

Homeowner Protection Office

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Homeowner
Protection Office



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MESSAGE FROM THE CHAIRPERSON

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



Ken MacLeod, Chairperson

Dear Minister,

It is a pleasure to provide you with the 2008-2011 Service Plan for the Homeowner Protection Office (HPO).

The creation of the HPO in 1998 signaled a fundamental shift towards enhanced protection for buyers of new homes and improvements in the quality of residential construction in British Columbia. Since then significant strides have been made in strengthening consumer protection. The most notable achievement over the past year was the introduction of the *Homeowner Protection Amendment Act*. This milestone in consumer protection is the result of extensive consultation and collaboration and further strengthens the effectiveness of the HPO.

The new legislation also provides the statutory basis for implementing a new system of qualifications for licensees over the coming year to further increase professionalism of the residential construction industry. 2008 will be a year in which the HPO celebrates 10 years of service (1998-2008), continues working in partnership with industry leaders to raise the bar of professionalism in residential construction, expands its research and education programs, and continues to assist owners of water damaged homes.

Market trends and forces drive the challenges and opportunities that the HPO faces now and in the future. We anticipate the strong but softening housing market to continue, a shortage of skilled labour, and increased demand for financial assistance under the HPO's Reconstruction Program. Overall, the future outlook for the residential construction industry is bright. A record 5,000 Licensed Residential Builders are currently registered with the HPO and new home construction is forecast to remain strong during the service plan period.

Sincerely,

A handwritten signature in dark ink, appearing to read 'K MacLeod', written in a cursive style.

Ken MacLeod
Chairperson

The 2008/09 – 2010/2011 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 2007 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.

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.

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 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 GOVERNANCE

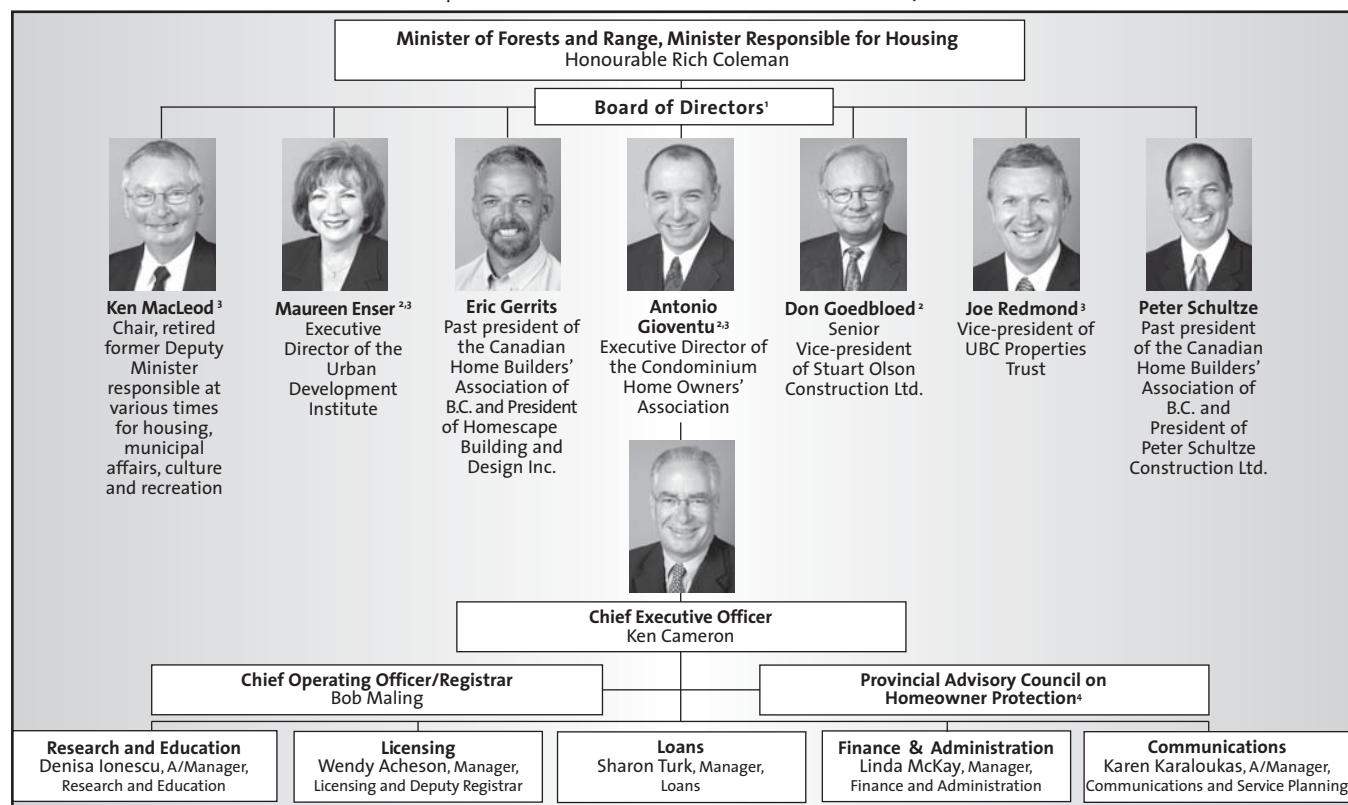
The Homeowner Protection Office (HPO) reports to the Minister of Forests and Range and the Minister Responsible for Housing and is governed by a seven-member board of directors.

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 "About HPO/Governance" page of the HPO

website at 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.



¹ The Board is appointed by the Lieutenant Governor in Council and is responsible for the governance of the HPO.

² 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.

³ Member of the Governance Committee which conducts the CEO's performance evaluation and recommends the implementation strategy for the Best Practice Guidelines for governance.

⁴ 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.
B.C. Construction Association
Union of British Columbia Municipalities
Canadian Home Builders' Association of B.C.
Association of Professional Engineers and Geoscientists

Condominium Home Owners' Association
Co-operative Housing Federation of B.C.
City of Vancouver
Home warranty insurance provider
Urban Development Institute

Building Officials Association of B.C.
Independent Contractors and Businesses Association of B.C.
B.C. Federation of Labour – 2 representatives

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.



NEW LEGISLATION TO IMPROVE CONSUMER PROTECTION

The *Homeowner Protection Amendment Act*, which came into force on November 19, 2007, puts in place stronger protection for new homebuyers by:

- ensuring stronger controls on owner builders
- providing the HPO with the enforcement tools necessary to improve its regulatory role in the residential construction industry, including compliance orders and penalties
- providing prospective home buyers with more information about home builders and new homes through an online public registry, and
- ensuring that consumers know whether their home is covered by home warranty insurance and the qualifications of the person building their home.

Anyone wishing to build a home under the owner builder exemption is now required to meet more stringent criteria, obtain authorization from the HPO and pay a fee.

The changes have resulted in the implementation of new streamlined processes, including a convenient online application for owner builder authorizations and other services for bona fide owner builders. Another positive outcome is that costs of the owner builder program will now be borne by the owner builders through the introduction of a new \$425 application fee. Previously, costs associated with compliance and administration of the owner builder exemption were covered by licensing fees; these can now be redirected to expand research and education initiatives and programs.

An ongoing challenge for the HPO will be to implement and administer the new system and ensure that it is both

fair and efficient. Monitoring and evaluation of the system of authorizing owner builders will be critical to ensure that the changes reduce black-market activity while continuing to permit individuals who want to build a home for their own personal use to do so.

MINIMUM QUALIFICATIONS FOR LICENSEES

Responding to the desire by industry leadership to enhance professionalism in residential construction, the HPO is involved in a collaborative process with industry to develop a new system of minimum qualifications for licensees under the *Act*. Amendments to the *Homeowner Protection Act* provide the statutory basis for implementing this system.

The next stage of work will be based on recommendations from an industry task group and the discussion paper *Raising the Bar: Enhancing Professionalism in B.C.'s Residential Construction Industry*. It will involve further collaboration with industry to identify the specifics of the professional qualifications including:

- core competencies for different categories of licence
- educational benchmarks
- training programs, and
- professional development requirements.

The outcome of the work of the industry task group will be recommendations for a new Regulation upon which to build the new system of minimum qualifications. Once in place, this new system of qualifications will enhance consumer protection and public confidence by improving professionalism in the residential construction industry.

EXPANDED RESEARCH AND EDUCATION PROGRAMS

One of the four core purposes of the *Homeowner Protection Act* is to support research and education respecting residential construction in British Columbia. Since 1999, the HPO has carried out this function with considerable success and industry acknowledgement, however, with a very limited budget. With the implementation of the *Homeowner Protection Amendment Act*, additional funding can now be directed towards research and education.

A new Housing Futures Research and Education Funding Program will be introduced to enable researchers, industry, consumer organizations and other parties to identify and carry out research and education projects.

Features of the new program include:

- an annual funding allocation designated for externally generated research and education projects that support the mandate and goals of the HPO and reflect the strategic directions established by the Board
- three program components for project funding:
 - building research
 - consumer education
 - industry education
- an application process for proposals whereby interested parties could come forward with project ideas and request funding
- guidelines that reflect program objectives, eligibility and selection criteria, and
- a panel of industry, consumer and HPO representatives to review applications and recommend projects for funding.

Advantages of this new program include:

- direct industry and consumer in-

volvement in identifying and carrying out needed research and education

- flexibility for the Board to establish priority areas and funding levels for the three program components on an annual basis, and
- cost-effective delivery as minimal new staff resources will be needed to implement the new program.

A possible issue in the short term may be the lack of capacity within the industry to develop and advance project proposals during this strong period of expansion in the housing sector. Over time, however, the program should generate a significant increase in industry's capacity to develop and deliver research and education programs, which is essential to the successful achievement of the Board's goal of increasing professionalism.

A STRONG, BUT SOFTENING, HOUSING MARKET

The HPO derives its 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 30,000 to 33,000 homes per year during the forecast period. This forecast represents consistently strong new home construction activity, but also reflects a decline in new home construction starts from the 36,279 in 2006/07. The forecast is consistent with those of a number of industry experts, who foresee continued strong housing growth, however, at a somewhat lower level than the most recent years.

This relative decline in new home construction, which provides funding for the HPO, will result 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.

The HPO collects a Reconstruction Fee of \$750 from licensed builders for every new multi-unit home built for sale in the coastal climatic zone. This revenue, which is earmarked solely for the Reconstruction 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 Program, increasing the need for the HPO to rely on its bridge financing with the Province until Reconstruction Fee revenues cover the HPO's obligations under the Reconstruction Program.

INCREASING DEMAND FOR FUNDS UNDER THE RECONSTRUCTION PROGRAM

The Reconstruction Program continues to experience increasing demand for financial assistance as eligible owners of water-damaged homes repair their units.

Rising costs of repairs results not only in higher value loans but also increases in the number of eligible owners who are unable to obtain conventional financing from financial institutions. Delays in initiating repairs once they are detected contribute to the rising costs.

For example, the current average loan value for repairs has risen from \$52,961 in 2006/07 to \$68,200 in 2007/08 for

HPO loans and the cumulative average repair values for co-operative units have increased significantly from \$66,967 to more than \$72,000 per unit in the same period.

The HPO advances repair funds for all loans issued by the HPO. Where the eligible owner obtains conventional financing, the HPO pays subsidized interest costs. For co-operative repair loans, which are advanced by CMHC, the HPO pays subsidized interest costs for a period up to 10 years as a contribution towards the co-operative repair program.

This is occurring while the projected new multi-family home starts are expected to remain at their current levels and decline slightly in the latter part of the forecast period. This will result in a decrease in the incoming funds for the Reconstruction Program.

As a consequence of rising costs of repairs and increasing demand for financial assistance, HPO's Reconstruction Program costs are rising significantly. Subsidized interest costs and the HPO's debt is increasing as it fulfills its commitment to provide financial assistance. The HPO is accessing its bridge financing to top up incoming reconstruction revenues to continue providing financial assistance to all eligible owners of water-damaged homes so that they can complete the repairs. As a result, HPO's accumulated debt will increase over the next several years.

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
- potentially 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 2008-2011 Service Plan sets out a strategic direction for the Homeowner Protection Office (HPO) that is focused on five key goals:

- **GOAL 1 – Professionalization of the Residential Construction Sector**
- **GOAL 2 – Informed and Protected Consumers**
- **GOAL 3 – Continued Viability of the Home Warranty Insurance System**
- **GOAL 4 – Become a Strategic Centre for Building Industry Research**
- **GOAL 5 – 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.

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 following:

- **GOAL 2 – Informed and Protected Consumers**
Discontinue the performance measure "*Recovery of home values following building envelope renovations*" as the measured results are not directly attributable to the activities of the HPO, and increases in the real estate values have been such that the recovery of home values has reached nearly one hundred percent for the past several years.
- **GOAL 3 – Continued Viability of the Home Warranty Insurance System**
Discontinue the performance measure "*Percentage of homes built under the Homeowner Protection Act with*

warranty insurance claims is within industry norms" and replace it with a new measure "*Percentage of home warranty insurance claims that have been resolved by builder or warranty provider*". The new measure is an improved indicator of how well the warranty insurance system is working for consumers and addresses data limitations associated with the former measure.

- **GOAL 5 – An Aligned, Focused and Capable Organization**

Introduction of a new measure "*Timeliness of license renewal decisions*". This new measure, along with the existing measure on the timeliness of decisions on completed license applications, will more fully gauge the HPO's effectiveness in making residential builder licensing decisions for both new applications and renewals.

Introduction of a new measure "*Timeliness of owner builder authorizations*". This has been added as a result of the introduction of an owner builder authorization requirement and fee in 2007 and will measure the HPO's responsiveness in providing authorizations to eligible owner builders

SHAREHOLDER'S LETTER OF EXPECTATIONS

The Shareholder's Letter of Expectations establishes direction from government to the Homeowner Protection Office. It serves as the basis of agreement and mutual understanding between the Shareholder (the Government of British Columbia) and the HPO on high-level performance expectations, core services, public policy issues and strategic priorities.

As set out in the Shareholder's Letter of Expectations, the HPO's priority is to fulfill the government's commitment to strengthen consumer protection for buyers of new homes and improve the quality of residential construction in British Columbia. In addition, the HPO will undertake the following key actions resulting from government direction:

- in collaboration with industry, develop education and training standards for residential builder licensing
- improve communications and education initiatives for consumers (including a "registry of new homes")
- work to increase viability of the home warranty insurance system, and
- focus its research and education programs to expand building science available to industry.

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	“Raise the bar” for Licensed Residential Builders Address black-market building Implement administrative penalties and compliance orders Better perform gate-keeping duties Enhance public registry	Increase communications and education initiatives Established standard of information for consumers Owners of leaky homes do not have to lose their homes	Ensure the availability, affordability and effectiveness of home warranty insurance Ensure home warranty is in place where coverage is required	Conduct and disseminate results on research related to continuous improvement in the quality of residential construction Facilitate the use of research in the development and applications of best practices	Ensure HPO remains lean, agile, rigorous and resourced
Performance Measures	Builder satisfaction with the licensing system 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	Homebuyer awareness of consumer protections under the <i>Homeowner Protection Act</i> Homeowner satisfaction with home warranty insurance on their home Homeowner satisfaction with the quality of home construction Homeowner satisfaction with the building process Reconstruction loan default rate	Percentage of home warranty insurance claims that have been resolved by builder or warranty provider Builder rating of their overall relationship with their warranty provider Homeowner satisfaction with the home warranty insurance on their home	Research results and best practices disseminated through symposiums, seminars or workshops Research results incorporated into building standards and best practices Resources leveraged by the HPO through other funding partners	Timeliness of licensing decisions on completed licence applications Timeliness of decisions on completed homeowner applications for the Reconstruction Loan Program Timeliness of license renewal decisions Timeliness of Owner Builder Authorizations

GOAL 1 *Professionalization of the Residential 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.

Ensure compliance with the *Homeowner Protection Act* and regulations.

Increase consumer protection by ensuring that consumers can determine whether their home is covered by home warranty insurance and the qualifications of the person building their home.

STRATEGIES

- Work collaboratively with industry and consumer representatives 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.
- Administer and evaluate the new system of authorizing owner builders.
- Continue cooperation and information sharing with other organizations when appropriate to address illegal building activity.
- Implement best practices for the administration of the HPO’s compliance and enforcement function under the *Homeowner Protection Act* and regulations.
- Continue to support and strengthen education and training programs offered by industry associations and training organizations.
- Enhance the public registry to allow consumers to make a more-informed choice of their Licensed Residential Builder by publishing their status under the *Act*, publishing contraventions of the *Act*, and creating a public registry of all new homes.

GOAL 1 • PERFORMANCE MEASURE	ACTUAL/BASELINE	FORECAST 2007/08	TARGETS		
			2008/09	2009/10	2010/11
Builder satisfaction with the licensing system	87% were very or somewhat satisfied in 2005/06	Forecast to meet the target of 90% satisfied	Not surveyed	92%	Not surveyed
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	Forecast to meet the target of 75%	Not surveyed	77%	Not surveyed

For a description of performance management systems see pages 16-17.

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

- Promote new information products and related education initiatives for consumers, specifically:
 - consumer guides on buying a home, and 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 MEASURE	ACTUAL/BASELINE	FORECAST 2007/08	TARGETS		
			2008/09	2009/10	2010/11
Homebuyer awareness of consumer protections under the <i>Homeowner Protection Act</i>	74% awareness of licensing in 2006/07 55% awareness of home warranty insurance in 2006/07	Not forecasted; surveyed once every two years	90% awareness of licensing 70% awareness of home warranty insurance	Not surveyed	90% awareness of licensing 75% awareness of home warranty insurance
Homeowner satisfaction with home warranty insurance	77% satisfaction among owners of new homes in 2006/07	Not forecasted; surveyed once every two years	90% satisfaction	Not surveyed	90% satisfaction
Homeowner satisfaction with quality of home	90% satisfaction in 2006/07	Not forecasted; surveyed once every two years	95% satisfaction	Not surveyed	95% satisfaction
Homeowner satisfaction with the building process	81% satisfaction in 2006/07	Not forecasted; surveyed once every two years	90% satisfaction	Not surveyed	90% satisfaction
Recovery of home values following building envelope renovation	99% of repaired homes have recovered the value of the cost of repairs in the assessed value of their homes in 2006/07	Expected to exceed target of 95% or more	No longer measured	No longer measured	No longer measured
Reconstruction Loan default rate	1.6% in 2006/07	Expected to meet target of 1.5% or less	1.5% or less	1.5% or less	1.5%

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 MEASURE	ACTUAL/BASELINE	FORECAST 2007/08	TARGETS		
			2008/09	2009/10	2010/11
Percentage of homes built under the <i>Homeowner Protection Act</i> with warranty insurance claims is within industry norms	6% in 2006/07	Target was set at 3% or less. Will not be reported in 2007/08 due to data limitations. Measure to be replaced (see new measure below)	Measure to be replaced	Measure to be replaced	Measure to be replaced
Percentage of warranty insurance claims that have been resolved by builder or warranty provider	New measure, baseline not available	Not forecasted	Establish baseline and set targets	Target met	Target met
Builder rating of their overall relationship with their warranty provider	84% rated as good or excellent in 2005/06	Forecast to make progress towards meeting the target of 92% rated as good or excellent	Not surveyed	92% rated as good or excellent	Not surveyed
Homeowner satisfaction with home warranty insurance	77% satisfaction in 2006/07	Not forecasted; surveyed once every two years	90% satisfaction	Not surveyed	90%

For a description of performance management systems see pages 16-17.

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

- Initiate a new funding program for building research that supports community capacity.
- 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 MEASURE	ACTUAL/BASELINE	FORECAST 2007/08	TARGETS		
			2008/09	2009/10	2010/11
Research results disseminated through symposiums, seminars or workshops	Delivered over 40 <i>Building Smart</i> education seminars in 2006/07, major partner for research symposium, and published two research reports	Will exceed target of one major symposium or publication and more than 20 educational sessions delivered	One major symposium or publication and more than 20 educational sessions delivered	One major symposium or publication and more than 20 educational sessions delivered	One major symposium or publication and more than 20 educational sessions delivered
Research results incorporated into building standards and best practices	Participated in national building code task groups, initiated development of <i>Building Envelope Guide for Houses</i> , release of <i>Builder Insight</i> bulletins	Will meet target of 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

GOAL 5 *An Aligned, Focused and Capable Organization*

OBJECTIVES

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

STRATEGIES

- 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.
- Support the government's climate change agenda by making HPO operations carbon neutral by 2010, and track and report on greenhouse gas emissions through the Climate Registry.

GOAL 5 • PERFORMANCE MEASURE	ACTUAL/BASELINE	FORECAST 2007/08	TARGETS		
			2008/09	2009/10	2010/11
Timeliness of licensing decisions on completed applications	2.9 business days on completed applications in 2006/07	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 license renewal decisions	New measure; establish baseline in 2007/08	Not forecasted; baseline to be established	Set target	Target met	Target met
Timeliness of owner builder authorizations	New measure; establish baseline in 2008/09	Not forecasted	Establish baseline	Set target	Target met
Timeliness of decisions on completed homeowner applications for the Reconstruction Program	7.1 business days in 2006/07	Forecast to exceed target of under 10 business days or less	9 business days or less	8 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%.

CONSUMER SURVEY

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

1. homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and
2. prospective buyers of new homes in B.C.

The 2006/07 consumer survey included 400 telephone interviews with randomly selected owners of homes with warranty insurance. At the 95% confidence level, the maximum margin of error on the total sample is +/- 4.9%. A total of 614 surveys were carried out for prospective new home buyers (i.e. intending to purchase a home with warranty insurance over the next year), 514 of which were conducted online and 100 by telephone. At the 95% confidence level, the maximum margin of error on the total sample is +/- 4.0%.

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 home-owner 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 Program with completed repairs whose assessed values have increased by an amount equal to or greater than the cost of repairs. This measure is being discontinued in the 2008-2011 Service Plan as the results are not directly attributable to the activities of the Homeowner Protection Office, and increases in the real estate values have been such that the measure the recovery of home values has reached nearly one hundred percent for the past several years.

Reconstruction Loan default rate — This measure tracks the effectiveness of the Reconstruction 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

— For this measure 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. This measure is being discontinued in the 2008-2011 Service Plan due to data limitations, and will be replaced with the measure “Warranty insurance claims that have been resolved by the builder or warranty provider” as described below.

Warranty insurance claims that have been resolved

— This is a new measure introduced in the 2008-2011 Service Plan. It provides an indication of how well the warranty insurance system is working for consumers by calculating the percentage of claims during a given period that have been resolved by the builder or warranty provider. The methodology used to calculate this measure and baseline data will be established in 2008/09.

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. Subcomponents 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.

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 (number of business days) 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 license renewal decisions

— This is a new measure introduced into the 2008-2011 Service Plan. It is a measure of HPO responsiveness (number of business days) in making decisions on license renewals. License renewals directly affect the ability of the builder to enroll new homes in warranty insurance and continue building. The addition of this measure, together with the measure noted above, will more fully capture the scope of licensing decisions for all builders.

Timeliness of owner builder authorizations

— This is a new measure introduced into the 2008-2011 Service Plan as a result of the introduction of a new fee in 2007/08 that is paid by qualified owner builders through an online system to receive an authorization from the HPO to build their home. It is a measure of the HPO’s responsiveness in terms of the number of business days required in providing authorizations to eligible owner builders. The methodology used to calculate this measure and base-line data will be established in 2008/09.

Timeliness of Reconstruction Program application decisions

— This measure was introduced into the 2006-2009 Service Plan. It is a measure of the HPO’s responsiveness, in number of business days, in making decisions on completed homeowner loan applications.

FINANCIAL OUTLOOK

A forecast of revenues and expenditures of the HPO for 2007/2008 through 2010/2011 is shown in Table 1 (page 20). A forecast of revenues and expenditures for the Reconstruction Program has been broken out and is shown separately in Table 3 (page 21).

The forecast for residential builder licensing and construction activity can be found in Table 2 (page 20). Full-time equivalents (FTEs) of staff are shown in Table 4 (page 21). 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 residential builders are the primary source of revenue to operate HPO's general programs. The level of activity in new home construction and building envelope renovations determines the amount of funding available. Table 2 (page 20) shows a forecast of the activity. Over the forecast period, it is projected that the demand for new homes will remain relatively strong but will begin to soften as residential builders and consumers respond to market influence such as rising construction costs and reduced affordability of housing. It is anticipated that the number of licensed builders will decline and impact the amount of revenues available for general programs.

In response to increasing costs of delivering the HPO's general programs, the HPO implemented a new fee structure which included an increase in the per unit license fee and a fee for processing owner builder authorizations.

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

As required by the *Homeowner Protection Act*, financial assistance is provided to all eligible homeowners. This includes eligible housing co-operatives. The Reconstruction 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 Program financial components is shown in Table 3 (page 21).

• Demand for financial assistance

The demand for financial assistance continues as more eligible homeowners with water-damaged 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 forecast that homeowners will continue to sell their repaired homes. This will enable the HPO to utilize incoming cash repayment of loans to offset borrowing as it continues to provide financial assistance to more eligible owners of water-damaged homes.

• Supply of funds for the Reconstruction Program

The Reconstruction 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 climatic zone. The level of funding from this source is dependent on the amount of new home construction activity. Table 2 (page 20) 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 in the coastal climatic zone 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 fund the Reconstruction Program. This will result in a deficiency of revenues over expenditures and will require the HPO to borrow funds. An increase in HPO's debt is forecasted. Consequently, the province is reviewing the HPO's approved borrowing limit. Over time, the debt will be repaid as the program revenues exceed expenditures.

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 Program by providing principal loan amounts to enable homeowners to finance repairs to their water-damaged 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 eligible 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 Program is sensitive to changes in the levels of activity in the housing market, the costs of construction and changes in interest rates. A rise in interest rates and cost of construction, 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 other fees
- reduced revenues from

Reconstruction Fees on new multi-unit homes constructed for sale in the coastal climatic zone as result of decreased new home construction activity

- 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 a decrease in available cash in the Reconstruction Program. When activity is strong and increasing, the HPO is able to reduce its short-term debt with cash resources that exceed program needs.

KEY ASSUMPTIONS AND IMPACT ON HPO'S BUDGET AND FORECASTS

The HPO has made several key assumptions in preparation of its financial forecasts, which are based upon the HPO's current authorities.

These assumptions have resulted in a deficiency of revenues over expenditures beginning with the forecast 2007/08 results in the Reconstruction Program. (See Table 3 on page 21). This is carried forward to the HPO's consolidated Operating Statement. (See Table 1 on page 20).

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.

An average annual interest rate on CMHC no-interest loans of 5.05% is incorporated into the forecast periods.

The continuing cost of repairs has been projected to rise in 2008/2009 and in 2009/2010 at an annual rate of 8% per year and then increase at the rate of 5% per year in each of the subsequent years. A continued demand for financial assistance from eligible homeowners of water-damaged homes, including eligible water-damaged housing co-operatives is projected.

A decline of new licensed builders to 900 in 2010/2011 has been assumed along with a decline in the number of renewed licences to 3,000 as builders respond to the changes in the new home construction marketplace (see Table 2 on page 20 for the annual projections). The number of new homes to be constructed, including new multi-unit homes built for sale in the coastal climatic zone is also anticipated to experience a downward trend (see Table 2 on page 20 for the annual projections).

TABLE 1 Homeowner Protection Office Consolidated Budget and Forecast

	2006/2007 Actual \$ (000's)	2007/2008 Forecast \$ (000's)	2008/2009 Budget \$ (000's)	2009/2010 Forecast \$ (000's)	2010/2011 Forecast \$ (000's)
<i>(expressed in thousands of dollars)</i>					
REVENUE					
Builder license fees	\$ 3,527	\$ 3,575	\$ 3,810	\$ 3,690	\$ 3,320
Reconstruction fee	16,131	18,000	15,000	15,000	13,500
Provincial contribution for program	2,470	4,000	4,000	4,000	4,000
Federal contribution for loan program	0	0	0	0	0
Interest and other	274	796	1,563	1,575	1,576
Loan discount recoveries*	5,883	6,926	4,239	4,432	4,625
Total Revenue	\$ 28,285	\$ 33,297	\$ 28,612	\$ 28,697	\$ 27,021
EXPENDITURES					
Reconstruction loan grants	8,125	17,257	12,330	13,662	14,345
PST Relief Grants	2,336	3,875	3,875	3,875	3,875
Interest subsidy financial institution loans	4,625	4,805	5,346	6,148	6,871
Interest subsidy-CMHC co-op repair loans	1,421	2,261	2,493	3,177	4,385
Salaries and wages	2,527	2,672	2,906	3,095	3,095
Loss provision on no-interest loans	(810)	0	0	0	0
Operating expense	1,907	2,279	2,870	2,763	2,443
Interest and fees	1,309	1,672	2,724	4,020	5,480
Research studies and education	329	318	865	692	615
Total Expenditures	\$ 21,769	\$ 35,139	\$ 33,409	\$ 37,432	\$ 41,109
Surplus (Deficit)	\$ 6,516	(\$ 1,842)	(\$ 4,797)	(\$ 8,735)	(\$ 14,088)
Surplus (Deficit) by Program:					
Reconstruction Program	\$ 6,215	(\$ 1,842)	(\$ 4,797)	(\$ 8,735)	(\$ 14,088)
Other Programs	\$ 301	\$ 0	\$ 0	\$ 0	\$ 0

*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.

	2006/2007 Actual	2007/2008 Forecast	2008/2009 Budget	2009/2010 Forecast	2010/2011 Forecast
New residential builder licences	1,062	1,100	1,100	1,100	900
Residential builder licence renewals	3,846	3,600	3,500	3,500	3,000
New homes constructed – subject to \$40 fee	36,279*	35,000	33,000	30,000	30,000
New homes constructed – subject to \$750 levy	21,508	24,000	20,000	20,000	18,000

*Subject to \$25 per unit fee in effect for 2006/07. Increased to \$40 per unit fee on November 19, 2007.

TABLE 3 *Reconstruction Loan Program*

<i>(expressed in millions of dollars)</i>	2006/2007 Actual \$ (0,000's)	2007/2008 Forecast \$ (0,000's)	2008/2009 Budget \$ (0,000's)	2009/2010 Forecast \$ (0,000's)	2010/2011 Forecast \$ (0,000's)
Total revenue	22.1	25.1	19.4	19.6	18.2
Total expenditure	15.9	26.9	24.2	28.3	32.3
Surplus (Deficit)	6.2	(1.8)	(4.8)	(8.7)	(14.1)
Total loans outstanding	170.0	244.4	320.0	388.5	438.5
Due to Province	34.3	51.7	74.2	103.4	138.9

TABLE 4 *Full Time Equivalents (FTE's)*

	2006/2007 Actual	2007/2008 Forecast	2008/2009 Budget	2009/2010 Forecast	2010/2011 Forecast
FTEs	35	38	42	44	44



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