

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

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

**Minister for Government Digital Services (Hon Dr Megan Woods)**

## **Survey and Title Enhancement Programme: approval of Tranche 1 Single Stage Business Case**

<b>Date</b>	12 March 2019	<b>Classification</b>	In confidence
<b>LINZ reference</b>	BRF 19-219	<b>Priority</b>	Medium

### **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 and Single Stage Business Case to the Minister of Finance and Minister for Government Digital Services.	13 March 2019
<b>Minister for Land Information (Hon Eugenie Sage)</b>	<b>Agree</b> to the recommendations in this report.	21 March 2019
<b>Minister of Finance (Hon Grant Robertson)</b>		
<b>Minister for Government Digital Services (Hon Dr Megan Woods)</b>		

### **LINZ Contacts**

<b>Name</b>	<b>Position</b>	<b>Contact number</b>	<b>First contact</b>
Lisa Barrett	Chief Executive	04 462 4426	<input checked="" type="checkbox"/>
Aaron Jordan	DCE Property System Infrastructure	027 704 5618	<input type="checkbox"/>

### 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 Withdrawn	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

1. This briefing asks joint Ministers (the Minister of Finance, Minister for Government Digital Services and Minister for Land Information) to approve the attached Single Stage Business Case (SSBC) for tranche 1 of the Survey and Title Enhancement Programme (STEP). Joint Ministers are also asked to approve expenditure for tranche 1, including authorising LINZ to draw down a repayable Crown capital injection of up to \$10.8 million.

## Key messages

### *The 'Survey and Title Enhancement Programme' (STEP)*

2. In October 2018 Cabinet approved a Programme Business Case for modernising Landonline, New Zealand's central register of survey and title information [GOV-18-MIN-0078 refers]. The rebuild is being delivered in four tranches over five years, with tranche 1 due to run from April 2019 to May 2020. The Programme Business Case estimated the programme would cost \$128.2 million. This was to be funded by a \$95.4 million repayable capital injection and \$32.9 million from LINZ capital reserves (primarily depreciation).
3. Joint Ministers are authorised to draw down from \$103 million in tagged capital contingency funding approved in Budget 2018 [CAB-18-MIN-0158 refers], subject to their satisfaction with a Single Stage Business Case (SSBC) for each tranche.

### *A SSBC for tranche 1 of STEP has been completed*

4. Tranche 1 will deliver long-awaited service improvements for the public and registered Landonline customers, [REDACTED] and lays the ground for more work programmed in tranches 2 to 4. LINZ's approach in tranche 1 is to start small and develop strong technical and business capability as an essential foundation for organisational readiness for subsequent tranches.
5. Service improvements introduced in tranche 1 are expected to deliver an estimated \$90 million in monetised benefits over the 12 year life of the programme. These will be in the form of much improved real-time accessibility to property information, and reductions in time and cost involved in property transactions.
6. Key risks being managed in tranche 1 include programme governance arrangements; recruitment, training and retention of staff and contractor resources; adoption of the "Agile" delivery methodology; and benefit delivery. Risk management and assurance plans have been agreed with the Government Chief Digital Officer (GCDO).
7. Joint Ministers are asked to approve tranche 1 expenditure of \$33.39 million. LINZ proposes this is funded by capital expenditure sourced from LINZ capital reserves (\$26.36 million) and a repayable Crown capital injection (\$3.65 million); and operating expenditure of \$3.38 million [REDACTED]
8. Flexibility is sought by this paper to draw up to \$10.8 million from tagged capital contingency funding during 2019/20 should LINZ need to manage depreciation flows or divert capital reserves intended for the programme to address an unexpected Landonline technical issue. Flexible access to Crown capital contingency funding will not alter LINZ's commitment to provide capital reserves for the programme, only the timing of when the reserves are applied. This flexible timing will enable LINZ to manage capital flows and balance the investment needed for STEP against the need to ensure Landonline continues functioning during the rebuild. Treasury have confirmed financial delegations allow joint Ministers to approve this approach.

*Confidence in delivery*

9. External monitoring and assurance checks have provided confidence in LINZ's ability to deliver tranche 1. A mandatory Gateway review conducted in February 2019 has given tranche 1 an amber/green delivery confidence rating<sup>1</sup>.

*Reporting and publicity*

10. LINZ will provide quarterly reports to joint Ministers that will cover programme progress and costs, resourcing and the timing of future capital injections. LINZ also proposes to proactively release this briefing and a copy of the approved SSBC, subject to appropriate redactions.

**Recommendations**

I recommend that you:

*Minister for Land Information*

1. **forward** copies of this briefing and Single Stage Business Case to the Minister of Finance and Minister for Government Digital Services;

**Forwarded/not forwarded**

*Joint Ministers* (Minister for Land Information, Minister of Finance, Minister for Government Digital Services)

*Programme recommendations*

2. **Note** that in October 2018 Cabinet:
- a. **approved** a Programme Business Case setting out the preferred investment option and delivery pathway for modernising Landonline, New Zealand's central register of survey and title information. [Cab Min GOV-18-MIN-0078];
  - b. **authorised** the Minister of Finance, Minister for Government Digital Services and Minister for Land Information (joint Ministers) to approve an SSBC for tranche 1 and subsequent tranches;
  - c. **authorised** joint Ministers to draw down tagged contingency funding approved in Budget 2018 subject to their satisfaction with the necessary SSBC;

**Noted**

3. **Note** that LINZ has prepared the attached SSBC for tranche 1 "Search and Notices" that:
- a. will deliver customer services improvements, begins addressing wider system security issues, and lays the ground for more challenging work in tranches 2 to 4;
  - b. is expected to deliver an estimated \$90 million in monetised benefits to customers in the form of much improved real-time accessibility to property information, and reductions in time and cost involved in property transactions;
  - c. will require:
    - i. capital expenditure of \$30.01 million at the 85<sup>th</sup> percentile<sup>2</sup> (\$5 million less than that estimated in the PBC), which is proposed to be funded by a combination of

<sup>1</sup> An amber/green rating reflects the Gateway review team's view that successful delivery appears probable however constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.

<sup>22</sup> \$28.04 million at the 50<sup>th</sup> percentile.

LINZ capital reserves (\$26.36 million) and a Crown capital injection (\$3.65 million); and

- ii. operating expenditure of \$3.38 million, funded by fee-paying Landonline users;
- d. has been through a Gateway review and is rated amber/green;

**Noted**

4. **Note** that any significant change to programme to scope, benefits, costs or timeframes (including the programme tranches) would require joint Ministers to return to Cabinet;

**Noted**

*Financial recommendations*

5. **Approve** the attached tranche 1 Single Stage Business Case;

**Approved/Not approved**

6. **Approve** expenditure up to \$33.39 million (at the 85<sup>th</sup> percentile) to deliver the tranche 1 business case, made up of \$30.01 million capital expenditure, [REDACTED]

**Approved/Not approved**

7. **Agree** to provide LINZ flexibility to access up to \$10.8 million of the \$103 million tagged capital contingency funding available to the programme [CAB-18-MIN-0158 refers] to ensure that LINZ can balance its financial commitment to the programme against the need to ensure Landonline continues to operate during tranche 1;

**Agree/Disagree**

8. **Note** that The Treasury confirms that Cabinet’s financial delegations to joint Ministers allow Ministers to approve the flexibility sought at Recommendation 7;

**Noted**

9. **Approve** the following capital injections to Land Information New Zealand to give effect to the policy decisions in recommendations 6 and 7 above, with a corresponding impact on net core Crown debt:

	\$m – increase/(decrease)				
	2018/19	2019/20	2020/21	2021/22	2022/23 & Outyears
Land Information New Zealand:					
Capital Injection	-	10.800	-	-	-

**Approved/Not approved**

10. **Agree** that the departmental capital injection incurred under recommendation 9 above be charged against the Advanced Survey and Title Services tagged capital contingency previously established by Cabinet [CAB-18-MIN-0158 refers];

**Agree/Disagree**

11. **Direct** LINZ to return to joint Ministers for funding approvals if the programme seeks to incur expenditure outside the scope of the current SSBC for tranche 1;

**Directed/Not directed**

*Reporting*

12. **Direct** LINZ to provide quarterly reports to joint Ministers on programme progress, including but not limited to:
- a. programme progress and costs
  - b. resourcing
  - c. when LINZ anticipates drawing down future capital injections;

**Directed/Not directed**

*Fees*

13. **Note** that LINZ will report to joint Ministers on the progress of a review of third party user fees at the start of 2020;

**Noted**

*Publicity*

*Joint Ministers*

14. **Agree** to the proactive release of this briefing and the approved Single Stage Business Case on the LINZ website, with appropriate redactions approved by the Minister for Land Information;

**Agree/Disagree**

*Minister for Land Information*

15. **Approve** the attached redacted versions of this briefing and Single Stage Business Case for proactive release on the LINZ website.

**Approved/Not approved**

Lisa Barrett  
**Acting Chief Executive**

Date:     /     /

Hon Eugenie Sage  
**Minister for Land Information**

Date:     /     /

Hon Grant Robertson  
**Minister of Finance**

Date:     /     /

Hon Dr Megan Woods  
**Minister for Government Digital Services**

Date:     /     /

## **Attachments**

1. *Survey and Title Enhancement Programme: Tranche 1 Single Stage Business Case*
2. *Survey and Title Enhancement Programme: Tranche 1 Single Stage Business Case* (version containing proposed redactions for proactive release)
3. *Report: Survey and Title Enhancement Programme: approval of Tranche 1 Single Stage Business Case* (version containing proposed redactions for proactive release)

## Background

1. In October 2018 Cabinet approved a Programme Business Case for modernising Landonline, New Zealand's central register of survey and title information [GOV-18-MIN-0078]. 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 continue to have confidence in property rights and accurate land information.
2. The new Landonline will make land information more accessible and easier for the public to use. It will deliver benefits for customers, improve LINZ's processes, and reduce business continuity risks as well as meet expectations in terms of both quality and cost.
3. Cabinet agreed Landonline will be fully rebuilt as a modern modular ICT platform. The rebuild will be delivered primarily using New Zealand ICT resources in four tranches over five years. A Single Stage Business Case (SSBC) must be approved before each tranche begins.
4. Cabinet authorised the Minister of Finance, Minister for Government Digital Services and Minister for Land Information (joint Ministers) to approve the SSBC for tranche 1 and subsequent tranches.

## Comment

*A Single Stage Business Case has been completed*

5. LINZ has prepared a SSBC for tranche 1 "Search and Notices" (attached) for approval by joint Ministers. LINZ is taking a considered approach by starting out small in tranche 1 and building its capability and confidence for delivering tranches 2 to 4. Tranche 1 is due to run from April 2019 to May 2020, pending approval of the SSBC. There are no scope changes or changes to the timing of tranche 1 since Cabinet considered the Programme Business Case.

*Tranche 1 will deliver improvements, mitigate system risks, and prepare for future tranches*

6. Tranche 1 prioritises early delivery of mainly low risk service improvements that will provide long-awaited benefits for the public and registered customers (conveyancers, surveyors, territorial authorities and financial institutions). Customer service improvements tranche 1 will deliver include:
  - a new website that will allow registered customers and the public to search for and receive survey and title information (such as a title for a property) more efficiently, using any common device
  - automated notifications of property sales for Territorial Authorities
  - automated notices to mortgagees when a mortgage is registered or discharged.
7. ██████████ Replacing existing core software components nearing end of life is crucial for ensuring the long term security of Landonline, and early work will be done on this during the tranche (full mitigation of ██████████ technology risks is expected during tranches 2 and 3). Technical proofs of concept to validate more challenging work in tranches 2 to 4 will also be completed.

8. The rebuild of Landonline will take advantage of cloud hosting services like Amazon Web Services for delivering, for example, public web search capabilities. However, as signalled by the Programme Business Case, a decision on further use of the cloud to host Landonline's land register and cadastre will not be made until due diligence in tranche 1 of the privacy, data sovereignty and security challenges of such a move. LINZ will work closely with the Government Chief Digital Officer (GCDO) on this. A report outlining due diligence findings and recommendations on further use of the cloud will be prepared before the end of tranche 1 for a decision by the LINZ Chief Executive on whether or not to proceed.
9. LINZ will use tranche 1 to build its expertise in "Agile"<sup>3</sup> methodology to deliver the programme. Use of Agile on a large scale is a new way of working for LINZ, and detailed planning has gone into how Agile will be applied. There is strong buy-in and commitment to Agile from LINZ's Executive Leadership Team, and robust Agile governance and support arrangements are in place.

#### *Benefits*

10. Tranche 1 service improvements are expected to deliver an estimated \$90 million in monetary benefits over the 12 year life of the programme to registered customers. Automated notifications to territorial authorities and banks (via notices automatically generated when a property transaction is completed) will greatly improve real-time accessibility to property information, and reductions in time and cost involved in what are often manual processes.
11. Critical also to the success of the programme are the non-monetary benefits for customers, LINZ and the economy that will accrue when risks to business continuity and confidence in property rights are reduced. Work on delivering these benefits begins in tranche 1, followed by more significant changes in tranche 2 and 3 that are critical to their full realisation.

#### *Procurement and capability planning, change management*

12. Tranche 1 procurement needs are mostly for people and professional services. LINZ staff will make up 50–60 percent of the total number required, and the remainder from contractor and consultancy services. Growing LINZ staff capability is an important investment aimed at balancing the need for contractors over the life of the Programme.
13. Change management plans are in place for staff and customers. Key stakeholders (e.g. conveyancers and surveyors) support the programme and are highly engaged, while the LINZ ELT fully supports and is leading the cultural and behavioural change necessary to enable the programme to succeed.

#### *Programme risks are being managed with risk and assurance plans*

14. The key risks being managed during tranche 1 include ensuring governance structures and capability plans are working as anticipated, that the programme can recruit, develop and retain the capability needed to do the work, that Agile is successfully adopted, and that planned benefits are delivered. LINZ has limited direct control over whether or not monetary benefits

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<sup>3</sup> Agile is an incremental and iterative approach to software development in which work is broken down and completed in smaller portions in frequent, repeated cycles. The goal is to be more flexible and responsive to customer change and needs. Agile methodology is being used on other major IT projects, e.g. at Inland Revenue.

achieved through time savings are passed on to clients of registered customers. LINZ is addressing this risk through a number of actions in the Programme benefits management plan.

15. Risk management and assurance plans reflecting the Agile programme approach have been agreed with the GCDO. Strategic and delivery risks will be subject to continuous review and updated as work proceeds. An independent assurance provider will be closely involved in the development and delivery of new services, as will stakeholders who will have a key role in providing assurance that products are meeting business and customer needs. An independent assurance advisor will be present at the STEP Board as a standing attendee.

#### *LINZ is ready to deliver tranche 1*

16. External monitoring and assurance checks have provided confidence in LINZ's ability to deliver tranche 1. The SSBC has the support of the Central Agency Monitoring Group (the Treasury, State Services Commission, GCDO and MBIE) who provided feedback throughout its preparation. An independent quantitative risk assessment (QRA)<sup>4</sup> on costings was conducted, and a mandatory Gateway review in February 2019 rated the tranche as amber/green. The review reported that LINZ "has made excellent progress in landing its agreed solution delivery approach and engaging all stakeholders in enthusiastic support of the Program". The review endorsed the emphasis in tranche 1 on developing strong technical and business capability as an essential foundation for organisational readiness for tranche 2.

#### *Contributions to New Zealanders' wellbeing*

17. The Government has a strong focus on improving New Zealanders' wellbeing. Service improvements introduced by tranche 1 that significantly improve access to and the quality of property information will contribute to 4 of 12 wellbeing domains in Treasury's Living Standards Framework: income and consumption, housing, jobs and earnings, and civic engagement and governance. For example, under the housing domain, investors and central and local government will be able to formulate informed plans for better housing outcomes (including use of land and infrastructure) through the introduction of better and more accessible property search information.

## **Financial Implications**

#### *Overall programme capital expenditure*

18. The Programme Business Case approved by Cabinet in October 2018 estimated the total cost of the preferred pathway was \$128.2 million (at the QRA 85<sup>th</sup> percentile).
19. Cabinet noted that this would require a capital injection of up to \$95.4 million drawn down over years 2 to 7 of the Programme (Year 2 begins in October 2019), and that LINZ was contributing a further \$32.9 million toward the total from capital reserves (primarily depreciation).
20. Cabinet also noted that \$103 million capital contingency funding had been approved for the Programme in Budget 2018, and made no decision to reduce this amount to \$95.4 million. Ministers were authorised by Cabinet to draw down this capital contingency funding subject to their satisfaction with the necessary SSBC.

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<sup>4</sup> A QRA quantifies the probability of risks and uncertainty that could affect programme costs.

21. There is some flexibility in both the timing of when the capital injections would begin, and the authority delegated to Ministers to draw down the tagged capital contingency funding. This reflects the tranching approach to delivering the platform, which allows the programme to work flexibly. As the programme is ready to deliver tranche 1, and seeking the funding to do so, it is important to establish when the capital injections will be drawn down. The following section outlines the proposed approach.

#### *Tranche 1 capital expenditure*

22. Tranche 1 is estimated to require capital expenditure of \$30.01 million at the 85<sup>th</sup> percentile (\$28.04 million at the 50<sup>th</sup> percentile), \$5 million less than that estimated in the PBC. This variation is the result of a more detailed resource estimate for tranche 1, and lower risks associated with implementation of this tranche. Until future tranches are fully costed it's too early to say whether this is a permanent reduction in the overall programme cost.
23. The SSBC proposes tranche 1 is funded mainly from LINZ capital reserves (\$26.36 million, primarily depreciation funding), and \$3.6 million from a repayable Crown capital injection.
24. In addition to capital expenditure, tranche 1 will incur operating expenditure of \$3.38 million, [REDACTED] bringing total expenditure (capital plus operating) to \$33.39 million.

#### *Managing LINZ depreciation flows*

25. LINZ is committing a large proportion of its capital reserves (\$26.36 million) to funding tranche 1. Treasury has confirmed flexibility exists in financial delegations from Cabinet that would allow LINZ earlier access to Crown capital injections than currently planned should these capital reserves need to be diverted to resolve an unexpected major technical issue affecting Landonline, or to manage depreciation flows. LINZ is actively managing its capital flows to balance its financial commitment to the Programme and the need to ensure Landonline continues to operate during tranche 1. Earlier access to repayable Crown capital funding does not change LINZ's financial commitment to the programme – just the timing of when the funding is applied.
26. Cabinet funding delegations allow joint Ministers to draw down \$10.8 million of tagged capital funding in Year 2 of the Programme, which as noted above commences in October 2019. Accordingly, it is reasonable to assume that Cabinet would anticipate repayable capital injections of up to \$10.8 million during the period October 2019 – September 2020, should joint Ministers consider it appropriate and approve this.

#### *Fee review*

27. [REDACTED] Cabinet agreed that LINZ would complete a fee review by early 2021 to identify fee increases required to recover operating costs, capital charge and depreciation.
28. LINZ has commenced a "first-principles" fee review process that will consider the characteristics of the products or services being provided, options for fee or charge mechanisms and their

levels, and the impact on individual fee paying groups.<sup>5</sup> Survey and title fees will be reviewed using this process.

29. LINZ will report back to Ministers at the start of 2020 with proposed survey and title fee levels and a public consultation document to seek public feedback on those levels. In the interim, updates on the progress of the first-principles review will be provided to Ministers throughout 2019.
30. A Cabinet paper seeking final Cabinet approval to new fees, and their levels, will be prepared after public consultation has concluded.

### **Consultation**

31. The Treasury and Government Chief Digital Officer were consulted during the preparation of this briefing and support its contents.

### **Reporting**

32. Cabinet recommended that joint Ministers receive regular reports, for example a status update, on the programme's progress including on resourcing of the programme. LINZ proposes to provide quarterly reports covering (but not limited to):
  - 32.1. programme progress and costs
  - 32.2. resourcing
  - 32.3. when LINZ anticipates drawing down future capital injections.

### **Publicity**

33. We recommend that joint Ministers agree to the proactive release of this briefing and SSBC on the LINZ website, subject to appropriate redactions to [REDACTED] commercially sensitive information. We further recommend that the Minister for Land Information approves the redacted versions of these documents for release.

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<sup>5</sup> Legislation sets out the areas that can be covered through fees via regulations.