

An error was identified in paragraph 13 of this report after it was sent to Ministers. The legislative changes were incorrectly noted as all taking effect in October 2021, rather than progressively after go-live. This error has been corrected in this version of the report.

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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: April 2021

Date:	10 May 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/180

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.

10 May 2021

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

1. This report summarises transformation progress and highlights for April 2021.
2. The first release in Stage 4, which moved paid parental leave, unclaimed money, duties, and New Zealand foreign trusts to new systems and processes, continues to run smoothly. A new, searchable online claims process for unclaimed money successfully went live on 8 April 2021.
3. Solution delivery for the second release in Stage 4, which will move child support to new systems and processes and upgrade our online services, remains on track. This release will impact all customers to some degree. However, as expected with the final stage of transformation, the impact for customers overall is reducing.
4. Transformation's Red, Amber, Green (RAG) status remains light amber overall, as shown in table 1 below. The scope key has improved to light green this month as a result of active management of scope and change processes, with no reported exceptions.

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 Amber	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	\$159.6	\$159.6	\$0.0	\$78.6	\$78.6	\$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	\$14.8	\$14.8	\$0.0	\$9.7	\$9.7	\$0.0
Total for current phase		\$211.5	\$211.5	\$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 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 contingency held by the Commissioner and transitional funding, the overall budget for the current phase of transformation, Stage 4, is \$211.5 million for operating expenditure and \$88.3 million for capital expenditure. We are on track to come in on budget for Stage 4.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
10 May 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 first release update

9. Paid parental leave, unclaimed money, New Zealand foreign trusts, and duties continue to run smoothly on new systems and processes. We continue to experience a very low number of issues being raised, with no critical or high priority issues to resolve.
10. On 8 April 2021, a new, searchable online claims process for unclaimed money went live on our website.
11. Early life support is scheduled to end on 28 May 2021.

Stage 4 second release

12. Following the passing of the Child Support Amendment Bill, from 1 April 2021, we will no longer charge incremental penalties on outstanding balances for child support. From 1 November 2021, newly liable parents will have a penalty grace period. Together, these changes will make child support penalties fairer.
13. Other changes in the Bill will take effect progressively once child support has moved to new systems and processes:
 - Deductions of financial support from source deduction payments made by an employer will be compulsory for newly liable parents.
 - A fairer definition of "income" will be used for child support purposes.
 - A four-year time bar on the reassessment of child support will be implemented.
14. From October 2021, child support customers will have improved digital services. They will have better visibility of their obligations and payments in myIR, our secure online service, and will be able to do more for themselves, including registering online and advising us of any changes in their circumstances. Over time, this will reduce the amount of paper we receive from customers and encourage customers to use digital channels where possible.
15. Information sharing and communication with other agencies will improve through the use of portals and secure file transfer. The processing of payments and employer deductions will be streamlined and will help to ensure that receiving carers get their child support as soon as possible after the due date.
16. This second release of Stage 4 will also upgrade both the START software our people use and the online services our customers use.
17. The myIR service will have a lighter, more modern look and feel, and will simplify how information is presented, making it easier for customers to focus on what is relevant and important. The layout will adapt to fit the size of any screen without loss of functionality, making it seamless to use myIR across different devices. Simplified navigation will allow customers to easily find and do what they need to do.
18. A new Action Centre in myIR will give customers access to all their alerts, rather than only some alerts being visible. Alerts will be separated by customer, account, and due date, ensuring that those with access to multiple customers (such as tax agents) will be able to easily identify which alerts relate to which customers. Customers will be able to see when an alert is due, the action they need to take, and easily navigate to the action from their alert. They will also have the ability to dismiss alerts.
19. A new Intermediary Centre will replace the current Tax Preparer tab in myIR. From here, intermediaries will be able to access the new Action Centre and have a centralised

view of alerts for all the clients they are subscribed to. The Tax Agent Workspace will be retired, and access to clients will be through a client search screen or a new "favourites" functionality.

20. This release impacts all customers to some degree, but the degree varies depending on the product and type of change. As expected with the final stage of transformation, the impact for customers overall is reducing.

21. In general, we expect the impact of this release on child support customers, businesses and employers, and business partners such as other government agencies, to be medium to low. For intermediaries such as tax agents, we expect the impact to be medium to high, as the changes being made to online services are more significant for them.

22. Finalising the design and keeping build verification, test preparation and test execution on track is a careful balancing act. There is some minor slippage in business systems testing (making sure START works as expected). Overall, solution delivery remains on track to key milestones, with no immediate risk.

23. Given the vulnerability of child support customers, a risk that they may experience unexpected outcomes is being actively managed (refer to paragraph 34).

24. Recruitment of trainers and preparation for the delivery of training has begun. As many users will be new to START with this release, there will be more on-site, classroom-based training than for the first release in Stage 4.

25. Data cleansing continues, with the data analysis and remediation activity leading up to the mock conversions and scaled business simulation testing (practising go-live step-by-step). This pre-emptive work places the team in a strong position heading into deployment, reducing the risk of unexpected results at cut-over.

Other updates

E-File decommissioning

26. E-file, a service which allows tax agents to file their clients' returns to us, was successfully decommissioned on 16 April 2021. By that date, all software providers had prepared their systems, choosing which of our gateway services they would integrate with and offer to their customers. We will continue to work with software providers and tax agents as questions arise and they adapt to the new gateway services.

New payday filing format

27. From 1 April 2021, employers have been required to send us employment information using a new payday filing format (IR2021/105 refers). All gateway-enabled payroll software providers who were using version one of payday filing are now live with version two. We continue to work with other providers and employers who may need to update their software.

Convenience fees

28. As reported to you (IR2021/105 refers), from October 2021 we will no longer absorb the 1.42% convenience fee for overseas customers paying student loan and child support obligations by credit card. This change will also apply to student loan and child support payments made by debit card. There are multiple alternative payment options for our overseas customers. The convenience fee is already passed on to customers paying other obligations (such as GST) by credit or debit card.

Protecting customer information

29. On 16 April 2021, the media reported a major data breach at a large company where hackers may have obtained past and present staff members' passport and IRD numbers, and other personal information. By close of business the same day, we had applied an indicator to the accounts of all approximately 66,000 previous and current employees. This indicator highlights to our people the need to be vigilant when validating customer identities, helping to protect the information we hold about them. This is a further demonstration of the agility of our new systems and processes, and the speed at which we can make changes when necessary.

Key risks and issues

30. 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.

31. 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.

32. The second issue relates to the departures of some key people working in the security architecture area, both in the programme and in the wider business. Security architecture is the technology, tools and processes that help protect an organisation from cyber threats. The departure of these key people is impacting delivery in some areas, as security risk assessment and certification activities are being delayed and programme members are becoming more involved in detailed security conversations. We are talking to a number of external consulting organisations about bringing in resources to fill this gap in the short-term.

33. As at April 2021, the programme has a total of 58 open risks², of which 13 are reported to the Portfolio Governance Committee (PGC).

34. One new risk was reported to the PGC this month. There is a risk that customers' payments could change once child support is moved to new systems and processes in October 2021. People who pay child support, and those who receive it, could see their payments increase or decrease. This could occur as a result of differences between FIRST and START in how assessments are processed, the way debt/payment allocation is handled, and the timing of employment income information processing. The current rating of this risk is high. It is currently likely that this risk will occur (a 21% to 50% change of occurring), with major consequences if it does. We are developing a mitigation plan and, once this is finalised, will develop a detailed action plan.

35. Two risks previously reported to the PGC were closed during the month.

36. The risk relating to the programme being perceived only as a technology replacement has been closed. Our communications and engagement activities have successfully built understanding among internal and external audiences of the scope and scale of transformation. All the policy changes in the scope of the programme have now been enacted.

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 April 2021, two new programme risks were accepted and five programme risks were closed.

37. The risk relating to external decision-making taking longer than planned has been closed. All anticipated government decisions, including policy and legislative changes, have now been made.

38. The status of two risks reported to the PGC improved during the month.

39. The current rating of the risk relating to relying on SAP after 1 July 2022, when support for heritage systems ends, has improved from very high to high. SAP is a heritage system we use for all back-office processes, including financials and payroll, and to make paid parental leave payments. We have moved all our financial processes to our new enterprise support services system and moved paid parental leave to START. Payroll remains on SAP. As reported (IR2021/105 refers), we have a confirmed plan to move SAP to the cloud. We have now finalised a commercial arrangement with SAP. The current 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).

40. Although the current rating of the risk relating to delays in completing the decommissioning of FIRST satellite functions (processes that are attached to FIRST) by 30 June 2022 remains at very high, the likelihood of occurrence has improved. 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). Detailed decommissioning plans are in place and we have a solution to archive the data held in FIRST.

41. The top three risks for transformation are:

- The need to move KiwiSaver providers off the heritage function they use to automatically send data to us, and onto 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 processes.

Coming up in the next two months

42. Key activities over the next two months include:

May 2021

- Exit early life support for the first release in Stage 4 (paid parental leave, unclaimed money, New Zealand foreign trusts and duties).
- Complete the solution design for the second release in Stage 4 (child support and upgraded online services).

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.