MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

BRIEFING

Tenancy Services Bond Modernisation Project

Date:	17 April 2024	**Priority:**	High
Security classification:	Confidential	**Tracking number:**	2324-3055

Action sought		
	Action sought	**Deadline**
Hon Chris Bishop **Minister of Housing**	Information	3 May 2024
Hon David Seymour **Associate Minister of Finance**	Information	
Hon Melissa Lee **Minister for Economic Development**	Information	

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Privacy of natural persons			✓
Ingrid Bayliss	General Manager, Building & Tenancy	Privacy of natural persons	

The following departments/agencies have been consulted
HUD Treasury

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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Tenancy Services Bond Modernisation Project

Date:	17 April 2024	**Priority:**	High
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Purpose

To provide you with information on the Tenancy Bond modernisation project and refined costs associated with the implementation of pet bond functionality in the bond lodgement IT system as requested by Cabinet [Cabinet minute CAB-24-MIN-0069.01 refers].

Executive summary

On 6 March, Cabinet Economic Policy Committee (ECO) discussed the Residential Tenancies Act 1986 Amendments: pet bonds and other pet related matters paper [ECO-24-SUB-0017]. Cabinet directed MBIE to provide information to support Ministers further consideration of the costs associated with the implementation of the pet bond functionality in the new bond lodgement IT system [CAB-24-MIN-0069.01 refers].

The current bond management system (Bond2000) is used to facilitate lodgement and administration of tenancy bonds. It is more than 20 years old, is beyond end-of-life, requires active management of IT risks, and does not make use of modern technology innovations for customer service delivery.

MBIE received funding of $37.98 million over four years through Budget 2021 for the design, build, deployment, and ongoing maintenance and support of a new bond system. The scope of the funding covered a replacement system for the current bond transaction types. The new system will enable customers to conduct tenancy bond transactions online with minimal assistance required from MBIE's Tenancy Bond Service and Service Centre teams. The modernisation will ensure residential tenancy bond transactions are stable, secure, and supported.

Pet bonds functionality cannot be implemented into the existing Bond2000 system.

It is forecast the entire allocated funding of $37.98 million will be required to successfully complete the current scope of the project. The project is in the third year of a 5-year programme with the majority of costs incurring in the build phase which is currently underway. The new bond system will be delivered in iterations with the first iteration scheduled to 'go live' at the end of 2024.

The current funding does not include scope for new types of bonds, including the forecast costs for the design, development, and implementation of pet bonds. MBIE initially provided an indicative forecast of up to $6.6 million ($3 million Capital expenditure and $3.6 million Operational expenditure) for the development of the pet bonds functionality [Cabinet minute CAB-24-MIN-0069.01 refers]. This estimate was based on limited information on scope, timing, project resourcing, technical considerations, and many assumptions.

Since this time more work has been undertaken to refine cost and funding options for this work, as well as undertaking more work with the Ministry of Housing and Development (HUD) to define operational policy and system requirements. This has resulted in an updated cost forecast.

MBIE now propose an updated indicative maximum forecast for the implementation of pet bonds into the new tenancy bond system of $3.5 million ($1.0 million Capital expenditure and $2.5 million Operational expenditure – including depreciation and capital charges). Treasury have also confirmed that both the Capital expenditure and Operational expenditure for this work can be funded through fiscally neutral adjustments, including funding the Operational expenditure aspect from surplus interest in the Residential Tenancies Trust Account (RTTA).

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

a **Note** Cabinet noted the Minister of Housing, and the Associate Minister of Finance, in consultation with the Minister of Economic Development, to give further consideration to the costs associated with the implementation of the pet bond functionality in the bond lodgement IT system [Cabinet minute CAB-24-MIN-0069.01 refers].

Noted

b **Note** the current bond management system (Bond2000) is used to facilitate lodgement and administration of tenancy bonds, it is over 20 years old, is beyond end-of-life, requires active management of IT risks, and does not make use of modern technology innovations for customer service delivery.

Noted

c **Note** pet bonds functionality cannot be implemented into Bond2000 and must be implemented into the new tenancy bond system which is currently in development.

Noted

d **Note** MBIE is developing and building a new bond management system that will enable customers to conduct tenancy bond transactions online, with minimal assistance required from MBIE teams and addresses technical risks of the current system.

Noted

e **Note** the scope of current funding covers a replacement system for the current bond transactions and does not include scope for new types of bonds such as the pet bonds functionality.

Noted

f **Note** the project is forecasting the entire allocated funding of $37.98 million will be required to successfully complete the current scope of the project.

Noted

g **Note** Cabinet agreed to fund operational costs through a fiscally neutral adjustment to increase the Residential Tenancy and Unit Title Services appropriation, which will be carried out once the legislation has passed [CAB-24-MIN-0069.01 refers].

Noted

h **Note** Cabinet agreed that the fiscally neutral adjustment referred to above will be funded by surplus interest from the Residential Tenancies Trust Account (RTTA) [Cabinet minute CAB-24-MIN-0069.01 refers].

Noted

i **Note** that Treasury have been consulted on the proposal and have noted that both the additional Capital and Operational expenditure required for pet bonds implementation can be funded through fiscally neutral adjustments.

Noted

j **Note** MBIE now propose an updated indicative maximum forecast for the implementation of pet bonds of $3.5 million ($1.0 million Capital expenditure and $2.5 million Operational expenditure including capital charges and depreciation).

Noted

k **Agree** to provide this briefing to the Associate Minister of Finance and the Minister of Economic Development at the same time as you provide them with the Cabinet Legislation

Paper Residential Tenancies Amendment Bill: Approval for Introduction [HUD2024-004006 refers] for consultation (expected 18 April or soon after).

Agreed/Not Agreed

Privacy of natural persons

Te Whakatairanga Service Delivery Group, MBIE

17/04/2024

Hon Chris Bishop
Minister of Housing

17 / 4 / 2024

Hon David Seymour
Associate Minister of Finance

..... / ...... / ......

Hon Melissa Lee
Minister for Economic Development

..... / ...... / ......

Background

1. MBIE's Tenancy Services administers all residential tenancy bond transactions, processing approximately 500,000 transactions per year. More than half of these are bond lodgements, while the remaining transactions are bond refunds, transfers of bond to a different address, and changes of parties recorded against the bond.

2. The Residential Tenancies Act (RTA) requires MBIE to deposit all bond money received into the Residential Tenancies Trust Account (RTTA). All interest, dividends, and other gains arising from any investment of the RTTA belong to the Crown and are treated as departmental revenue. Interest revenue partially funds MBIE's operations under the RTA (approximately $8 million per financial year).

3. The bond service has grown significantly over the years. In 1999, the RTTA held around $100 million in bonds; by 2010 it had increased to $305 million and in March 2024 it held $867 million in bonds.

4. There are currently over 470,000 active bonds, and in the 2023/24 financial year to date, the trust transacted a total of $218 million in bond lodgements and refunded $205 million in bond refunds. With more people living in rental accommodation and the introduction of pet bonds is expected to result in an increase in the number of bond transactions in the future.

Replacement of the Tenancy Bond System

5. An electronic bond management system (Bond2000) is used to facilitate lodgement, refund, and administration of tenancy bonds. The ICT system is outdated and has limited support. While MBIE has made upgrades and enhancements to the ICT system, the core product and its development platform are more than 20 years old and beyond end-of-life, requiring active management of IT risks, and does not make use of modern technology innovations for customer service delivery. Enhancements to this system have been significantly minimised to ensure stability of the system.

6. Funding of $37.98 million over multiple years was approved through Budget 2021 for the build, deployment, and ongoing maintenance and support of a new ICT system. The new system will enable customers to conduct tenancy bond transactions online, with minimal assistance required from MBIE teams. The modernisation will ensure that residential tenancy bond transactions are stable, secure, and supported.

7. The new tenancy bond system will provide a range of benefits, including:

   a. Mitigating the risk of system failure or security compromise - ensuring the system is stable, secure, supported, and data is accurate and available for decision-makers to use confidently.

   b. Enable much needed service improvements - including flexibility for policy changes, providing 450,000+ tenants, landlords (many of which are small businesses) and property managers, with better, more consistent customer service, transactions in a way that customers want to be transacted with; a more integrated end-to-end tenancy service; and greater efficiency for property managers using Business to Business (B2B) channels.

   c. Increased automation, enabling the timely and accurate return of bond money, and reducing unreturned money. Automation could significantly reduce refund processing times (with same-day refunds becoming the norm) and return an additional $1.5m annually to customers.

d. Alleviate pressure on wider Tenancy Services. Around 120,000 calls related to tenancy bond are received annually, with refunds being the main driver. Increased transparency and timeliness of bond refunds will significantly reduce these calls, freeing up resource to support more complex tenancy issues (and potentially prevent greater levels of harm).

e. Improving productivity and digital delivery will drive cost savings across the business. Currently, MBIE processes a considerable volume of postal and email lodgements and refunds that require manual processing. The existing operating model also produces administrative errors, both by customers and MBIE, which require rework and create inefficiency and poor customer outcomes and risks.

f. Improving the quality and availability of data from the bond system (a number of agencies use bond system data). A new system would ensure that data is collected and managed to higher standards of accuracy and used to improve regulatory outcomes. This is an important and underachieving function of the current system.

8. Other legislative changes will also positively influence bond operating requirements such as removal of the requirement for signatures on bond forms.

9. The new bond system will be delivered in increments to our customers, with the first increment planned to be delivered at the end of 2024. We will provide more information on our delivery plan in our quarterly reporting.

Expenditure on the replacement tenancy bond system

10. A summary of the approved business case expenditure is outlined in Appendix 1. The project is tracking aligned with forecast and the project currently has a contingency of around 5%.

11. The development and implementation of pet bonds was not included in the approved business case scope and funding.

12. The project uses MBIE's robust governance arrangements to oversee the financial health of the project. The project steering group has three of MBIE's Deputy Chief Executives as members indicating the criticality of this project for MBIE.

Project Costs as at February 2024

13. As of March 2024, total actual project costs are $10.51 million. This is made up of $5.70 million Capital expenditure and $4.81 million Operational expenditure. Although actual Capital expenditure is currently 25 percent of the total approved expenditure, it is projected the entire allocated funding will be required to complete the original scope of the project and deliver on its intentions.

Funding for the development and implementation of pet bonds

14. Previously MBIE provided an indicative maximum forecast of up to $6.6 million ($3 million Capital expenditure and $3.6 million Operational expenditure) for the development and implementation of pet bonds [Cabinet minute CAB-24-MIN-0069.01 refers]. This was an indicative estimate based on limited information and many assumptions. Since this time, we have received:

a. Cabinet confirmation of the legislative settings and implementation timeframes, providing assurance that a 'new' pet bond system is not required to manage this process outside of, or in addition to, the new tenancy bond system.

b. Further refined operational policy and system requirements and improved understanding of information, processing, and reporting requirements (collaborating closely with our colleagues at HUD), which have reduced system complexity risks.

c. Treasury confirmation that both Capital and Operational expenditure for this activity can be funded through fiscally neutral adjustments.

Updated indicative cost for implementation of pet bonds

15. An updated indicative maximum forecast for the implementation of pet bonds into the new tenancy bond system is $3.5 million ($1.0 million Capital expenditure and $2.5 million Operational expenditure, including $1 million depreciation and $0.4 million capital charges over seven years).

16. Based on MBIE accounting guidelines, the majority of the cost for this activity can be classified as Operational expenditure, specifically because:

    a. The pet bonds functionality is planned to be built in parallel to the development of the legislation and subject to changes during development. This may require re-aligning the design during the legislative process.

    b. The pet bond functionality will be built on the foundation of the Tenancy Bond system and therefore can only be delivered aligned to or post the go live of the new Tenancy Bond system.

    c. The pet bond functionality does not 'add value' to the new Tenancy Bond system 'asset' as it primarily re-utilises existing processes and functions and applying a new bond type.

17. Only a proportion of the work required to implement pet bonds is to create new functionality, such as new data and reporting requirements, which requires Capital expenditure.

18. As indicated in the Cabinet minute [CAB-24-MIN-0069.01], a fiscally neutral adjustment (FNA) will be made to increase the Residential Tenancy and Unit Title Services appropriation, which will be carried out once the legislation has passed.

19. Since this information was provided Treasury have confirmed that two FNAs could be made to facilitate both the Capital expenditure and Operational expenditure costs:

    a. The first would be an Operational expenditure to Capital expenditure transfer from funding in the Residential Tenancy and Unit Title Services appropriation into MBIE's capital injection (this would come from the 'revenue crown' aspect of the appropriation).

    b. The second FNA would be from additional interest in the RTTA into the Residential Tenancy appropriation. This would offset the decrease in the appropriation given the Operational expenditure to Capital expenditure transfer.

20. If timing of activities or the above situation changes this may impact the financial treatment for this expenditure.

21. MBIE is continuing to prepare system requirements for pet bonds implementation in order to seek further refinement of estimated costs.

Next steps

22. Officials are available to discuss information contained in this briefing with you.

23. The two FNA's outlined in paragraph 19 will be actioned once the legislation has passed.

24. We understand your office has received a draft Cabinet Legislation (LEG) Paper from the Ministry of Housing and Urban Development (HUD), *HUD2024-004006 Residential Tenancies Amendment Bill: Approval for Introduction* which references the revised cost estimate for the pet bond proposals provided in this briefing. We also understand HUD has recommended you undertake Ministerial and Party consultation on the LEG paper between 18 – 30 April 2024. We recommend you provide this briefing to the Associate Minister of Finance and Minister of Economic Development at the same time you provide the LEG paper to them, so that they have more information on the revised cost estimate.

25. Quarterly reporting will be provided to the Minister of Housing and Minister of Economic Development on progress of the Bond modernisation programme, including the implementation of pet bonds.

Appendix 1

26. Summary of approved business case expenditure:

Financial Summary	Financial Years					
	FY 21/22	FY 22/23	FY 23/24	FY 24/25	Outyears	Total
Budget 2021 Allocation						
Capital expenditure	$4,000,000	$11,000,000	$5,000,000			**$20,000,000**
Project Operating expenditure	$2,000,000	$2,500,000	$2,500,000			**$7,000,000**
Ongoing Operating costs				$3,700,000		**$3,700,000**
Depreciation			$1,667,000	$3,333,000		**$5,000,000**
Capital Charge	$100,000	$475,000	$875,000	$833,000		**$2,283,000**
TOTAL	**$6,100,000**	**$13,975,000**	**$10,042,000**	**$7,866,000**		**$37,983,000**