

Annual Report of the Building Industry Authority for the year ended 30 June 2003.  
Presented to the House of Representatives pursuant to Section 44 of the Public Finance Act 1989.

**BIA**



**Building  
Industry  
Authority**

Annual

2003

Report

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## Highlights of 2002/03

- In September 2002 the final version of the BIA-commissioned Hunn Report into weathertightness issues is released, which becomes the basis for a range of Government responses.
- The BIA instigated 21 projects to address areas of concern identified in the Hunn Report, many of which are already complete.
- The BIA moved to strengthen its relationships with key stakeholders, including territorial authorities, and increases its focus on providing information to consumers.
- The BIA provides input to the Ministry of Economic Development's review of the Building Act 1991.
- The BIA reorganises its structure and begins building its capacity to meet the challenges of the proposed new building regime.
- The BIA undertakes a review of its business strategy to support the organisation – taking a stronger proactive approach, building stronger stakeholder relationships and gathering better feedback from stakeholders and reporting on the performance of the building controls regime.
- The BIA continues its business as usual work of reviewing and amending the Building Code and its Approved Documents in a challenging and evolving environment.
- The BIA responds to a range of issues, such as the concerns about structural engineering design and construction standards identified by John Scarry and concerns about medium/high density housing.
- The BIA begins planning for a major revamp of its website to improve the flow of information and services to stakeholders.



# Chairman's Report



The last year has been a turbulent one for the building industry as a whole. It has been characterised by concerns over standards of design, construction and regulatory supervision. A number of factors coincided to produce this situation. These included market pressures forcing down margins and hence factors of safety, a rapid change in the technology used in the building sector and the industry having to quickly adjust to these changing factors.


Some of the manifestations of this situation were the weathertightness problem, issues around structural engineering design standards and concerns about the quality of some medium/high density apartments being built.

Two important reports were produced that identified a number of systemic issues. The first was the BIA-commissioned *Report of the Overview Group into the Weathertightness of Buildings* (the Hunn Report). This report produced a range of recommendations, which the BIA has been actively implementing over the last six months. The second was the report of the Government Administration Committee.

The Government's broader response to these reports and the issues identified in them was a series of proposals designed to improve the building regime, now contained in the Building Bill 2003. The Bill aims to put in place a stronger set of building controls, clarify in more detail what the Government and consumers expect of builders, territorial authorities (TAs) and other industry participants, and enable the BIA to take a more pro-active role in monitoring and enforcing the building regulations.

The BIA provided considerable input to the preparation of the Bill and believes it is a sound approach to balancing the needs of consumers, industry and government (both local and central) in a way that will regenerate confidence in the building industry. At the time this Annual Report was printed the Government Administration Select Committee was considering the Bill.

Another significant development was the Government's decision to move the BIA from being a Crown entity to a department of the Crown. This was seen as a more appropriate institutional form for the role and functions performed by the BIA, particularly as it would strengthen the accountability of the regulator to the responsible Minister. No final decision has been made about which department the BIA will be a part of.



Strengthening relationships with key stakeholders, and particularly TAs, was another area the BIA focused on. Maintaining robust, proactive relationships with all stakeholders is essential to the production of building controls that are relevant, effective and accessible. Broadening its interactions with consumers was part of this effort for the BIA.

To meet these evolving challenges the BIA has been adapting its structure and building its capacity. In 2003 a new organisation structure was implemented to enable the BIA to more effectively respond to the issues that had emerged in the building industry, and a major review of the organisation's strategies was carried out. To meet the increased requirements placed on the BIA, the organisation's staffing and resources were significantly increased.


At the same time the size of the Authority itself was reduced from eight to four members. In the 2003/04 year the BIA will continue to be in transition mode and the Authority will focus on effectively managing the changes as well as ensuring that the BIA continues to effectively perform its usual regulatory functions.

In the midst of this time of significant change the BIA has, of course, also undertaken its business as usual work of maintaining and updating the Building Code and its Approved Documents.

I wish to take this opportunity to thank the Authority members, management and staff of the BIA for their significant effort in making this transition period a successful one. I am confident that the BIA is now well positioned to undertake the higher profile role the Government is seeking from it.

What is certain is that the next year will bring perhaps even greater challenges for the BIA and its partners in the building sector. Success will depend on a commitment from the BIA, central Government and TAs, producers and manufacturers of building products, and all sectors of the building and construction industry to work together towards an agreed set of goals. Already the signs are encouraging that this can be achieved.

Barry Brown  
**Chairman**



# Functions and Governance\*



## Overview

The Building Industry Authority is a Crown entity established by the Building Act 1991. Its fundamental purpose is to manage New Zealand's building control regime. This is largely achieved through amendments to the Building Code and its Approved Documents, which are non-mandatory means of complying with the Code.

In 2002/03 the Authority comprised eight members appointed by the Minister of Internal Affairs. Authority members met every month and were supported by a team of technical and professional staff.

The Ministry of Economic Development (MED) assumed responsibility for monitoring the Building Industry Authority on January 1, 2003 and so the Minister of Commerce will appoint future Authority members.

## Role and services

The following functions were funded by a levy on building consents:

- To advise the Minister of Commerce on matters relating to building control
- To administer and review the New Zealand Building Code
- To produce Approved Documents that specify detailed methods of complying with the New Zealand Building Code
- To provide information and advice on building controls to all sectors of the building industry and public.

The Authority also offered the following services for a fee:

- Determinations – technical rulings on matters of interpretation or dispute relating to compliance with the Building Code or the issuing of consents and certificates
- Accreditations – approving specific products, systems or methods as complying with the Building Code
- Building certifier approval – registration of individuals and firms approved by the Authority to check building plans and specifications, and building work during and after construction.

*\* It should be noted that as a result of the Building Bill 2003, which at the time this Annual Report was produced was before the Government Administration Select Committee, some of the information in this section will change.*



## **Section 14 Notice**

In April 2003 the Minister of Commerce issued a Government Policy Statement under Section 14 of the Building Act. This directed the BIA to work closely with the MED on transition arrangements for a new building control regime in order to:

- Ensure the BIA could continue to effectively perform its day to day regulatory business under existing legislation
- Reposition the organisation for the enhanced role that will result from the current Building Act review, and build strategic capacity and management systems to carry out the role effectively
- Strengthen relationships with a range of stakeholders and enable them to contribute to the reform and transition processes.

It also stated that “there are changes that can be implemented before legislation is passed. In particular, the Government is looking to the Chair to take the lead in building the credibility and profile of the BIA, and promoting a more proactive culture within the BIA. Stakeholders in the sector are looking to the BIA for real leadership.”

## **Authority members**

As at 30 June 2003 the Authority members were:

- Barry Brown, Chairman (Auckland) – Director with Fraser Thomas Consulting Engineers of Auckland; extensive experience in structural engineering, specialises in building design for commercial and industrial uses.
- Kemp Broughton (Stratford) – Part-time engineering consultant; ex-Chief Executive of Stratford District Council and a member of the Institution of Professional Engineers New Zealand; of Ngarauru, Ngati Ruanui and Ngaruahine descent.
- John Hill (Auckland) – A registered architect who has had a long involvement with local body and community work; past examiner for the Architects Education and Registration Board, and tutor at the Auckland School of Architecture.
- Alexia Pickering (Wellington) – Operates a consultancy ‘Accessible Options’; has been an advocate for people with disabilities in the areas of access and design since 1970.

During the year Peter Fehl, Bill Wrightson, Helena Horswell and Stephen Meredith left the Authority to assume roles with MED’s ‘Building Reference Group’. Their contributions to the work of the BIA over the years is acknowledged with thanks.



## **M a n a g e m e n t**

During 2003 Richard Martin assumed the role of Acting Chief Executive. Richard put in place a transitional management team and structure to enable the organisation to work through the challenges it was facing. At the time this Annual Report was published much of the new permanent structure had been implemented and most of the new management team were in place.

# Chief Executive's Report



## **I n t r o d u c t i o n**

The 2002/03 year has seen the BIA undergo a rapid transformation. That transformation was prompted by issues identified within the industry and the need for the organisation to respond effectively and quickly to those issues.

During the year the BIA focused on four key areas:

- Undertaking a work programme in response to weathertightness issues, and responding to other issues such as concerns over structural engineering design standards
- Developing the BIA's organisational capability and strengthening relationships with key stakeholders, including territorial authorities (TAs)
- Preparing for changes proposed to the Building Act
- Maintaining and updating the Building Code and Approved Documents.

## **B u i l d i n g   o r g a n i s a t i o n a l   c a p a b i l i t y**

The process of building the BIA's organisational capability was well in train by the end of the 2002/03 year. A new organisational structure is in place and a number of appointments made to new key management roles, with several more in the pipeline. It has also been agreed that the level of financial resource available to the BIA will be significantly increased to enable it to pursue a greater range and depth of activities.

## **W e a t h e r t i g h t n e s s**

Weathertightness and the systemic issues behind it were an important work area for the BIA in 2002/03. The BIA's activities included:

- Publishing the *Report of the Overview Group into the Weathertightness of Buildings* (the Hunn Report). This report produced a range of recommendations, which the BIA has been actively implementing
- Convening an industry leaders summit in November 2002 which was attended by over 100 industry leaders and resulted in the formation of the Building Industry Taskforce, which met until May 2003
- Beginning work to ensure standards of design and construction achieve Building Code compliance (See B2/E2 section later in this report)
- Broader monitoring of the building controls regime to identify systemic problems.



Work in the weathertightness area is ongoing. A new publication, *Weathertightness News*, was introduced to keep stakeholders up-to-date with developments in this area.

## **S t r u c t u r a l   e n g i n e e r i n g   d e s i g n   a n d c o n s t r u c t i o n   s t a n d a r d s**

During the 2002/03 year the Government received an 'open letter' from structural engineer John Scarry that raised a number of issues relating to structural engineering design and construction, including deficiencies that could affect the performance of some buildings in a major earthquake. These issues related to commercial buildings, rather than housing.

A BIA-commissioned review of the Scarry Report subsequently indicated some grounds for the concerns that have been raised by Scarry. To support the development of improved construction standards, the BIA plans to coordinate additional research into the types of construction that are of concern. The BIA will assist TAs and building certifiers to identify questionable design and construction methods to ensure more rigorous compliance inspections. Training and monitoring will be undertaken to support this.

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## **B u i l d i n g   A c t   c h a n g e s**

Partly as a result of the weathertightness issue, the review of the Building Act was expanded and the Government proposed extensive changes to the building controls regime. At the time this Annual Report was published the Government Administration Select Committee was considering the proposed changes.

The BIA made a significant contribution to the formulation of the proposed changes and believes they will not only put in place a stronger set of building controls but will clarify in more detail what the Government and consumers expect of the industry. It will also allow the BIA to take a more proactive role in monitoring and enforcing the building regulations.

A significant aspect of the changes proposed in the Building Bill is a change for the BIA from a Crown entity to a department of the Crown. A work programme is in place preparing for this change, which will impact on organisational processes as well as outputs.



## **Territorial authorities (TAs)**

Central to the effectiveness of the building controls regime is the relationship between the central regulator, i.e. the BIA, and the agencies that operate the regulatory processes. These are primarily the TAs but also include a small number of private building certifiers. Effective regulation is more likely to be achieved with their input, as well as monitoring of their competence and performance, and reporting on the performance of the building controls regime.

In 2002/03 it was established that the BIA needed to:

- Strengthen its relationships with TAs
- Provide more support to the TAs for the management of the regulatory process, including feedback on their performance
- Enable TAs to have more effective input into the formulation of building controls and the related regulatory processes
- Provide reporting and analysis of the performance of the building controls regime.

Work commenced on all of these areas, including, significantly, the formation of the Building Industry Performance Group within the BIA to take specific responsibility for these areas. This group will:

- Monitor and audit the performance of TAs
- Provide advice and assistance to them on achieving best practice
- Gather and disseminate information of use to TAs.

The BIA also funded the development of a building officials Code of Practice website produced by the Building Officials Institute of New Zealand (BOINZ). This was designed to promote best practice among building officials.

## **Medium / High density housing**

The emerging trend to build medium and high-density multi-unit residences, particularly in central city areas, was identified by the BIA as a priority focus area in 2002/03. The planning, design and construction issues relating to this form of building are inherently complex and need to be considered holistically.

The BIA began work on the specific Building Code clauses dealing with natural light, acoustic quality, ventilation, and interior environment. Further work will be undertaken, not just on individual Code clauses, but also on the broader issues associated with medium and high-density multi-unit residences.





## **B e t t e r   i n f o r m a t i o n**

An effective building controls regime requires good information, which reaches all those who need it. The information needs to provide effective guidance on what is required to comply with the Building Code and create healthy and safe buildings that offer amenity to users. Often this information needs to be supported by research.

To achieve a well-informed building controls regime, the BIA identified in 2002/03 a need to:

- Strengthen its relationships with Standards New Zealand and the Building Research Association of New Zealand (BRANZ)
- Provide leadership in terms of what standards, guidance and research is required
- Establish systems to ensure that emerging risks in the building industry are identified in a timely manner, and appropriate action is taken
- Strengthen its relationship with Australian organisations, in particular the Australian Building Codes Board (ABCB).


Work on all of these areas is underway. As a means of more effectively disseminating its information to stakeholders, including consumers, the BIA began a project to significantly improve its website. This project is ongoing, and will result in a more responsive, user-friendly web site that offers access to a greater range of information online.

The BIA's publications portfolio was expanded during the year to provide more targeted and timely information to stakeholders. Two new publications were introduced: *BIA Update*, an email bulletin designed to keep stakeholders informed of important developments and announcements; and *Weathertightness News*, a bi-monthly publication focusing on weathertightness issues. In addition to these new publications, the BIA's flagship publication *BIA News* was also improved.

Also, the BIA Chairman and Chief Executive undertook an expanded range and number of speaking engagements in 2002/03.

## **A m e n d m e n t s   t o   B u i l d i n g   C o d e   c l a u s e s   B 2 D u r a b i l i t y   a n d   E 2   E x t e r n a l   M o i s t u r e**

Partially in response to the weathertightness problem and the systemic issues it raised, the BIA began a major review of Building Code clauses B2 Durability and E2 External Moisture. The proposed changes to Clause B2 addressed the circumstances in which treated or untreated timber should be used in residential house framing. The changes



to Clause E2 proposed a series of prescriptive measures to improve the weathertightness of the exterior of the house. On 13 June 2003 a significant consultation document was released outlining major proposed changes to both clauses.

Eight weeks later over 300 submissions had been received and the BIA had begun the process of analysing them, using expert working groups, with a view to making final decisions by the end of the year. At the time of publishing this Annual Report the B2/E2 review had become an issue of significant industry and media interest.

## **B u i l d i n g   C o d e   a n d   A p p r o v e d   D o c u m e n t s**

During 2002/03 various amendments were made to the Building Code Handbook. Amendments to Code clauses F7 Warning Systems and C1-C4 Fire Safety were completed. Progress was made on amendments to Code clauses B2 and E2 (as above), Clause E3 Internal Moisture, Clause F6 Lighting for Emergency, Clause G6 Airborne and Impact Sound and Clause F4 Safety from Falling.

In related areas, the BIA supported work on a total of 12 New Zealand Standards during 2002/03 and issued 12 determinations.

More detailed information on this work is available in the Statement of Service Performance which is included later in this Annual Report.

## **S u m m a r y**

All of the above represents a significant achievement by the BIA in an evolving environment. While the year ahead promises more change and challenges, I share the Chairman's confidence that the processes and personnel in place at the BIA will respond well to them.

In particular, it is clear that the BIA will continue to have to work closely and effectively with all stakeholders involved in the building industry to ensure that New Zealand buildings are up to the standards expected by consumers. Consequently, we have adopted a positive, proactive and inclusive approach to working with the building community and TAs. This will be vital to our joint success.

Richard Martin  
**Acting Chief Executive**



# Statement of Responsibility



Pursuant to Section 42 of the Public Finance Act 1989, management accepts responsibility for:

- The preparation of the financial statements for the Building Industry Authority and for the judgements used therein.
- The establishment and maintaining of a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the management, the financial statements of the Building Industry Authority for the year ended 30 June 2003 set out on pages 14 to 46 fairly reflect the financial position and operations of the Building Industry Authority.

Barry Brown  
**Chairman**

Richard Martin  
**Acting Chief Executive**

**Building Industry Authority  
Statement of Service Performance  
For the Year Ended 30 June 2003**

***Advice and Education***

<b>Outputs</b>	<b>Performance Measures</b>	<b>Results Achieved</b>
<b>Operations</b>		
Respond to individual requests for advice and information	80% of written queries dealt with within 20 working days	Performance standard was met.
Speaking engagements	10 speaking engagements per year	CEO actively represented the BIA at industry forum and meeting with TAs. Typically 2 – 3 meetings a month with TAs.
Implement effective communication strategies for different audiences	Surveys show effective communication	Development of a Communications stakeholder relationship management plan was undertaken.
Facilitate training initiatives for various building industry sectors	Three initiatives per annum.	Building Warrant of Fitness workshops for Territorial Authority staff were held in 20 locations throughout NZ. Attended by 369 staff from 72 TAs. Over 90% customer satisfaction.
	Customer feedback – achieve 90% customer satisfaction	Plumbing Seminars held in 5 locations throughout NZ, in conjunction with Standards NZ. Over 90% customer satisfaction.  The BIA participated in MED Industry Building Act consultation roadshow in 6 centres.  Customer satisfaction was not measured during the year.
Reporting	Report quarterly to the Minister	One quarterly report was produced for the third quarter and sent to the Minister in June 2003.



Outputs	Performance Measures	Results Achieved
<b>General Projects</b>		
0280 BIA News	10 issues per year	7 issues of the BIA News were published. A decision during the year to go to quarterly publication rather than monthly was later reversed but did mean that fewer issues were published than originally stated.
BIA Weathertightness News		No 1 April 2003 No 2 June 2003 (published bi-monthly)
BIA Update		6 issues published between March and June 2003
0281 Website	Monthly report to Authority	Yes. Updating of the website was initiated and will continue during 2003/2004
0282 Education support material	Monthly report to Authority	Yes
0283 Marketing/advertising	Monthly report to Authority	Yes, advertising undertaken in trade and other publications plus advertising of consultation processes.
0286 Special projects	Monthly report to Authority	Yes
0287 Registers of accreditations and building certifiers	Monthly report to Authority	Yes Updates published in BIA News
0288 Miscellaneous	Monthly report to Authority	Yes
0297 Miscellaneous requests	Monthly report to Authority	<i>The BIA supported a number of industry and community initiatives in 02-03:</i>  The BIA paid print costs for 50,000 copies of a weathertightness poster – widely distributed to Industry and consumers in July 2002. The BIA paid print costs for a further 50,000 copies in December 2002.



Outputs	Performance Measures	Results Achieved
		<p>Provided presenter and financial assistance to 2-day Marae building workshop held in Hamilton on August 2002.</p> <p>Provided financial assistance to 'Clean NZ' in bringing an Australian specialist to NZ to speak to cleaning contractors and property managers on the topic of 'maintaining clean slip resistant floors'. The Clean NZ conference was held in Auckland on 9- 10 May 2003.</p>
0299 Sponsorship	Monthly report to Authority	The BIA sponsored a BRANZ seminar series on Cavity construction in Feb -March 2003. This seminar was held in 19 locations and attended by 000 people. Sponsorship of one day NZ Geotech Society Pre-Symposium workshop on Serviceability limit State design of foundations.

### Weathertightness Projects

HR 1 <sup>1</sup> Public warning on the risks of collapse of cantilevered balconies	Public warning to be issued by 01 October 2002	<p>a) Completed Oct 2002 with public notification also posted on website.</p> <p>b) In May the BIA carried out a follow up survey of TAs actions on the balcony warning issue. The responses have been received and are used to determine the extent of the issue and encourage TAs to remain active on this issue. Ongoing reminders and information is part of the wider BIA communications programme.</p>
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<sup>1</sup> Hunn recommendations ("HR")





Outputs	Performance Measures	Results Achieved
<b>HR 2</b> Alert public to health concerns	To complete industry and public advice warnings by 30 June 2003	Industry and public warnings issued in late 2002 and early 2003. Industry and public notified via website and publications to building merchants. Dissemination of information is ongoing throughout the year and following years as part of BIA communications.
<b>HR 3</b> Initiate (with DIA) an industry leaders summit regarding leaking buildings	Building industry leaders summit to be held by 01 November 2002	<p>a) Summit held in Auckland on 11th October 2002, attended by over 100 Industry leaders from all sectors of the industry. Outcome of summit was the Building Industry Taskforce, which met regularly until May 2003, and acted to provide Industry feedback to MED on Building Act review.</p> <p>b) Select Committee report in, BIA began responding to recommendations.</p>
<b>HR 6</b> Consent criteria and guidelines for building officials	Draft consultation documents by 30 June 2003	The Building Consent and Inspection Codes of practice produced in conjunction with BOINZ for HR6a and HR6b will provide more definitive criteria which building officials and certifiers can use to assist in achieving the satisfied on reasonable grounds test. The draft codes of practice were submitted to the Authority at the June 2003 meeting. Codes targeted to be available via website in October 2003.



Outputs	Performance Measures	Results Achieved
<b>HR 13</b> Establish, fund, monitor and audit public-good building research	Research programme to investigate the nature and extent of weathertightness to be prepared by no later than 31 March 2003	The BIA commissioned a report on existing research relating to weathertightness that has been given to the MED as advice and input into the Building Act review. The BIA has not received funding for carrying out general research but will continue to carry out research as required for to achieve the specific strategic objectives of the Statement of Intent.
<b>HR 14</b> Draft Home Building Contract Format	Draft contract to be prepared by June 2003	Objective of recommendation achieved with advice provided to MED in April 2003, for the Building Act review, on the provision of a home building contract and improving consumer protection. The BIA commission work on drafting a contract that is on hold pending the outcome of the Building Act review. BIA is in communication with SNZ on this issue.
<b>HR 18</b> Impact of district plans on buildings	Alert territorial authorities by 30 June 2003	The final report was issued to Territorial Authorities in June 2003 for consideration and action in reviewing their District Plans. Based on the outcome of this report, TA's were notified of any instances where the District Plan is influencing planning and site coverage and recommendations for improving the issue.
<b>HR 19</b> Inform Banking and insurance industries of developments re leaking building syndrome	Industries to be updated quarterly	The work on this recommendation was effectively completed with a specific discussions held in late 2002 and ongoing work included as part of the strategy to improve the BIA's external communications effectiveness.





Outputs	Performance Measures	Results Achieved
<b>HR 20</b> Design and implementation of overall communications strategies relating to leaking building issues	Strategies to be implemented by 01 November 2002	Work on this recommendation was effectively completed with a communications strategy produced in 2002 implemented that is continually under review to ensure it stays current. Examples of deliverables from the strategy are the BIA update email, the BIA Weathertightness News publication and the increased capability of the Communications team to provide greater communication with the public and industry.

#### Summary of Output Class Expenditure

	Actual \$	SOI Budget \$
Programmes & Projects	372,361	346,000
Weathertightness Projects	535,102	692,000
Operating & overhead costs	1,108,862	826,000
	<b>2,016,326</b>	<b>1,864,000</b>

### ***Building Controls Monitoring***

<b>Outputs</b>	<b>Performance Measures</b>	<b>Results Achieved</b>
<b>Operations</b>		
Produce amendments to the Approved Documents	Publish a maximum of three amendments to the Approved Documents by 30 June 2003	Progressed with further working continuing into 2003/2004 3 Approved Document amendments published (Building Code Handbook – various amendments Clause F7 – Warning Systems Clauses C1 – C4 Fire Safety Clauses)
Update Approved Document requirements to reflect policy changes in legislation administered by other agencies or departments	Complete reviews of Approved Document, in consultation with ERMA, by 30 June 2003	On hold due to Building Act Review.
Monitor the performance of territorial authorities	10 technical reviews of Territorial Authorities completed by 30 June 2003  20 levy reviews of Territorial Authorities completed by 30 June 2003	8 technical audits completed with a further 2 reviews currently pending.  22 levy reviews completed.
Review building certifiers' operations	Review carried out by expiry date	Building Certifiers reviewed prior to expiry.
Reporting	Report quarterly to the Minister	A Quarterly Report for the third quarter was submitted to the Minister of Commerce in June 2003
<b>General Projects</b>		
0200 Earthquake risk buildings	Monthly report to Authority	Yes. The BIA response to the Scarry report has been input to the work programme for the next year and projects initiated for 2003/04.
0202 Miscellaneous Code and AD matters	Monthly report to Authority	Reported in CEO's monthly report to the Building Industry Authority Board



<b>Outputs</b>	<b>Performance Measures</b>	<b>Results Achieved</b>
0210 Clause B2 Durability review	Draft by 30 June 2003	Draft amendments were published and released for public comment in June with response submissions expected by early August 2003.
0211 Clause E2 External moisture review	Draft by 30 June 2003	
0212 Clause E3 Internal moisture review	Monthly report to Authority	Completed and amendment to Building Code cause E3 at the publisher and following that to be submitted for Ministerial approval.
0213 Weathertightness Overview Group	Report completed 1 December 2002	The Weathertightness overview group report was received and group's recommendations were merged into the Weathertightness project reporting and management structures established in response to Hunn recommendations.
0236 Clause F6 Lighting for emergency review	Draft by 30 June 2003	Draft prepared and awaiting completion of a cost-benefit analysis prior to submission to the Authority for approval to release for public comment.
0237 Clause G6 Airborne and impact sound review	Draft by 30 June 2003	Draft prepared and approved for release by the Authority, but awaiting completion of a cost-benefit analysis prior to release for public comment.
0241 Energy efficiency	Monthly report to Authority	The Authority receives monthly reports on issues arising in respect of energy efficiency.
0244 Asbestos roofs	Monthly report to Authority	Final report completed and submitted to the Authority.
0245 Clause F4 Safety from falling review	Draft by 30 June 2003	The Authority has approved the draft prepared and released for public comment.



Outputs	Performance Measures	Results Achieved
0261 Monitoring of building certifiers	20 per year	5 building certifier reviews were completed in respect of the renewal of their certification certificates. There are only 18 active and separate certifier entities in New Zealand.
0264 Approved Documents development	Monthly report to Authority	Completed – A total of 12 New Zealand standards were supported by the BIA during 2002/2003.

#### Weathertightness Projects

<b>HR 5</b> Review Building Code E2/AS1	Acceptable solution containing all common cladding systems to be prepared by 30 June 2003	a) High-risk definition research and report received and fed into production of revised acceptable solution E2/AS1. b) Research to date has been consolidated for E2/AS1. c) The proposed amendments to the acceptable solution E2/AS1, and E2/VM1 and the associated RIS were prepared for the 8 week public consultation in mid June 2003. Comments due back in by mid August.
<b>HR 7/23</b> Develop interpretive guidelines and monitor application by building officials	Draft documents to be completed by 31 March 2003	7) Recommendation achieved through the re-publicising of the CCH "Guide to the Building Act" document. The draft information was presented by 31 March 2003 and publicised in the April 2003 issue of BIA News. The document sets out guidelines on interpretation and understanding of the Act and forms a useful reference for building officials and certifiers. The intention is to upgrade the "Guide to the Building





Outputs	Performance Measures	Results Achieved
	Draft documents to be completed by 31 March 2003	Act" to reflect any changes that arise from the Governments current review of the Building Act.  23) Recommendation achieved through work on HR6. Document on "On Reasonable Grounds" provided by 31 March 2003 and fed into the work on HR6. The Building Consent and Inspection Codes of practice produced in conjunction with BOINZ for HR6 will provide more definitive criteria which building officials and certifiers can use to assist in achieving the satisfied on reasonable grounds test.
<b>HR 8</b> Clarification of roles of territorial authorities and building certifiers	Draft documents to be completed by 30 June 2003	The BIA carried out a study on the roles and responsibilities of TA's and certifiers and reported the information to the Authority and the Government as part of its review of the Building Act, by June 2003. The intention to produce guidance documents was superseded due to the review of the Building Act, as the role of TA's and certifiers is likely to change. The BIA established a specific building performance group to focus on working with TA's and certifiers in the future.

Outputs	Performance Measures	Results Achieved
<b>HR 11/22</b> <ul style="list-style-type: none"> <li>■ B2 alternative solutions</li> <li>■ General alternative solutions</li> <li>■ Weathertightness standard</li> </ul>	<p>Draft documents to be completed by 31 March 2003</p> <p>Plan to be prepared by 30 June 2003</p>	<p>11a) Proposed amendments to B2/AS1 have been held back to ensure the work of the Parliamentary Select Committee is taken into consideration. The amendments have been released for public consultation in mid-June 2003 for an 8 week public consultation period.</p> <p>11b) Advice provided to assist with review of the Building Act review. A draft report was prepared for the Authority and will be reviewed in light of the BIA future provision of Guidance Information under the revised Building Act.</p> <p>22a) refer 11a</p> <p>22b) Recommendation achieved with the review procedure evaluated and incorporated into usual BIA TA reviews. Feedback ongoing through usual BIA reports and building performance group audits.</p> <p>22c) Recommendation achieved with advice to MED on improved information dissemination role for BIA. Any future work from the BA review would be part of BIA business as usual.</p>

#### Summary of Output Class Expenditure

	Actual \$	SOI Budget \$
Programmes & Projects	1,055,509	828,000
Weathertightness Projects	405,529	443,000
Operating & overhead costs	1,785,295	1,131,000
	<b>3,246,332</b>	<b>2,402,000</b>



## ***Building Solutions***

<b>Outputs</b>	<b>Performance Measures</b>	<b>Results Achieved</b>
<b>Operations</b>  Determine matters of doubt and dispute relating to compliance with the Building Code (Determination).	Complete applications within four weeks. Respond to new applications and requests for additional information supporting an application within 20 days.	All applications were responded to within the 20-day period and requests for further information issued within that period. No determination was issued within four weeks because of the time required to obtain information responses from applicants and associated parties, comments on the parties submissions and the issuance of a draft decision by the Authority. In total 12 determinations were issued by the Authority during the year ending 30 June 2003.
Accept and process applications for new or continued approvals as building certifiers.	Complete applications within 20 days. Respond to new applications and requests for additional information supporting an application within 20 days.	All applications were responded to within the 20-day period and requests for further information issued within that period. No applications were completed within 20 days due to the delays in obtaining the necessary information and applicants meeting the requirements of the Act.  Five requests for renewal of approval were completed during 2003.  Two individual applications received and processed and considered by the Authority. One application successful but other applicant not able to obtain insurance cover.
Accept and process applications for new or renewed accreditations of proprietary building products, systems or methods (Accreditation).	Respond to new applications and requests for additional information supporting an application within 20 days.	All applications were responded to within the 20-day period and requests for further information issued within that period. 1 application is being processed and further 2 applications have been received.



Outputs	Performance Measures	Results Achieved
<b>General Projects</b>		
0203 Technical advice on accreditations and determinations	Monthly report to Authority	Status of accreditations is reported monthly to the Authority.
0260 Approval of building certifiers	Approval within 40 working days	Two individual applications received and processed and considered by the Authority. One application successful but other applicant was unable to obtain insurance cover. Neither of the applications was approved within 40 working days because of delays in receiving the necessary information to process the applications.
<b>Weathertightness Projects</b>		
HR 12 Appraisal/ accreditation review	Participation as required by MED	The BIA has worked with the MED to review the current practice and the proposed certification system. An independent consultant has carried this out and the advice fed into the Building Act review. The BIA will continue to work with MED to improve the product accreditation/approval process and assist in implementing any new system.

**Summary of Output Class Expenditure**

	Actual \$	SOI Budget \$
Programmes & Projects	17,647	35,000
Weathertightness Projects	17,822	52,000
Operating & overhead costs	43,341	161,000
	<b>78,811</b>	<b>248,000</b>





## Policy Advice

Outputs	Performance Measures	Results Achieved
<b>Operations</b>		
Provide advice, respond to requests for reports and correspondence, including parliamentary papers to the Minister and Department officials	Delivery within agreed deadlines	Extensive advice on policy development for the Building Act Review, and the subsequent Building Bill, has been provided to the MED. Ministers & officials' requirements for policy input to Review and Bill-drafting have been met.
Participate in official committees	Participation as requested	BIA participated in various committees whenever requested.
Reporting	Report quarterly to the Minister	The BIA's first Quarterly Report was submitted in April 2003.
<b>General Projects</b>		
0250 Legal advice and representation	Timely and appropriate advice	Standard met.
0252 Annual Report and Business Plan	Statutory deadlines achieved	Timeframes have been agreed with MED and agreed timeframes have been met.
<b>Weathertightness Projects</b>		
HR 4 Compliance costs	Participation as required by MED	4a) Recommendation achieved with advice provided and discussion held with MED. Issue of minimising compliance costs addressed within the Regulatory Impact Analysis (RIA) that is to accompany the revised Building Act. 4b) Recommendation achieved with advice provided to MED on the concept of whole of life costs or Life Cycle Costing (LCC). The BIA is awaiting the outcome of the MED advice to the Minister of Commerce before proceeding further with this work.



Outputs	Performance Measures	Results Achieved
		4c) Recommendation achieved with a productive TA forum held in Auckland in late March. Outcomes collated into a paper to MED for consideration in the Building Act review.
<b>HR 9(a)</b> Report on information to include in LIM reports	Draft report by 30 June 2003	Recommendation achieved with an investigation and report by a legal consultant. The report was made available to MED for consideration. Recommendation is now closed.
<b>HR 10</b> Determine requirement to improve sector qualifications, in particular inspectors and certifiers	Contribute to work being undertaken and led by the Ministry of Economic Development	The MED has responsibility for leading the process in implementing this recommendation. The BIA has contributed to the process on an as required basis.
<b>HR 17</b> Promoting industry debate at and after summit	Monthly reports to the Authority	Recommendation completed with debate held at summit in 2002. Ongoing work through Building Industry Taskforce (BITF) until its agreed dissolution. Discussion related to trade regulation, professional education and builder registration formed part of consultation work undertaken by MED as part of Building Act review.
<b>HR 21</b> Broaden BA review	Contribute to MED work	Recommendation achieved with advice provided to MED to assist in producing advice to Minister on BA review (See under Policy Advice above).





<b>Outputs</b>	<b>Performance Measures</b>	<b>Results Achieved</b>
<b>HR24</b> Review role, structure and resourcing of the BIA	Contribute to work completed by the MED	Transitional management team appointed in March 2003 have worked with BIA staff and officials from MED to increase the capability of the BIA and refocus the BIA. The expenditure budget for 2003/2004 has been increased to \$10m.
<b>HR25</b> Building Act Review to cover the scope and functions of the BIA	Contribute to work completed by the MED	This recommendation was implemented by the MED with input from the BIA as part of the Building Act Review. The Bill introduced to Parliament to amend the Building Act incorporates a range of changes that will require the BIA to take a greater role in regulating and monitoring the BIA.

#### Summary of Output Class Expenditure

	<b>Actual \$</b>	<b>SOI Budget \$</b>
Programmes & Projects	97,335	40,000
Weathertightness Projects	45,353	129,000
Operating & overhead costs	174,355	181,000
	<b>317,043</b>	<b>350,000</b>

**Building Industry Authority**  
**Summary of Expenditure by Output**  
**For the Year Ended 30 June 2003**

	<b>2003 Actual \$</b>	<b>2003 SOI Budget \$</b>
<b>Advice &amp; Education</b>		
Programmes & Projects	372,361	346,000
Weathertightness Projects	535,102	692,000
Operating & overhead costs	1,108,862	826,000
	<b>2,016,326</b>	<b>1,864,000</b>
<b>Building Controls &amp; Monitoring</b>		
Programmes & Projects	1,055,509	828,000
Weathertightness Projects	405,529	443,000
Operating & overhead costs	1,785,295	1,131,000
	<b>3,246,332</b>	<b>2,402,000</b>
<b>Building Solutions</b>		
Programmes & Projects	17,647	35,000
Weathertightness Projects	17,822	52,000
Operating & overhead costs	43,341	161,000
	<b>78,811</b>	<b>248,000</b>
<b>Policy Advice</b>		
Programmes & Projects	97,335	40,000
Weathertightness Projects	45,353	129,000
Operating & overhead costs	174,355	181,000
	317,043	350,000
<b>Total Expenditure</b>	<b>5,658,512</b>	<b>4,864,000</b>
Total Expenditure on Projects & Programmes	1,542,852	1,249,000
Total Expenditure on Weathertightness Projects	1,003,806	1,316,000
Total Project & Programme related expenditure	2,546,658	2,565,000
Total Operating & Overhead Costs	3,111,854	2,299,000
<b>Net Cost of Services</b>	<b>5,658,512</b>	<b>4,864,000</b>

**Building Industry Authority  
Statement of Financial Performance  
For the Year Ended 30 June 2003**



2002 \$		Note	2003 \$	Budget 2003 \$
	<b>Income</b>			
3,835,202	Consent Levies		4,648,707	3,078,000
64,438	Interest on Deposits		27,897	-
<b>3,899,640</b>	<b>Total Operating Income</b>		<b>4,676,604</b>	<b>3,078,000</b>
	<b>Expenses</b>			
(3,480,267)	Net Cost of Services	1	(5,658,512)	(4,864,000)
419,373	Net Operating Surplus/(Deficit) for the Year		(981,908)	(1,786,000)
531,505	Investment Income on Managed Funds	6	834,114	740,000
(31,976)	Funds Management Fees		(36,392)	-
<b>918,902</b>	<b>Net Surplus/(Deficit) for the Year</b>		<b>(184,186)</b>	<b>(1,046,000)</b>

**Building Industry Authority**  
**Statement of Movements in Accumulated Funds**  
**For the Year Ended 30 June 2003**

<b>2002 \$</b>		<b>2003 \$</b>	<b>Budget 2003 \$</b>
918,902	Net Surplus/(Deficit) for the Year	(184,186)	(1,046,000)
918,902	Total Recognised Revenues and Expenses for the Year	(184,186)	(1,046,000)
11,258,304	<b>Accumulated Funds at Start of the Year</b>	12,177,206	12,177,206
<u>12,177,206</u>	<b>Accumulated Funds at End of the Year</b>	<u>11,993,020</u>	<u>11,131,206</u>

**Building Industry Authority**  
**Statement of Costs of Services**  
**For the Year Ended 30 June 2003**



2002 \$		Note	2003 \$	Budget 2003 \$
	<b>Personnel Costs</b>			
1,210,578	Staff Salaries and Wages	10	1,476,427	1,475,000
39,398	Staff Recruitment & Training		96,362	40,000
114,857	Members Fees	8	182,343	90,000
<b>1,364,833</b>			<b>1,755,132</b>	<b>1,605,000</b>
	<b>Other Costs</b>			
520,187	Education and Training		371,783	571,000
835,207	Programmes & Projects		970,613	678,000
-	Weathertightness Projects		1,003,806	1,316,000
-	Transitional Management Fees		513,978	-
147,026	Travel & Accommodation		155,370	135,000
22,254	Printing & Stationery		41,524	25,000
3,520	Audit Fees		16,071	10,000
138,252	Agent Compliance Assurance		263,071	-
	Depreciation			45,000
75,172	Office Equipment		43,910	-
13,522	Furniture & Fittings		14,242	-
6,690	Motor Vehicles		4,906	-
4,971	Leasehold Improvements		5,770	-
20,560	Loss on Disposal of Fixed Assets		430	1,000
154,537	Office Accommodation		184,679	185,000
1,969	Bank Charges		2,318	38,000
42,400	Information Technology and Telecommunications		52,171	50,000
6,039	Postage and Couriers		5,956	15,000
61,250	Administratrion Support		102,284	80,000
5,651	Fringe Benefit Tax		4,637	6,000
44,957	Insurance		94,016	60,000
52,593	Library Services, Magazines and Subscriptions		38,328	50,000
3,809	Maintenance and Repairs		6,020	10,000
2,158	International Levies		2,332	5,000
<b>3,527,557</b>	<b>Total Expenditure</b>	<b>1</b>	<b>5,653,348</b>	<b>4,885,000</b>
(18,561)	LESS Cost and Fee Recoveries		(17,223)	(20,000)
(1,528)	Royalties and Document Sales		-	(1,000)
(20,089)			(17,223)	(21,000)
<b>3,507,468</b>			<b>5,636,125</b>	<b>4,864,000</b>
14,537	ADD Work in Progress – Opening		41,738	41,738
(41,738)	LESS Work in Progress – Closing		(19,351)	(41,738)
<b>3,480,267</b>	<b>Net Cost of Services</b>		<b>5,658,512</b>	<b>4,864,000</b>

**Building Industry Authority  
Statement of Financial Position  
As at 30 June 2003**

2002 \$		Note	2003 \$	Budget 2003 \$
	Accumulated Funds			
5,041,894	Retained Surpluses		5,614,550	4,752,736
7,135,312	Levy Reserve		6,378,470	6,378,470
<b>12,177,206</b>	<b>Total Accumulated Funds</b>	<b>5</b>	<b>11,993,020</b>	<b>11,131,206</b>
	<b>Current Assets</b>			
834,678	Cash at Bank		375,545	834,678
41,738	Work in Progress		19,351	41,738
-	GST Receivable		50,215	-
1,045	Interest Receivable		-	1,045
18,192	Prepayments		66,886	18,602
11,675,884	Managed Funds	4	12,509,535	10,360,000
<b>12,571,537</b>	<b>Total Current Assets</b>		<b>13,021,532</b>	<b>11,256,062</b>
	<b>Current Liabilities</b>			
501,423	Accounts Payable		1,104,946	502,000
919	GST Payable		-	1,000
119,728	Employee Entitlements		130,758	120,000
-	Accrued Expenses		8,972	-
<b>622,070</b>	<b>Total Current Liabilities</b>		<b>1,244,676</b>	<b>623,000</b>
<b>11,949,467</b>	<b>Working Capital</b>		<b>11,776,856</b>	<b>10,633,062</b>
227,739	Fixed Assets	2	216,164	498,144
<b>12,177,206</b>	<b>Net Assets</b>		<b>11,993,020</b>	<b>11,131,206</b>

**Building Industry Authority**  
**Statement of Cash Flows**  
**For the Year Ended 30 June 2003**



2002 \$		Note	2003 \$	Budget 2003 \$
	<b>Cash flows From Operating Activities</b>			
	<b>Cash was Provided from:</b>			
272,353	Interest on Deposits		28,942	-
15,121	Sales of Publications		17,223	21,000
18,561	Cost Recoveries		-	-
3,835,202	Consent Levies		4,648,707	3,078,000
<b>4,141,237</b>			<b>4,694,872</b>	<b>3,099,000</b>
	<b>Cash was Disbursed to:</b>			
(1,941,014)	Net Payments to Suppliers		(3,349,212)	(3,320,000)
(13,637)	Payments for Goods & Services Tax		919	-
(114,857)	Payments for Members' Fees		(182,343)	(90,000)
(1,209,887)	Payments for Personnel Costs		(1,529,757)	(1,475,000)
<b>(3,279,395)</b>			<b>(5,060,393)</b>	<b>(4,885,000)</b>
<b>861,842</b>	<b>Net Cash Flow from Operating Activities</b>		<b>(365,521)</b>	<b>(1,786,000)</b>
	<b>Cash Flow from Investing Activities</b>			
	<b>Cash was Provided from:</b>			
16,250	Sale of Fixed Assets		23,944	-
-	Sale of Fixed Interest Funds		-	1,316,000
404,033	Investment Income		717,310	740,000
197,307	Landlord's Contribution to Fit-out		-	-
617,590			741,254	2,056,000
	<b>Cash was Applied to:</b>			
(66,892)	Purchase of Fixed Assets		(81,627)	(270,000)
(4,353,666)	Purchase of Fixed Interest Funds		(716,847)	-
(31,976)	Funds Management Fees		(36,392)	-
<b>(4,452,534)</b>			<b>(834,866)</b>	<b>(270,000)</b>
<b>(3,834,944)</b>	<b>Net Cash Flow from Investing Activities</b>		<b>(93,612)</b>	<b>1,786,000</b>
<b>(2,973,102)</b>	<b>Net Increase/(Decrease) in Cash</b>		<b>(459,133)</b>	<b>-</b>
3,807,780	<b>Opening Cash</b>		834,678	834,678
<b>834,678</b>	<b>Closing Cash</b>		<b>375,545</b>	<b>834,678</b>
	<b>Cash and Bank Comprise:</b>			
100	Petty Cash		100	100
84,578	Bank of New Zealand – Cheque Account		375,445	84,578
750,000	Bank of New Zealand – Money Market on Call		-	750,000
<b>834,678</b>		<b>8</b>	<b>375,545</b>	<b>834,678</b>



# Building Industry Authority Statement of Accounting Policies For the Year Ended 30 June 2003



## **Reporting Entity**

The Building Industry Authority (the Authority) is a Crown Entity established under the Building Act 1991 as defined in the Public Finance Act 1989.

## **Statutory Base**

The financial statements are prepared pursuant to section 42 of the Public Finance Act 1989, and cover all the activities of the Authority as set out in the 2002/2003 Statement of Intent.

## **Measurement Base**

The financial statements have been prepared on a historical basis. Accrual accounting is used to match expenses against revenues.

## **Accounting Policies**

The following accounting policies, which materially affect the measurement of financial performance and financial position have been applied:

### **Budget**

The budget figures are derived from the Estimates of Expenditure as approved by the Minister of Commerce.

The budget figures have been prepared in accordance with generally accepted accounting policies and are consistent with the accounting policies adopted by the Authority for the preparation of the financial statements.

### **Revenue**

The Authority derives revenue from the Building Consent Levy (the Levy) paid by building owners on the value of building consents issued at \$0.65 per \$1000 of the value of building work. The levy is collected by Territorial local Authorities (TLAs) on behalf of the Authority and paid in the month following collection of the levy. The Building Act allows for TLAs to deduct a 3% commission from the levies collected on behalf of the Authority. The Authority recognises the net amount collected as revenue in the month that it is received from the TLAs.

The Authority derives investment income (interest and gains on market values of securities) from Managed Funds (investments in marketable securities) that were purchased from surplus levies collected and retained surpluses accumulated since 1992 and interest earned thereon.

### **Funding the Current Year Operating Deficit**

The Authority has power under the Building Act to offset a deficit in any year with any surplus carried forward from the preceding year. The reported operating deficit for 2002/2003 represents a direct charge against the retained surplus of \$0.757 million from 2001/02 with the balance offset against retained surpluses held since 30 June 1994 generated from Crown funded activities (\$1.230 million including accumulated interest).



## **Cost Allocation**

The Cost of Services Statement, as reported in the Statement of Service Performance, reports the net cost of services for the outputs of the Building Industry Authority and are represented by the costs of providing the output.

The Authority has derived the net cost of service for each output using the following cost allocation system:

1. Direct costs, which are those costs directly attributable to an output, are charged to outputs wherever possible; and
2. Overheads are allocated to outputs proportionate to the actual direct costs allocated to outputs. Overheads are those costs that cannot be identified in an economically feasible manner with a specific output.

## **Work In Progress**

Work in progress is stated at the lower of cost and net realisable value. Work in progress includes materials and a portion of labour appropriate to the stage of completion attained.

## **Operating Leases**

The Authority leases office premises and some office equipment, mainly furniture. As all the risks of ownership are retained by the lessor, these leases are classified as operating leases. Operating lease costs are expensed in the period in which they are incurred.

## **Depreciation**

Fixed Assets are valued at cost less accumulated depreciation. They are depreciated as follows:

Leasehold Improvements	11.11% – 20% SL
Office Equipment	40% DV
Furniture and fittings	20-33 % DV
Motor Vehicles	20 % DV

All fixed assets are expected to have no residual value. The cost of leasehold improvements is capitalised and depreciated over the unexpired period of the lease.

## **Taxation**

### **Income Tax**

The Authority is exempt from paying income tax in accordance with the Income Tax Act 1994 and the Building Act 1991.

### **Fringe Benefit Tax**

Fringe benefit tax is payable on all fringe benefits.





### **Goods and Services Tax (GST)**

All revenue and expense transactions have been recorded net of GST. With the exception of Receivables and Accounts Payable, which are stated inclusive of GST, all assets and liabilities have been stated net of GST.

### **Employee Entitlements**

Provision is made in respect of the Authority's liability for annual leave and retirement leave. Annual leave is recognised when they accrue to employees.

### **Financial Instruments**

The Authority is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short-term deposits, debtors and accounts payable. All financial instruments are recognised in the Statement of Financial Position and all revenues and expenses in relation to financial instruments are recognised in the Statement of Financial Performance. Except for those items covered by a separate accounting policy all financial instruments are shown at their estimated fair value.

### **Statement of Cash Flows**

The following are definitions of the terms used in the Statement of Cash Flows:

- Cash means coins, notes, current accounts and short-term deposits held from time to time with the Bank of New Zealand;
- Operating activities include cash received from all income sources of the Authority and record the cash payments made for the supply of goods and services;
- Investing activities are those activities relating to the acquisition and disposal of non-current assets; and
- Financing Activities are those activities that result in changes to equity or debt.


### **Comparative Figures**

To ensure consistency with the current period, comparative figures have been restated where appropriate for presentation purposes.

### **Changes in Accounting Policies**

#### **Investment Income on Managed Funds**

The Authority changed its accounting policy in respect to recognising Investment Income earned on the Accumulated Funds administered externally as Managed Funds. The current policy is to recognise Investment Income as non-operating income. The accounting policy in previous financial years was to recognise gross investment income on Managed Funds as operating income. The change in accounting policy has had no impact on the total Accumulated Funds of the Authority.



The change in policy resulted from a review of the statutory basis for the Authority's funding arrangements completed by the Ministry of Economic Development (the MED) when it assumed oversight responsibility of the Authority in December 2002. The outcome of the review was that the MED formed the view that the Building Act only permits the Authority to access funds from: the current year's levy; retained levy surpluses from the previous year; and retained surpluses that were generated from Crown funded activities prior to 1 July 1994. This interpretation precludes the Authority accessing funds from retained surpluses from earlier years or from the interest earned on these monies. Therefore, any investment income generated from the Levy Reserve and Retained Surpluses has also been deemed to be revenue that is not available to fund operating expenses.

Although the MED has concluded that the Authority cannot access the Accumulated Surplus Levy Reserve, the Authority still has control and responsibility for the management and stewardship of these funds. The funds remain the property of the Authority as the levies were collected in accordance with the provisions of the Building Act.

All other accounting policies have been applied on a basis consistent with the previous year.

**Building Industry Authority**  
**Notes to the Financial Statements**  
**For the Year Ended 30 June 2003**



**Note 1: Approved Expenditure**

Ministers approved net operating expenditure of \$3,078,000 in July 2002 for the financial year ending 30 June 2003. In December 2002 Ministers approved an increase in operating expenditure from \$3,078,000 to \$5,155,000, of which \$1,316,000 was allocated for the Authority to respond to the issues raised in the Hunn report. In May 2003 the Ministers of Commerce and Finance approved an increase in the 2002/2003 fiscal limit (operating expenditure limit) from \$5,155,000 to \$6,200,000. The budget figures in the financial statements presented represent those figures contained in the 2002/2003 Statement of Intent.

**Note 2: Fixed Assets**

2002 \$		2003 \$	Budget 2003 \$
	<b>Office Equipment</b>		
191,072	Cost	256,684	341,072
(92,873)	Less: Accumulated Depreciation	(132,181)	(115,000)
<b>98,199</b>	<b>Net Book Value</b>	<b>124,503</b>	<b>226,072</b>
	<b>Furniture &amp; Fittings</b>		
173,666	Cost	177,810	243,667
(107,781)	Accumulated Depreciation	(122,024)	(125,250)
<b>65,885</b>	<b>Net Book Value</b>	<b>55,786</b>	<b>118,417</b>
	<b>Motor Vehicles</b>		
33,449	Cost	-	79,580
(6,690)	Accumulated Depreciation	-	(9,190)
<b>26,759</b>	<b>Net Book Value</b>	<b>-</b>	<b>70,390</b>
	<b>Leasehold Improvements</b>		
44,515	Cost	49,265	94,515
(7,619)	Accumulated Depreciation	(13,390)	(10,500)
<b>36,896</b>	<b>Net Book Value</b>	<b>35,875</b>	<b>84,015</b>
<b>227,739</b>	<b>Total Net Book Value</b>	<b>216,164</b>	<b>498,894</b>

**Note 3: Financial Instruments**

The Authority is party to financial instrument arrangements as part of its everyday operations. These include instruments such as bank balances, investments, accounts receivable, and trade creditors.

## Credit Risk

Credit risk is the risk that a third party will default on its obligations to the Authority, causing the Authority to incur a loss. In the normal course of its business, the Authority incurs credit risk from trade debtors and transactions with financial institutions. The Authority does not require any collateral or security to support financial instruments with financial institutions that the Authority deals with as these entities have high credit ratings. For its other financial instruments, the Authority does not have significant concentrations of credit risk.

## Fair Value

The fair value of all financial instruments is equivalent to the carrying amount disclosed in the Statement of Financial Position.

## Currency Risk

The Authority does not hold any foreign currency, financial instruments or have any exposures. From time to time the Authority purchases foreign currency for payment of overseas subscriptions and travel related costs. These purchases are immaterial to the overall results and transacted at the rates applicable at the date of the transaction.

## Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This could impact on the return on investments or the cost of borrowing. The Authority has exposure to interest rate risk on its investment financial instruments.

The Building Act gives the Authority powers to borrow funds or raise a loan without Ministerial approval, however no such loans have been raised. Accordingly there is no interest rate exposure for funds borrowed.

## Note 4: Managed Funds

Investment funds controlled by the Authority are managed by AMP Henderson Global Investors (NZ) Ltd. The funds are directly invested in a range of Government and financial institution securities.

	Capital Cost	Market Value	Accrued Interest	Maturity
NZ Government Stock	6,967,381	7,123,926	151,981	Within 9 to 20 months
Corporate Bonds	1,079,070	1,073,062	22,571	Within 3 to 22 months
Treasury Bills	3,970,651	3,994,943	24,292	Within 1 month
Liquidity	317,605	317,604	-	Cash
<b>Total investment</b>	<b>12,334,706</b>	<b>12,509,535</b>	<b>198,844</b>	



## Note 5: Accumulated Funds

2002 \$	Levy Reserve	2003 \$	Budget 2003 \$
6,378,470	Opening Balance	7,135,312	7,135,312
756,842	Transfer to (from) Levy Reserve During the Year	(756,842)	(756,842)
<u>7,135,312</u>	Closing Balance	<u>6,378,470</u>	<u>6,378,470</u>
2002 \$	Retained Surpluses	2003 \$	Budget 2003 \$
4,879,834	Opening Balance	5,041,894	5,041,894
162,060	Transfer to (from) Retained Surplus During the Year	572,656	(289,158)
<u>5,041,894</u>	Closing Balance	<u>5,614,550</u>	<u>4,752,736</u>
<u><b>12,177,206</b></u>	<b>Total Accumulated Funds</b>	<u><b>11,993,020</b></u>	<u><b>11,131,206</b></u>

### Levy Reserve

The Levy Reserve represents the uncommitted surplus from payment of levies to the Authority in excess of net estimates of expenditure, as approved by the Ministers of Commerce and Finance.

### Retained Surplus

The Retained Surpluses represent the uncommitted surpluses from non-levy income to the Authority

## Note 6: Investment Income on Managed Funds

2002 \$		2003 \$
377,751	Interest Income	604,059
236,535	Accrued Interest Income	73,245
55,078	Realised gains on investments	113,251
(28,796)	Realised losses on investments	(41,490)
(109,063)	Unrealised gains (losses) on investments	85,049
<u><b>531,505</b></u>	<b>Total Direct Investment Income</b>	<u><b>834,114</b></u>
<u><b>(31,976)</b></u>	<b>Less: Funds Management Fees</b>	<u><b>(36,392)</b></u>
<u><b>499,529</b></u>	<b>Net Investment Income Recognised</b>	<u><b>797,722</b></u>

Realised and unrealised gains relate to the movements in security values between the date of purchase and the date of disposal or valuation at Balance date arising from fluctuations in market interest rates.

## Note 7: Cash at Bank

2002 \$		2003 \$
100	Petty Cash	100
84,578	Bank of New Zealand - Cheque Account	375,445
750,000	Bank of New Zealand - Money Market on Call	-

## Note 8: Payments to Board Members

2002 \$	Member	Board Position	2003 \$
35,722	B J Brown	Presiding Member	54,867
14,302	P J Fehl	Deputy Presiding Member to March 2003	18,400
12,600	P K Broughton	Member	24,600
8,640	J Hill	Member	28,133
13,000	A Pickering	Member	18,467
13,600	S Meredith	Member to May 2003	13,600
11,800	H Horswell	Member to May 2003	15,400
10,800	W Wrightson	Member to May 2003	8,876

## Note 9: Related Party Transactions

The Building Industry Authority is a Crown Entity. Crown entities are expected to give effect to government policy. The Authority enters into numerous transactions with other government departments, Crown agencies and state-owned enterprises on an arm's-length basis.

The Authority maintains a conflict of interest register for members of the Authority. During the period Mr W Wrightson was paid a fee of \$7,500 for completing a research report on accessible car parking that was commissioned before he was appointed as an Authority member. Other than payment of their fees and reimbursement of their expenses, there were no other transactions entered into with members of the Authority.

Apart from these transactions with related parties, the Authority has not entered into any other related party transactions.

## Note 10: Remuneration Ranges of Employees

2002	Remuneration Range \$	2003
No of Employees	No of Employees	
1	110,000 - 119,999	-
-	120,000 - 129,999	1
-	130,000 - 139,999	-
1	140,000 - 149,999	1



## Note 11: Commitments

### Operating Lease Commitments

At Balance date the Authority was committed to a lease on premises in Wellington. On 1 May 2001 the Authority entered into a lease for additional space and renewal of the current lease. The new lease is for nine years, incorporating 2 rights of renewal of 3 years. The lease costs \$10,777 per month plus GST and expires on 30 April 2010.

2002 \$		2003 \$
129,329	Less than 1 year	129,329
129,329	1 – 2 years	129,329
387,987	2 – 5 years	387,987
366,432	Greater than 5 years	237,103

## Note 12: Contingent Liabilities

The Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Authority regarding its performance on weathertightness issues. As at Balance date the Authority has recorded contingent liabilities arising out of the following proceedings:

In the High Court:

*Body Corporate 204229 and Ors v Approved Building Certifiers and Ors.* Total claim against all defendants \$4,724,250. Hearing set down for 7 May 2004.

*Body Corporate 200200 and Ors v Approved Building Certifiers and Ors.* Total claim against all defendants \$22,260,699. No fixture to date.

*Body Corporate 202254 and Ors v Approved Building Certifiers and Ors.* Total claim against all defendants \$2,732,313. No fixture to date.

*Struthers v Patterson Co-Partners Architects Ltd and Ors.* Total claim against all defendants \$3,230,000. No fixture to date.


Under the Weathertight Homes Resolution Services Act:

*Case 1108.* Total claim unknown. No fixture to date.

*Case 00492.* Total claim unknown. No fixture to date.

The Authority considers that other proceedings are likely to be brought against it both in the High Court and under the Weathertight Homes Resolution Services Act.

The Authority had no direct involvement with any of the buildings concerned. The outcome of the claims essentially depends on questions of law relating to the Authority's performance of its statutory duties. The Authority considers that it has at all times performed those duties properly. In the absence of decided cases on the relevant questions of law there is no certainty as to the outcome of the claims. Notwithstanding the outcomes of the claims, should the Authority be found to be liable, the amounts payable will depend on the amounts paid by other defendants who are also held to be liable.



It is therefore not currently possible to quantify the Authority's contingent liabilities.

There were no contingent liabilities as at 30 June 2002.

### **Note 13: Significant Events After Balance Date**

The Building Bill (the 'Bill') was introduced into Parliament on 29 August 2003. The Bill provides for the repeal of the Building Act 1991 and introduction of a new regulatory framework for building work, building practitioners, and product certification and accreditation.

The enactment of the Bill would result in the dissolution of the Building Industry Authority from 1 July 2004 and absorption into a government Department or Ministry, with transfer of all rights, assets, liabilities and debts that the Authority has, to the Crown.

### **Note 14: Going Concern**

As indicated in Note 12 about the potential outcome of litigation, the Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Authority regarding its performance on weathertightness issues. The outcome of the lawsuits is uncertain.

Note 13 describes the potential dissolution of the Authority. The Building Bill, which was introduced into Parliament on 29 August 2003, provides for the repeal of the Building Act 1991 and the dissolution of the Authority from 1 July 2004. The Bill has not been enacted.

The validity of the going concern assumption on which the financial statements are prepared depends on both the potential outcome of litigation and the potential dissolution of the Authority. The financial statements do not include any adjustments that would result should the going concern basis not be appropriate.



# REPORT OF THE AUDITOR-GENERAL TO THE READERS OF THE FINANCIAL STATEMENTS OF THE BUILDING INDUSTRY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2003



We have audited the financial statements on pages 14 to 46. The financial statements provide information about the past financial and service performance of the Building Industry Authority and its financial position as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 37 to 40.

## **R e s p o n s i b i l i t i e s   o f   t h e   C h i e f   E x e c u t i v e**

The Public Finance Act 1989 requires the Chief Executive to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Building Industry Authority as at 30 June 2003, the results of its operation and cash flows and service performance achievements for the year ended on that date.

## **A u d i t o r ' s   R e s p o n s i b i l i t i e s**

Section 15 of the Public Audit Act 2001 and section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Chief Executive. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report its opinion to you.

The Auditor-General has appointed Rhys Barlow, of BDO Spicers, to undertake the audit.

## **B a s i s   o f   O p i n i o n**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Chief Executive in the preparation of financial statements; and
- whether the accounting policies are appropriate to the Building Industry Authority's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Building Industry Authority.

## ***Fundamental Uncertainties***

### ***Potential Outcome of Litigation***

In forming our unqualified opinion, we have considered the adequacy of the disclosures in notes 12 and 14 of the financial statements about the potential outcome of litigation. The Authority is one of a number of defendants in lawsuits alleging negligence on the part of the Authority regarding its performance on weathertightness issues. The outcome of the lawsuits is uncertain.

### ***Potential Dissolution of the Authority***

Also, in forming our unqualified opinion, we have considered the adequacy of the disclosures in notes 13 and 14 of the financial statements about the potential dissolution of the Authority. The Building Bill, which was introduced into Parliament on 29 August 2003, provides for the repeal of the Building Act 1991 and the dissolution of the Authority from 1 July 2004. The Bill has not been enacted.

The validity of the going concern assumption on which the financial statements are prepared depends on both the potential outcome of litigation and the potential dissolution of the Authority. The financial statements do not include any adjustments that would result should the going concern basis not be appropriate.

If the Authority were unable to continue in operational existence for the foreseeable future, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the financial statements. In addition, the Authority may have to provide for further liabilities that might arise, and to reclassify fixed assets and long-term liabilities as current assets and current liabilities.

## **Unqualified Opinion**

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Building Industry Authority on pages 14 to 46.

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
  - the Building Industry Authority's financial position as at 30 June 2003;
  - the results of its operations and cash flows for the year ended on that date; and
  - its service performance achievements in relation to the performance targets and other measures set out in the forecast financial statements for the year ended on that date.

Our audit was completed on 28 October 2003 and our unqualified opinion is expressed as at that date.

Rhys Barlow  
**BDO Spicers**  
On behalf of the Auditor-General, Wellington, New Zealand



## List of Building Code Clauses

B1	Structure
B2	Durability
C1	Outbreak of fire
C2	Means of escape
C3	Spread of fire
C4	Structural stability during fire
D1	Access routes
D2	Mechanical installations for access
E1	Surface water
E2	External moisture
E3	Internal moisture
F1	Hazardous agents on site
F2	Hazardous building materials
F3	Hazardous substances and processes
F4	Safety from falling
F5	Construction and demolition hazards
F6	Lighting for emergency
F7	Warning systems
F8	Signs
G1	Personal hygiene
G2	Laundering
G3	Food preparation and prevention of contamination
G4	Ventilation
G5	Interior environment
G6	Airborne and impact sound
G7	Natural light
G8	Artificial light
G9	Electricity
G10	Piped services
G11	Gas as an energy source
G12	Water supplies
G13	Foul water
G14	Industrial liquid waste
G15	Solid waste
H1	Energy efficiency

