. Excluding the remaining contingency held by the Commissioner in 2019/20, the overall budget for the transformation is \$206.1 million for operating expenditure and \$96.2 million for capital expenditure.

**Costs to complete transformation**

14. We had planned to complete detailed budget planning for Release 5 and decommissioning activities by June 2020. We are now re-planning all remaining work and until this is complete we will not be in a position to provide an updated risk assessment to help confirm our level of confidence in the remaining costs of transformation. The risk assessment will also determine our remaining contingency requirements.

**Recommended action**

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

Noted

Noted

**Greg James**

Deputy Commissioner, Transformation  
26 March 2020

**Hon Grant Robertson**

Minister of Finance  
/ /2020

**Hon Stuart Nash**

Minister of Revenue  
/ /2020

## Key risks and issues

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16. The transformation programme's risk profile has deteriorated to 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.

17. One new issue (a risk that has been realised) was reported to the PGC during March 2020. It relates to the challenges we have experienced with heritage KiwiSaver data and the potential for issues to come to light after go-live.

18. During the third mock go-live (a dress rehearsal for go-live) we were able to reconcile down to an individual customer level. This provides us with confidence in the underlying data, however the complexity of our old systems could still mean issues arise following go-live. We have established a dedicated team to deal with anything that arises. However, we cannot discount the possibility of customers or scheme providers being impacted in some way by issues that become evident after go-live. We are contacting scheme providers to provide them with a heads up that there may be issues and asking them to contact us if they identify anything that impacts them or their members.

19. As at March 2020, the programme has a total of 64 open risks,<sup>1</sup> of which 22 are reported to the PGC.

20. Since the last report, there have been no new risks reported to the PGC. The risk level of two risks reported to the PGC have improved.

21. The current rating of the risk relating to the cutover window for Release 4 needing to run for longer than planned remains unchanged at high. However, the likelihood of this risk occurring has improved from almost certain (a greater than 50% chance of occurring) to possible (an 11 to 20% chance of occurring). The results from the supplementary mock go-lives have increased our confidence in forecast cutover times.

22. The current rating of the risk relating to Release 4 and business-as-usual events<sup>2</sup> not being co-ordinated effectively has improved from very high to high. The likelihood of this risk occurring has improved from possible (an 11% to 20% chance of occurring) to unlikely (a 3% to 10% chance of occurring). The Working for Families rollover was highly successful (IR2020/060 refers), and the Pou Whirinaki/early life support processes provide confidence that key events are being planned for and managed.

23. The top risks for transformation are support for heritage systems ending in 2021, reliance on SAP, FIRST satellite functions, and KiwiSaver B2B after 2021 preventing full decommissioning of our heritage data centres<sup>3</sup> and testing of the KiwiSaver business-to-business transitional solution. Mitigations are in place for all risks.

## Release 4

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24. Release 4 remains on track for April 2020, albeit with increased risk associated with the data conversion challenges identified following our second mock go-live.

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<sup>1</sup> The number of open programme risks has decreased by one since the February 2020 report; two risks managed at programme level were closed during the month.

<sup>2</sup> Key business events include the second round of automatic assessments and some first-time events such as the rollover of Working for Families in START (this is when entitlements for the following year are estimated and communicated to customers).

<sup>3</sup> The risks relating to continued reliance on our enterprise data warehouse, E-File, and the Student Loan business-to-business exchange after 2021 have a lower rating.

### ***Solution design and testing***

25. On 13 March 2020, we completed business system testing (making sure START works as expected).

26. As advised (IR2020/060 refers), we shifted the dates for our third mock go-live (a dress rehearsal for go-live) for Release 4 to 5 March to 12 March 2020. This allowed time for additional work to be completed to resolve some data conversion issues identified during the earlier mock go-lives.

27. During the third mock go-live, we ran 24/7 to simulate as close to actual cutover conditions as possible. Not unexpectedly, given the complexity of the data, we continued to find issues. The issues predominantly occurred with KiwiSaver data. Data for student loans and PAYE is less challenging.

28. The issues we are seeing with KiwiSaver data are a symptom of the complexity of our old systems and processes, and challenges with the historical data. We have established a dedicated team to coordinate our response and drive activity to the best possible position before cutover. In addition, the team is looking at how we will identify and respond to any issues that occur after go-live. While our confidence is growing that the "unknowns" should be relatively minor, as noted above, we cannot discount the possibility of impacts on customers and/or scheme providers.

29. In light of the results from the third mock go-live, we may need to stagger the start-up of customer-facing channels from the morning of Thursday 16 April 2020.

30. The third round of scaled business simulation testing (practicing go-live step-by-step) began on 16 March 2020 and was underway at the time of this report.

31. Now that testing is nearly complete, our focus has shifted towards fixing defects. We are managing defects on a daily basis with a focus on those that must be fixed before go-live to ensure we resolve these as a priority. As has been the case with previous releases, some lower priority defects will be carried into cutover and fixed after go-live.

32. A small number of people will need to be on site in the Asteron Centre in Wellington for cutover over Easter weekend. We will ensure this is as small a number as possible and will also ensure there is sufficient space between individuals to maintain appropriate social distancing.

### ***Readiness checkpoint 3b***

33. On 19 March 2020, the PGC approved the results of checkpoint 3b in our readiness-assessment framework. This checkpoint includes assessing whether we are on track for go-live in terms of cutover sequencing and timing, that testing is nearing completion, and that training is well progressed. This cutover also assesses the readiness of our customers and the cumulative impact of prior releases.

34. The checkpoint results confirm that we remain on track for delivery in April 2020, although there remain challenges to work through.

35. The results of the customer readiness assessments found that awareness and understanding of the upcoming changes has improved amongst business partners<sup>4</sup> since the last checkpoint. However, the environment is presenting challenges. Comprehensive and targeted customer education activities are planned however the delivery method has been amended in response to COVID-19. We recognise that COVID-19 may impact the ability of our partners to continue to prepare for Release 4 changes. At the time this report

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<sup>4</sup> Employers, payers of investment income, financial institutions, payroll developers, tax agents the Ministry of Social Development, the New Zealand Customs Service and Stats NZ.

was written, all our partners indicated they were prepared to support us with Release 4 go-live.

36. Overall our customer-facing people are ready for Release 4 and have confidence in the proven Pou Whirinaki/early life support processes. They are looking forward to reduced co-existence. Unsurprisingly, COVID-19 is drawing more on our senior leaders' time.

37. The PGC agreed to delegate authority to the go-live committee for the checkpoints to be run immediately before we begin closing our customer-facing services and during the cutover to new systems and processes. The next check point will be on 3 April 2020 and will seek permission to begin cutover, followed by a checkpoint on 15 April 2020 which will be the go/no-go decision.

38. As has been the case for previous releases, the go-live committee is chaired by the Commissioner and consists of six Deputy Commissioners, our Chief Technology Officer and our Chief Financial Officer.

### ***Readying our people***

39. Training for team leads and their people continues apace. As at 23 March 2020, we were 95% through our mandatory classroom training, and around 50% through our online learning. All remaining classroom training sessions will now be held online with a dedicated trainer assigned to assist "virtually".

40. We have training boosters in the pipeline to help our people help our customers at and immediately after go-live. These will also be run virtually.

41. In addition, we are on track to further update our training environment so it looks and feels almost exactly like what our systems will look like after Easter. This will give our people the best chance at being confident in the changes and being able to assist our customers.

### ***Readying our customers***

42. On 4 March 2020, a webinar for tax agents and bookkeepers included information about the automatically issued income tax assessments process for 2020, payday filing during shutdown, and payment options changing. It was watched live by 1,285 people. We had 2,086 registrations.

43. On 18 March 2020, a webinar for employers and not-for-profit organisations about go-live was watched by live 928 people. We had 1,705 registrations.

44. Since the webinars began in October 2019, approximately 7,100 customers have registered to attend them and approximately 4,100 have watched them live. At the end of each webinar, we asked attendees to complete a short survey asking them about their awareness of the Release 4 changes and what the changes will mean for them. Approximately 900 customers completed the survey. Results show that around 90% understand what is changing and around half feel positively about the changes, with 40% unsure. Responses to the question "The changes will have a positive impact on my work" have ranged from a low of 30% in December 2019 to a high of 54% in March 2020.

45. We had planned to begin seminars for employers on 23 March 2020 and for tax agents on 1 April 2020. There were 229 seminars planned. We have been considering the safest and most convenient way to deliver our seminars in light of COVID-19. We have decided the best option is to present the seminars online as a recorded webinar rather than face-to-face. The pre-recorded seminar for tax agents and bookkeepers will be available at [ird.govt.nz/webinars](http://ird.govt.nz/webinars) from 30 March 2020. Customers can watch the seminar anytime online or download a version to print.

46. A series of "on demand" webinars will also be available to customers on our website from 1 April 2020. They will include topics such as changes to student loans, KiwiSaver, investment income filing, and payment methods, as well as myIR demos for tax agents and employers.

47. Our marketing activity continues during March with letters and emails sent to overseas student loan customers and to other customers about Release 4 changes. Advertising activity also continues.

### ***Post go-live support***

48. The top risks and issues during the Pou Whirinaki/early life support period, which will run from 16 April to 31 July 2020 have been identified. They include stakeholder reaction to changes to myIR and the second year of automatically issued income tax assessments being different than anticipated, and systems and processes not working as expected.

49. We are reviewing the implications for our support processes as a result of COVID-19.

### ***Other updates***

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#### ***Policy***

50. The Taxation (KiwiSaver, Student Loans, and Remedial Matters) Bill passed its second reading on 4 March 2020, the Committee of the Whole House stage on 11 March 2020, and its third reading on 17 March 2020. The Bill received royal assent on 23 March 2020. The enactment is 31 March 2020.

51. The Cabinet Legislation Committee considered the introduction of the Child Support Amendment Bill at its meeting of 3 March 2020. The Bill was introduced on 11 March 2020.

52. Consultation on proposed changes to more efficiently administer unclaimed money has been completed. We are developing policy proposals for Ministers' consideration.

#### ***Tax agents***

53. We were intending to have the first meeting of the tax agent cohort by the end of March 2020. We now intend to hold a virtual meeting in early April 2020. We will be asking participants to confirm they are happy to proceed.

#### ***Independent quality assurance reviews***

54. We have received KPMG's summary of their findings from their eleventh independent quality assurance and tenth technical quality assurance review (IQA11/TQA10). These have been reported separately to the Minister of Revenue (IR2020/127 refers).

55. We have also received the results of the Gate 4, readiness for service, Gateway Review for Release 4, which took place from 9 to 13 March 2020. These have also been reported separately to the Minister of Revenue (IR2020/126 refers).

#### ***Release 5***

56. There will be significant changes to our planned approach for our final release. We will be re-planning Release 5 over the next few weeks and will assess what timeframes might be doable. We will update you once that work has been completed.

57. Decommissioning is ongoing. It started after Release 1 in 2017 and by the end of February 2020 we had decommissioned 208 of our current 436 applications. There will be more decommissioning activity after Release 4 goes live and the next Atea releases.

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

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58. Key activities over the next two months include:

### **April 2020**

- Final checkpoints in our readiness assessment framework.
- Release 4 go live.
- Pou Whirinaki/early life support begins.

### **May 2020**

- Hyper care period of Pou Whirinaki/early life support ends.
- 2020 automatic assessment process begins (this is being led by business-as-usual teams with support from the programme).