

**Building
Industry
Authority**



Statement of Intent 2004/05

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Chairman's Foreword

During the period covered by this Statement of Intent (SOI) the Building Industry Authority (BIA) will be dissolved by the Building Act 2004. However, we have developed this SOI on a 'going concern' basis so that as the BIA transitions to the Department of Building and Housing the work of the central regulator can continue without interruption.

The 2003/04 year saw the Building Industry Authority make significant progress on a number of fronts. These included addressing longstanding sector issues (such as weathertightness), improving relationships with stakeholders, preparing for the new regime under the Building Act 2004 and managing a significant 'business as usual' workload in terms of reviewing and updating the building regulations and undertaking technical reviews and quality improvement work with territorial authorities (TAs) and certifiers. The scope of work undertaken by the organisation was also expanded to include a greater emphasis on informing consumers.

The major focus for the BIA in 2004/05 will be preparing for the implementation of the Building Act 2004 while continuing to effectively manage a significant 'business as usual' work programme. While there will be a need for ongoing vigilance in the weathertightness area, most of the important initiatives are in place to deliver the necessary outcomes. Resources will be redirected to other activities, such as supplementing the resource dedicated to implementing the Building Act 2004.

Work around implementing the Building Act 2004 will be the most significant single activity undertaken by the BIA in the 2004/05 year.¹ Planning is now well advanced and the BIA has reorganised and is significantly strengthening its capability in this area. There are two main streams of work involved. These are internal preparation for the legislative change and assisting the sector with its own required adjustments. Both are equally important.

Another issue for the organisation in 2004/05 will be its transition to the Department of Building and Housing. On 30 November 2004 the Authority will be dissolved and its staff and functions will transfer to the Department.

The management and staff have worked closely and effectively with the Authority to plan a full and carefully prioritised work programme to address the challenges of the forthcoming year.

The Authority has every confidence that the direction and initiatives set out in this SOI and the capability and capacity of the BIA will result in improved building outcomes.

Barry Brown
Chairman

¹ The Building Act Implementation (BAI) programme work is being undertaken to prepare for the implementation of the new Act in accord with the ministerial direction given under section 14 of the Building Act 1991, dated 11 April 2003 (see Appendix 1).

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The Building Industry Authority

Role and functions

Principal objective

The Building Industry Authority is a Crown entity established under the Building Act 1991. It reports to the Minister of Commerce.

The Authority's role is to provide advice and undertake functions relating to building control.

Statutory functions

The Authority's functions under the Building Act 1991 are:²

- advising the Minister on matters relating to building control
- approving documents used in establishing compliance with provisions of the Building Code
- determining matters of doubt or dispute in relation to building control
- reviewing the operation of territorial authorities and building certifiers in relation to building control
- approving private building certifiers
- accrediting building products and processes
- disseminating information and providing education about building control.

Vision

The Authority has encapsulated its broader functions and purpose in its vision for the building controls regime:

Well built buildings that meet the needs of New Zealanders.

This SOI is directed both at building the BIA's capacity and capability to achieve this vision and it also outlines significant change projects and initiatives the BIA will lead to align sector activity with this outcome.

² Section 12 Building Act 1991.

Overview – the year past and the year ahead

Key achievements in 2003/04

The Building Industry Authority is in a state of transition. Over the past decade the BIA established a sound technical capability to enable development of the Building Code and Approved Documents and to carry out Determinations and Product Accreditations. It maintained relationships with territorial authorities and managed private building certifiers. During this time, a key focus of the BIA was to develop a performance-based Building Code. The performance-based regulatory approach is designed to support building innovation, increase building efficiency and reduce costs while maintaining sound building performance.

Over the last 12 months the BIA has implemented a package of policy and operational initiatives to enhance its capability and performance, as set out in the 2003/04 SOI. This development will continue in 2004/05 and for some years thereafter. During 2003/04 there have been a number of important achievements. These include:

- major developments to address weathertightness issues:
 - B2/AS1, the Acceptable Solution for timber durability has been comprehensively reviewed and a revised B2/AS1 that addresses timber treatment issues has been published
 - E2/AS1, the Acceptable Solution for external moisture (ie, weathertightness), has been extensively revised and issued
 - development of new guidance information for territorial authorities and certifiers on weathertightness
 - weathertightness Determinations that provide guidance to homeowners, TAs and the building industry
- developing closer working relationships with territorial authorities and certifiers
- establishing stronger links with national and international building research and standards bodies
- increasing active communication, information and technical guidance to the building industry, including a major education programme on the use of treated timber
- commencing reviews on the territorial authorities and certifiers that account for nearly 70 percent of all consents issued in the country
- providing increased guidance and feedback to territorial authorities and certifiers following the technical reviews
- effectively managing the renewal, review and complaint processes applying to certifiers
- improving the accessibility and quality of information available to consumers
- increasing internal capability and capacity, implementing a new organisation structure and appointing permanent staff to new senior positions
- commencing the development of a comprehensive programme to implement the Building Act 2004

- managing major weathertightness litigation to which the BIA has been joined.

Key challenges for 2004/05

Following a review of the current regulatory building control framework, the Government introduced legislation to enhance a number of aspects of the building controls regime. The Building Act was enacted in August 2004 and the new legislation is designed to result in:

- enhanced building controls and a more proactive regulator which will provide better articulation of the Building Code, coupled with better guidance and information on how to meet the requirements of the Building Code
- accreditation of territorial authorities and certifiers, building practitioner licensing and product certification
- disestablishment of the BIA as a Crown entity and transfer of its staff and functions to the Department of Building and Housing
- more competent and better-informed building practitioners
- better-informed and protected consumers.

The changes introduce new powers for the central regulator, but retain the performance-based regulatory approach. The new Act will represent significant change for the BIA as the role of the central regulator is placed in a department and new powers are available to it. It is important that appropriate investment in the building control regime is maintained over the transition period.

During the next 12 months the BIA will:

- continue the ongoing work programme to review the Building Code and related Approved Documents focusing on five key areas: weathertightness, structural, fire safety, high-density living and internal environments
- provide information and technical guidance to the building industry
- conduct technical reviews and provide follow-up advice to territorial authorities and certifiers
- manage the private building certifiers scheme
- review the Scheme of Insurance applying to certifiers to ensure it meets the consumer protection objectives of the Building Act 1991
- strengthen the central regulator's capability, systems and relationships
- continue to manage weathertightness issues that have dominated the work of the Authority for the past two years
- investigate emerging issues affecting building and construction and respond to them
- plan and prepare for the implementation of the Building Act 2004.

The BIA is working to ensure that going forward the central regulator is highly valued by the industry, building owners, consumers and government.

Environmental issues

This section summarises activity in the external environment that impacts on the BIA's role. A key environmental factor affecting building controls in the forthcoming year is the changes that will ensue from the passing of the Building Act 2004. The effect of these changes is discussed throughout this SOI.

Summary of key environmental issues

- 1 The strong demand for new residential and commercial property which has placed pressures on the industry and regulatory environment. This, coupled with an increase in new products and new technology designed to reduce building time and cost, continues to test the effectiveness of the current performance-based Building Code. It also increases workloads for territorial authorities and the BIA.
- 2 Ongoing concerns about quality and capability in the building industry in the face of significant expansion of the sector.
- 3 Capacity constraints in the building industry.
- 4 The rising expectation among consumers and other stakeholders to be better informed about building-related matters.
- 5 Higher expectations that buildings will be ecologically sound, energy efficient and support environmental sustainability.
- 6 Territorial authority concerns about their liability and the risk of litigation following the weathertightness claims which is likely to continue to influence their approach to a number of their functions, including granting consents and issuing code compliance certificates. The technical reviews of territorial authorities conducted by the BIA in the last year have also highlighted a number of performance issues.
- 7 Ongoing concerns over the adequacy of the insurance cover held by certifiers which has led the BIA to initiate a review of the Scheme of Insurance for certifiers.

The building and construction sector

Increased building activity

New Zealand is still experiencing considerable growth in building activity. Building consents in 2003 were up 5 percent compared to the 2002 calendar year and this follows a similar trend extending over the past three years. The average annual rate of increase in building activity over the past three calendar years has been 8 percent.

The volume of this building work is evenly split between consents for new buildings and consents granted for alterations to existing buildings. There were 37,029 consents for new buildings and 40,732 consents for alterations during 2003.

The boom in construction over the past two years has clearly been driven by this residential component of the market. Commercial construction on the other hand has remained steady for the past three years albeit at a historically high level.

Annual dwelling construction has also now exceeded 30,000 units with 30,923 consents issued for new dwellings in the year ended February 2004, the highest total for a February year since 1976.

Geographically, the bulk of residential activity during 2003 was centred on the Auckland region.

The level of building activity is placing the regulatory regime under pressure during the transition to the new legislation. The BIA and the territorial authorities have to manage high levels of business-as-usual work and the additional work to implement the new legislation.

Rise in apartment construction

The long-term trend, apparent since 1996, has been an annual increase of 30 percent in new apartment consents. The number of consents issued for new apartment construction has dropped from its 2002 peak of 5610 units to 4295 units in 2003.

The trend to medium/high-density living is an issue the BIA has identified it must focus on.

Tight labour supply

The December 2003 quarter Household Labour Force Survey results published by Statistics New Zealand reveal tight labour market conditions for the construction sector. Employment in this sector continues to outstrip employment growth trends across the rest of the economy.

A shortage of skilled staff continues to be recognised as a limitation in the building trades and territorial authorities. Building costs are likely to increase due to these labour shortages.

The tight labour supply will impact on the initiatives the BIA is leading to raise standards in the building industry.

Increased building costs

The BIA regularly estimates building costs. The latest costing information calculated for the six-month period ending January 2004 indicates that the cost of building a typical dwelling with a floor area of 212 m² is now \$1,135 per square metre. This is a rise of 7 percent compared to the previous six-month period and is an annual increase of 10 percent.

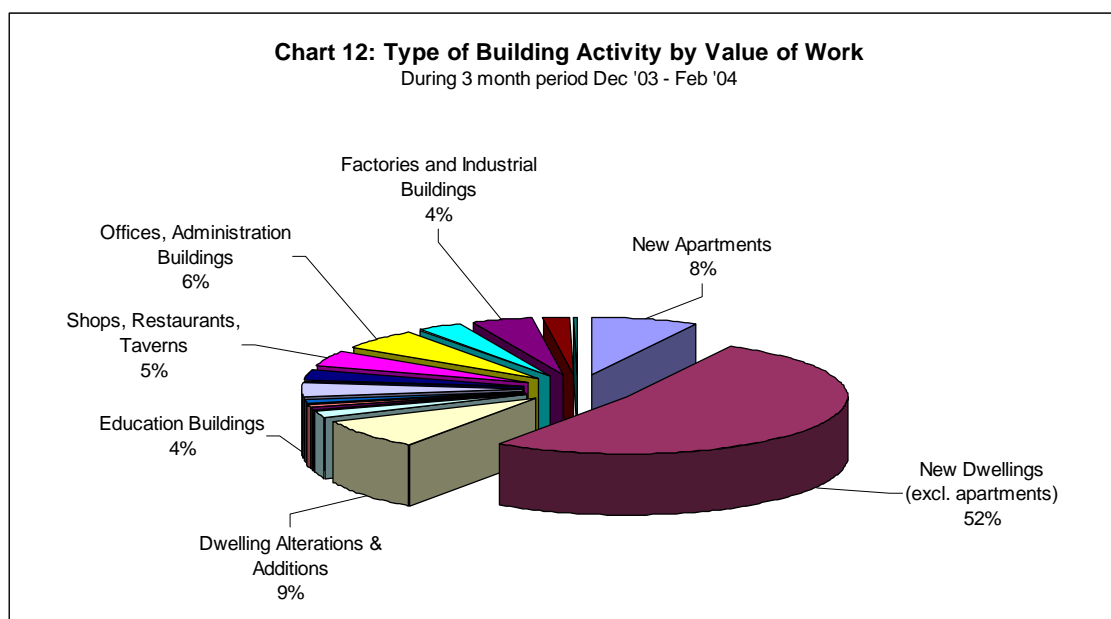
These cost increases are way over and above the Consumer Price Index and are not having any appreciable effect on the demand for building.

Increased value of building activity

Not surprisingly, the combination of a high volume of building activity and increasing building costs have contributed to a sharp increase in the total value of building work being put in place.

For the 2003 calendar year, the total value of consents for all buildings was \$9.5 billion, up from \$8.0 billion (an increase of 19 percent) when compared with the 2002 year.

Residential construction dominates the total value of building work being put in place. The combination of new dwellings, apartments, and dwelling alterations and additions represent 70 percent of the value of all consents issued during 2003.



There has been a long-term decline in the total value of large non-residential consents. These are individual consents which exceed \$3 million in value and are an indicator of the volume of large commercial building activity. The most recent year saw a further decline in these large consents from \$115 million in 2002 to \$100 million in 2003.

The building and construction sector continues to be an important element in the New Zealand economy. It is growing at a faster rate than GDP and building regulations and processes can have a significant impact on it.

Building quality

Two significant building quality issues have confronted the industry during 2003 and early 2004. These are the widely publicised weathertightness problem and issues regarding the structural integrity of commercial buildings.

Weathertightness problems

The number of claims being made to the Weathertight Homes Resolution Service (WHRS) as a result of moisture damage to buildings continues to grow. The WHRS had 1816 active claims as at 1 April 2004. Notably, claims arising in Auckland City exceed by three times the claims in any other territorial authority location. The estimated median remediation cost for these active claims is \$35,000 and the average cost is \$50,000.

The BIA is continuing to track the year-of-consent issue for homes exhibiting weathertightness failure. The main window of failure appears to be the seven-year period from 1993 to 1999.

Ongoing issues with weathertightness will mean building regulation and consumer protection will continue to be publicly debated.

Code compliance of monolithic clad buildings

Towards the end of 2003, due to their concern over potential liability, some territorial authorities began declining consents or code compliance certificates for monolithic clad buildings using systems without cavities. The territorial authorities have been advising the affected homeowners to apply to the BIA for a Determination on whether their houses comply with the Building Code.

The stance being taken by the territorial authorities that is driving the surge in weathertightness Determinations is symptomatic of a set of deeper underlying problems the territorial authorities are experiencing with capability, capacity and liability. The BIA will need to address these issues with the territorial authorities.

Potential structural weaknesses

An open letter by John Scarry, a structural engineer, published in early 2003 raised questions about standards of engineering practice in New Zealand. His concerns related to a broad range of design and construction deficiencies in commercial buildings rather than housing. Many of the shortfalls he noted would be most evident during severe earthquake loading.

The BIA is now proactively investigating the technical issues that have been raised, and the incidence of the construction techniques in question, to more accurately gauge the level of risk arising from this.

Emerging building performance issues

High-density housing

As well as apartments becoming a significant proportion of new dwelling units, there has been a trend towards smaller floor area designs. Several territorial authorities, including Auckland and Wellington, have publicly expressed concerns at trends toward smaller apartment sizes in their areas. Auckland City Council has advised developers that it will not approve building consent applications for apartments where the floor area is less than 30 m².

The BIA will undertake a number of projects relating to medium/high-density housing over the forthcoming year covering amenity issues, noise, air quality, light and access.

Fire

There are concerns in both the fire industry (New Zealand Fire Service, Fire Protection Association, fire engineering companies) and territorial authorities that there are problems with the approach fire engineering has taken in the design of buildings in New Zealand. Fire engineering has not matured enough as a discipline to have a robust codified approach to the design of solutions to satisfy the performance criteria of the Building Code.

One area where particular concerns have emerged is in the use of single means of escape in high-rise buildings in Auckland.

The BIA has established a Fire Advisory Panel and has initiated a series of projects to address the issue of a single means of escape, put in place codified standards and address the need for increased capability in fire engineering.

Building regulation

Distribution of building activity

More than 50 percent of building regulation activity is undertaken by 15 territorial authorities and building certifiers. This work is mainly distributed among the territorial authorities and certifiers that service the metropolitan areas of Auckland, Hamilton, Tauranga, Wellington and Christchurch.

Shortage of skilled staff

The building control industry is facing a shortage of skilled staff. The average age of building inspectors is estimated to be 55 years. Territorial authorities and certifiers face similar issues in respect of an aging workforce, accelerating numbers of retirements, difficulty in recruiting suitably skilled staff and difficulty retaining staff.

The shortage of skilled staff in conjunction with the high level of building activity will impact the larger territorial authorities' and certifiers' ability to respond to the changes arising from the

Building Act 2004. In the smaller territorial authorities the relatively small numbers of building controls staff will also make it difficult for them to respond to the increased requirements placed on them by the Building Act 2004. This will need to be taken into account in the Building Act Implementation programme.

Certifier industry activity

Approximately 120 people are employed in the private building certifier industry. There is a concentration of capacity in the Auckland region, Wellington, Bay of Plenty and Canterbury regions, although some other locations are also serviced.

There are 14 'active' private building certifiers. Five of these organisations process more than 1000 consents per year which is equivalent to the volume of work processed by mid-sized territorial authorities. Private building certifiers themselves estimate that, since the inception of the scheme in the mid-1990s, they have issued approximately 60,000 building certificates, including 40,000 code compliance certificates. During the past three years, private building certifiers have processed approximately 17 percent of all building consents in New Zealand.

The certifiers are an important element in the building controls regime and the BIA will continue to administer certifier renewals and carry out technical reviews. The BIA is also carrying out a review of the Scheme of Insurance that applies to the certifiers and the review will be completed before the end of 2004.

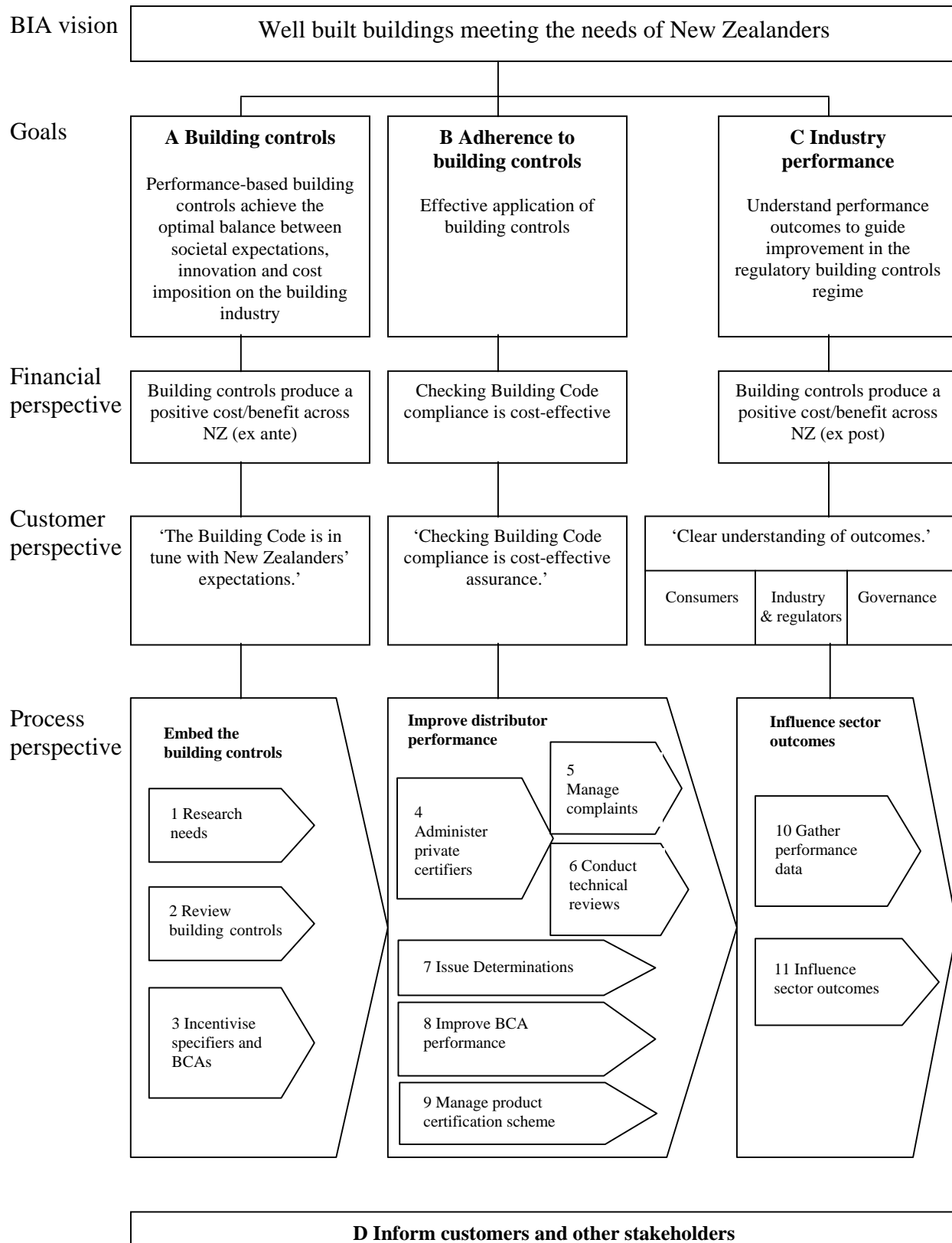
Performance-based business model for building regulatory controls

Over the last 18 months the BIA has faced a number of challenges (weathertightness being the most visible) that have occasioned the Authority to re-examine its strategies and business model. The Authority has had to respond to the immediate challenges before it, lift the overall performance of the BIA and ensure the industry, government and consumers continue to have confidence in the building controls regime. To achieve this the Authority has focused on three key areas:

- 1 responding to weathertightness issues
- 2 improving the BIA's capability and capacity
- 3 articulating and implementing a performance-based business model for managing building regulatory controls.

The 2003/04 SOI set out the strategy and specific objectives for the first two areas and the BIA has reported on its progress in these areas in its Quarterly Reports.

Last year's SOI outlined the performance-based business model the Authority had determined it needed to adopt in order to deliver effective building regulatory controls. This has guided the BIA over the last year. The BIA's business model is represented in the diagram overleaf.



This model is based on four key business processes.

1 **Building controls**

This means the Building Code, Approved Documents and other related documents that govern building construction. The research, review, development and promulgation of the Building Code and related documents is a core function of the BIA.

2 **Adherence to building controls**

Building controls are effective only if the regulatory framework is applied appropriately. This largely depends on territorial authorities and certifiers managing the consenting, inspection and code compliance processes effectively. The BIA's role is to promote the effective operation of these processes by territorial authorities and certifiers.

3 **Industry performance**

To complete the performance-based business model the BIA has to measure the outcomes of the building and construction activity it is charged with regulating and to report these to the industry, the Government and consumers. This performance measurement is also essential input to determining the strategies and actions undertaken under 'Building controls' and 'Adherence to building controls'.

4 **Inform consumers and other stakeholders**

Informed consumers and other stakeholders who understand the standards and requirements of the building controls regime and the responsibilities of each party is an important component of the building controls regime. This business process supports the effectiveness of the other three business processes.

'Building controls' is and always has been a core competence for the BIA. Prior to 2003 this process was the primary focus for the organisation and nearly all the BIA's resources were applied in this area. During 2003 the BIA developed the performance-based business model described above and this gave rise to significant organisation changes in the BIA to provide the capability for the three new processes. The Building Industry Performance Group was established to focus on the second and third processes and the External Relations group was realigned to support the fourth process. The BIA's funding was increased in 2003/04 to provide the resources required to operate the new processes.

This performance-based business model has now been fully integrated into the BIA's business planning process and the model provides the framework for presenting the BIA's Business Plan and the SOI.

A Goal has been set for each of the first three processes. There is a 'Financial perspective' and a 'Customer perspective' for each Goal and, in the 'Process perspective', 18 Key Result Areas (KRAs) have been identified.

All of these elements of the BIA's business model should remain relatively constant albeit that the emphasis within the model will evolve over time.

The specific actions and objectives that are planned for the forthcoming year, and which will change from year to year, are the 'Knowledge and growth initiatives'. The BIA has identified 21 knowledge and growth initiatives for 2004/05. The drivers for these are discussed further in the following section. The knowledge and growth initiatives then drive the outputs for 2004/05 that are set out under the four Output Classes (see page 20).

The BIA's estimates of expenditure for 2004/05 have been developed based on costings for the individual knowledge and growth initiatives.

Key drivers for 2004/05

The section entitled 'Environmental issues' (see page 8) sets out the key environmental factors affecting the building and construction industry that have to be taken into account in formulating the BIA's plans for 2004/05. The BIA has considered these factors together with other key drivers below to develop the 2004/05 workplan and the Outputs set out in the section called 'Output Classes' (see page 20). This section discusses the other drivers that the BIA has taken into account in developing its plans for 2004/05.

Legislative drivers

The building controls regime in New Zealand is entering an intense period of change and transition that will span the next three years, but may take up to 10 years to fully embed. The changes, which the Authority and the successor department will be responsible for leading and managing, include:

- government policy requiring a more active regulatory approach to controls in the building industry, prompted by public concern over weathertightness issues
- an increased and more proactive role for the central regulator
- the planned dissolution of the Authority and integration of the staff and functions of the BIA within a department of the Crown
- the implementation of the package of new initiatives and policies contained in the Building Act 2004.

Other key drivers

In formulating its plans for 2004/05 the BIA has taken into account the following drivers and factors.

- **Co-regulatory control system**

Achieving a co-regulatory system, whereby territorial authorities take responsibility at the local level and the BIA at a central level, is critical for the regulatory system to work effectively. The TA/BIA interface and relationship needs to operate effectively and efficiently to deliver on this partnership.

- **Describe and centralise**

As the central regulator the BIA needs a sound strategy for defining, reviewing and communicating performance expectations and standards, and nationally aggregating and distributing information to industry stakeholders.

- **Partnership with key players**

The BIA cannot work alone. It needs to be well networked to leverage the expertise available to the industry. The BIA needs to work in partnership with industry and with other publicly funded/statutory entities such as Standards New Zealand, BRANZ and the New Zealand Fire Service. Other partners include the Department of Labour, Consumer Affairs, EECA and the Australian Building Codes Board.

- **Consumer focus**

The BIA recognises that the building industry overall is historically very industry focused and that there is a need to introduce a stronger consumer focus into the regulatory system. The BIA must be proactive, identifying and responding to risks impacting on the building consumer.

- **Whole-of-system focus**

The BIA needs to view the operation of the regulatory system as a whole. That involves not just discharging its duties under the legislation but also monitoring and understanding the overall performance of the building industry. Consideration of building industry capability is an example of that broader picture.

- **Analytically informed decisions**

The BIA needs to ensure future decisions are based on good analytical processes and research. It similarly requires a rigorous performance framework to understand the overall impact of the building regulations.

- **Better informed industry/consumers**

Underpinning all BIA activities is an acknowledgement that both consumers and industry need to be well informed about all the changes that are occurring and about emerging technical issues.

- **Transition management**

The BIA's Building Act Implementation programme provides a framework for all the above drivers to be addressed, but will require significant and sustained effort to achieve.

- **Litigation**

The first weathertightness case the BIA was involved in was settled between the parties prior to going to trial. At the time of writing the BIA is involved in seven other cases in the High Court and it is likely there will be further cases. Managing this litigation will continue to place a significant demand on the BIA's resources and management.

- **Other challenges**

Significant specific challenges are facing the BIA within the context of the broader challenges that change will bring. These include:

- capacity development – building the people capability and capacity within the BIA
- certifiers – addressing the challenge that the insurance market brings.

Outcomes and outputs

Output classes

The BIA's Output Classes for 2004/05 are based on the four goals that support the BIA's vision. They are:

1 Building controls

Performance-based building controls that achieve the optimal balance between societal expectations, innovation and cost imposition on the building industry.

2 Adherence to building controls

Effective application of building controls, leading to consistent national adherence.

3 Industry performance

Performance outcomes that are understood and guide improvement in the regulatory building controls regime.

4 Inform consumers and other stakeholders

The BIA provides information and guidance to consumers on how to meet the requirements of the Building Code, make informed decisions and successfully navigate the building control processes throughout a building project.

Litigation programme

During 2004/05 the Authority will manage a large litigation programme arising from claims by owners of leaky buildings to which the Authority is a respondent with others. The litigation is funded by appropriation and is not covered under the Output Classes.

Building Act Implementation programme

The Building Act Implementation (BAI) programme is being undertaken in preparation for the implementation of the Building Act 2004. It is being undertaken pursuant to the section 14 notice issued by the Minister of Commerce (see Appendix 1). The Outputs for the BAI programme are included in italics in each Output Class shown on the following pages.

Output Class 1: Building controls

Output 1.1: Research needs

Measures	Comments
<ul style="list-style-type: none"> • Research projects commissioned into: <ul style="list-style-type: none"> – weathertightness – energy efficiency. 	<ul style="list-style-type: none"> • Dependencies: <ul style="list-style-type: none"> – Availability of research funding. – Recruitment of research staff.
<ul style="list-style-type: none"> • Four Sector Advisory Groups established. 	<ul style="list-style-type: none"> • Proposed Advisory Groups: Fire, Structural, Building Envelope, Access.
<ul style="list-style-type: none"> • The BIA is a recognised part of a national and international research network and participates in appropriate conferences/forums. 	<ul style="list-style-type: none"> • Including: <ul style="list-style-type: none"> – ABCB – IRCC.

Output 1.2: Review building controls

Measures	Comments
<ul style="list-style-type: none"> • Complete 11 reviews. • Approve and publish the outcome of seven Approved Document review projects. 	<ul style="list-style-type: none"> • Work will be undertaken on 26 Code review projects during 2004/05. These will be prioritised on the basis of an assessment of societal impact and contribution to the five risk areas. <ul style="list-style-type: none"> – Weathertightness. – Structural: design and practice re earthquake risk. – Fire safety. – High-density living. – Internal environment.
<ul style="list-style-type: none"> • Guidance Document projects - four to be initiated and two will be completed in 2004/05 in the areas of: <ul style="list-style-type: none"> – structural – weathertightness. 	

Output 1.3: Review the Building Code

Measures	Comments
<ul style="list-style-type: none">• <i>Consultation on societal and Building Code user requirements initiated by 31 March 2005.</i>• <i>Building Code analysis and proposal documentation completed by 30 March 2005 and reported on.</i>	<ul style="list-style-type: none">• <i>This is the planned full review of the Building Code under the Building Act 2004.</i>• <i>The milestone dates are subject to sign-off of the project scope and project plan and the timing of the Building Act.</i>

Output Class 2: Adherence to building controls

Output 2.1: Administer private certifiers scheme

Measures:
<ul style="list-style-type: none">• Certifiers renewed in a timely and efficient manner.• All certifier renewals decided within 30 days of their renewal date.

Output 2.2: Review the scheme of insurance for certifiers

Measures:
<ul style="list-style-type: none">• Review completed by 31 October 2004.• Outcomes implemented by 31 March 2005.

Output 2.3: Develop Accreditation scheme for BCAs

<i>Measures:</i>
<ul style="list-style-type: none">• <i>Accreditation guidelines issued to territorial authorities and certifiers for consultation by 31 December 2004.</i>• <i>Regulation defining Accreditation standards and criteria by 30 June 2005.</i>

Output 2.4: Manage complaints

Measures:	Comments:
Timeliness of complaint investigation and resolution.	Complaint handling will be undertaken in conjunction with initiatives to identify, communicate and enforce appropriate operating standards.

Output 2.5: Conduct technical reviews

Measures:	Comments:
<ul style="list-style-type: none">• Territorial authorities:<ul style="list-style-type: none">– Four new reviews and three follow-up reviews completed.– Findings reported to TA CEOs.• Private certifiers:<ul style="list-style-type: none">– Two new reviews and two follow-up reviews completed.	<ul style="list-style-type: none">• This work will make a significant contribution to:<ul style="list-style-type: none">– the design and transition to the BCA scheme in the Building Act 2004– territorial authorities understanding the changes and resourcing needed to run a best-practice building controls function.• The review outcomes will be used to:<ul style="list-style-type: none">– inform priority monitoring of territorial authorities and risk areas– inform development of a new BCA system– raise the profile of technical reviews.

Output 2.6: Incentivise specifiers and BCAs

Measures:
Information published on seven completed reviews of building controls to specifiers, territorial authorities, certifiers and key industry stakeholders.

Output 2.7: Improve territorial authorities' and certifiers' performance

Measures:	Comments:
<ul style="list-style-type: none"> • Work undertaken with five territorial authorities and three private building certifiers prior to following up the findings of the technical reviews. • Guidance material completed and distributed to territorial authorities on: <ul style="list-style-type: none"> – Alternative Solutions – accessibility – Producer Statements. 	<p>This work will make a significant contribution to:</p> <ul style="list-style-type: none"> • the design of and transition to the BCA scheme in the Building Act 2004 • territorial authorities' understanding of the changes and resourcing needed to run a best-practice building controls regime.

Output 2.8: Product Accreditation

- Maintain existing Accreditation scheme.
- *Design new Product Certification Scheme.*

Measures:	Comments:
<ul style="list-style-type: none"> • As the current scheme is ceasing no measures are proposed. • <i>Standards and criteria documented for new Product Certification Scheme completed by 31 August.</i> • <i>Regulations consultation commenced November 2004.</i> • <i>Scheme uptake strategy agreed with ABCB by 30 November 2004.</i> • <i>Regulations drafted for approval by 31 March 2005.</i> 	<p>Subject to the transition provisions of the new Product Certification Scheme.</p>

Output 2.9: Issue Determinations

Measures:	Comments:
Sixty-day turnaround time from receipt of final documentation to draft Determination being issued to the parties.	<ul style="list-style-type: none">• Subject to increases in active volumes.• Supported by:<ul style="list-style-type: none">– working with Auckland territorial authorities– active information programme to territorial authorities– improved internal processes.

Output 2.10: Industry information and education programmes

Measures:	Comments:
<ul style="list-style-type: none">• Major BIA work programme or identified industry issues supported by the provision of information or education programmes.• Assessment questionnaires completed for all education programmes.	<ul style="list-style-type: none">• Includes:<ul style="list-style-type: none">– updates on Code reviews– media releases– stakeholder liaison.• This function is reactive and the reporting will be based on the plans developed for specific information/education initiatives.• Questionnaires will focus on timeliness, quality, relevance and completeness.

Output Class 3: Industry performance

Output 3.1: Establish industry performance reporting

Measures:
Performance Measurement Framework developed that enables gathering and evaluation of industry performance data.

Output 3.2: Implement industry performance reporting

Measures:
<ul style="list-style-type: none">• Performance data gathered.• Industry Performance Reports issued quarterly.• Major performance issues for building controls identified in Quarterly Reports.

Output Class: Inform consumers and other stakeholders

Output 4.1: Education strategy

Measures:	Comments:
Completed and initiated in December 2004.	<ul style="list-style-type: none">• Will be closely linked to the BAI programme.• Particular focus on the needs of building officials.

Output 4.2: Two- to three-year communications plan

Measures:	Comments:
<ul style="list-style-type: none">• Developed and initiated.• Year one Communications Plan milestones achieved.	The Communications Plan will increase quality, awareness and access to information for stakeholders, including consumers.

Output 4.3: Consumer information

Measures:	Comments:
<ul style="list-style-type: none">• Launch ConsumerBuild website by 30 November 2004.• <i>Awareness of key changes to the Building Act and building controls regime and the implications for consumers. Survey completed as part of BAI programme.</i>	Includes: <ul style="list-style-type: none">• developing ConsumerBuild (the BIA/Consumers' Institute website for consumers)• use of unpaid media to promote the website• advertising.

Organisation capability

The re-positioning of the BIA as a proactive leader in the building industry with overall responsibility for the effectiveness of the building controls regime has required a significant increase in capability and capacity during the past 12 months. This has included:

- re-organisation of the BIA to align with its enhanced role
- establishment of new functions
- appointment of permanent staff to new senior positions
- development of enhanced systems and processes
- improved management of resources.

During 2004/05 the BIA will continue to build its organisational capability and capacity. This will involve recruiting staff to develop its research, technical and monitoring functions. Building and maintaining effective working relationships with territorial authorities and measuring outcomes from the sector will also require a further increase in the capacity of the BIA.

The implementation of the Building Act 2004, which will occur over a three-year period, will also require additional capability and capacity. Planning for this is currently under way within the BAI programme.

The high level of activity in the building industry and the consequent scarcity of people with relevant building industry and technical experience, combined with the transitional state of the BIA, is likely to mean that it will continue to complement permanent staffing with contract resources during 2004/05.

Risk management

The BIA recognises that there are a number of significant internal and external risks that require management. These arise from the extent and nature of the proposed regulatory and organisational changes as well as the current high level of activity in the building industry.

Key risks

- **External**
 - High stakeholder expectations from additional resourcing, new management, new legislation and reviewed Building Code.
 - Variable levels of understanding of the building controls regime by the building industry.
 - Possible resistance by territorial authorities and certifiers to work constructively with the BIA in the new regulatory regime.
 - Ongoing high levels of building activity.
 - A major event involving buildings that could include earthquake, fire or other building failure.
 - Slow-to-emerge, high-impact building faults (eg, leaky buildings).

- **Internal**

- Capacity and capability to respond to and manage increased levels of business as usual and manage the Building Act Implementation programme.
- Retention and recruitment of suitably qualified and experienced staff.
- Dissolution of the BIA and transition into a department of the Crown.

These risks will be mitigated through:

- proactive monitoring and risk management strategies including new advisory groups and structures
- effective change management strategies
- realistic planning and prioritisation of resource requirements
- clear allocation of risk management responsibilities
- increasing the technical and management capability within the organisation
- developing effective performance and data gathering systems and analytical capability
- proactive information dissemination and relationship management with stakeholders.

Financial Management

	Actual 30 Jun 2004	Quarter 1 Ending 30 Sep 2004	Quarter 2 Ending 31 Dec 2004	Quarter 3 Ending 31 Mar 2005	Quarter 4 Ending 30 Jun 2005
Income					
Building Levy	5,650,394	1,561,348	2,998,839	4,305,442	5,555,443
Other income	41,610	52,050	104,100	156,150	208,200
Crown funding of litigation expense	1,109,533	1,606,800	2,389,800	4,198,900	4,754,000
Interest on current account	21,771	3,000	6,000	9,000	12,000
Total Income	6,823,308	3,223,198	5,498,739	8,669,492	10,529,643
Operating Expenditure					
Personnel and recruitment	2,636,917	961,480	2,130,071	2,993,526	4,207,283
Programmes and projects	2,788,757	448,150	979,800	1,430,950	1,983,000
Technical and professional advice	898,330	384,500	679,000	1,034,000	1,301,000
Occupancy costs	223,702	65,550	131,100	196,650	262,200
Printing and publications	589,239	260,050	470,100	698,450	1,038,300
Information technology and communications	143,632	62,639	105,278	147,917	190,556
Travel and accommodation	267,782	97,300	171,000	231,700	286,100
Governance, insurance and audit	417,777	234,333	303,667	373,000	457,333
Transition and integration	1,614,389	472,945	868,305	1,058,175	1,203,155
Seminars and external training	145,625	145,700	300,400	359,100	420,800
Administrative costs	91,914	49,854	103,904	153,650	202,750
Depreciation, maintenance and repairs	126,620	60,300	120,600	180,900	241,200
Total Operating Costs	9,944,684	3,242,801	6,363,225	8,858,018	11,793,677
Weathertightness Litigation	1,117,375	1,606,800	2,389,800	4,198,900	4,754,000
Building Act Implementation		753,980	1,821,974	2,983,407	4,085,000
Net Operating Surplus (Deficit)	(4,238,751)	(2,380,383)	(5,076,259)	(7,370,834)	(10,103,034)
Interest on Reserves		151,233	302,466	450,411	465,370
Net Change in Reserves	(4,238,751)	(2,229,150)	(4,773,794)	(6,920,423)	(9,637,664)

Operating Expenditure by Output Class

Maintain and proactively update building controls	3,958,358	898,188	1,766,619	2,656,951	3,610,540
Provide guidance on how to meet the requirements of the Building Code	979,344	868,488	1,799,767	2,726,621	3,641,697
Oversee administration of building controls	3,150,006	270,160	579,037	863,221	1,135,300
Inform consumers	505,682	373,826	805,390	1,223,041	1,612,463
Weathertightness litigation	1,616,029	1,606,800	2,389,800	4,198,900	4,754,000
Building Act Implementation	852,640	753,980	1,821,974	2,983,407	4,085,000
Total Expenditure by Output Class	11,062,059	4,771,442	9,162,587	14,652,141	18,839,000

Notes:

There is no assumption regarding an increase in the levy rate which is yet to be determined by Ministers.

The consequential deficit between forecast revenue and expenditure is assumed to be funded through capital contributions from the Crown.

	Actual 30 Jun 2004	Quarter 1 Ending 30 Sep 2004	Quarter 2 Ending 31 Dec 2004	Quarter 3 Ending 31 Mar 2005	Quarter 4 Ending 30 Jun 2005
Cash Flows From Operations					
Cash was provided from:					
Consent levies	5,595,039	1,311,348	2,748,839	4,055,442	5,305,443
Sales of publications	887	242,900	294,950	347,000	399,050
Cost recoveries	40,723				
Interest on current account	21,771				
Crown funding of litigation expenditure		2,347,350	3,198,100	4,347,200	5,710,300
	5,658,420	3,901,598	6,241,889	8,749,642	11,414,793
Cash was disbursed to:					
Net payments to suppliers	(7,485,704)	(4,945,671)	(8,204,643)	(12,254,248)	(16,693,417)
Payments for members' fees	(221,834)	(234,333)	(303,667)	(373,000)	(457,333)
Payments for personnel costs	(2,618,863)	(961,480)	(2,130,071)	(2,993,526)	(4,207,283)
	(10,326,401)	(6,141,485)	(10,638,380)	(15,620,774)	(21,358,033)
Net Cash Flow from Operating Activities	(4,667,981)	(2,239,887)	(4,396,491)	(6,871,132)	(9,943,240)
Cash Flow from Investing Activities					
Cash was provided from:					
Capital contribution from the Crown	3,500,000	2,500,000	4,750,000	6,500,000	7,000,000
Sale of fixed interest funds	2,000,000	-	-	8,000,000	10,300,000
Interest earned on fixed interest funds	480,625	151,233	302,466	450,411	465,370
	5,980,625	2,651,233	5,052,466	14,950,411	17,765,370

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Cash was disbursed to:

Purchase of fixed assets	(508,843)	(126,000)	(252,000)	(378,000)	(504,000)
Repayment of capital contribution to the Crown	-	-	-	(7,000,000)	(7,000,000)
Funds management fees	(33,436)				
Purchase of fixed interest funds	<u>(480,616)</u>	<u>(151,233)</u>	<u>(302,466)</u>	<u>(450,411)</u>	<u>(465,370)</u>
	(1,022,895)	(277,233)	(554,466)	(7,828,411)	(7,969,370)
Net Cash Flow from Investing Activities	<u>4,957,730</u>	<u>2,374,000</u>	<u>4,498,000</u>	<u>7,122,000</u>	<u>9,796,000</u>
Net Increase/(Decrease) in Cash	<u>289,749</u>	<u>134,113</u>	<u>101,509</u>	<u>250,868</u>	<u>(147,240)</u>
Opening cash	375,545	665,295	665,295	665,295	665,295
Closing cash	665,295	799,408	766,804	916,163	518,055

	Actual 30 Jun 2004	Quarter 1 Ending 30 Sep 2004	Quarter 2 Ending 31 Dec 2004	Quarter 3 Ending 31 Mar 2005	Quarter 4 Ending 30 Jun 2005
Current Assets					
Cash at bank	665,295	799,408	766,804	916,163	518,055
Debtors and GST receivable	1,366,054	303,054	303,054	303,054	303,054
Managed funds and cash at call	10,993,702	11,144,935	11,296,168	3,444,113	1,159,072
Total Current Assets	13,025,051	12,247,397	12,366,025	4,663,329	1,980,181
Current Liabilities					
Provisions, project commitments	-	-	-	-	-
Crown capital contribution	-	-	-	-	-
Creditors and PAYE	1,755,080	649,167	1,129,938	891,372	497,896
Net GST payable	-	5,000	5,000	5,000	5,000
Accrued expenses	169,999	100,000	100,000	100,000	100,000
Total Current Liabilities	1,925,079	754,167	1,234,938	996,372	602,896
Net Working Capital/(Deficit)	11,099,972	11,493,230	11,131,087	3,666,957	1,377,285
Total Fixed Assets	605,037	482,628	550,128	617,628	685,128
Net Assets	11,705,009	11,975,858	11,681,216	4,284,586	2,062,413
Represented by:					
Accumulated funds					
Retained surpluses (deficit) brought forward	5,614,550	1,375,799	1,375,799	1,375,799	1,375,799
Plus draw-down from reserves	-	-	-	6,829,210	7,289,648
Surplus/deficit - from income and expenditure	(4,238,751)	(2,380,383)	(5,076,259)	(7,370,834)	(10,103,034)
Retained surplus (deficit) carried forward	1,375,799	(1,004,584)	(3,700,461)	834,175	(1,437,587)
Capital contribution from the Crown	3,500,000	6,000,000	8,250,000	3,000,000	3,500,000
Interest earned on accumulated funds carried forward	450,740	151,233	302,466	450,411	-
Levy reserve carried forward	6,378,470	6,829,210	6,829,210	-	-
Total Accumulated Funds	11,705,009	11,975,859	11,681,215	4,284,586	2,062,413

	Actual	Quarter 1 Ending	Quarter 2 Ending	Quarter 3 Ending	Quarter 4 Ending
	30 June 2004	30 Sep 2004	31 Dec 2004	31 Mar 2005	30 Jun 2005
Fixed Assets					
EDP Equipment at cost b/fwd	256,431	341,431	341,431	341,431	341,431
EDP Equipment - additions	332,838	90,000	180,000	270,000	360,000
Less: accumulated depreciation	(220,305)	(248,224)	(272,224)	(296,224)	(320,224)
EDP Equipment @ Net Book Value	368,964	183,207	249,207	315,207	381,207
Furniture and fittings cost brought forward	177,810	307,810	307,810	307,810	307,810
Furniture and fittings - additions	63,011	30,000	60,000	90,000	120,000
Less: accumulated depreciation	(136,746)	(169,323)	(194,823)	(220,323)	(245,823)
Furniture and Fittings @ Net Book Value	104,075	168,487	172,987	177,487	181,987
Leasehold improvements at cost brought forward	49,265	179,265	179,265	179,265	179,265
Leasehold improvements - additions	113,247	6,000	12,000	18,000	24,000
Less: accumulated depreciation	(30,514)	(54,331)	(63,331)	(72,331)	(81,331)
Leasehold Improvements - Net Value	131,998	130,934	127,934	124,934	121,934
Total Fixed Assets	605,037	482,628	550,128	617,628	685,128

Appendix 1: Government Policy Statement under Section 14 of the Building Act 1991

Extract from *New Zealand Gazette*, 5/6/2003, No. 61, p 1674

Pursuant to section 14 of the Building Act 1991, I hereby notify that the following directions relating to the policy of the Government has been given by me to the Building Industry Authority on 11 April 2003:

“The Government is in the process of reviewing the Building Act 1991. This will result in a number of significant changes to the Act, aimed at strengthening building controls and restoring confidence in the building industry. The Government intends introducing a Bill in the House in mid-2003 to enact its policy decisions.

The Government has already decided that the appropriate institutional form for the role and functions currently performed by the Building Industry Authority (BIA) is a department of State rather than a Crown entity. This policy decision will be reflected in the new building industry legislation. A decision on which Department is to be responsible in the longer term for regulation of building will be taken at the end of July 2003.

The Government would like a smooth transition to the new institutional structure when the Bill is passed into law. The Government requests that the BIA work closely with the Ministry of Economic Development to create a set of transitional arrangements that:

- Ensures that the BIA continues to effectively perform its day-to-day regulatory business under the existing legislation
- Repositions the organisation for the enhanced role that will result from the current review and builds strategic capacity and management systems to carry out the role effectively
- Strengthens relationships with a range of stakeholders and enables them to contribute to the reform and transition processes.

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.

In addition, the Government requests that the BIA co-ordinates closely with the Ministry of Economic Development on the development of implementation strategies for the new legislation, on the assumption that the Bill will be passed into law in early 2004.”

LIANNE DALZIEL, Minister of Commerce.