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Inland Revenue report: Transformation status update: May 2021

Date:	02 June 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/228

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 June 2021

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

1. This report summarises transformation progress and highlights for May 2021.
2. We exited early life support as planned on 28 May 2021 for paid parental leave, unclaimed money, duties, and New Zealand foreign trusts.
3. The October 2021 release, which will move child support to new systems and processes and upgrade our online services, remains on track. We are slightly behind schedule with testing however this is comparable with previous releases and not cause for concern. Communications to customers will begin in June 2021 and training for our people, so they can support customers after go-live, will begin in August 2021.
4. Transformation's Red, Amber, Green (RAG) status remains light amber overall, as shown in table 1 below. There has been no change to the status of any of the reporting keys.

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

5. 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	\$145.9	\$145.9	\$0.0	\$80.5	\$80.5	\$0.0
Transitional costs	1 Jul 20-30 Jun 21	\$37.1	\$37.1	\$0.0	\$0.0	\$0.0	\$0.0
Contingency	1 Jul 20-30 Jun 22	\$18.7	\$18.7	\$0.0	\$9.8	\$9.8	\$0.0
Total for current phase		\$201.8	\$201.8	\$0.0	\$90.3	\$90.3	\$0.0

Budget performance to date

6. 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

7. Including the transitional funding, the overall budget for the current phase of transformation, Stage 4, is \$201.8 million for operating expenditure and \$90.3 million for capital expenditure. We are on track to come in on budget for Stage 4.

8. The delivery budget for Stage 4 and the contingency held by the Commissioner have changed this month for both operating and capital expenditure. This follows a comprehensive assessment of the remaining in-scope activities for the programme. The biggest contributor to these changes is the decision to move our payroll system to the cloud rather than implement a replacement solution (IR2021/105 refers).

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
02 June 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 first release update

10. Paid parental leave, unclaimed money, New Zealand foreign trusts, and duties continue to run smoothly on new systems and processes. We exited early life support as planned on 28 May 2021. These status updates will now focus solely on the second release from next month onwards.

Stage 4 second release

11. 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. Go-live will be in October 2021, with the exact date to be confirmed.

12. Following go-live, child support customers will have better visibility of their obligations and payments in myIR, and be able to do more for themselves, including registering online and advising us of any changes in their circumstances.

13. Child support is a complex product and the move from our old systems and processes needs to be managed carefully. As we have for previous releases, we have processes in place to manage this including extensive testing and ensuring our data and information is in the best possible shape before go-live. However, issues are likely to arise after go-live, as has been the case for previous releases. We will again provide early life support for around three-months after go-live to ensure we identify and resolve issues.

14. Given the sometimes complex circumstances of child support customers, and the changes to online services that all customers use, we are expecting some customers to get in contact as they get used to new ways of doing things. It is highly likely that customers will see some differences in the way the new system works compared to the old system. We are very focused on minimising any impacts on customers, however our experience with previous releases shows that customer contacts increase following go-live until customers become familiar with the new systems and processes. We are managing our resourcing to ensure we can support customers appropriately after go-live.

15. We completed business function definitions (these describe what the solution needs to do for a particular activity) on 14 May 2021 as planned. This means that any changes to the solution design now require formal approval.

16. We are around halfway through Business System Testing (making sure START works as expected), which is tracking slightly behind schedule due to the complexity of the child support solution. We are likely to start to consume some of the timeline contingency. This has occurred in all prior releases and is not cause for concern. We are actively addressing the areas under pressure.

17. There is some risk associated with the potential volume of data cleansing work which may emerge from heritage system data issues and historical workarounds.

18. We are preparing for the first, of three, mock go-lives (a full-dress rehearsal for go-live) in July 2021, and preparing our deployment approach, including a high-level view of cut-over sequencing and duration. The mock go-lives will help us to confirm how many days we will need to be closed in October 2021 to cut over to new systems and processes and, consequently, what the go-live date will be.

Readying our customers

19. Our communications approach is based on the successful rollout of previous releases. We will build customers' awareness, understanding, and readiness for the changes being made. We will use several techniques to ensure we reach customers, including:

- Advertising for the child support changes using an agency that has proven experience in reaching family customers.
- Building awareness and understanding for tax intermediaries and employers through our regular customer news channels and a series of bite-sized webinars.
- Several rounds of highly targeted direct marketing (letters, emails, text messages and day 1 packs), supported by website content, advertising, and community group collateral.

20. Our main communications activity will run from June to November 2021. The timing will differ for each audience, based on the expected impacts and whether they need to take any action to prepare for the changes. Since late last year, we have been warming up employers, tax intermediaries, and advocacy groups for the changes coming.

21. Our key audiences are child support customers, tax intermediaries, and businesses and employers who use myIR frequently.

- Tax intermediaries will require ongoing support. User experience testing with tax agents will help shape the key messages, timing, and channels for this audience.
- Child Support receivers and liable parents will receive direct communication preparing them for the changes.
- Businesses and employers who use myIR frequently will also require ongoing support. Tutorials and day 1 packs will be provided for new businesses, employers and intermediaries signing up to myIR.
- After go-live, using new functionality in myIR, we will be able to link customers from myIR directly to self-guide tutorials. User testing will inform the topics we create tutorials for.
- To support our people to communicate effectively with external stakeholders, collateral and support will be provided to them. Key to this release will be working with consumer and community advocate groups and agency partners.

22. Taking a no surprises approach, we will work first with professional bodies and industry associations. We will alert organisations, including tax intermediaries, where appropriate before we communicate to their clients or customers. We will help organisations (including software developers) share consistent messages to their audiences and end users.

Readying our people

23. Training will take place from August to November 2021 and will again be a mix of classroom sessions and online learning.

24. Mandatory classroom training of between three to four days will be provided for approximately 600 people who work with child support customers and will include training on the START and myIR upgrades. This will take place during September and October 2021. An additional approximately 700 people will have mandatory training for child support delivered online in October 2021. Mandatory training for the START and myIR upgrade will be delivered online from August to October 2021 to a further 2,500 people approximately.

25. Recruitment for 8 trainers to start in July 2021 is currently underway. Train the trainer sessions and piloting of training material will take place in July and August 2021.

26. Following go-live, booster training will be available for those who would like to access it. Key users will provide desk side support and triage issues during the early life support period, as has been the case with previous releases.

Other updates

Enterprise support services – payroll

27. We have finalised a commercial arrangement with SAP to move our payroll solution to the cloud by the end of 2021 (IR2021/105 refers).

28. Mobilisation of the project team has been slightly delayed due to a combination of vendor resource constraints, and COVID-19 issues in India, delaying the onboarding of SAP resources. However, this does not affect our plan to complete the relocation of our payroll solution by mid-December 2021. Following the relocation to the cloud, we will decommission SAP from our heritage data centres by the end of March 2022.

Key risks and issues

29. 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.

30. We are monitoring two issues (risks that have been realised). The first relates to the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time.

31. The second issue relates to the departures of some key people working in the security architecture² area, both within the programme and in the wider business, which is impacting delivery in some areas (IR2021/180 refers). We have made an appointment to the vacant Security Architect position on a temporary basis while we continue to search for someone to fill the role permanently.

32. As at May 2021, the programme has a total of 55 open risks³, of which 12 are reported to the Portfolio Governance Committee (PGC).

33. The risk relating to delays in completing the decommissioning of E-file has been closed. E-file was successfully decommissioned on 16 April 2021 (IR2021/180 refers).

34. The status of one risk reported to the PGC improved during the month.

35. The current rating of the risk relating to organisational design changes distracting programme resources has improved from very high to high. The current likelihood of this risk occurring has improved from likely (a 21% to 50% chance of occurring) to possible (an 11% to 20% chance of occurring). The consequences of this risk occurring have also improved from major to moderate. All recruitment is now complete, and most appointments have been made.

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 The technology, tools, and processes that help protect an organisation from cyber threats.

³ During May 2021, four programme risks were closed, including one reported to the PGC, and one new programme risk was accepted.

36. The top three risks for transformation remain unchanged this month and are:
- The need to move KiwiSaver providers off a heritage function they use to automatically send data to us, to new gateway services by 30 June 2022.
 - Realising the benefits that we committed to deliver in the timeframes indicated.
 - Possible changes in payments once child support is moved to new systems and processes⁴.

Coming up in the next two months

37. Key activities over the next two months include:

June 2021

- Complete the first checkpoint for the second release in Stage 4 (child support and upgraded online services) in the readiness assessment framework.
- Provide a copy of the *July 2021 Transformation Update* Cabinet paper to the Minister of Revenue to review.

July 2021

- Complete the second checkpoint for the second release in Stage 4 (child support and upgraded online services) in the readiness assessment framework.
- Complete the first mock go-live (a full-dress rehearsal for go-live).
- Begin scaled business simulation testing (practicing go-live step-by-step).
- The Cabinet Government Administration and Expenditure Review Committee considers the *July 2021 Transformation Update* Cabinet paper.

⁴ As reported in April 2012 (IR2021/180 refers), there is a risk that customers' child support payments could change as a result of differences between our old and new systems in how assessments are processed, the way debt/payment allocations are handled, and the timing of employment income information processing.