



Homeowner  
Protection Office

**H O M E O W N E R   P R O T E C T I O N   O F F I C E**

**S E R V I C E   P L A N**

2007-2010



# 2007-2010

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National Library of Canada Cataloguing in Publication Data  
British Columbia. Homeowner Protection Office.  
Service plan. -- 2002/2005-

Annual

Continues: British Columbia. Homeowner Protection Office.  
Performance plan. ISSN 1496-2691.

ISSN 1499-7789 = Service plan - British Columbia.  
Homeowner Protection Office

1. British Columbia. Homeowner Protection Office --  
Periodicals. 2. Home ownership -- Government policy - British  
Columbia - Periodicals. 3. Consumer protection - British  
Columbia - Periodicals. I. Title. II. Title: Homeowner Protection  
Office service plan.

HD7287.82.C32B732 353.5'5

C2002-960004-9

Honourable Rich Coleman  
Ministry of Forests and Range  
Minister Responsible for Housing  
Province of British Columbia

Dear Minister,

It is a pleasure to provide you with the 2007-2010 Service Plan for the Homeowner Protection Office (HPO).

Over the past year, more than 4,500 builders were licensed with the HPO and new home construction remained high. Our research and education initiatives brought new technical bulletins on home construction, more consumer information on the proper maintenance of multi-unit homes, and educational seminars covering topics such as the Province's new BC Building Code. All eligible owners of leaky homes continued to be approved for needed financial assistance.

The most significant activity over the past year has been the collaborative efforts of the industry, the HPO and your ministry to further increase consumer protection and raise the bar of professionalism in the residential construction sector.

Current market and industry issues drive the opportunities and challenges we face in the upcoming planning period. We anticipate a strong, but softening housing market, increased demand for funds under the reconstruction loans program for housing co-operatives and a continued skilled labour shortage. The HPO is poised to maximize the opportunities ahead.

We are enthusiastic about the future outlook for our industry and the HPO as we work towards furthering the effectiveness of the Homeowner Protection Office and pursuing our vision of a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.



Ken MacLeod, Chairperson

*The 2007/08 – 2009/2010 Homeowner Protection Office Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act. The Board is accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and Strategic Plan.*

*All significant assumptions, policy decisions and identified risks, as of December 2006 have been considered in preparing the plan. The performance targets in this plan have been determined based on an assessment of the Homeowner Protection Office's operating environment, forecast conditions, risk assessment and past performance.*

Sincerely,

Ken MacLeod  
Chairperson

## Corporate Overview

The Homeowner Protection Office (HPO) is a provincial Crown corporation formed in 1998 in response to the need to introduce consumer protection legislation and regulatory improvements within British Columbia's residential construction sector.

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The HPO was established under the *Homeowner Protection Act (Act)*. The main purposes of the *Act* are to:

- strengthen consumer protection for buyers of new homes
- help bring about improvements in the quality of residential construction
- support research and education respecting residential construction, and
- provide financial assistance to eligible owners of leaky homes.

The HPO, with a staff of 35, is responsible for:

- licensing residential builders and building envelope renovators province-wide
- monitoring and facilitating the performance of the third-party home warranty insurance system
- carrying out research and education designed to benefit the residential construction sector and consumers, and
- administering financial assistance programs for owners of leaky homes through the Reconstruction Loan Program and the PST Relief Grant.

The HPO is based in Vancouver and delivers its programs throughout British Columbia. Its principal focus is the residential construction industry in which it performs its licensing, research and education functions. Home warranty insurance is required by the *Act* and provided by the private sector. Other interested parties with which the HPO interacts include: consumer organizations, warranty providers, insurance brokers acting as managing general agents for warranty providers, financial institutions, other regulatory agencies, educational organizations, building officials, and all three levels of government.

corporate overview

## Corporate Governance

### The Homeowner Protection Office (HPO) reports to the Minister of Forests and Range

and the Minister Responsible for Housing and is governed by a seven-member board of directors. The Board is appointed by the Lieutenant Governor in Council. The mandate of the HPO Board is to develop, adopt and pursue

long-term strategic directions consistent with the objectives of the shareholder (the Province) and to oversee the management of the HPO.

The HPO complies with the Board Resourcing and Development Office's *Best Practice Guidelines: BC Governance and Disclosure for Governing Boards of Public Sector Organizations*. The HPO's *Board of Directors' Governance Manual* can be found on the

"HPO Overview" page of its website at [www.hpo.bc.ca](http://www.hpo.bc.ca). The HPO Board has also adopted the guiding principles included in the provincial government's Governance Framework which sets out the roles and responsibilities for all parties that are part of the Crown corporation governance environment.



<sup>1</sup> The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO.  
<sup>2</sup> Member of the Audit and Finance Committee which assists the Board in fulfilling its fiduciary and oversight responsibilities relating to financial reporting and the audit process.  
<sup>3</sup> Member of the Governance Committee which conducts the CEO's performance evaluation and recommends the implementation strategy for the Best Practice Guidelines for governance.  
<sup>4</sup> The Provincial Advisory Council on Homeowner Protection provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The council includes representatives from the following organizations:

Architectural Institute of B.C.	Condominium Home Owners' Association	Building Officials Association of B.C.
B.C. Construction Association	Co-operative Housing Federation of B.C.	Independent Contractors and Businesses Association of B.C.
Union of British Columbia Municipalities	City of Vancouver	
Canadian Home Builders' Association of B.C.	Home warranty insurance provider	B.C. Federation of Labour – 2 representatives
Association of Professional Engineers and Geoscientists	Urban Development Institute	

## Strategic Context

### Our Vision

A professional organization that directly acts to enable a robust and respected residential construction industry in which consumers have confidence and industry partners have the ability to thrive.

### Our Mission

To protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.

### Our Values

We are guided by our commitment to:

- fairness
- competence
- common ground, and
- usefulness.

## Abuse of the Owner-builder Exemption

The *Homeowner Protection Act* exempts individuals who qualify as owner-builders from the licensing and home warranty insurance requirements. Although the *Act* stipulates that only individuals intending to build a detached dwelling for their own personal use are eligible for the exemption, once in any 18-month period, significant numbers of land owners and unlicensed builders are abusing the system in order to avoid the licensing and warranty insurance requirements put in place to protect consumers.

A significant portion of owner-built homes are actually being constructed by black-market builders posing as genuine owner-builders and their homes quickly end up on the real estate market without the protection of home warranty insurance.

Abuse of the owner-builder exemption results in:

- inadequate consumer protection (false owner-builder exemptions mean that new homes are not built by licensed builders and are not covered by home warranty insurance). The ten-year statutory protection on owner-built homes makes an owner-builder personally liable for construction defects in the home for a period of 10 years, but provides no guarantee of a buyer's ability to recover damages.
- unfair competition for

Licensed Residential Builders who comply with the *Act* and other forms of legislation and must compete with black-market builders who also often do not contribute their share of taxation including GST, capital gains and income tax.

- smaller underwriting pools for home warranty insurance providers which can result in higher premiums for coverage which is passed on to consumers.
- less financial resources available for the administration of the consumer protection regulations and the delivery of general programs such as research and education because licensing fees are not collected, and
- too much HPO resources expended on compliance efforts with false owner-builders.

The level of activity in new residential construction has placed considerable increased pressure on the HPO's current compliance staff to monitor and investigate potential abuse of the owner-builder exemption and other potential offences.

## A Strong, but Softening, Housing Market

The HPO derives its funding revenues primarily from licensing fees. This service plan anticipates a strong, but softening housing market over the planning period. New home construction is anticipated to be within a range of 28,000 to 29,600 homes per year during the forecast period. This

forecast represents consistently strong new home construction activity, but also represents a decline in new home construction starts from the 37,107 in 2005/06. The forecast is consistent with those of a number of industry experts, who foresee continued strong housing growth, but at a somewhat lower level than the most recent year.

This relative decline in new home construction, which attracts funding for the HPO, results in a reduction in the availability of funds and a corresponding reduction in the delivery of general programs, such as research and education for the industry and consumers, and a reduction in available resources for compliance activities.

The HPO collects a Reconstruction Fee of \$750 from licensed builders for every new multi-unit home built for sale in the coastal climate zone. This revenue, which is earmarked solely for the Reconstruction Loan Program, will also be affected by the relative decline in the number of new homes constructed. Expenditures in the form of interest payments on no-interest loans, and in some cases the necessary provision of the principal on the loans, will continue to be required. An escalation in construction costs will put upward pressure on expenditures in the Reconstruction Loan Program, increasing the need for the HPO to rely on its bridge financing with the Province until Reconstruction Fee rev-

enues cover the HPO's obligations under the Reconstruction Loan Program.

## Increasing Demand for Funds Under the Reconstruction Loans Program for Housing Co-operatives

Under the Reconstruction Loan Program for housing co-operatives, the HPO approves no-interest repair loans for the full repair cost in eligible housing co-operatives suffering from premature building envelope failure. Canada Mortgage and Housing Corporation (CMHC) advances the funds on the housing co-operative loan to undertake repairs. The HPO is committed to provide financial assistance for a period of up to 10 years in each repair project. The financial assistance comprises the payment of interest on the loan. This assistance is financed through the \$750 Reconstruction Fee charged to licensed builders on the construction of every new multi-unit home built for sale in the coastal climate zone.

The HPO has approved \$205 million in housing co-operative repairs, but only \$38 million as of November 30, 2006 has been released by CMHC to undertake the repairs. It is anticipated that CMHC will release the remaining funds in the amount of \$12 million in each of the last three years of the service plan forecast to initiate or complete repairs on

the housing co-operatives already approved by the HPO for Reconstruction Loans. Delays in initiating repairs result in higher repair costs which increases the total value of the housing co-operative repair loans and increases the HPO's subsidized interest costs.

The forecast for interest subsidies paid to CMHC rises significantly during the service plan period from \$1.7 million in 2006/07 to \$4.3 million in 2009/10 (see Table 1 in the Financial Outlook section on page 22).

The HPO is required to approve all eligible housing co-operatives for reconstruction loans which includes accepting increased repair costs resulting from delays in repairs. For example, in the first eleven months of 2006, delays in the repairs to 10 housing co-operatives approved under the program resulted in increases in repair cost estimates from \$20.5 million to \$35.1 million – an increase of 58%.

The increased demand for repair funds under the Reconstruction Loan Program for housing co-operatives occurs at a time when projected housing starts, and the collection of the Reconstruction Fee, are anticipated to decline from the level seen in 2005/06.

## Skilled Labour Shortage

High housing starts as well as the number of non-residential major capital projects planned and underway in the province have created increased demand for skilled labour.

The supply of skilled labour is inadequate to meet the demand due to an aging workforce, the slow growth of a young replacement workforce, competition for skilled labour also needed to meet the needs of the industrial, commercial and institutional sectors and other factors. Impacts of the skilled labour shortage can include:

- delays in construction and an inability to meet demand in a timely manner
- increased housing prices as trades in short supply command higher prices for services which leads to fewer homeowners able to purchase new homes
- compromised quality of construction that may also affect the bottom line of participating home warranty insurance providers
- rising repair costs increasing the demands in financial assistance, and
- lower HPO revenues resulting from this impediment on residential construction.



## Goals, Objectives, Strategies, Performance Measures and Targets

### Key Goals

The 2007-2010 Service Plan sets out a strategic direction for the Homeowner Protection Office (HPO) that is focused on five key goals:

- professionalization of the residential construction sector
- informed and protected consumers
- continued viability of the home warranty insurance system
- becoming a strategic centre for building industry research, and
- an aligned, focused and capable organization.

Originating from the Futures Report approved by the Board of Directors in 2004, these goals are consistent with and support the mandate of the HPO as described under the *Homeowner Protection Act*. This strategic direction will enable the HPO to generate greater value through building and maintaining consumer confidence and supporting a thriving residential construction sector in British Columbia. A summary of the linkages between goals and results is shown on page 10.

### Alignment with the Provincial Government's Strategic Plan

The goals contained in this service plan support the B.C. government's "Five Great Goals for a Golden Decade". One of the Province's goals is to "create more jobs per capita than anywhere else in Canada." The residential construction sector is a major economic driver in the province, contributing to the province's gross domestic product at a level that is comparable to other major industries such as forestry and the utilities.

Strong consumer confidence in the residential construction sector contributes to greater demand for new homes, and thus creates new, high paying jobs and business opportunities for British Columbians. Consumer confidence and a healthy residential construction sector also support other sectors of the provincial economy such as the forest industry by stimulating demand for wood products.

#### *A Housing Strategy for British Columbia*

On October 3, 2006, the Minister Responsible for Housing released "Housing Matters BC – Housing Strategy for British Columbia". This strategy addresses the full housing continuum, from emergency shelter through to homeownership. The key goals outlined in the HPO's

service plan fully support the strategic directions contained in the provincial housing strategy, specifically to ensure that B.C.'s housing and building regulatory system is safe, stable and efficient, and to promote greater protection for consumers.

### Key Changes from the Previous Service Plan

The service plan is revisited annually and revised where needed to take into account any changes to the planning context and strategic directions. The changes contained in this year's plan include the addition of targets for 2010 as well as the establishment of targets for the performance measure on the timeliness for Reconstruction Loan Program application decisions. Changes have not been made to the goals, objectives, strategies and performance measures in this service plan following substantial changes that were made in last year's service plan.

## Summary of HPO Mission, Goals, Objectives and Performance Measures

Mission Statement	Protect buyers of new homes from undue risk and assist the residential construction industry to mitigate that risk.				
	1	2	3	4	5
Goals	Professionalization of the residential construction sector	Informed and protected consumers	Continued viability of the home warranty insurance system	Become a strategic centre for building industry research	An aligned, focused and capable organization
Objectives	<p>“Raise the bar” for Licensed Residential Builders</p> <p>Address black-market building</p> <p>Seek authority for administrative penalties and compliance orders</p> <p>Better perform gate-keeping duties</p> <p>More information on public registry</p>	<p>Increase communications and education initiatives</p> <p>Established standard of information for consumers</p> <p>Owners of leaky homes do not have to lose their homes</p>	<p>Ensure the availability, affordability and effectiveness of home warranty insurance</p> <p>Ensure home warranty is in place where coverage is required</p>	<p>Conduct and disseminate results on research related to continuous improvement in the quality of residential construction</p> <p>Facilitate the use of research in the development and applications of best practices</p>	<p>Ensure HPO remains lean, agile, rigorous and resourced</p>
Performance Measures	<p>Builder satisfaction with the licensing system</p> <p>Builders’ rating of the effectiveness of the HPO’s compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption</p>	<p>Homebuyer awareness of consumer protections under the <i>Homeowner Protection Act</i></p> <p>Homeowner satisfaction with home warranty insurance</p> <p>Homeowner satisfaction with the quality of home construction</p> <p>Homeowner satisfaction with the building process</p> <p>Recovery of home values following building envelope renovations</p> <p>Reconstruction loan default rate</p>	<p>Percentage of homes enrolled in warranty insurance with claims within industry norms</p> <p>Builder rating of their overall relationship with their warranty provider</p> <p>Homeowner satisfaction with the home warranty insurance on their home</p>	<p>Research results and best practices disseminated through symposiums, seminars or workshops</p> <p>Research results incorporated into building standards and best practices</p> <p>Resources leveraged by the HPO through other funding partners</p>	<p>Timeliness of licensing decisions on completed licence applications</p> <p>Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program</p>

## Goal 1 – Professionalization of the Residential Construction Sector

### Objectives

Continue to work with industry and government to raise the bar of professionalism in residential construction.

Continue to address the problem of black-market building activity while enabling individuals to build a detached home for their own personal use.

Strengthen the HPO’s ability to obtain compliance with the *Homeowner Protection Act* and regulations.

Investigate more effective means to perform industry gate-keeping duties.

Enhance the public registry to allow consumers to make a more-informed choice of their Licensed Residential Builder,

and to identify all new homes and their status under the *Act*.

### Strategies

- Work collaboratively with industry and consumer stakeholders on implementation measures to “raise the bar” in a way which achieves the desired result of increasing professionalism without disruption of the vast majority of existing professionals who are performing well above any minimum standard.
- Continue cooperation and information sharing with other organizations when appropriate to address the black-market builder situation.
- Continue to support and strengthen education and training programs offered by industry associations and training organizations.

GOAL 1 • PERFORMANCE MEASURES	ACTUAL/BASELINE	FORECAST 2006/07	TARGETS		
			2007/08	2008/09	2009/10
Builder satisfaction with the licensing system	87% were very or somewhat satisfied in 2005/06	Not forecasted: surveyed once every two years	90%	Not surveyed	90%
Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption	70% felt that HPO's compliance efforts were very or somewhat effective in 2005/06	Not forecasted: surveyed once every two years	75%	Not surveyed	77%

## Goal 2 – Informed and Protected Consumers

### Objectives

Increase communications and education initiatives to inform and protect consumers, particularly in the following areas:

- consumers' understanding of the home warranty insurance product, the home warranty insurance system, and the role and obligations of all participants in this area

- proper maintenance of new homes
- an informed home-buying process, and
- an understanding of homeowner obligations with respect to the protections under the *Homeowner Protection Act*.

Ensure an established standard of information is accessible to 100% of homebuyers and homeowners.

Ensure that homeowners who might have otherwise lost their homes as a result of the cost of building envelope repairs have the option to keep their homes.

### Strategies

- Develop and distribute new information products and related education initiatives for consumers, specifically:
  - consumer guides on buying a home, and on B.C.'s home warranty insurance system, and
  - maintenance bulletins for owners of new homes.
- Implement a plan to increase homeowner satisfaction levels in the areas of warranty insurance, quality of home construction and the building process.
- Continue to provide no-interest repair loans and PST Relief Grants to eligible owners of leaky homes.

GOAL 2 • PERFORMANCE MEASURES	ACTUAL/BASELINE	FORECAST 2006/07	TARGETS		
			2007/08	2008/09	2009/10
Homebuyer awareness of consumer protections under the <i>Homeowner Protection Act</i>	69% awareness of licensing in 2004/05  52% awareness of home warranty insurance in 2004/05	Forecast to make progress towards meeting targets of: 80% awareness of licensing 60% awareness of home warranty insurance	Not surveyed	90% awareness of licensing  70% awareness of warranty insurance	Not surveyed
Homeowner satisfaction with home warranty insurance	80% satisfaction among owners of new homes in 2004/05	Forecast to make progress towards meeting target of 85% satisfaction	Not surveyed	90% satisfaction	Not surveyed
Homeowner satisfaction with the quality of home construction	91% satisfaction in 2004/05	Forecast to make progress towards meeting target of 95% satisfaction	Not surveyed	95% satisfaction	Not surveyed
Homeowner satisfaction with the building process	83% satisfaction in 2004/05	Forecast to make progress towards meeting target of 88% satisfaction	Not surveyed	90% satisfaction	Not surveyed
Recovery of home values following building envelope renovations	97% of repaired homes have recovered the value of the cost of repairs in the assessed values of their homes in 2004/05	Forecast to make progress towards meeting target of 95% or greater	95% or more	95% or more	95% or more
Reconstruction Loan default rate	1.7% in 2005/06	Forecast to make progress towards meeting target of 1.5% or less	1.5% or less	1.5% or less	1.5% or less

## Goal 3 – Continued Viability of the Home Warranty Insurance System

### Objectives

Ensure the availability, affordability and effectiveness of home warranty insurance for consumers and the industry.

Ensure home warranty insurance is in place for all new homes where coverage is mandated under the *Homeowner Protection Act*.

### Strategies

- Preserve the uninterrupted availability of home warranty insurance in British Columbia by consulting and collaborating with warranty providers and others in the industry to ensure that home warranty insurance continues to be an attractive and viable business line for the industry and continues to be made available at an appropriate cost.
- Work with home warranty insurance providers to ensure that claims made under home warranty insurance are evaluated in a fair manner, with reasonable

dispatch and in accordance with objective standards.

- Work with home warranty insurance providers and brokers, the Insurance Council of B.C. and the Financial Institutions Commission to ensure the continued integrity of the home warranty insurance system.
- In collaboration with the Insurance Council of B.C. and the Financial Institutions Commission, monitor the performance of the home warranty insurance system and, if necessary, support the provision of additional authority to regulate areas related to improving performance.

GOAL 3 • PERFORMANCE MEASURES	ACTUAL/BASELINE	FORECAST 2006/07	TARGETS		
			2007/08	2008/09	2009/10
Percentage of homes built under the <i>Homeowner Protection Act</i> with warranty insurance claims is within industry norms	4% in 2004/05	Forecast to meet target of 3% or less homes with claims	3% or less homes with claims	3% or less homes with claims	3% or less homes with claims
Builder rating of their overall relationship with their warranty provider	84% rated as good or excellent in 2005/06	Not forecasted: surveyed once every 2 years	92% rated as good or excellent	Not surveyed	92% rated as good or excellent
Homeowner satisfaction with home warranty insurance	80% satisfaction in 2004/05	Forecast to make progress toward meeting target of 85% satisfaction	Not surveyed	90% satisfaction	Not surveyed

## Goal 4 – Become a Strategic Centre for Building Industry Research

### Objectives

Support and disseminate research relative to the continuous improvement in the quality of residential construction in B.C.

Facilitate the use of this research in the development and application of best practices and in the development of standards.

### Strategies

- Facilitate access by the industry and consumers, in real, electronic or virtual form, to all available research and knowledge relevant to the quality and durability of new homes and building envelope-renovated homes in B.C.
- Assemble, maintain and continually develop a current knowledge of the state of consumer confidence in the housing industry.
- Work with industry and consumer groups to identify gaps in the available knowledge and to facilitate research to fill gaps that are important to the HPO's key focus.



GOAL 4 • PERFORMANCE MEASURES	ACTUAL/BASELINE	FORECAST 2006/07	TARGETS		
			2007/08	2008/09	2009/10
Research results disseminated through symposiums, seminars or workshops	Previously reported in 2 year blocks of time	One research symposium held in spring 06, delivery of over 30 Building Smart education seminars and release of 3 research studies. Target met.	One major symposium or publication and over 20 educational sessions delivered	One major symposium or publication and over 20 educational sessions delivered	One major symposium or publication and over 20 educational sessions delivered
Research results incorporated into building standards and best practices	Involvement in federal and provincial processes to update provide advice and education on the 2006 BC Building Code. Worked with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses	Continued involvement in national and provincial building code processes, and to work with industry to develop best practices and training courses
Resources leveraged by the HPO through other funding partners	Contribution by partners represented 49% of total project funding in 2005/06	Contribution by partners to represent more than 60%	At least twice the amount invested by the HPO leveraged through partnerships	At least twice the amount invested by the HPO leveraged through partnerships	At least twice the amount invested by the HPO leveraged through partnerships

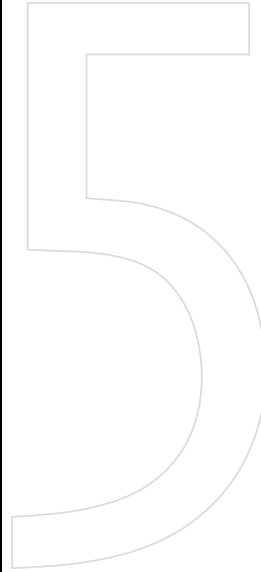
## Goal 5 – An Aligned, Focused and Capable Organization

### Objectives

Ensure that the Homeowner Protection Office (HPO) remains lean, agile, rigorous and resourced.

### Strategies

- Implement an improved employee performance evaluation and planning system.
- Implement improvements to the information technology infrastructure that directly support the mandate of the HPO, improve efficiency and enhance customer service.
- Identify and pursue business strategies that reflect the principles of economic, social and environmental sustainability.



GOAL 5 • PERFORMANCE MEASURES	ACTUAL/BASELINE	FORECAST 2006/07	TARGETS		
			2007/08	2008/09	2009/10
Timeliness of licensing decisions on completed license applications	2.7 business days in 2005/06	Forecast to meet target of under 3 business days	3 business days or less	3 business days or less	3 business days or less
Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program	Baseline established at 8.2 business days in 2005/06	Under 10 business days	10 business days or less	9 business days or less	8 business days or less

## Performance Management Systems

### Survey of Licensed Residential Builders

The biennial survey of Licensed Residential Builders is the data source for several key performance measures. Carried out by an independent market research firm, the builder survey is a self-administered questionnaire sent to all Licensed Residential Builders in B.C. The response of 1,094 builders in the 2005/2006 survey provides a confidence level of 95% with a maximum margin of error of +/- 3.0%. The next survey will be carried out in 2007/2008. The response of 968 builders in the 2003/2004 survey provides a confidence level of 95% with the maximum margin of error of +/- 3.2%.

### Consumer Survey

The biennial consumer survey is the data source for several key performance measures. Carried out by an independent market research firm, the survey includes two separate groups of consumers, specifically:

- 1) homeowners with warranty insurance under the *Homeowner Protection Act* on their homes, and
- 2) prospective new home buyers.

For the 2004/2005 consumer survey a total of 601 telephone interviews

were conducted with owners of homes covered by warranty insurance. At the 95% confidence level, the maximum margin of error on the total homeowner sample is +/- 4.0%. In addition, a total of 300 telephone interviews were conducted with B.C. residents who were considering buying newer homes (i.e. purchase a home with warranty insurance) over the next year. At the 95% confidence level, the maximum margin of error on the total prospective homebuyer sample is +/- 5.7%.

The 2006/2007 consumer survey was carried out in November 2006, and its results will be reported in the 2006/07 Annual Report.

## Description of Performance Measures

**Builder satisfaction with licensing system** — This measure tracks Licensed Residential Builder satisfaction with the HPO licensing system. Builder satisfaction is tracked through the biennial survey of all licensed builders. Sub-components of satisfaction being tracked include: fairness of the rules/requirements, application and renewal process, and timeliness of licensing decisions.

**Builders' rating of the effectiveness of HPO's compliance efforts to monitor and enforce licensing and home warranty insurance requirements and the owner-builder exemption** — The HPO carries out compliance activities to ensure that all new homes in B.C. are built in keeping with the licensing, warranty insurance and owner-builder exemption provisions of the *Homeowner Protection Act*. Licensed builders rate the effectiveness of the compliance efforts through the biennial survey.

**Homebuyer awareness of consumer protections** — This measure tracks homebuyers of new homes' awareness of the consumer protection measures in place in B.C., specifically licensing of residential builders and warranty insurance requirements. Data for this measure is collected through the biennial survey of



prospective buyers of new homes.

**Homeowner satisfaction with warranty insurance** — This measure tracks homeowner satisfaction with the protection provided by warranty insurance on their new home. Data for this measure is obtained through the biennial survey of owners of new homes with home warranty insurance.

**Homeowner satisfaction with the quality of home construction** — This measure tracks homeowner satisfaction with the quality of the construction of their home. Data for this measure is obtained through the biennial survey of owners of new homes with warranty insurance.

**Homeowner satisfaction with the building process** — This measure tracks homeowner satisfaction with the building process for their new home. Data for this measure is obtained through the biennial survey of owners of new homes with warranty insurance.

**Recovery of homes' values following building envelope renovation** — This measure, tracked annually, monitors the improvement of assessed values of homes with repair loans following the completion of building envelope renovations. The measure is calculated as the percentage of homes in the HPO's Reconstruction Loan Program with completed repairs whose assessed values have increased by an amount equal to or greater than the cost of repairs.

**Reconstruction Loan default rate** — This measure, performed on an annual basis, tracks the effectiveness of the Reconstruction Loan Program in helping to ensure that homeowners do not have to lose their homes as a result of building envelope renovation costs. The data used for this measure is the number of loan defaults among homeowners with reconstruction loans, and is benchmarked against residential mortgage default rates in B.C.

**Homes with warranty insurance claims** — This measure is an important indicator of the quality of residential construction in B.C. in terms of the number of claims made by homeowners for repairs under home warranty insurance. The number of claims is compared to the total number of homes enrolled during the specific period. In 2002/2003 and 2004/2005 proxy data from the biennial homeowner survey was used in lieu of data from warranty providers.

**Builder rating of their overall relationship with their warranty provider** — This measure tracks the licensed builders' rating of their overall relationship with their warranty provider. Builder ratings are tracked through the biennial survey of all licensed builders. Sub-components of this measure being tracked include: ease of the application process for coverage, cost of the warranty insurance and handling of complaints or claims from consumers.

**Homeowner satisfaction with warranty insurance** — Same measure as described under Goal 2: Informed and Protected Consumers. This measure has been repeated under Goal 3 as homeowner satisfaction is also a valid indicator of the viability of the home warranty insurance system from the perspective of consumers.

**Research results disseminated** — Recognizing the critical role of ensuring that research results and best practices are disseminated to industry and consumers, this measure focuses on the HPO's participation in major research symposia or publications, and the delivery of educational sessions. Prior to 2005/06, targets for this measure have been for two year periods. Beginning in the 2006/07, targets have been set on an annual basis.

**Research results incorporated into building standards and best practices** — This measure looks at the effectiveness of the HPO in ensuring that results of research projects are incorporated into standards, codes and best practices. The performance measure tracks the HPO's participation and input into the national and provincial code development process, and involvement in the development of best practice guides and training courses.

**Leveraging of additional research and education funding** — This measure monitors the effectiveness of the HPO in leveraging additional resources for research and education initiatives with

industry partners. The target is to leverage at least twice the amount invested by the HPO by other partners for active research and education projects.

**Timeliness of licensing decisions** — This is a measure of the HPO's responsiveness in making residential builder and building envelope renovator licensing decisions on completed applications for new licences. Specific targets are set to ensure that HPO licensing decisions are made quickly, thus avoiding unnecessary and potentially costly delays for residential builders. This performance measure is benchmarked against other jurisdictions that register or license residential builders.

**Timeliness of Reconstruction Loan Program application decisions** — This measure was introduced into the 2006-2009 Service Plan. It is a measure of the HPO's responsiveness in making decisions on completed homeowner loan applications. Baseline data was obtained in 2005/06, and targets have been established in this service plan.

## Financial Outlook

A forecast of revenues and expenditures for 2006/2007 through 2009/2010 is shown

in Table 1 (page 22). The forecast for residential builder licensing and construction activity can be found in Table 2 (page 22). Full-time equivalents (FTEs) of staff are shown in Table 3 (page 23). A summary of the key financial components of the Reconstruction Loan Program is found in Table 4 (page 23). The financial plan of the Homeowner Protection Office (HPO) is driven by two main driving forces, which are as follows:

### 1. The HPO is self-sustaining from its own revenues.

Licensing fees received from builders are the primary source of revenue to operate HPO programs. The level of activity in new home construction and building envelope renovations determines the amount of funding available. Table 2 (page 22) shows a forecast of the activity. Over the forecast period, it is projected that the demand for new homes will remain relatively strong with modest changes in the market place as residential builders and consumers respond to market influencers such as rising construction costs and affordability of housing.

Over the service plan period, it is anticipated that under the existing legislative and regulatory environment, a

moderate decline in the number of licensed builders will be experienced, which will directly impact HPO's license revenues. This will require the HPO to adjust its level of programming accordingly.

### 2. The Reconstruction Loan Program provides financial assistance to all eligible homeowners

As required by the *Homeowner Protection Act*, financial assistance in the form of no-interest repair loans is provided to all eligible homeowners. This includes eligible housing co-operatives. The Reconstruction Loan Program may experience variability in its net operating results on a year-over-year basis. Fluctuations occur as a result of many factors affecting the demand for the program and the availability of funds required for the reconstruction loans. A summary of the Reconstruction Loan Program financial components is shown in Table 4 (page 23).

#### • Demand for financial assistance

The demand for financial assistance continues as more eligible homeowners with leaky homes repair their units. The value of the financial assistance has been rising as construction costs increase. This has resulted in an increase in expenditures.

Homeowners continue to sell their repaired homes and repay their no-interest

loans. It is forecasted that homeowners will continue to sell their repaired homes enabling the HPO to recover its loan discounts on current loans and consequently decreasing the demand for funds under the program.

#### • Supply of funds for the Reconstruction Loan Program

The Reconstruction Loan Program is funded by a \$750 Reconstruction Fee, which is collected from residential builders on the construction of every new multi-unit home built for sale in the coastal climate zone. This level of funding from this source is dependant on the amount of new home construction activity. Table 2 (page 22) shows a forecast of the activity. Over the forecast period, it is projected that the relative decline in the number of new multi-unit homes constructed will result in a decline in revenues from the Reconstruction Fee. Although the Reconstruction Fee is a major source of revenue, these funds may be insufficient to operate the Reconstruction Loan Program.

Variability in the net operating results may occur due to fluctuations in the flow of Reconstruction Fees collected and in the demand for financial assistance. The Province of British Columbia provides bridge financing to the HPO to

fund the gap between the incoming Reconstruction Fees and the outflow of funds in the form of financial assistance for the Reconstruction Loan Program. Excess cash on hand in any given year is used to meet ongoing demands for financial assistance and to repay any bridge financing under the Reconstruction Loan Program. The HPO will repay the bridge financing loans provided by the Province over time with incoming Reconstruction Fees collected in the future years.

• **Cessation of Federal Government participation**

Until October 2003, the provincial and federal governments shared equally in the cost of the Reconstruction Loan Program. This agreement terminated when the federal government's set contribution limit of \$27.7 million was reached.

## Cost-effective Partnerships

A joint service delivery model involving other partners continues to minimize the HPO's program delivery costs. The licensing and home warranty insurance program is delivered in partnership with private-sector insurance companies approved by the Financial Institutions Commission to provide home warranty insurance in British Columbia.

Financial institutions continue to play a major role in the Reconstruction Loan Program by providing principal loan amounts to enable homeowners to finance repairs to their leaky homes. When a financial institution provides the principal on a loan, the HPO pays the interest on the loan to the financial institution on behalf of the homeowner.

The HPO's research and education programs continue to be funded primarily by builder license fees. To maximize the effectiveness of research and education projects, the HPO works with key industry groups and other levels of government to lever and pool additional funding.

## Risk and Sensitivities

Fluctuations in economic conditions continue to be a major risk factor for the HPO. The HPO's Reconstruction Loan Program is sensitive to changes in the levels of activity in the housing market, the costs of construction and changes in interest rates. As required under the *Homeowner Protection Act*, the HPO must provide financial assistance to all eligible owners of leaky homes. Negative operating results could occur in the Reconstruction Loan Program, if major changes were experienced in any factor or combination of factors. Negative operating results are not being forecasted under the current budget and forecast assumptions. A rise in interest rates and cost of construc-

tion, or a downturn in the economy and the housing market may have the following effects:

- reduced revenues from builder licensing fees as a result of lower new home construction activity and consequently a decrease in the new and renewed license applications
- reduced revenues from per unit license fees as a result of decreased new home construction activity
- reduced revenues from Reconstruction Fees on new multi-unit homes constructed for sale in the coastal climate zone as result of decreased new home construction activity
- decreased loan discount recoveries as homeowners of repaired leaky homes experience difficulty in selling their homes due to a weaker housing market
- increased demand for financial assistance as repair costs rise
- increased interest subsidy costs on no-interest loans in the Reconstruction Loan Program as a result of a rising interest rate environment, and
- an extended time horizon for the HPO to repay its bridge financing from the Province arising from funding shortfalls in the Reconstruction Loan Program.

## Key Assumptions and Impact on HPO's Budget and Forecasts

The HPO has made several key assumptions in prepara-

tion of its financial forecasts, which are based upon the HPO's current authorities.

These assumptions have resulted in a decline in the net operating results in 2009/2010 in the Reconstruction Loan Program. (See Table 4 on page 23). The projected decline in the net operating results in the Reconstruction Loan Program is carried forward to the HPO's consolidated Operating Statement. (See Table 1 on page 22).

An average annual bank prime interest rate equal to the lender's Canadian dollar variable rate loan at 6% has been used in each of the forecast periods except in 2008/2009 wherein a slight decrease of the variable rate loan has been forecasted at 5.75%. An average annual interest rate on CMHC no-interest loans of 5% is incorporated into the forecast periods.

The cost of repairs has been projected to rise in 2007/2008 at an annual rate of 10% per year and then increase at the rate of 6% per annum in each of the subsequent years. A continued demand for financial assistance from eligible homeowners of leaky homes, including eligible leaky housing co-operatives is projected.

A decline of new licensed builders to 750 in 2009/2010 has been assumed. In addition a decline in the number of renewed licences to 2,800 has been projected during the same time table (see Table 2 on page 22 for the annual projections). The number of

new homes to be constructed, including new multi-unit homes built for sale in the coastal climate zone is also anticipated to encounter a downward trend (see Table 2 on page 22 for the annual projections).

**Table 1: Homeowner Protection Office Consolidated Budget and Forecast**

(expressed in thousands of dollars)	2005/2006 Actual \$	2006/2007 Forecast \$	2007/2008 Budget \$	2008/2009 Forecast \$	2009/2010 Forecast \$
<b>REVENUE</b>					
Builder license fees	3,476	3,072	2,805	2,695	2,575
Reconstruction fee	15,065	12,750	12,600	13,125	13,125
Provincial contributions	3,146	2,600	4,000	4,000	4,000
Federal contribution for loan program	0	0	0	0	0
Interest and other	213	143	140	136	131
Loan discount recoveries*	6,669	6,138	7,130	7,347	7,493
<b>Total Revenue</b>	<b>\$ 28,569</b>	<b>\$ 24,703</b>	<b>\$ 26,675</b>	<b>\$ 27,303</b>	<b>\$ 27,324</b>
<b>EXPENDITURES</b>					
Reconstruction loan grants	9,296	9,479	8,660	8,369	8,585
PST Relief Grants	2,874	2,475	3,875	3,875	3,875
Interest subsidy financial institution loans	4,021	4,836	4,604	4,431	4,660
Interest subsidy-CMHC co-op repair loans	893	1,717	3,177	3,940	4,275
Salaries and wages	2,548	2,488	2,525	2,525	2,525
Loss provision on no-interest loans	(1,179)	0	0	0	0
Operating expense	1,946	1,856	1,615	1,551	1,481
Interest and fees	896	1,318	1,363	1,371	1,466
Research studies and education	145	175	155	155	157
<b>Total Expenditures</b>	<b>\$ 21,440</b>	<b>\$ 24,344</b>	<b>\$ 25,974</b>	<b>\$ 26,217</b>	<b>\$ 27,024</b>
<b>Surplus – All Programs</b>	<b>\$ 7,129</b>	<b>\$ 359</b>	<b>\$ 701</b>	<b>\$ 1,086</b>	<b>\$ 300</b>
<b>Surplus – Excluding Reconstruction Loan Program</b>	<b>\$ 365</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

\*The non-cash accounting entry required to amortize HPO funded loans appearing on the balance sheet of the HPO.

**Table 2: Residential Builder Licensing and Construction Activity Forecast**

The budget is based on the following forecast for licensing and construction activity for both new home construction and building envelope renovations in British Columbia.

	2005/2006 Actual	2006/2007 Forecast	2007/2008 Budget	2008/2009 Forecast	2009/2010 Forecast
New residential builder licences	1,125	1,000	900	800	750
Residential builder licence renewals	3,623	3,454	3,000	2,900	2,800
New homes constructed – subject to \$25 fee	37,107	28,800	29,600	29,600	28,000
New homes constructed – subject to \$750 fee	20,087	17,000	16,800	17,500	17,500

**Table 3:** Full Time Equivalent (FTEs) of staff

	2005/2006 Actual	2006/2007 Forecast	2007/2008 Budget	2008/2009 Forecast	2009/2010 Forecast
FTEs	35	35	35	35	35

**Table 4:** Reconstruction Loan Program

(expressed in millions of dollars)	2005/2006 Actual \$	2006/2007 Forecast \$	2007/2008 Budget \$	2008/2009 Forecast \$	2009/2010 Forecast \$
Total revenue	21.8	19.0	19.8	20.6	20.7
Total expenditure	(15.0)	(18.6)	(19.1)	(19.5)	(20.4)
Surplus	6.8	0.4	0.7	1.1	0.3
Total loans outstanding	191.9	196.0	220.3	228.5	236.5
Due to Province	31.8	34.1	36.6	40.1	45.1



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