

In confidence

To: **Minister of Finance (Hon Grant Robertson)**

**Minister for Government Digital Services (Hon Kris Faafoi)**

**Minister for Land Information (Hon Eugenie Sage)**

**Survey and Title Enhancement Programme: Quarterly report to 30 September 2019, and draft Cabinet paper for your review**

<b>Date</b>	18 October 2019	<b>Classification</b>	In confidence
<b>LINZ reference</b>	BRF 20-144	<b>Priority</b>	High

**Actions sought**

<b>Minister</b>	<b>Action</b>	<b>Deadline</b>
<b>Minister for Land Information (Hon Eugenie Sage)</b>	<b>Forward</b> copies of this report to the Minister of Finance and Minister for Government Digital Services.	21 October 2019
	<b>Forward</b> feedback on the attached draft Cabinet paper (including feedback from your joint Ministerial colleagues) to LINZ.	28 October 2019
	<b>Note</b> the contents of this report.	8 November 2019
<b>Minister of Finance (Hon Grant Robertson)</b>	<b>Note</b> the contents of this report	8 November 2019
<b>Minister for Government Digital Services (Hon Kris Faafoi)</b>	<b>Provide feedback</b> (if any) to the Minister for Land Information on the attached draft Cabinet paper.	28 October 2019

**Attachment: Draft Cabinet paper *Modernising Landonline – Progress Update November 2019***

**Minister for Land Information’s office to complete**

1 = Was not satisfactory		2 = Fell short of my expectations in some respects		3 = Met my expectations	
4 = Met and sometimes exceeded my expectations			5 = Greatly exceeded my expectations		
<b>Overall Quality</b>	<input type="checkbox"/> 1	<input type="checkbox"/> 2	<input type="checkbox"/> 3	<input type="checkbox"/> 4	<input type="checkbox"/> 5
<b>Comments</b>					
<input type="checkbox"/> Noted <input type="checkbox"/> Seen <input type="checkbox"/> Approved <input type="checkbox"/> Overtaken by events <input type="checkbox"/> Withdrawn <input type="checkbox"/> Not seen by Minister <input type="checkbox"/> Referred to:					

## Purpose statement

The purpose of this briefing is to ask joint Ministers (Minister for Land Information, Minister of Finance and Minister for Government Digital Services) to:

- note the quarterly report covering the second three months of tranche 1 of the Survey and Title Enhancement Programme (STEP) to 30 September 2019
- provide feedback on the attached draft Cabinet paper reporting programme progress to the Government Administration and Expenditure Review Committee. The Minister of Finance and Minister for Government Digital Services are asked to provide their feedback to the Minister for Land Information by 28 October 2019.

## Key messages

1. This report outlines the progress made in the period July to September 2019 on the STEP tranche 1 Single Stage Business Case (SSBC) approved by joint Ministers on 1 April 2019. Tranche 1 is due to be completed in June 2020.
2. The programme continued to operate within the budget and scope of the SSBC. The work by software teams on new customer products and services remained on schedule.
3. In July the STEP Board moved the programme's overall status to "red" due to the business integration and fee alignment challenges identified in the programme's first quarter. As these challenges had not been sufficiently resolved, the STEP Board sought increased management focus and oversight to provide it with confidence about how the programme was integrating product delivery with LINZ business (systems, processes and resources) and strategic outcomes.
4. Significant progress has been made on business integration since July, including the creation of an integrated tranche 1 plan that includes both product delivery and related LINZ business changes. Satisfactory resolution of the business integration challenge is expected by November.
5. Remaining areas of business integration focus include tracking progress against the integrated tranche 1 plan, and strengthening programme alignment with LINZ operational areas. LINZ has also begun implementing recommendations of two independent reviews commissioned in the first quarter of LINZ's change and engagement capability and how well Agile delivery has been embedded within the programme. LINZ's response to these reviews will continue to be a focus through the next quarter.
6. Tranche 1 was deliberately set up to start small, build capability and allow LINZ to identify, learn and adapt from challenges early in the build. The Board has observed the programme's ability to identify the business integration challenge early and adapt accordingly.
7. We advised in the last quarterly report that the increased operating costs of providing new services cannot be fully recovered from existing fees. As a result LINZ survey and title services will operate at a deficit until new fee regulations are in force (expected in early 2021). The deficit is estimated to reach up to \$8 million in 2019/20 and \$12 million in 2020/21. An increase in operating cost was forecast in the Programme Business Case. LINZ is satisfied these costs can be met from the current surplus balance in the survey and title memorandum account, which was \$31.8 million at 30 June 2019.
8. LINZ has in the meantime continued to progress the first of two planned reviews of survey and title fees. Work has started on cost modelling and fee design. LINZ will seek Cabinet approval for the release of a public discussion document in mid-2020.
9. Engagement continued with key stakeholders in the surveying, conveyancing, territorial authority and data communities. A pilot version of a new web-search product is due for release in October for testing by a small group of registered Landonline users – the first such release by the programme. Further releases and the gradual expansion of the pilot to a wider group of

registered users of the web search product will follow as the programme takes on user feedback.

- 10. Due diligence on the proposal to move the Landonline database of property information to an offshore public cloud service is ongoing. LINZ expects to make a decision in December 2019.
- 11. Cabinet invited the Minister for Land Information to report back on programme progress in September 2019. The report was delayed to November to provide a more substantive update than would have been possible at the earlier reporting date. A draft Cabinet paper has been attached to this report for your feedback by 28 October 2019. The paper is due to be considered by the Government Administration and Expenditure Committee on 21 November 2019.

**Recommendations**

Minister for Land Information

- 1. **Note** the contents of the quarterly report on the Survey and Title Enhancement Programme for the period 1 July to 30 September 2019.

**Noted**

- 2. **Forward** feedback on the attached draft Cabinet paper (including feedback from your joint Ministerial colleagues) to LINZ on 28 October 2019.

**Agreed/disagreed**

Minister of Finance and Minister for Government Digital Services

- 3. **Note** the contents of the quarterly report on the Survey and Title Enhancement Programme for the period 1 July to 30 September 2019.

**Noted**

- 4. **Forward** your feedback (if any) to the Minister for Land Information on the attached draft Cabinet paper by 28 October 2019.

**Agreed/disagreed**

Aaron Jordan  
**Deputy Chief Executive  
Property System Infrastructure**

Date: 18 / 10 / 19

Hon Eugenie Sage  
**Minister for Land Information**

Date: / /

Hon Grant Robertson  
**Minister of Finance**

Date: / /

Hon Kris Faafoi  
**Minister for Government Digital Services**

Date: / /

## Background

1. This second quarterly report to joint Ministers reports progress on tranche 1 of the Landonline rebuild (the Survey and Title Enhancement Programme - STEP) for the period 1 July to 30 September 2019. Tranche 1 commenced on 1 April 2019 and is due to be completed by 30 June 2020. Overall programme approved capital expenditure and objectives are summarised in Appendix 1.
2. The rebuild is being delivered in four tranches over five years and conducted in-house by LINZ using a customer-centric Agile delivery approach. STEP will provide much improved services to Landonline customers and create a secure, reliable and flexible platform. It will also be a key technology enabler for delivering LINZ's property system strategy.
3. For customers, tranche 1 of the rebuild will deliver low-risk (from a software development perspective) and high benefit service improvements (such as web searching capability) designed to address pain points currently experienced by the public, territorial authorities, conveyancers and financial institutions when accessing or receiving property information.
4. Tranche 1 also starts addressing wider system security risks caused by the current aging platform. Due diligence will inform a decision on whether to host Landonline data in a public cloud service in Australia.
5. The Programme Business Case (PBC) approved by Cabinet in October 2018 acknowledged that adopting Agile delivery at scale would challenge the organisation. For this reason, tranche 1 was deliberately set up to start small, build capability and allow LINZ to identify, learn and adapt from challenges early in the build.
6. Learning from tranche 1 ensures LINZ can carry out the more complex work in subsequent tranches, and ensures that programme outputs are properly integrated with the business and aligned with LINZ strategic outcomes – to operate a world class property system and provide high value geographic and property information.
7. STEP has appropriate oversight and assurance including:
  - internal programme controls
  - governance by the STEP Board, which includes two independent members and an independent Chair, and which reports to the LINZ Executive Leadership Team (ELT)
  - external quality assurance of programme health and technical quality
  - Gateway Reviews facilitated by the Treasury, which provide the mandatory assurance for high risk projects
  - following the published GCDO's Assurance guidelines and requirements.

## STEP's current status

8. The programme continues to operate within budget and work is on schedule to deliver planned tranche 1 customer service improvements.
9. In July the STEP Board moved the programme's overall status from "amber" to "red". This was primarily in response to one of two key challenges identified in the first quarter – that of ensuring product integration with LINZ business (systems, processes and resources) and strategic outcomes. The second challenge was the need to align survey and title fees with product delivery.
10. LINZ initially responded to the business integration challenge in the first quarter by commissioning two independent reviews of LINZ's change management capacity and how well Agile had been adopted by the programme. However, by July it was clear more progress was needed on integration issues relative to software development.

*Response to business integration challenge*

11. Significant progress has been made on business integration since July, including the creation of an integrated tranche 1 plan that includes both product delivery and related LINZ business changes. A management plan is in place to address remaining areas by November. Remaining areas of focus include: the ability to track progress against the integrated tranche 1 plan and continuing to strengthen alignment with LINZ operational areas.
12. We have also begun implementing recommendations of the independent reviews which identified gaps in LINZ's capacity to manage STEP-related organisational change, that wider organisational engagement was needed and that Agile delivery, while successfully embedded at a Programme level, needed adaptation to ensure uptake across LINZ.
13. This quarter's intensive focus on integration is not expected to impact overall tranche 1 delivery.

*Aligning survey and title fees with product delivery*

14. STEP costs are funded from fees paid by Landonline users. We advised in the last quarterly report that the increased operating costs of providing new services (forecast by the STEP Programme Business Case) cannot be fully recovered from existing survey and title fees until new fee regulations are in place (expected in early 2021). The deficit is estimated to total up to \$8 million in 2019/20 and \$12 million in 2020/21. An increase in operating cost was included in the Programme Business Case and can be met from the current surplus balance in the survey and title memorandum account which was \$31.8 million at 30 June 2019.
15. A provisional estimate shows an additional \$13 - \$17 million of revenue per year will be required to cover STEP costs. This revenue is in addition to any increases required by non-programme related costs and does not factor in possible efficiency gains that would decrease costs. Overall revenue will need to increase by 25%–30% to meet the costs of STEP.

*Tranche 1 expenditure*

16. Tranche 1 expenditure to 30 September 2019 is set out below:

Period	Budget (modelled cost - millions)	Actual (millions)
1 April – 30 June 19	\$4.34	\$2.22
1 July – 30 September 19	\$4.80	\$2.93
<b>Total</b>	<b>\$9.14</b>	<b>\$5.15</b>

17. The underspend noted above is due to a combination of recruitment timing and a phased approach to on-boarding resources, along with savings on staff and contractor rates. Expenditure is being monitored to identify any full tranche trends.

**Progress against tranche 1 SSBC commitments***Successfully deliver tranche 1 search and notices products*

18. The programme is close to releasing a test version of a new search product developed for registered Landonline users – the first such release by the programme. "Real world" testing by a small group of registered Landonline customers will allow further refinements, and test the integration of the product with LINZ back office functions (e.g. finance).

*Due diligence on moving the Landonline database to an offshore public cloud*

19. Due diligence continues on the jurisdictional (data sovereignty), security, privacy and social licence aspects of the PBC proposal to store Landonline property data in a public cloud service based in Australia. Offshore cloud service hosting of the database was a key component of the PBC for the rebuild from an operational and cost management perspective.
20. Our engagement with conveyancing and surveying stakeholder groups has found that they generally support the proposed use of cloud services, provided that New Zealand Government cloud standards, guidelines and policies are met, and mitigations against system failures, natural disasters, hacking and data corruption are in place. The New Zealand Law Society further expects that the Registrar-General of Land is comfortable that risks can be managed. The Auckland District Law Society opposes offshore data storage – in its view the sovereignty of New Zealand data and systems outweighs risks of this data being subject to another country's laws and judiciary. We are following the GCDO-led work programme considering Iwi perspectives on Government use of offshore public cloud.
21. From analysis to date (including jurisdictional advice from the GCDO), LINZ is confident that security and privacy risks of offshore data storage can be satisfactorily mitigated. Related technical feasibility work has indicated that technical barriers are unlikely to prevent the migration of the Landonline database to an offshore public cloud. A Board paper will be developed to support this decision making, covering the GCDO position, jurisdictional risks, cost implications, LINZ business risk view and social licence considerations.
22. LINZ expects to make a decision by December 2019 as this a key input to planning for tranche 2, noting that we will come back to joint Ministers with LINZ's proposed position prior to making the formal decision. Related work by Digital and Data Ministers on development of a digital government strategy (which includes policy on agency use of public cloud services) will be factored into this decision.

*Build an enduring culture and capability*

23. Considerable effort has gone into building the programme's Agile capability through training initiatives for both the programme and wider organisation. Agile capability established at the software development level is of a good standard; LINZ is focused on achieving the same standard of capability at an organisational level, including the need to lift organisational change management capability.
24. Programme resource recruitment remained in line with SSBC projections. That is, of the 54 people in the programme, 28 staff (52%) are LINZ employees while 26 are contractors.

*Stakeholder engagement*

25. External engagement continued with key stakeholders in the surveying, conveyancing, territorial authority and data communities. Programme representatives participated in a successful LINZ roadshow involving the majority of NZ territorial authorities (TAs). The roadshow was aimed at seeking feedback and support from TAs for STEP and for the release of TA district valuation rolls as a means of improving the accuracy of conveyancing notices and assisting other decision making by government for property related matters.

*Conduct a review of survey and titles fees*

26. The first review of LINZ survey and title fees is underway. This review covers all existing LINZ survey and title related products and services, including changes and additions being made as part of the STEP programme.

Timing of the survey and title fee reviews

27. The first of two planned reviews of LINZ survey and title fees is projected to be completed in early 2021, subject to Cabinet decisions. Key phases of the review are as follows:

<b>Review Phase</b>	<b>Current projected timing</b>
Review of existing survey and title products and services	September 2019 – December 2019
Modelling costs and designing new fees	September 2019 – April 2020
Release of the public discussion document and call for submissions	May – June 2020
Agreement to new fees and fee levels	July 2020
Drafting of regulations for new fees and fee levels	July 2020 – Late 2020 or early 2021
New fees come into force	February or March 2021

28. In addition to STEP capital costs, LINZ will incur estimated operating costs of \$17.1 million per year on average (at the 85th percentile) over 12 years (the investment's life cycle). These costs include the operational costs of the programme, depreciation, capital charge, and additional costs associated with the system once it is implemented. Which fees will need to increase, by how much, and who will pay them, are all questions that will be addressed in the fee review as the design of new fees is settled and financial modelling completed (expected in the first half of 2020).

29. A second review of survey and title fees is scheduled for 2023/24, when STEP has been completed. This second review will update fees where necessary.

#### *Programme risk and assurance*

30. A risk and assurance specialist appointed to the programme has begun working with the STEP Board and updating risk and assurance plans. An independent quality assurance provider has also been appointed to advise the Board, review aspects of programme delivery as required and participate in planning activities. An updated Risk and Assurance plan is expected to be agreed with GCDO by December 2019.

#### *Meet formal programme reporting requirements*

31. Cabinet invited the Minister for Land Information to report back to Cabinet on programme progress in September 2019. A decision was made to delay this report back to November as this would allow a more substantive progress update on programme activity than would have been possible by the earlier reporting date. A draft Cabinet paper is attached. Subject to your feedback and agreement it is proposed that you submit the paper for consideration by the Government Administration and Expenditure Committee on 21 November.

#### *Deliver tranche 2 Single Stage Business Case*

32. Tranche 2 is due to start in June 2020. Planning for tranche 2 continues and a delivery timetable for the tranche 2 SSBC is being finalised. LINZ expects to submit the tranche 2 SSBC for joint Ministers' approval by April 2020.

### **Third Quarter focus (September to December 2019)**

33. The focus of the next quarter is:

- seamless software development and business integration,
- providing advice to the LINZ chief executive for a decision on whether to host Landonline data in an offshore public cloud,
- releasing a pilot version of a web search product for testing by registered Landonline users, and planning further test releases of other search and notice products,
- completing a refresh of programme benefits, and
- progressing the survey and title fees and charges review.

### **Next quarterly report**

The next quarterly report will be provided to joint Ministers in early February 2020.



*APPENDIX 1 – Overall Programme Objectives*

- 1 The rebuild of Landonline as a modern modular ICT platform (at a capital cost of \$128.3 million<sup>1</sup>) was approved by Cabinet in October 2018 [GOV-18-MIN-0078]. Joint Ministers subsequently authorised tranche 1 expenditure of up to \$33.39 million<sup>2</sup> on 1 April 2019.
- 2 Rebuilding Landonline is a priority for LINZ to ensure the long-term stability of New Zealand's property rights system. The rebuild will create strategic value for the Government and offer significant improvements for users. Landonline is 20 years old and becoming expensive to maintain and difficult to change and secure. Modernising Landonline is essential if New Zealanders are to have continued confidence in property rights and accurate land information.
- 3 The overall aims of the rebuild are to:
  - address growing risks to confidence in property rights resulting from Landonline's aging technology platform,
  - make land information more accessible and easier for the public to use,
  - deliver significant benefits for customers, and
  - improve LINZ's processes, reduce business continuity risks and meet expectations in terms of both quality and cost.

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<sup>1</sup> This was to be funded by a \$95.4 million repayable capital injection and \$32.9 million from LINZ capital reserves (primarily depreciation).

<sup>2</sup> Tranche 1 expenditure is funded from LINZ capital reserves (\$26.36 million), repayable capital injection (\$3.65 million) and operating expenditure (\$3.38 million).

