
BUILDING INDUSTRY AUTHORITY

STATEMENT OF INTENT

2003 – 2004

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1. Chairman's Foreword

This Statement of Intent (SOI) for the Building Industry Authority (BIA) for 2003/04 sets out what the BIA has to achieve in the forthcoming year, how it will go about this, and the measures that will be used to report progress throughout the year.

This will also be the last SOI for the BIA as, during the course of the year, the Government's decision that the BIA will change from a Crown entity to a department of the Crown is expected to take effect.

In addition to performing its day-to-day regulatory functions, over the next year the BIA will focus on four key areas:

- Completing the work programme in response to weathertightness issues, and responding to the issues raised in the Scarry report
- Developing the BIA's organisational capability and strengthening relationships with key stakeholders, particularly territorial authorities (TAs), Standards NZ and BRANZ
- Responding to changes to the Building Act
- Maintaining and updating the Building Code and Approved Documents, and developing new guidance information.

In setting these priorities for 2003/04 the BIA has had regard to the Government Policy Statement issued in April 2003 by the Minister of Commerce, the Hon Lianne Dalziel, under Section 14 of the Building Act. A copy of the Statement is attached as Appendix 1.

The Minister, in conjunction with the Minister of Finance, has significantly increased the BIA's limit on expenditure for 2003/04 to \$10 million to enable the BIA to reposition the organisation for the enhanced role that will result from the current review of the Building Act. This increase doubles the current size and capability of the BIA, and the SOI sets out the initiatives the BIA will undertake to build the strategic and management systems to allow it to more effectively carry out its role.

In the lead up to the legislative changes, the size of the Authority has been reduced from eight members to four members. In the 2003/04 year the BIA will be in transition mode and the slimmed down Authority will focus on effectively managing the changes and ensuring the BIA continues to effectively perform its day-to-day regulatory functions.

Concurrently, the Authority will enact the Minister's direction in the Government Policy Statement to: *"...take the lead in building the credibility and profile of the Authority, and promoting a more proactive culture within the Authority."*

Barry Brown
Chairman

2. The Environment: Issues and Responses

There are six key components of the BIA's work plan for the forthcoming year:

- The new Building Act
- Weathertightness issues
- Concrete design and construction practices that could affect the performance of some buildings in a major earthquake
- Energy efficiency
- Implications of the move to increased incidence of medium density housing
- Maintenance and update of building control documents.

Weathertightness and the systemic issues behind it will continue to be an important focus for the BIA in 2003/04. The BIA's response over the forthcoming year will focus on:

- Ensuring standards of design and construction achieve Building Code compliance
- Raising the performance of those involved in design and construction through better access to pertinent information
- Reviewing the processes for consent applications, and inspections of building work to ensure that specific problems are identified and rectified
- Broader monitoring of the building controls regime to identify systemic problems.

Partly as a result of the weathertightness issues, the Building Act has been subject to major review and the Government has proposed extensive changes to the building controls regime. Legislation will shortly be introduced into the House to give effect to the Government's decisions.

Not only will the proposed changes put in place a stronger set of building controls, they will clarify in more detail what the Government and consumers expect of builders, TAs and other industry participants. The changes will also allow the BIA to take a more proactive role in monitoring and enforcing the building regulations.

The BIA provided significant input to the Review of the Building Act and believes the final outcome balances the needs of consumers, industry and government (both local and central) in a way that will generate confidence in the building industry.

A significant aspect of the new Building Act will be the change for the BIA from a Crown entity to a department of the Crown. These developments necessitate changes for the BIA as an organisation and for the BIA's work programme, and this SOI sets out the BIA's response to both. Section 6, Building the BIA's Organisation Capability, describes the actions planned to transform the organisation's current capability. Section 4, Priority Programmes, sets out the work programmes planned in response to these changes. In this SOI the term 'BIA' is to be read, where appropriate, as also referring to whichever Government department or other organisation replaces the current BIA.

Two related factors are:

- The relationship between the BIA and territorial authorities (TAs); and
- Reporting on the performance of the building controls regime.

A significant factor in the effectiveness of the building controls regime is the relationship between the central regulator, that is, the BIA, and the agencies that operate the regulatory processes. These agencies are primarily the TAs but also include the small number of corporate building certifiers currently operating. Effective regulation requires input to the formulation of regulations from the agencies operating the regulatory processes. Effective regulation also requires reporting on the competence and performance of the agencies operating the regulatory processes, and reporting on the performance of the building controls regime.

It has been established that the BIA needs to be able 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.

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

Reviews of the Scarry Report indicated some grounds for the concerns that were raised. To support the development of improved construction standards, the BIA will 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.

The recent threatened electricity shortage has highlighted the importance of energy efficiency in buildings. The BIA's work plan includes a review of Clause H1 'Energy Efficiency' of the Building Code to be undertaken in conjunction with the Energy Efficiency and Conservation Authority (EECA). The main issue to be addressed is the surface area and orientation of windows in houses, as this has a strong bearing on their overall energy performance in New Zealand's temperate climate. The BIA's work is part of the Government's 'National Energy Efficiency and Conservation Strategy' (September 2001).

The emerging trend to build medium and high density multi-unit residences, particularly in central city areas, has led to this sector being identified by the BIA as a priority area. The planning, design and construction issues relating to this form of building are inherently complex and need to be considered holistically. For its part, the BIA will be initiating work in these areas: natural light, acoustic quality, ventilation, and interior environment.

An effective building control 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 good research.

To achieve a well informed building controls regime the BIA will need to:

- Strengthen its relationships with Standards New Zealand and 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).

3. Output Classes

On 26 May 2003 the Minister of Commerce announced a package of measures for the better regulation of the building industry. A copy of the Minister's media statement is attached as Appendix 2.

This statement followed the Government's decision in December 2002, in response to the weathertightness issue, to extend the review of the Building Act to include matters raised in the Overview Group's report to the BIA on the weathertightness of buildings (the Hunn Report). The extended review of the Act examined the purposes and objectives of the Act; administration and compliance; enforcement procedures; information and education; the regulation of building professionals; and institutional arrangements and monitoring.

The proposals for reform were subject to widespread consultation and were also informed by the recommendations in the Government Administration Committee's report, *Inquiry into the Weathertightness of Buildings in New Zealand*, and the recommendations in the Hunn Report.

Taking all of these factors into account, the BIA has determined to adopt the following Output Classes for 2003/04:

- 1) Maintain and actively update building controls
- 2) Provide guidance on how to meet the requirements of the Building Code
- 3) Oversee and improve administration of building controls
- 4) Inform consumers.

Output Class 1 – Maintain and actively update building controls

The BIA is responsible for the Building Code and Approved Documents, which are core elements in the building controls regime. The BIA operates a process of continuous review, including a regular review cycle, to ensure the adequacy and relevance of the Building Code and Approved Documents. It also undertakes reviews in response to major issues that arise in the building industry, and in response to new technologies or emerging industry developments.

Output 1.1: Review Building Code Clauses and Approved Documents

The following reviews relating to the Building Code and Approved Documents will be undertaken during 2003/04:

- Playground Standard Development
- Safety from Falling
- CCA Treatment of Timber
- Acoustic Performance
- Safety in Day Care Centres
- Minimum Fire Rating Values
- Lighting for Emergency
- Industrial Waste
- Durability
- External Moisture
- Timber Structures Standard
- Timber Framed Buildings
- Energy Efficiency.

Performance Measures

Quantity/Quality/Timeliness

The reviews are completed and any amendments to the Building Code or the Approved Documents are finalised by 31 July 2004. This is subject to the caveat that priorities will be reassessed according to the requirements of the new legislation.

Any required amendments to the Building Code are promptly submitted to the Minister.

The BIA's processes for carrying out the reviews and, in particular, the process for public consultation on any proposed amendments to the Building Code or Approved Documents meet required quality standards.

Output 1.2: Respond to major issues in the building industry, new technologies and emerging industry developments

The BIA proactively investigates major issues in the building industry. It also evaluates new technologies and reviews emerging industry developments. The following projects will be undertaken in 2003/04:

Weathertightness Programme

In 2002/03 a series of projects were initiated to address the recommendations from the Hunn Report on weathertightness issues. In the forthcoming year these projects will be completed and any ongoing weathertightness issues will be incorporated in the BIA's business-as-usual work plan.

Structural Issues

During the 2002/03 year the BIA received a report from structural engineer John Scarry raising a number of issues relating to concrete design and construction practices that could affect the performance of some – mainly commercial – buildings in a major earthquake. The BIA is proactively addressing the issues that were highlighted and is leading industry efforts to rectify any shortcomings.

Emerging Trend for Medium and High Density Multi-Unit Residences

In recent years there have been a number of major multi-unit residential developments built in central city areas. More are planned. The BIA has identified some regulatory issues that arise from such developments. The planning, design and construction issues relating to this building form are inherently complex and need to be considered holistically. The BIA will give priority to a review of all aspects of this building form in the New Zealand environment.

Performance Measures

Quantity/Quality/Timeliness

The projects under the Weathertightness Programme are completed to the approved project timeframe, within budget and to the required quality standard. The BIA's Quarterly Reports will provide specific reporting for the individual projects in the Weathertightness Programme.

The BIA will report progress on the response to structural issues arising from concrete design and construction practices in the Quarterly Reports under the following headings:

- Specific nature of design and construction deficiencies
- Scope and extent of the problem
- Required changes in practice for new buildings
- Guidance provided to industry
- Stakeholder communications.

Complete a report on medium and high density multi-unit residences, provide an assessment of issues relating to this building form and complete a work plan to address them by the end of the third quarter.

Output Class 2 – Provide guidance on how to meet the requirements of the Building Code

In addition to its responsibility for the building regulatory framework, the BIA is also charged with responsibility for providing guidance to consumers, the building industry and TAs on how to fulfil the requirements of the Building Code. The BIA runs briefings and seminars on current building issues, and it has an extensive knowledge base that it makes available to stakeholder groups. The proposed changes to the Building Act envisage the introduction of 'guidance information' from the BIA to better inform stakeholders on how to go about achieving the outcomes sought by the Building Code. The BIA is planning for the production of three guidance documents in 2003/04.

Output 2.1: Make the BIA's knowledge base accessible to stakeholders

The BIA makes its knowledge base accessible to stakeholder groups through appropriate publications and via the BIA's website. The BIA will publish the Building Code and Approved Documents. These documents and other information resources held by the BIA will be accessible to stakeholders via the BIA's website.

The BIA will develop and implement a communications plan to ensure stakeholders are informed of its work plan, proposed changes to the Building Code and Approved

Documents and the outcome of any review processes. This will include a review of stakeholder information needs and the most effective means of supplying information. It will develop a web portal strategy to maximise the accessibility of the BIA's knowledge base. This will include a web 'networking' strategy to facilitate intra-industry information sharing.

Performance Measures

Quantity/Quality/Timeliness

Stakeholders are adequately informed of proposed changes to the Building Code and Approved Documents and given a minimum of two months to provide comment.

The Building Code and Approved Documents are readily available for purchase by stakeholders. Amendments to the Building Code, and new Approved Documents and amendments, are published within three months following approval by the Authority or by the Minister.

The Building Code and all Approved Documents and other documents (for example, Determinations) held by the BIA are accessible to stakeholders via the BIA's website.

A review of stakeholder information needs and delivery mechanisms will be completed by 31 December 2003.

Scoping of the web portal strategy will be completed by 31 December 2003.

Output 2.2: Define the approach and objectives for new guidance information and publish this information

Under the proposed changes to the Building Act the BIA will be directed to publish a new category of information – guidance information. Much of this information is likely to be in document form. As the name implies, the information is intended to be a guide to industry and consumers on ways and means to achieve the performance required by the Building Code and Approved Documents. The recommendation for guidance documents was made in the Hunn Report in response to the issues raised by the weathertightness issue in late 2002. Significant stakeholder input will be required to formulate the exact nature, scope and extent of the new guidance information – be it in document form or otherwise.

Performance Measures

Quantity/Quality/Timeliness

The framework for the guidance information is defined and supported by key stakeholders: TAs and building certifiers, consumers, the construction industry, manufacturers, and suppliers.

A minimum of three new Guidance documents are developed and published by the end of 2003/04 and are favourably received by stakeholder groups.

Output 2.3: Delivery of education programmes

The BIA has historically provided education programmes to TAs and the industry and will continue to provide services in this regard. It will continue to deliver education programmes during 2003/04, but will also conduct a review of TA and industry requirements to guide ongoing education activity. A key focus will be the education needs of TA building officers in light of Building Act changes.

Performance Measures

Quantity/Quality/Timeliness

BIA will deliver education programmes around Building Act changes, weathertightness, medium density housing, and structural engineering issues as priorities.

A review of TA and industry education needs will be completed by March 2004.

Output Class 3 – Oversee and improve administration of building controls

The TAs and building certifiers are key partners with the BIA in ensuring the effective operation of the building controls regime. The aims of the Building Act will only be achieved if the processes for applying for and granting a building consent, and inspecting the works and issuing a code compliance certificate, operate effectively and to the required standard. This is in the hands of the TAs and building certifiers. The BIA has two roles to play; firstly to audit the TAs and building certifiers to ensure that their performance is satisfactory, and secondly to support the development of improved processes and performance.

Output 3.1: Conduct technical and levy audits of TAs and technical audits of building certifiers

The BIA will complete a minimum of twelve technical audits and seven levy audits of TAs in 2003/04, supplemented by a new process for self assessment for building consent levies. The BIA will complete annual or biennial reviews of all building certifiers in conjunction with the renewal of their accreditation.

Performance Measures

Quantity/Quality/Timeliness

The planned number of audits are completed (twelve technical audits and seven levy audits), the TAs and building certifiers accept the findings from the audits and, where required, TAs and building certifiers take appropriate remedial action to address any issues identified. Follow-up audits are conducted when issues are identified.

Output 3.2: Work in partnership with TAs and building certifiers to achieve best practice for effective management of the building controls regime

The BIA is establishing a new group, the Building Industry Performance Group, to work with TAs and building certifiers on the management of the building controls processes, including: the design of the processes, how to operate the processes to the standard required to ensure all construction complies with the Building Code, and how to measure the performance of the processes in ensuring compliance with the Building Code. The BIA will identify and carry out projects with the TAs and building certifiers to address issues with the current regulatory processes and to improve the performance of those processes.

Performance Measures

Quantity/Quality/Timeliness

The new Building Industry Performance Group is resourced according to the business plan. A work programme is being developed in consultation with the TAs, and four major performance improvement projects are completed in partnership with TAs in 2003/04.

Output 3.3: Design and implement a measurement framework to score the performance of the building controls regime

The BIA will develop a framework for the systematic reporting of information on the performance of the building controls regime, and will publish a performance report quarterly.

Performance Measures

Quantity/Quality/Timeliness

The first report is published at the end of the third quarter in 2003/04 and reports are published quarterly.

Output Class 4 – Inform consumers

One of the BIA's key roles is to lead the provision of information about the building controls regime to consumers. This information is not primarily about how to construct a building in accordance with the requirements of the Building Code and Approved Documents, but about how the building control processes operate and the roles and responsibilities of all of the parties involved, including consumers themselves, building professionals (architects, engineers, designers, etc), building and construction contractors, TAs and building certifiers, and suppliers. This is to enable consumers to make informed choices and to successfully navigate the building control processes they will encounter when embarking on a building project.

Output 4.1: Implement a web portal strategy

The BIA will develop a web portal as the primary means for consumers to access information they need on the building controls regime.

Performance Measures

Quantity/Quality/Timeliness

The planned redevelopment of the BIA's website is completed and provides access to all of the information consumers require on how to successfully navigate through the building control processes. The project is completed on time, to budget and to the required quality standard.

Output 4.2: Establish a consumer liaison group to ensure consumer feedback to the BIA

To succeed with its goal of informing consumers, the BIA will need to have very good input and feedback from consumers. The key vehicle for this will be the establishment of a consumer liaison group.

Performance Measures

Quantity/Quality/Timeliness

The consumer liaison group is established, the group has a timetable for regular meetings, and it is providing effective input to the BIA's consumer information strategy.

Output 4.3: Publish *BIA News* and *Weathertightness News*

The BIA will continue to publish *BIA News* and *Weathertightness News* to inform consumers and other stakeholders of topical matters relating to building and construction and the building controls regime.

Performance Measures

Quantity/Quality/Timeliness

The BIA will publish 10 issues of *BIA News*, and six supplementary issues (focusing on topics such as weathertightness, new legislation, etc) in 2003/04, with a circulation of approximately 11,000 copies for each issue.

4. Priority Programmes

This section sets out the BIA's priority programmes for 2003/04. The programmes comprise multiple projects, and the projects themselves are detailed in the BIA's annual business plan. The projects may, and undoubtedly will, change over the course of 2003/04 in response to factors external to the BIA, and as the staff and management refine the organisation's plans and priorities. However the programmes, which are listed below, should remain mostly constant over the course of the year.

The programmes have been developed under the five Strategic Pathways, which have been identified to guide the BIA over the medium term.

The projects, programmes and Strategic Pathways all operate under the BIA's Output Classes and are to serve the objectives for those Output Classes. The BIA's performance is then measured according to the Key Performance Indicators (KPI) identified in the table.

The purpose of representing all of the elements described above, in the table on the following page, is to demonstrate the connection between the elements and to show how the elements align with each other.

The programmes in the table have been developed against the backdrop of proposed changes to the Building Act. One of the programmes is to develop the responses required from the BIA to the changes to the Building Act as they are confirmed. Given the nature and extent of the changes to the Act, it is likely this will necessitate reassessment of the BIA's programmes. Consequently, the programmes will be reviewed after the first quarter of 2003/04 to take account of the legislative changes. The programmes will be amended as required.

Output Classes	Key Performance Indicators (KPIs)	Strategic Pathways	BIA Programmes
Maintain and actively update building controls	Amendments to the Building Code and Approved Documents and development of the Guidance documents are on time, on budget, and to the required quality standard. The BIA's new organisation structure is implemented and resourced.	1) Knowledge Management	Chief Executive and Management Team <ul style="list-style-type: none"> Implement new organisation structure and recruit staff to meet resourcing plan Implement new management and business processes
Provide guidance on how to meet the requirements of the Building Code	Establish and operate a liaison process with key stakeholders – TAs, building industry and consumers. Stakeholders access the information they require.	2) TA Support and Monitoring	Operations Group <ul style="list-style-type: none"> Complete weathertightness projects Develop new guidance documents (x3) – Envelope/Services/S.A.F.E Address Structural Design Issues from the Scarry Report Review and update the BuildingCode and Approved Documents Provide technical support to all areas of BIA
Oversee and improve administration of building controls	Best practice standard for building controls processes developed with TAs and self-assessments completed by >50% of TAs. Eight audits of TAs and 8 audits of building certifiers completed using BIA staff.	3) Industry Support and Monitoring	Building Industry Performance Group <ul style="list-style-type: none"> Carry out Technical and Levy Audit programme of TAs Review current regulatory processes with the TAs Set performance benchmarks for TAs and establish best practice measures Design a measurement framework to score the performance of the building controls regime
Inform consumers	Information and analysis of the performance of the building controls regime is published quarterly.	4) Consumer Information	External Relations and Education Group <ul style="list-style-type: none"> Develop the BIA's information resources into a knowledge base Develop a portal strategy as primary means for stakeholders (consumers, industry and TAs) to access the BIA's knowledge base Deliver education programmes in priority work areas and review TA and industry education needs Enhance level of information available to consumers to grow understanding of building control system Provide leadership in the provision of information around implementation of Building Act changes Continue the development of the BIA's leadership voice within the industry with a particular focus on proactive industry engagement
	An increasing proportion of information is accessible from the Web.	5) Professional Support (SNZ, BRANZ, others)	Operational Policy Group <ul style="list-style-type: none"> Determine programmes and projects required by the BIA in response to the new Building Act

5. Supporting and Informing Stakeholders

The effectiveness of the building controls regime, for which the BIA is responsible for, depends on the BIA's relationship with four key stakeholder groups: consumers, TAs, the building and construction industry (including suppliers), and the standards/research bodies (Standards New Zealand and BRANZ). It is essential that TAs and the BIA work in partnership for the regulatory processes to operate effectively. In addition, deepening co-operation with the Australian Building Codes Board (ABCB) will help to achieve a 'critical mass' of technical expertise, improve the body and quality of information to support the building controls regime, and reduce technical barriers to trade.

Successful stakeholder relationships depend on two factors:

- 1) The BIA has to deliver an extensive knowledge base to stakeholders, who in turn have to be able to access relevant information from the BIA's knowledge base in a timely manner.
- 2) There has to be pertinent qualitative and quantitative information and analysis on the performance of the building controls regime available to all stakeholder groups according to their needs.

This has a number of implications for the BIA:

- The BIA will develop a knowledge management strategy that will enable different stakeholder groups to access the information they require from the BIA's knowledge base. This will include a progressive move towards making more information available to stakeholders via the Web.
- The BIA will produce publications targeted to the different stakeholder groups (For example, *BIA News* and *BIA Update*).
- The BIA must develop organisational capability to:
 1. Manage the partnership between the BIA and TAs; and
 2. Provide reporting on the performance of the building controls regime.

The following section outlines the proposed BIA organisational structure. It includes a new group, the Building Industry Performance Group, and an augmented group, the External Relations and Education Group. The former will be responsible for managing the BIA's relationships with TAs and reporting on the performance of the building controls regime. The latter will be responsible for the BIA's knowledge base, its publications, and other stakeholder communications processes. Both of these groups represent significant new capability for the BIA.

6. Building the BIA's Organisation Capability

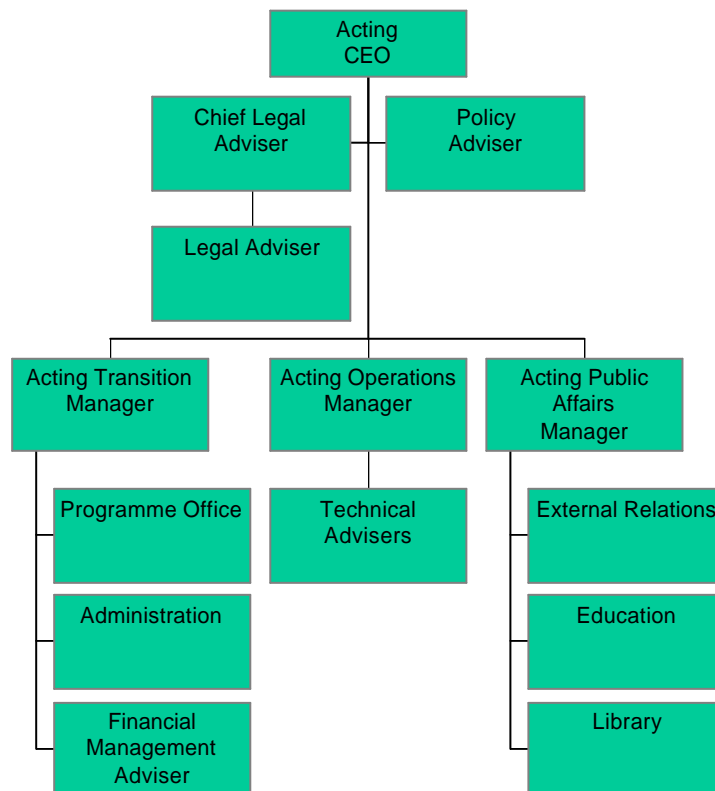
The weathertightness issues that emerged in the public domain in 2002, partly as a result of the Hunn Taskforce which was commissioned by the BIA, revealed systemic issues in the building and construction industry and within the regulatory framework.

Resolution of these issues requires that the BIA become more proactive; have a wider focus on the building industry (rather than just the Building Code); have greater ability to monitor the outcomes of the regulatory processes; and demonstrate a more effective working relationship with TAs, who are key to managing the building controls regime.

During the review of the Building Act, the BIA, in conjunction with the Ministry of Economic Development (MED), reviewed the BIA's organisational capability. It was recognised that to deal effectively with its regulatory responsibilities under the new Act the BIA will need to lift its level of capability.

As a result of this review the BIA implemented a Transitional Structure. This provides enhanced management capability for the organisation to manage the BIA's day-to-day regulatory business under the existing legislation, and enables the development of the strategies, plans and organisational capability to respond to changes to the Building Act. The Transition Structure is set out as follows:

BIA Transition Structure



Further work has been done on the BIA's organisation design and final structure. To fulfil its role in the building controls regime the BIA has to carry out five key functions:

- Create and maintain Approved Documents
- Design and manage compliance processes
- Educate and inform the industry and consumers
- Monitor and report performance
- Provide operational policy advice.

These five functions are being used to develop a new organisation design for the BIA. The new structure will also take into account the Government Policy Statement under Section 14 of the Building Act which includes the requirement to, inter alia: *"...Reposition[s] the organisation for the enhanced role that will result from the current review [of the Building Act] and build(s) strategic capacity and management systems to carry out the role effectively ..."*.

Organisation development will be an important focus for the BIA over the forthcoming year. The environmental issues and the changes to the Building Act require increased organisation capability for the BIA, and a new organisation structure will be progressively implemented in 2003/04.

Key aspects of the new organisation design are:

- The formation of a management team to support the Chief Executive
- The formation of three operational groups (the Operations Group, the External Relations and Education Group, and the Building Industry Performance Group), and three support functions (Legal, Programme Office, and Operational Policy)
- The Building Industry Performance Group will manage the BIA's relationship and partnership with TAs and this group will also provide information and analysis of the performance of the building controls regime
- Staffing under the new structure will be approximately double the current staffing level.

In conjunction with these organisational changes, the efficiency and effectiveness of the BIA's management and business processes will be improved. This will cover business planning, project and programme management, management decision processes, financial management and reporting, handling of consumer and industry inquiries, and revision and development of Approved Documents.

Altogether this package of organisation development initiatives and the increased resourcing that will be progressively implemented during 2003/04 will significantly lift the BIA's organisational capability.

In conjunction with this the BIA will work closely with the MED over the forthcoming year to manage the transfer of the BIA from a Crown entity to a department of the Crown. The objective will be to manage the changes successfully and without disruption to the effective and successful execution of the programmes planned for the forthcoming year.

7. Financial Plan

Building Industry Authority: Budgeted Statement of Financial Performance for the Year Ending 30 June 2004

	Budgeted Statement of Financial Performance			Forecast Statement of Financial Performance	
	2002/2003 Forecast at 31 May	2002/2003 Outturn at 30 June	2003/2004 Total	2004/2005 Total	2005/2006 Total
Income					
Building Levy	4,397,947	4,648,853	5,197,307	8,820,774	13,561,940
Other Income	17,373	16,223	22,000	23,000	24,000
Interest on Reserves				495,495	320,011
Total Income	4,415,320	4,665,075	5,219,307	9,339,269	13,905,950
Operating Expenditure					
Personnel & Recruitment	1,468,882	1,432,832	3,031,993	3,002,092	3,724,391
Programmes & Projects	2,837,940	2,470,050	3,366,400	5,041,297	5,412,428
Technical and Professional Advice	186,242	144,804	727,400	966,865	1,038,044
Occupancy Costs	167,548	166,003	196,000	260,524	279,704
Printing and Publications	38,105	47,070	916,500	1,218,218	1,307,901
Information Technology and Communications	50,547	51,875	86,000	114,312	122,727
Travel and Accommodation	76,553	79,750	450,788	599,190	643,302
Governance, Insurance & Audit	262,108	393,858	385,000	511,744	549,418
Transition and Integration	504,278	593,614	426,312		
Seminars & External Training	41,138	44,855	263,607	350,388	376,183
Administrative Costs	45,773	48,454	88,000	116,970	125,581
Depreciation	45,243	52,173	62,000	82,411	88,478
Total Operating Costs	5,724,358	5,525,338	10,000,000	12,264,012	13,668,156
Net Operating Surplus (Deficit)	(1,309,038)	(860,263)	(4,780,693)	(2,924,743)	237,795
Interest on Reserves	867,169	-	859,413	-	-
Net change in Reserves	(441,869)	(860,263)	(3,921,280)	(2,924,743)	237,795
Operating Expenditure by Functional Areas of Responsibility Centre					
Chief Executive Office & Board Governance			2,281,215	2,275,441	2,530,084
Programme & Administration			1,119,154	1,258,981	1,379,024
Operations			3,409,761	5,263,533	5,769,695
Building Industry Performance Management			1,068,435	1,206,720	1,486,038
Stakeholder Relations & Education			2,121,436	2,259,337	2,503,314
Operating Expenditure by Output Class					
Maintain & Proactively Update Building Controls			3,616,615	5,176,236	5,656,573
Provide Guidance on how to meet the Requirements of the Building Code			3,640,557	4,292,373	4,736,003
Oversee Administration of Building Controls			1,133,252	1,186,706	1,456,902
Inform Consumers			1,609,577	1,608,696	1,818,677

Building Industry Authority: Budgeted Statement of Cash Flows for the Year Ending 30 June 2004

	Forecast for the year ending 30 June 2003	Outturn for the year ending 30 June 2003	Budget 30 June 2004	Forecast 30 June 2005	Forecast 30 June 2006
Cash Flows From Operations					
Cash was provided from					
Sales of Publications	17,373	16,223	22,000	23,000	24,000
Cost Recoveries	-				
Consent Levies	4,299,537	4,611,413	5,197,307	8,820,774	13,561,940
Cash was disbursed to:					
Net Payments to Suppliers	(4,675,993)	(3,445,999)	(6,847,377)	(8,667,765)	(9,305,869)
Payments for Members' Fees	(173,288)	(248,899)	(385,000)	(511,744)	(549,418)
Payments for Personnel Costs	(1,295,477)	(1,338,064)	(3,031,993)	(3,002,092)	(3,724,391)
Net Cash Flow from Operating Activities	(1,827,849)	(405,326)	(5,045,063)	(3,337,827)	6,262
Cash Flow from Investing Activities					
Cash was provided from					
Sale of Fixed Assets	20,444	20,444			
Capital contribution (Repayment to the Crown)	-		3,472,621		
Sale of Fixed Interest Funds	1,309,038	-	5,272,621	3,624,743	62,205
Cash was Disbursed to					
Purchase of Fixed Assets	(74,252)	(74,252)	(300,000)	(128,000)	(128,000)
Repayment of Capital contribution to the Crown	-		(3,472,621)	-	-
Net Cash Flow from Investing activities	1,255,231	(53,807)	4,972,621	3,496,743	(65,795)
Net Increase/(Decrease) in Cash	(572,618)	(459,133)	(72,442)	158,915	(59,533)
Opening cash	834,678	834,678	375,545	303,103	462,018
Closing cash	262,060	375,545	303,103	462,018	402,485
Change in cash	(572,618)	(459,133)	(72,442)	158,915	(59,533)

Building Industry Authority: Budgeted Statement of Financial Position as at 30 June 2004

	Forecast as at	Outturn as at	Budget	Forecast	Forecast
	30 June 2003	30 June 2003	30 June 2004	30 June 2005	30 June 2006
Current Assets					
Cash at Bank	262,060	375,545	303,103	462,018	402,485
Debtors and GST Receivable	420,000	98,410	23,431	23,431	23,431
Managed funds and Cash at call	11,145,687	12,509,535	8,096,327	4,967,079	5,224,885
Total Current Assets	11,827,747	12,983,490	8,422,861	5,452,529	5,650,801
Current Liabilities					
Provisions, Project Commitments	95,000	1,000	1,000	1,000	1,000
Creditors and PAYE	104,226	905,693	529,837	529,837	529,837
Building Certifier Bonds	15,000	15,000	15,000	15,000	15,000
Net GST Payable	5,000	60,808	5,000	5,000	5,000
Accrued Expenses	100,000	69,687	100,000	100,000	100,000
Total Current Liabilities	319,226	1,052,187	650,837	650,837	650,837
Net Working Capital /(Deficit)	11,508,521	11,931,303	7,772,023	4,801,691	4,999,964
Plus Fixed Assets					
EDP Equipment at Net Book Value	122,273	147,358	211,692	224,221	234,729
Furniture & Fittings at Net Book Value	61,028	61,028	125,361	145,891	164,398
Leasehold Improvements - net value	43,516	39,846	149,179	161,709	172,217
Total Fixed Assets	226,816	248,232	486,232	531,821	571,344
Net Assets	11,735,337	12,179,535	8,258,255	5,333,513	5,571,307
Represented by Accumulated Funds					
Retained Surpluses Brought Forward	5,041,894	5,041,893	5,044,224	1,122,943	(1,801,799)
Surplus/Deficit - from Income & Expenditure	(1,309,038)	(860,262)	(4,780,693)	(2,924,743)	237,795
Interest Earned on Accumulated Funds B/F	867,169	862,593	859,413		
Retained Surpluses (Deficits) Carried Forward	4,600,025	5,044,224	1,122,943	(1,801,799)	(1,564,005)
Levy Reserve B/Fwd	7,135,312	7,135,312	7,135,312	7,135,312	7,135,312
Capital contribution from the Crown			3,472,621		
Repayment of Capital contribution from the Crown			(3,472,621)		
Total Accumulated Funds	11,735,337	12,179,536	8,258,255	5,333,513	5,571,307

Building Industry Authority: Budgeted Statement of Capital Expenditure for the Year Ending 30 June 2004

Budgeted Capital Expenditure

	Forecast	Outturn	Budget	Forecast	Forecast
	30 June 2003	30 June 2003	30 June 2004	30 June 2005	30 June 2006
	Total	Total	Total	Total	Total
Leasehold Improvements	4,750	4,750	130,000	40,000	40,000
Computer Systems	20,137	65,359	85,000	40,000	40,000
Furniture and Fittings	4,143	4,143	30,000	8,000	8,000
Office Equipment			55,000	40,000	40,000
Total	29,030	74,252	300,000	128,000	128,000

Financial Assumptions and Changes between 2002/03 and 2003/04 and Out Years

- 1 Levy income is budgeted to increase from the forecast \$4.398 million in 2002/03 to \$5.197 million in 2003/04. Contemporaneously, building activity is forecast to decline during 2003/04 compared to 2002/03, reflecting the cyclical nature of the building activity. In accordance with the Building Act the levy will be reviewed during 2003/04, taking account of the forecast reduction in building activity and the longer-term impacts of the proposed amendments to the Building Act. We anticipate a strategy of progressively increasing the levy over the next three years, while at the same time drawing down the accumulated surpluses. Subject to the amendments to the Building Act and the Minister of Commerce's approval of the levies, these changes will be implemented progressively from 1 January 2004. Without an increase in the building levy, revenues would be expected to be \$4.5 million in 2003/2004.
- 2 Interest revenue is forecast for 2003/04 at \$0.859 million and reduces in subsequent years as the surplus levy reserve is drawn upon; interest revenue is \$0.495 million 2004/05 and \$0.320 million in 2005/06. Interest revenue is not recognised as direct income for the BIA in 2003/04 until amendments to the Building Act are passed that would enable the BIA to recognise this as income. This represents a change in accounting treatment from previous years based on a change in interpretation of the Building Act that suggests the Authority does not currently have legal rights to use the interest. Interest revenue is recognised from 2004/05 as income available to the BIA contingent on the proposed amendments to the Building Act being passed by 30 June 2004.
- 3 Income, other than building levies and interest is budgeted at \$0.022 million in 2003/04, and forecast to be \$0.023 million in 2004/05, and \$0.025 million in 2005/06.
- 4 Total operating expenditure in 2003/04 is budgeted to increase from a forecast \$5.724 million in 2002/03 to \$10.00 million in 2003/04 as the functions and capability of the BIA are expanded and enhanced. Expenditure on personnel and recruitment increases from a forecast \$1.469 million in 2002/03 to \$3.032 million in 2003/04; \$3.002 million in 2004/05; and \$3.724 million in 2005/06. Expenditure on programmes and projects is forecast to increase from \$2.838 million in 2002/03 to \$3.366 million in 2003/04; \$5.041 million in 2004/05 and \$5.412 million in 2005/06. Programmes and projects that were outlined in the 2002/03 Statement of Intent have been integrated into the ongoing operations of the BIA.
- 5 The operating deficit results from a decision to progressively increase the building levy to match the budgeted and forecast expenditure increases. The shortfall in revenues will mean that the surplus levies (plus interest) that the Authority has accumulated in reserves since 1994 will gradually decline from June 2004. The net operating deficit of the BIA is budgeted to increase from a forecast \$1.309 million in 2002/03 to \$4.781 million in 2003/04; reducing to \$2.951 million in 2004/05; and returning to a net surplus of \$0.210 million in 2005/06. The forecast reduction in operating deficits in 2004/05 and 2005/06 is attributable to interest revenue being recognised as income from 2004/05 onwards and also the assumed increases in the building levy as stated above.

A capital contribution from the Crown of \$3.473 million is budgeted for during 2002/03 to cover the working capital deficit that is incurred as expenditure exceeds revenues. Although the BIA has accumulated cash reserves in excess of the working capital requirements, the authority has been advised that until amendments to the Building Act are passed it does not currently have legal authority to access these funds. The Authority has budgeted to return the capital contribution to the Crown in June 2004 following the enactment of the amendments to the Building Act.
- 6 The actual cash balance at 1 July 2003 is \$0.376 million, which is subject to confirmation following finalisation of the audited financial statements as at 30 June 2003.
- 7 Fixed asset purchases are budgeted to increase from a forecast \$0.060 million in 2002/03 to \$0.300 million in 2003/04 as existing accommodation, furniture, and computer systems are reconfigured to accommodate the increase in staff members from 18 FTEs in 2002/03 to a budgeted 31 FTEs at 30 June 2004.

Accounting Policies

General Accounting Policies

1. The measurement base adopted is that of historical cost
2. Reliance is placed on the fact that the Authority is a going concern
3. Accrual accounting is used to match expenses against revenue.

Accounts Receivable

Accounts receivable are stated at estimated realisable value, after due allowance for amounts which are not considered recoverable.

Investment Income

Interest income is accrued at balance date.

Accounts Payable

Forecast costs to complete programmes and projects in progress at balance date have been accrued in the Statement of Financial Position.

Good and Services Tax (GST)

All revenue and expense transactions have been recorded net of GST. Where applicable, all assets and liabilities have been stated net of GST, with the exception of receivables and payables that are stated inclusive of GST.

Levy Income

In accordance with the Building Act levy income is recognised on a cash basis in the month when the Authority receives it.

Levy Reserve

Amounts in excess of the budget surplus as approved by the Ministers of Commerce and Finance are transferred to the Levy Reserve throughout the period. It is anticipated that forecast deficits will be funded from a reduction in reserves following enabling legislative changes to the Building Act.

Appendix 1: Government Policy Statement under S14 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.

Appendix 2: Media Statement from Lianne Dalziel

Hon Lianne Dalziel
Minister of Commerce

26 May 2003

Building Act 1991 and Proposed Changes

Government acts to improve building regulations

Commerce Minister Lianne Dalziel today announced the government's proposals for better regulation of the building industry.

The government's decisions, confirmed by Cabinet today, focus on:

- Better 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
- Better administration of building controls, with more reliable inspection and code compliance requirements
- More competent and better-informed building practitioners, who will certify their work
- Better-informed and protected consumers.

“The experience of the weathertightness issue has highlighted problems in the building industry and the government wants to put it right. The primary focus of our decisions today can be summed up in this phrase: ‘Design and build it right first time’.

“It is ironic that most of us would not contemplate buying a second hand car without having it checked first by someone qualified to do so. Yet in the case of what is usually the single largest investment most of us will make in our lifetime, it is incredible that we don't apply the same rigour.

“The proposed changes place more emphasis on buildings being fit for the purpose for which they are built and being built with the whole life of the building in mind. There will be improved monitoring of the industry by the regulator, better specification of the Building Code, and more information and guidance about practices and products and complying with the Code.

“We are putting in place the means to improve local authorities' administration of building controls. Local authorities will be accredited and audited against benchmark standards and will have enhanced infringement fee powers. Private building certifiers will also have to be accredited.

“Builders, architects, designers and other building professions and trades will be subject to a licensing regime and will be required to self-certify their work. This will mean consumers, as purchasers of building services, will have better information about, and be able to better rely on, their building professional.

“We are also introducing standard contract provisions to help protect all the people who are involved in the building process, particularly the homeowner.

“The BIA, the functions of which will be transferred to a government department, will also have new powers to warn against, ban, and require some designs, practices and products to be used in some circumstances, with improved enforcement powers,” Lianne Dalziel said.

The decisions are the result of a comprehensive review of current building regulation, which took into account the recommendations of the Hunn Report on weathertightness and the Select Committee Inquiry into Weathertightness. The measures announced today are largely based on the proposals outlined in the discussion paper, Better Regulation of the Building Industry in New Zealand, which was released in March.

“Officials from the Ministry of Economic Development and I have spent a lot of time over the past few months talking to builders, architects, designers and other members of the building industry, as well as to consumer groups and other stakeholders. Over 300 largely supportive submissions to the discussion paper were received.

“A key theme to emerge from the submissions and consultation was widespread support for the focus on input controls so we get it right first time.

“Licensing of building practitioners, improved information provision, product certification, accreditation of building inspectors and more effective enforcement were also widely supported measures.

“Support for measures such as compulsory insurance, bonds or guarantee funds was not so strong. Instead, the view was generally that the emphasis should be on ensuring better control of the inputs so there is less need for redress.

“However, I am still aware of the need to cover those situations where something does go wrong and so I have asked the Ministry of Economic Development to develop a dispute resolution process based on the one in the Construction Contracts Act,” Lianne Dalziel said.

The new measures will be implemented through the Building Bill, which is planned for introduction to Parliament in July. The Bill will then be referred to a select committee, providing an opportunity for further submissions.