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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: June 2021

Date:	28 June 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/243

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

28 June 2021

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

1. This report summarises transformation progress and highlights for June 2021.
2. We remain on track to move child support to new systems and processes and upgrade our online services in October 2021. We will shortly begin communicating the upcoming changes to our customers, with the first webinars to be made available on our website later this week.
3. Transformation's Red, Amber, Green (RAG) status remains light amber overall, as shown in table 1 below. The resources key has improved to light amber this month following the appointment of a new Security Architect and progress in securing SAP resources to move our payroll solution to the cloud. The delivery partners key has deteriorated to light amber due to a range of factors including some technology initiatives being impacted by material shortages and resourcing issues resulting from COVID-19.

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	Light Amber	Green	Light Amber	Green	Amber
PREVIOUS	Light Amber	Light Green	Amber	Light Amber	Light Amber	Light Amber	Amber	Green	Light Green	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	\$145.9	\$145.9	\$0.0	\$80.5	\$80.5	\$0.0
Transitional costs	1 Jul 20-30 Jun 22 ¹	\$61.4	\$61.4	\$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		\$226.0	\$226.0	\$0.0	\$90.3	\$90.3	\$0.0

¹ This table now includes transitional costs up until 30 June 2022. Previous reports up until May 2021 (IR2021/228 refers) have included transitional costs up until 30 June 2021 only.

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 \$226.0 million for operating expenditure and \$90.3 million for capital expenditure. We are on track to come in on budget for Stage 4.

7. The delivery budget for Stage 4 and the contingency held by the Commissioner have changed this month for operating expenditure. On 2 June 2021, our Strategic Governance Board approved funding to maintain our heritage systems until they are decommissioned.

Recommended action

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

Noted

Noted

Greg James

Deputy Commissioner, Transformation
28 June 2021

Hon Grant Robertson

Minister of Finance
/ /2021

Hon David Parker

Minister of Revenue
/ /2021

Stage 4 second release

9. We are in the usual high pressure phase of the release, iterating between design, build and verify, and testing the solution. Design, build, and verification are in the final stages and we are two-thirds of the way through business system testing (making sure START works as expected). We remain on track to meet the October go-live.

10. As reported (IR2020/228 refers), and as in prior releases, we expect to use some of the timeline contingency due to the complexity of the child support solution and work to simplify our online services. This will result in business systems testing overlapping with the first round of mock go-live (a dress rehearsal for go-live) and scaled business simulation testing (testing of key end-to-end business scenarios).

11. Data conversion is tracking to schedule, with a heightened focus on resolving any issues we find. Testing on converted "real" data has started, which is key to mitigating the risk of unexpected outcomes for child support customers after go-live (IR2020/180 refers).

12. Our first webinars for businesses and employers, individuals and families, and intermediaries will shortly be available on our webinar page: ird.govt.nz/bt-webinars. These webinars will provide an overview of the October 2021 changes.

13. Preparation of training and communications material for our people continues, alongside building child support content into Te Mātāwai (online help for our people who work with customers).

14. On 17 June 2021, the Portfolio Governance Committee (PGC) approved the first checkpoint in our readiness assessment framework. This is the framework we use to assess how ready customers, stakeholders, the wider business, and the programme are for an upcoming release. For each checkpoint we assess whether we are where we expected to be or not. There are three further checkpoints in the lead up to go-live.

Other updates

KiwiSaver default provider review

15. The outcome of the KiwiSaver default provider review will result in about 80% of members in default funds needing to be transferred, based on our current analysis. This equates to around 276,000 members and \$3.4 billion of funds.

16. We held two workshops for scheme providers during the month – one for the existing, unsuccessful default providers, and the second for the newly appointed default providers – outlining our intended implementation approach and timeframes. No major concerns were raised by providers.

17. The high-level timeline we are working to is:

- July 2021 – begin reconciliation of membership lists to minimise the chances of incorrectly transferring members or not transferring members when we should.
- November 2021 – test the transfer process.
- December 2021 to February 2022 - transfer members.

18. While members usually contact their scheme provider with any queries, we are expecting and planning for some members to contact us.

Independent quality assurance

19. Fieldwork for KPMG's twelfth independent quality assurance and eleventh technical quality assurance (IQA 12/TQA 11) review is scheduled to begin in July 2021. This review will focus on readiness for the upcoming October release and will also review the progress of other work such as decommissioning and business transition and integration given the programme's closure by mid-2022.

20. Fieldwork for a Gateway "4/0" review will also begin in mid-July 2021. The focus of the "4" review will be similar to the IQA 12/TQA 11 review. The "0" review is a broad, strategic review to confirm we are on track to deliver the intended outcomes.

21. We intend to report the outcomes of both reviews to you by September 2021.

Resurgence support payment

22. We are working with the Treasury and the Parliamentary Counsel Office to support activation of the Resurgence Support Payment.

Key risks and issues

23. The transformation programme's risk profile remains amber², 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.

24. 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. There are no concerns to report at this time.

25. The issue previously reported to the PGC relating to the lack of resources in the security architecture³ area has been closed. A Security Architect has been appointed and has already joined the team.

26. As at June 2021, the programme has a total of 52 open risks⁴, of which 11 are reported to the PGC.

27. The risk relating to a potential misalignment between the programme's agreed scope, roadmap and delivery timeframes and expectations to deliver all-of-government capabilities was closed during the month. All mitigations have been completed and there is no longer a risk to the programme.

28. The status of four risks reported to the PGC, all related to decommissioning of our heritage systems, improved during the month. This is to be expected at this stage of the programme as we have completed analysis to a very detailed level and decommissioning is well underway.

29. The current rating of the risk relating to delays in decommissioning the heritage business-to-business KiwiSaver solution by 30 June 2022 remains very high, however the residual⁵ likelihood of this risk occurring has improved from likely (a 21% to 50% chance of occurring) to unlikely (a 3% to 10% chance of occurring) resulting in an improved residual risk level from very high to high. A contingency solution has been identified and

² 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.

³ The technology, tools and processes that help protect an organisation from cyber threats.

⁴ During June 2021, five programme risks were closed, including one reported to the PGC, and two new programme risks were accepted.

⁵ The predicted level of risk once all proposed actions have been implemented.

the team is currently assessing how long it would take to invoke this solution should it be needed.

30. The current rating of the risk relating to delays in decommissioning SAP, which we use for our payroll solution, 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). Our payroll solution will move to the cloud and an archiving solution has been agreed and is being implemented.

31. The current 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 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) as there are multiple backup options available.

32. The current rating of the risk relating to moving products off FIRST to START improved from high to medium. The 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 only product remaining to be moved is child support and we are almost two-thirds of the way through business system testing (making sure START works as expected) for the final release in October 2021.

33. 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.
- Delays in decommissioning our heritage systems by 30 June 2022, including our data warehouse (an application our staff use to analyse data) and the need to move KiwiSaver providers off a heritage function they use to automatically send data to us to new gateway services.

Coming up in the next two months

34. Key activities over the next two months include:

July 2021

- Complete the second checkpoint for 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.

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.