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Inland Revenue
Te Tari Taake

Inland Revenue report: Transformation status update: March 2021

Date:	30 March 2021	Priority:	Medium
Security level:	In confidence	Report number:	IR2021/105

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.

30 March 2021

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

1. This report summarises transformation progress and highlights for March 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. As planned, we exited the hyper-care phase of early life supported on 19 March 2021.
3. We are slightly behind schedule for the second release in Stage 4, which will move child support to new systems and processes and upgrade our online services. We have effective mitigations in place and no key dates are currently at risk.
4. Transformation's Red, Amber, Green (RAG) status remains light amber overall, as shown in table 1 below. There has been no change in the status of any of the 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 Amber	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. On 5 February 2021, the Strategic Governance Board approved an increase in the budget for transitional costs for early life support and for changes to be made as part of our future operating model. 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
30 March 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 are experiencing a very low number of issues being raised, with no critical or high priority issues to resolve.

10. As planned, we exited hyper-care (the initial period of early life support where a heightened level of support is available) on 19 March 2021. This means that we are confident in the stability of new systems and processes and have amended the level of support provided as we move into the next phase of early life support. We are still monitoring how everything is operating to make sure that we are across any issues and can respond quickly if needed.

11. Early life support is scheduled to end on 28 May 2021.

Other updates

Stage 4 second release

12. This release will move child support to new systems and processes, and upgrade both the START software our people use and the online services customers use. The release is scheduled to go-live in October 2021.

13. While solution design and development is tracking slightly behind schedule, no key dates are currently at risk. Mitigations are having a positive impact and include an increased number of developers, greater management attention, and careful management of subject matter experts.

14. We continue to closely monitor test preparation and development verification testing which is slightly behind schedule in some areas. Business system testing execution (making sure START works as expected) is on track. We continue to monitor and manage dependencies as well as the time spent by our subject matter experts across writing test scenarios, reviewing scenarios, and completing verification testing.

15. We have begun preparation for the first full mock data conversion run. The conversion data is expected to be available in early April 2021, and the team is on track to run the first full mock-go-live in early July 2021.

Policy

16. The Child Support Amendment Bill received Royal Assent on 24 March 2021.

17. The Taxation (Annual Rates for 2020-21, Feasibility Expenditure and Remedial Matters) Bill had its third reading on 23 March 2021 now awaits Royal Assent.

18. The changes contained in these Bills complete the review of policy and legislative settings begun in March 2015 to frame and support the modernisation of the revenue system.

New payday filing format

19. From 1 April 2021, employers are required to send us employment income information using a new payday filing format.

20. There is no change for employers filing on-screen through myIR or on paper as they have been filing in this format since April 2020.

21. Employers using a payroll bureau or intermediary service or payroll software should notice little change as we have been working with providers since April 2020 to ensure they build the new filing format into their systems in good time. We are asking employers to contact their providers if they have any questions.

22. The biggest change is for employers who have their own inhouse software. We have been communicating directly with employers about this change since November 2020. We will work with employers who have not been able to make the necessary changes in time.

23. The new filing format provides us with more employment income and employee information.

Key changes

24. The Employment Income return includes some new optional fields:

- Hours paid.
- New fields for errors in past returns. This lets employers adjust the current return rather than having to amend an earlier return (there are some rules for when they can do this).
- New fields for special deductions (eg voluntary and compulsory extra student loans deductions and employee share scheme benefits). This means employers will not need to add extra lines for these deductions.
- The payday frequency field becomes mandatory for those filing through gateway services. It is already mandatory for customers filing on-screen in myIR, through file upload, or on paper.

25. Changes to employee details:

- The employee details form and KiwiSaver forms are being combined so there will be fewer forms and less duplication of information.
- There are fewer KiwiSaver status codes.
- There is no longer any need to update us on start and finish dates for KiwiSaver savings suspensions.
- The KiwiSaver exempt income indicator only needs to be applied once.
- It will be easier to see, keep track of and update employee deductions.

26. These changes are intended to make it easier for employers to provide us with employment income information and to correct errors.

Credit card convenience fees

27. We are charged a convenience fee of 1.42% on credit card transactions by our banking providers. This charge relates to merchant fees and is a pass-through cost.

28. Since we began accepting credit card payments in 2009, we have incentivised overseas customers paying student loan and child support obligations by credit card by absorbing the 1.42% charge. We did this because we did not have many payment channels for overseas customers at that time. We pass on the 1.42% charge to all New Zealand-based customers and overseas customers other than student loans and child support customers.

29. From 1 July 2019 to 30 June 2020, we received 38,500 credit card payments (representing 0.4% of the total payments we receive) from student loans and child support customers based overseas to the value of \$38.1 million.

30. We now offer multiple payment options including payment by direct debit. This allows overseas customers living in Australia, the United Kingdom, Europe, America, and Canada to pay using their domestic currency. The vast majority of our overseas customers are based in these regions. This is in addition to other options such as third party payment providers that our overseas customers can use to make payments. Therefore, we will no longer absorb the 1.42% convenience fee for this group of customers from October 2021. The cost will be passed through in line with all other customers.

31. We will work closely with our overseas customers to outline the other payment options available to them.

Enterprise support services – payroll update

32. As reported to you (IR2020/457 refers), we use SAP to run our payroll and it is housed in our heritage data centres which need to be de-commissioned by 30 June 2022. To achieve this we need to move off all our heritage applications by then, including SAP.

33. Late last year we issued a request for proposal (RFP) for a new payroll solution to enable us to completely decommission SAP. As part of the RFP, respondents were asked to indicate how confident they were about being able to implement a solution in the timeframe and to the level of quality required. Respondents concluded that they could not confidently confirm their ability to implement a replacement solution in time to enable us to decommission SAP and exit the data centres. As a result, we concluded the RFP process without awarding the work.

34. We have since investigated a number of options and have concluded that moving our existing payroll application to a cloud-based solution provided by SAP is the most viable approach. On 18 March 2021, the Portfolio Governance Committee (PGC) approved proceeding with this option.

35. Our next steps include finalising a commercial arrangement with SAP to move our payroll solution to the cloud by the end of 2021. This will extend the life of our current solution until 2027. Given this, there is now no urgency to replace our payroll solution.

Key risks and issues

36. 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.

37. We are monitoring one issue (a risk that has been realised). This relates to the impact of the COVID-19 pandemic on the delivery of the programme. There are no concerns to report at this time.

38. As at March 2021, the programme has a total of 61 open risks², of which 14 are reported to the PGC.

39. The risk level of one risk reported to the PGC has improved. The current rating of the risk relating to delays in de-commissioning E-File (IR2021/068 refers) has improved from very high to high. 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). The replacement solution was delivered as part of Release 4.1.1 on 28 February 2021. We will

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 the month, six new programme risks were raised and two were closed.

continue to monitor this risk until the end of early life support on 28 May 2021 to ensure that all customers have moved to the new solution.

40. The top three risks for transformation remain unchanged and relate to the need to move off all our heritage applications by 1 July 2022, so that we can fully decommission our heritage data centres.

Coming up in the next two months

41. Key activities over the next two months include:

April 2021

- Complete business function definitions for the second release in Stage 4 (child support and upgraded online services).
- Decommission E-File.
- Appear before the FEC, with the Commissioner, for a hearing on the Office of the Auditor General's review of our benefit management practices.

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 solution design for the second release in Stage 4 (child support and upgraded online services).