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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: August 2021

Date:	31 August 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/309

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

31 August 2021

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

1. This report summarises transformation progress and highlights for August 2021.
2. The move to Alert Level 4, combined with the closure of the Asteron building, has been very disruptive to the upcoming final release. While we are mitigating the effects as well as we can, delivery risk has nevertheless increased. At this stage, our focus remains on delivering the highest possible quality release. We are closely monitoring external events and there is an elevated risk of delay. We cannot assume that progress on this release will follow the same pattern as previous large releases, given the environment we are operating in.
3. As part of this report, we are seeking your approval to provide a final progress update to Cabinet in February 2022, rather than December 2021. A short deferral will enable us to provide a more comprehensive update, including any customer reaction to the final release.
4. Transformation's Red, Amber, Green (RAG) status remains 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	Amber	Light Green	Amber	Light Amber	Light Amber	Light Amber	Light Amber	Green	Light Amber	Green	Amber
PREVIOUS	Amber	Light Green	Amber	Light Amber	Light Amber	Light Amber	Light Amber	Green	Light Amber	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	\$145.0	\$145.0	\$0.0	\$85.3	\$85.3	\$0.0
Transitional costs	1 Jul 20-30 Jun 22	\$86.5	\$86.5	\$0.0	\$0.0	\$0.0	\$0.0
Contingency	1 Jul 20-30 Jun 22	\$19.7	\$19.7	\$0.0	\$5.0	\$5.0	\$0.0
Total for current phase		\$251.2	\$251.2	\$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 transitional funding until 30 June 2022, the overall budget for the current phase of transformation, Stage 4, is \$251.2 million for operating expenditure and \$90.3 million for capital expenditure. We are on track to come in on budget for Stage 4.

8. Forecast Stage 4 costs have increased slightly this month for both operating and capital expenditure following a detailed review of all workstreams. On 19 August 2021, our Portfolio Governance Committee approved a drawdown from contingency to fund these costs. Transitional costs have decreased, reflecting some of the funding set aside for the 2020/21 year not being required.

Recommended action

9. I recommend that you:

a) **Note** the contents of this report.

Noted

Noted

b) **Agree** to defer the final progress update to the Cabinet Government Administration and Expenditure Review Committee until February 2022.

Agreed / Not Agreed

Agreed / Not Agreed

Greg James

Deputy Commissioner, Transformation
31 August 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 second release

10. 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.

11. The closure of the Asteron Centre, and the Level 4 lockdown, have been very disruptive to the release. Prior to the Level 4 lockdown, with access to shared hub facilities and rotating co-location teams in both Wellington and Hamilton, the impact of the Asteron closure had been partially mitigated.

12. Our focus remains on delivering the release to the highest level of quality possible. We are closely monitoring external events, such as lockdowns and building closures. As we have for previous releases, we have contingency plans in place should we need to delay go-live for any reason.

13. As part of our response plan for the closure of Asteron, we moved the start dates of the second and third mock go-lives (a dress rehearsal for go-live) and the related scaled business simulation testing (testing of key end-to-end processes) out by a week. The second mock go-live was originally scheduled to commence on 9 August and started on 16 August 2021. We had allowed 2 weeks in our planning as a contingency.

14. The first round of scaled business simulation testing has been completed, with no major issues identified. As with every round of mock go-live and scaled business simulation testing, there are a small number of issues we are working through.

15. Business system testing (making sure START works as expected) is 93% complete and daily tracking is in place to drive towards completion.

16. Conversion of data continues. Reconciliation of the data extracted from our old system to the data converted to our new system is well advanced. The tail end of issues resulting in differences is being worked through.

17. On 19 August 2021, the Portfolio Governance Committee (PGC) approved the third checkpoint in our readiness assessment framework. The checkpoint results indicate that while this release is at a similar state of readiness compared to previous large releases, we cannot assume that progress will continue from here in line with previous releases. There is an elevated risk of delay due to the Asteron closure, the complexity of the child support product, and the Alert Level 4 lockdown.

Readying our people

18. Mandatory training for people who work with child support is being delivered from August to October 2021. Most people will have a virtual classroom session and three in-person classroom sessions to attend as shown in the table below.

Table 3: Planned schedule for mandatory child support training

Month	Mandatory training
August 2021	Overview of child support legislation changes: <ul style="list-style-type: none"> • Self-paced pre-reading (30 mins) • Virtual classroom session (1.5 hours)
September 2021	Child Support in START: <ul style="list-style-type: none"> • In-person classroom session one (full day) • In-person classroom session two (full day)
October 2021	Child Support in START: <ul style="list-style-type: none"> • In-person classroom session three (full day) • Self-paced online modules

19. The first online learning modules for our people were launched on 2 August 2021.

20. At this stage we are proceeding with the training schedule as planned, with contingencies around sessions for people who are displaced because of the closure of Asteron and the move to Alert Level 4. Our contingency includes switching face-to-face classroom sessions to virtual classroom sessions and, if alert levels reduce, shifting Wellington-based classroom sessions to a venue other than Asteron.

21. Mandatory training for people who use START and/or support customers with using myIR will also be delivered from August to October 2021. All of this training will be completed online and is self-paced as shown in the table below.

Table 4: Planned schedule for mandatory training for the upgrade to the software our people use, and the online services customers use

Month	Mandatory training
August 2021	Overview of START changes: <ul style="list-style-type: none"> • Self-paced online modules (1 hour)
September 2021	Overview of myIR changes: <ul style="list-style-type: none"> • Self-paced online modules (1 hour) START training: <ul style="list-style-type: none"> • Self-paced online modules (1 hour)
October 2021	myIR detailed training: <ul style="list-style-type: none"> • Self-paced online modules (3 hours)

22. We have held a number of “masterclasses” for our people about the changes to online services. Five sessions in total have been held, with around 220 people dialling into the session held on 12 August 2021 about changes for micro, not for profit, and small to medium-sized businesses. On 26 August 2021, around 175 people dialled into the session about changes for significant enterprises. Sessions are available on demand for people to view if they could not attend them live.

23. Comprehensive help and guidance will be available for our people through Te Mātāwai (online help for our people who work with customers).

Readying our customers

24. We continue to update the information on our website, including directing customers and intermediaries to webinars as they are published.

25. During the month, we made a further three webinars available on our website, all related to the upgrade to our online services:

- How alerts will work in myIR.
- Sending and receiving correspondence through myIR.
- Filing, viewing and amending returns, and making payments through myIR.

26. Communications activity will ramp up in September 2021 based on our planned go-live date.

Pou Whirinaki

27. After each release, we provide early life support for a period. This is known as Pou Whirinaki, and additional support is provided to customers and our people to resolve any issues that are identified with the release. Our planning assumption is that the initial period of heightened support (known as hyper-care) will run until 3 December 2021, followed by ongoing early life support until 31 January 2022.

28. We will use the same tried and true processes, structure, monitoring, and reporting as we have for previous releases. This includes a sub-group of our Executive Leadership

Team meeting daily for the first two weeks after go-live to enable regular updates and quick escalation when required.

Risks to the release

29. This release brings with it a different set of challenges than we have previously had. Child support is a complex product with a vulnerable customer base. Our previous experience has shown us that making changes to child support is difficult and can result in customers needing reassurance that their payments are right. The upgrade to online services involves wide-ranging change across all products, bringing a new look and feel to our staff and customers, which may also create reactions.

30. While we are doing our utmost to ensure our customers are ready for the changes and that our people are ready to support them, it is possible that issues will occur after go-live.

31. We have spent some time thinking about the challenges we could face following go-live and how we would respond if needed. Responses will depend on the situation and could include targeting messaging to particular groups of customers, updates to our website, or proactively contacting customers.

Other updates

Payroll update

32. As we have previously reported (IR2020/457 refers), we need to exit our heritage datacentres as Unisys is exiting the data centre market in New Zealand and will close its facilities in 2022.

33. This has required us to relocate various heritage systems including payroll to new systems. In March 2021, the PGC decided to relocate our payroll system to a cloud-based solution (IR2021/105 refers). We are taking a low risk, staged approach and detailed testing has begun. Delivery is proceeding well with no significant risks identified and we are confident we can move our payroll system to the cloud by November 2021.

Timing of final Cabinet paper

34. When the government agreed to invest in the transformation of the revenue system (CAB-15-MIN-0249 refers), we were directed to report back on progress by July and December each year. Since July 2016, we have provided 12 progress updates to Cabinet.

35. Under our original implementation plan, the final stage would have gone live in one big release in April 2021, and we would have provided our final update to Cabinet by December 2021. Due to the impacts of COVID-19, we made the decision to split the final stage into two releases (IR2020/267 refers).

36. Given this, there are few options available to provide a meaningful update to Cabinet before the end of the year. There are two meetings of the Cabinet Government Administration and Expenditure Review Committee we could aim for once we have gone live – 25 November or 16 December 2021. To provide the Minister of Revenue with sufficient time to review the draft paper, it would need to be provided to him by 4 November or 25 November 2021 respectively. In either case, based on our planning assumptions, we would only be a few weeks into our early life support activity and would not have exited the hyper care period.

37. We are therefore seeking your approval to defer the final progress update to Cabinet until February 2022. This will enable us to provide a comprehensive update about the implementation of the final release. This means we would provide the draft paper to the

Minister of Revenue in late January 2022. Please note that these dates may need to be revised if go-live is delayed.

Key risks and issues

38. The transformation programme's risk profile remains amber, 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.

39. Please note that the issues and risks in this report, and their respective ratings, were updated just prior to the move to COVID-19 Alert Level 4 so do not reflect any impacts that may have.

40. We are actively managing two issues.

41. One new issue (a risk that has been realised) was raised during the month regarding the need for alternative accommodation to be found for critical resources on the programme as a result of the closure of the Asteron building. Our response to the closure of Asteron was well underway prior to the Level 4 lockdown. Some of the teams critical to the upcoming release had been relocated to our other sites in Hamilton and Upper Hutt, and we had been progressively moving other people and teams into accommodation Inland Revenue has secured in other buildings in the Wellington CBD.

42. We continue to monitor the issue relating to the impact of the COVID-19 pandemic on the delivery of the programme. At the time this issue was reviewed, just prior to the lock down, there were no concerns to report. This may change, depending on the length of the lock down.

43. As of August 2021, the programme has a total of 46 open risks¹, of which 10 are reported to the PGC.

44. One new risk was raised during the month relating to the potential for a delay in go-live of the final release due to the Asteron building closure. We are actively managing this risk, including relocating people as noted above, and are assessing the impacts of any delays.

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

46. The risk relating to Government losing confidence in Inland Revenue's ability to deliver the business transformation programme has been closed. The programme is nearing completion and has successfully delivered five releases across four stages to date.

47. The risk relating to insufficient funding being available to complete delivery of the programme due to competing priorities/pressures or changes in government priorities has been closed. The programme is nearing completion with sufficient funding available for the remainder of the work in scope.

48. There has been no change in the status of any of the other risks reported to the PGC since the last report.

¹ During August 2021, one new programme risk was raised and reported to the PGC and four programme risks were closed, including two reported to the PGC. The status of one programme level risk improved.

49. The top three risks for transformation are:

- The potential for delay of the final release as a result of the Asteron building closure and the COVID-19 Alert Level 4 lockdown.
- 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.

Coming up in the next two months

50. Key activities over the next two months include:

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.

October 2021

- Final checkpoints in our readiness assessment framework.
- Planned go-live of child support on new systems and processes and upgrade of our online services.
- Planned beginning of early life support.