



Homeowner
Protection Office

Service Plan 2009-2012

Homeowner Protection Office



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Message from the Chairperson



Ken MacLeod
CHAIRPERSON

Honourable Rich Coleman
Minister of Housing and Social Development
Province of British Columbia

Dear Minister,

I am pleased to submit the 2009–2012 Service Plan for the Homeowner Protection Office (HPO).

Significantly decreasing activity in new home construction will affect the delivery of the HPO's programs which are primarily funded through licensing fees. Despite this reduction in activity, the HPO will continue to discharge its responsibilities by focusing on the most cost-effective methods to deliver its programs to benefit the industry as well as consumers.

As required under the *Homeowner Protection Act*, the HPO provides financial assistance to eligible owners of water-damaged homes under the Reconstruction Program. Escalating repair costs for water-damaged homes and diminishing revenues collected from the industry to fund this program are exerting additional pressure on the temporary bridge financing provided by the Province to meet the gap between program costs and the supply of funds collected from the industry.

Market forces largely determine the HPO's challenges and opportunities. We remain confident and enthusiastic about the role the HPO can play in strengthening the residential construction industry and its contribution to the well being of British Columbians.

Accountability statement:

The 2009/2010 – 2011/2012 Homeowner Protection Office Service Plan was prepared under the Board's direction in accordance with the Budget Transparency and Accountability Act and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including the selection of performance measures and targets.

All significant assumptions, policy decisions and identified risks as of January 26, 2009 have been considered in preparing the plan. The performance measures presented are consistent with the Homeowner Protection Office's mandate and goals, and focus on aspects critical to the organizations' performance. 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

Organizational 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 *Homeowner Protection Act (Act)* provided for the establishment of the HPO. The main purposes of the *Act* are:

- strengthening consumer protection for buyers of new homes
- helping bring about improvements in the quality of residential construction
- supporting research and education respecting residential construction, and
- providing financial assistance to eligible owners of leaky homes.

The HPO is responsible for:

- licensing residential builders and building envelope renovators, and administering owner-builder authorizations
- 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 eligible owners of water-damaged homes through the Reconstruction Program and the Provincial Sales Tax (PST) Relief Grant.

Located in Vancouver with a staff of 36, the HPO delivers its programs province-wide. Its principal focus is the residential construction industry in which it performs its licensing, research and education functions. Home warranty insurance, which is required under the *Act*, is provided by the private sector.

The interested parties with which the HPO interacts include: Licensed Residential Builders and Building Envelope Renovators, owner builders, warranty providers, insurance brokers acting as managing general agents for warranty providers, consumer and industry associations, homeowners, homebuyers, financial institutions, other regulatory agencies, educational organizations, building officials and all three levels of government.

Strategic Foundation

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.



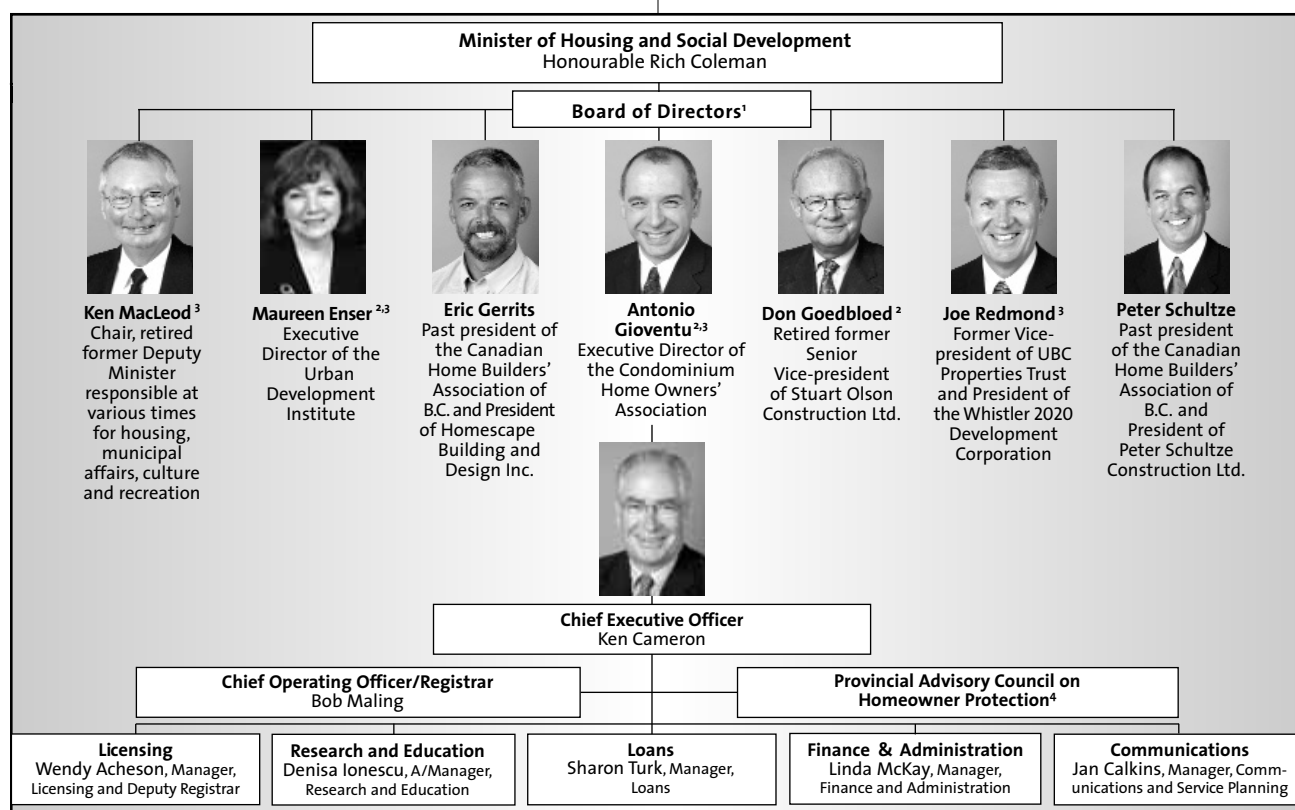
Corporate Governance

The Homeowner Protection Office (HPO) reports to the Minister of Housing and Social Development 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 Guidelines for Governing Boards of B.C. 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 oversees the application of 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. Association of Professional Engineers and Geoscientists B.C. Construction Association B.C. Federation of Labour – 2 representatives	Building Officials' Association of B.C. Canadian Home Builders' Association of B.C. City of Vancouver Condominium Home Owners' Association Co-operative Housing Federation of B.C.	Home warranty insurance providers Independent Contractors and Businesses Association of B.C. Union of British Columbia Municipalities Urban Development Institute
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Strategic Context

There are several major factors which can have a significant impact on the operations of the HPO during the three-year planning period.

Softening of the Housing Market Compounded by the Credit Crunch

The HPO derives its revenues primarily from licensing fees. As a result of the continued downturn in the construction of new homes combined with the credit crunch, the HPO has adjusted its forecasts for new residential construction.

The forecasted range of new home construction for 2009/2010 to 2011/2012 is from 18,107 to 19,963 units per year, which is a significant decrease from the 2008/2009 to 2010/2011 forecast range of 30,000 to 33,000 reported in the previous year's service plan.

The decline in new home construction will result in a reduction of available funds and a corresponding reduction in the delivery of general programs, such as research and education for the industry and consumers.

It is anticipated that the HPO will continue to meet its targets for the dissemination of research results during the planning period, but this level may decrease somewhat from previous years when new home construction and corresponding revenues were higher.

The anticipated decline in new home construction will also make a significant impact on the collection of the \$750 per unit Reconstruction Fee on new multi-unit homes built for sale in the coastal climatic zone. This fee is collected solely for the Reconstruction Program. (See the *Demand and Funding for Reconstruction Program* section on page 7 for more information.)

Minimum Qualifications for Licensees

In response to industry leadership's desire to enhance professionalism in the residential construction sector, the HPO established a collaborative process with the residential construction industry and the HPO to develop a new system of minimum qualifications for licensees under the *Homeowner Protection Act*.

An industry task group was charged with the task of developing recommendations for a new system of qualifications for licensees which includes core competencies for different categories of licences, educational benchmarks, training programs and professional development requirements.



Strategic Context *cont'd*

Demand and Funding for the Reconstruction Program

The Reconstruction Program offers financial assistance for eligible owners of water-damaged homes who are not able to pay for repairs related to building envelope failure.

On the demand side of the Program, the need for financial assistance continues to increase as a direct result of the rising cost of repairs. Increasing repair costs result in higher value loans and a greater number of owners who qualify under the program who can not secure conventional financing from financial institutions.

The average loan value for repairs has risen from \$52,961 in 2006/2007 to \$82,950 in 2008/2009, representing a 57% increase in only two years.

On the funding side, the Program is funded by the collection of the \$750 Reconstruction Fee on the construction of new multi-unit homes built for sale in the coastal climatic zone. The forecasted range of new homes subject to the \$750 fee is from 10,864 to 11,978 per year for the 2009/2010 to 2011/2012 planning period compared to a range of 18,000 to 20,000 stated in the 2008/2009 to 2010/2011 service plan.

Given the sharp decline in anticipated new home construction subject to the Reconstruction Fee, the incoming funds for the Reconstruction Program will be curtailed significantly.

The increased demand coupled with the decline in funds collected will increase the HPO's debt for the Program. The HPO accesses temporary bridge financing from the Province to top up incoming Reconstruction Fee revenues in order to continue to provide the mandated financial assistance to eligible owners of water-damaged homes. *(See Table 3 Reconstruction Program on page 20 of the Financial Outlook section for more information.)*

Further monitoring and review of the demand for financial assistance and funding of the Reconstruction Program will take place over the planning period.



Goals, Objectives, Strategies, Performance Measures and Targets

Key Goals

The 2009-2012 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 – Provide Effective Research and Education Programs that Benefit the Residential Construction Industry and Consumers**
- 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 set out in 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 9.

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. There are no key changes in this service plan. However, there are two minor changes to targets which are as follows:

GOAL 1 – Professionalization of the Residential Construction Sector

The 2009/2010 target for the performance measure “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” was adjusted to 75% from 77%. The current rate is 71%. The compliance related changes to the *Act/Regulations* are still new and more time is needed for any perception change to be measured.

GOAL 2 – Informed and Protected Consumers

The 2008/2009 target for the performance measure “Homeowner satisfaction with home warranty insurance” was adjusted to 85% from 90%. The current rate is 77%. A significant increase is less likely prior to the forthcoming introduction of the *Performance Guide for New Homes* and the *About Home Warranty Insurance* guide.

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 specific actions resulting from government direction:

- focus research and education programs on the integration of new building technologies that support quality and cost effective residential construction.
Planned actions: The HPO will continue to disseminate building science information through symposiums, seminars and workshops as well as making results available on our website.
- make recommendations to the shareholder for the implementation of mandatory competencies for licensees under the *Homeowner Protection Act*.
Planned actions: An industry task group has developed recommendations for new qualifications systems for licensees.
- review the HPO’s carbon footprint with a view to become carbon neutral by 2010 to support the government’s climate change agenda. **Actions taken and planned:** recycling, establishing a Carbon Neutral Task Group, reducing emissions from journey to work by providing discounted transit passes, initiating online resources, and implementing energy conservation programs such as “computers turned off” policy.

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	Provide effective research and education programs that benefit the residential construction industry and consumers	An aligned, focused and capable organization
Objectives	<p>Continue to work with industry and government to raise the bar of professionalism in residential construction</p> <p>Achieve a decrease in black-market building activity and implement more effective controls over the sale of owner-built homes</p> <p>Ensure compliance with the <i>Homeowner Protection Act</i></p> <p>Ensure that consumers can determine whether their home is covered by home warranty insurance and the qualifications of the person building their home</p>	<p>Increase communications and education initiatives to inform and protect consumers</p> <p>Ensure an established standard of information is accessible to 100% of homebuyers and homeowners</p> <p>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</p>	<p>Ensure the availability, affordability and effectiveness of home warranty insurance for consumers and the industry</p> <p>Ensure home warranty insurance is in place for all new homes where coverage is mandated under the <i>Homeowner Protection Act</i></p>	<p>Support and disseminate research relative to the continuous improvement in the quality of residential construction in B.C.</p> <p>Facilitate the use of this research in the development and application of best practices and in the development of standards</p>	<p>Ensure that the Homeowner Protection Office 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>Reconstruction loan default rate</p>	<p>Percentage of home warranty insurance claims that have been resolved by the builder or warranty provider</p> <p>Builders' rating of their overall relationship with their warranty provider</p> <p>Homeowner satisfaction with home warranty insurance</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 applications</p> <p>Timeliness of license renewal decisions</p> <p>Timeliness of owner builder authorizations</p> <p>Timeliness of decisions on completed homeowner applications for the Reconstruction 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.

Achieve a decrease in black-market building activity and implement more effective controls over the sale of owner-built homes.

Ensure compliance with the *Homeowner Protection Act*.

Ensure 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 minimum standard.
- Administer and evaluate the new system of authorizing owner builders and include information about owner-built homes in the public registry of new homes.
- Continue cooperation and information sharing with other organizations when appropriate to address illegal building activity.
- Utilize best practices for the administration of the HPO’s compliance and enforcement function under the *Homeowner Protection Act* and regulations.
- Utilize best practices for the licensing and regulation of residential builders under the *Act*.
- Continue to support and strengthen education and training programs offered by industry associations and training organizations.
- Continue to provide an enhanced public registry, including the status of all builders licensed under the *Act*, contraventions of the *Act*, and a public registry of all new homes.

GOAL 1 • PERFORMANCE MEASURE	ACTUAL/BASELINE 2007/08	FORECAST 2008/09	TARGETS		
			2009/10	2010/11	2011/12
Builder satisfaction with the licensing system	92% satisfaction	Not surveyed	≥ 92%	Not surveyed	≥ 92%
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	71% responded that HPO’s compliance efforts were very or somewhat effective	Not surveyed	75%	Not surveyed	77%

Data for these two measures is obtained through the biennial Licensed Residential Builder survey. Benchmarks and targets are based on most recent survey data. If progress is made, targets are increased every two years to ensure continued improvement.

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:
 - access to the New Homes Registry
 - consumer guides on buying a home, and on the 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 Provincial Sales Tax (PST) Relief Grants to eligible owners of water-damaged homes subject to certain limitations and funding availability.

GOAL 2 • PERFORMANCE MEASURE	ACTUAL/BASELINE 2006/07	FORECAST 2008/09	TARGETS		
			2009/10	2010/11	2011/12
Homebuyer awareness of consumer protections under the <i>Homeowner Protection Act</i>	74% awareness of licensing	90%	Not surveyed	90%	Not surveyed
	55% awareness of home warranty insurance	70%		70%	
Homeowner satisfaction with home warranty insurance	77% satisfaction among owners of new homes	85%	Not surveyed	90%	Not surveyed
Homeowner satisfaction with quality of home construction	90% satisfaction	95%	Not surveyed	95%	Not surveyed
Homeowner satisfaction with the building process	81% satisfaction	90%	Not surveyed	90%	Not surveyed
Reconstruction Loan default rate	1.4% (2007/08)	≤ 1.5%	≤ 1.5%	≤ 1.5%	≤ 1.5%

Data for the first four measures is obtained through the biennial consumer survey. Benchmarks and targets are based on most recent consumer survey data. If progress is made, targets are increased every two years to ensure continued improvement. The Reconstruction Loan default rate 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 repair costs. Data is obtained through the HPO loans database and the targets are benchmarked against the default rate of all residential loans and mortgages for British Columbia and Canada (*source: Canadian Bankers Association*).

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 2007/08	FORECAST 2008/09	TARGETS		
			2009/10	2010/11	2011/2012
Percentage of warranty insurance claims that have been resolved by the builder or warranty provider	Not measured; new measure introduced in the 2008-2011 Service Plan	Establish baseline	Set target	Meet target	Meet target
Builders' rating of their overall relationship with their warranty provider	86% rated it good or excellent	Not surveyed	92%	Not surveyed	92%
Homeowner satisfaction with home warranty insurance	77% satisfaction (2006/07)	85%	Not surveyed	90%	Not surveyed

The performance measure "Percentage of Warranty Insurance Claims that Have Been Resolved by the Builder or Warranty Provider" was introduced in the 2008-2011 Service Plan. It provides an indication of how well the warranty system works for consumers. The benchmark and the three-year targets will be established by the end of 2008/09. Data will be collected from warranty insurance companies and the HPO database.

The data for the "Builder Rating of Their Overall Relationship with Their Warranty Provider" measure is obtained through the biennial Licensed Residential Builder survey. Benchmarks and targets are based on the most recent builder survey data and shared with warranty providers. Targets are increased every two years with the intent of constantly seeking improvement.

Data for the "Homeowner Satisfaction with Home Warranty Insurance" is obtained through the biennial consumer survey. Benchmarks and targets are based on most recent consumer survey data and shared with warranty providers. Targets are increased every two years with the intent of constantly seeking improvement.

Goal 4 ➤ Provide Effective Research and Education Programs that Benefit the Residential Construction Industry and Consumers

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 or electronic form, to 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.
- Work towards initiating a new funding program for building research that supports community capacity.

GOAL 4 • PERFORMANCE MEASURE	ACTUAL/BASELINE 2007/08	FORECAST 2008/09	TARGETS		
			2009/10	2010/11	2011/2012
Research results and best practices disseminated through symposiums, seminars or workshops	Delivered over 40 <i>Building Smart</i> education seminars, organized two conferences	Over 20 educational sessions delivered and one major symposium or publication	Same as 2008/09 forecast	Same as 2008/09 forecast	Same as 2008/09 forecast
Research results incorporated into building standards and best practices	Participated in National Building Code task groups, completed development of a building envelope guide for houses, released <i>Builder Insight</i> bulletins	Continued involvement in national and provincial building code processes, work with industry to develop best practices and training courses	Same as 2008/09 forecast	Same as 2008/09 forecast	Same as 2008/09 forecast
Research resources leveraged by the HPO through other funding partners	69% of total project funding from other partners	≥ 66%	Same as 2008/09 forecast	Same as 2008/09 forecast	Same as 2008/09 forecast

The performance measure “*Research Results and Best Practices Disseminated Through Symposiums, Seminars or Workshops*” focuses on the HPO’s role in disseminating research results and helping to support the integration of new technologies and best practices in the industry through participation in major research publications, symposia, and the delivery of educational sessions or workshops. Targets are set based on past performance and show continued involvement to improve the quality of residential construction.

“*Research Results Incorporated into Building Standards and Best Practices*” looks at the effectiveness of the HPO in helping to ensure that the results of research projects are incorporated into standards, codes and best practices. The performance measure tracks HPO’s participation on national and provincial code committees, and involvement in the development and promotion of best practices. Targets are set based on past performance and show continued involvement to improve the quality of residential construction.

The performance measure “*Resources Leveraged by the HPO Through Other Funding Partners*” looks at the HPO’s effectiveness in leveraging additional resources for research and education initiatives with industry partners. No benchmarks for this type of performance measure have been identified so far; the targets are based on historical HPO values.

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 2007/08	FORECAST 2008/09	TARGETS		
			2009/10	2010/2011	2011/2012
Timeliness of licensing decisions on completed applications	2.8 business days on completed applications	≤ 3	≤ 3	≤ 3	≤ 3
Timeliness of license renewal decisions	3.5 business days	≤ 3	≤ 3	≤ 3	≤ 3
Timeliness of owner builder authorizations	Not measured; new measure introduced in the 2008-2011 Service Plan	Establish measure	Set target	Meet target	Meet target
Timeliness of decisions on completed homeowner applications for the Reconstruction Program	8.5 business days	≤ 9	≤ 8	≤ 8	≤ 8

"Timeliness of Licensing Decisions on Completed Applications" - The licensing approval process involves verification of company information including persons in control of the company, acceptance with a home warranty insurance provider and review of past residential construction activity.

HPO licensing timelines compare well with many similar licensing processes:

- Ontario Tarion Warranty Corporation builder registration – 2 to 4 weeks
- Washington State contractor registration – 2 to 4 weeks
- Oregon state contractor registration – 10 business days

The *"Timeliness of License Renewal Decisions"* measure was introduced in the 2008-2011 Service Plan. The baseline, benchmark and targets were established based on the HPO benchmark for new applications.

The measure *"Timeliness of Owner Builder Authorizations"* was introduced in the 2008-2011 Service Plan. The baseline, benchmark and targets will be established by the end of 2008/2009.

The baseline for the *"Timeliness of Decisions on Completed Homeowner Applications for the Reconstruction Program"* was calculated based on 2005/2006 performance. The target is set lower with the intent to seek consistent improvement and provide enough time for verifying that the proposed building envelope repairs fall under the guidelines of the program, reviewing of individual applications to determine eligibility for financial assistance and establishing a mutually agreeable repayment schedule for the loan.

Goals, Objectives, Strategies, Performance Measures and Targets *cont'd*

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 British Columbia. The response of 1,169 builders in the 2007/2008 survey provides a confidence level of 95% with a maximum margin of error of +/- 2.9%.

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:

- homeowners with warranty insurance under the *Homeowner Protection Act* on their home, and
- prospective buyers of new homes in British Columbia.

The 2006/2007 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%. The online survey was introduced into the 2006/2007 methodology for the prospective new home buyer survey to gain cost efficiencies (compared to telephone surveys).

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. Subcomponents 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 under the *Homeowner Protection Act* — 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 home 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.

Goals, Objectives, Strategies, Performance Measures and Targets *cont'd*

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 British Columbia.

Percentage of 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.

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 home warranty insurance — Same measure as described under Goal 2: Informed and Protected Consumers. This measure has been repeated under Goal 3 because 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.

Research resources leveraged by the HPO through other funding partners — 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 complete 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 in the 2008-2011 Service Plan. It is a measure of HPO responsiveness (number of business days) in making decisions on complete applications for license renewal. License renewals directly affect the ability of the builder to enroll new homes in warranty insurance and continue building.

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.

Timeliness of Reconstruction Program application decisions — This is a measure of the HPO's responsiveness (number of business days) in making decisions on completed homeowner loan applications.

Financial Outlook

A forecast of revenues and expenditures for 2008/2009 through 2011/2012 is shown in Table 1 (page 19). A forecast of revenues and expenditures for the Reconstruction Program has been broken out and is shown separately in Table 3 (page 20).

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 20). The financial plan of the Homeowner Protection Office (HPO) is driven by two main 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 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 decrease to lower levels as residential builders and consumers respond to the growing uncertainty in the marketplace and the deteriorating economic conditions. It is anticipated that the number of new licensed builders entering the industry will decline and that many licensed builders will likely continue to renew their licences with some licensed builders choosing not to renew their licences. This will result in a corresponding decrease in revenues available for general programs. In response to declining revenues, the HPO will adjust its level of general programming.

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

Financial assistance in the form of no-interest repair loans is available to eligible homeowners to undertake approved repairs primarily arising out of building envelope failure. The Program is subject to certain limitations and funding availability. The Program is mainly funded by the Reconstruction Fee. Funds also become available for use in the Program as homeowners pay down and/or pay out their loans. Variability in the Program's net operating results on a year-over-year basis occurs due to changes in the new home con-

struction market and the re-sale market. On the cost side, there are many factors affecting the demand for the Program. The main costs are reconstruction repairs and the servicing of loans on behalf of eligible homeowners. A summary of the Reconstruction Program financial components is shown in Table 3 (page 20).

• 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, but it is anticipated that these costs will stabilize. However, the level of demand for financial assistance continues to be high and is resulting in significant pressure on the Program and the ability of the HPO to balance the demand and the availability of financial resources in challenging economic conditions.

• 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 will result in a decline in revenues from the Reconstruction Fee. Although the Reconstruction Fee is a major source of revenue, it is projected that these funds will be insufficient to sustain the current level of activity in the Reconstruction Program. The HPO will continue to offset the deficiency of revenues in part through borrowing, but at manageable levels, in order to repay the Program debt over a reasonable time period.

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 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 industry groups and other levels of government to lever and pool additional funding.

Risk and Sensitivities

Volatility in economic conditions continues to be a major risk factor for the HPO. The HPO's Reconstruction Program is sensitive to changes in the level of activity in the housing market, costs of construction and 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 and other 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 climatic zone as result of decreased new home construction activity
- decreased loan discount recoveries as owners of repaired water-damaged homes experience difficulty in selling their homes due to a weaker housing market
- increased demand for financial assistance if repair costs continue to rise

- increased interest subsidy costs on no-interest loans in the Reconstruction 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 Program.

Key Assumptions and Impact on HPO's Budget and Forecasts

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

These assumptions have resulted in a decline of revenues. HPO has responded to the forecasted decline in revenues and reduced its expenditures in general programs. This has resulted in a modest surplus in general programs. The deficiency of revenues over expenditures in the Reconstruction Program has been maintained at or close to budget (see Table 3 on page 20 for the projected operating results of the Reconstruction Program and Table 1 on page 19 for HPO's consolidated Budget and Forecast).

The average annual bank prime interest rate equal to the lender's Canadian dollar variable rate loan has been used in each of the forecast periods and is projected to decline with a slight up tick in the latter periods. An average annual interest rate on no-interest loans provided to housing co-operatives is forecasted to follow a similar pattern (see Table 5 on page 20).

While the costs of repairs has been trending upwards rapidly, the HPO forecasts that these costs will stabilize and provide some relief to homeowners who are undertaking reconstruction repairs. Costs of repairs have been forecasted at an inflation rate of 2% per annum.

A decline in new licensed builders and annual renewals is projected as home builders respond to the market conditions (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 significant down turn due to a drop in consumer demand (see Table 2 on page 20 for the annual projections).

Financial Outlook *cont'd*

Challenging Times

The current economic conditions present challenges for the HPO to balance the program demands against the available resources. The HPO will continue to deliver programs to home builders, consumers and those homeowners who desire to repair their water-damaged homes.



Table 1 ➤ Homeowner Protection Office Consolidated Budget and Forecast

<i>(expressed in thousands of dollars)</i>	2007/2008 Actual \$ (000's)	2008/2009 Forecast \$ (000's)	2009/2010 Budget \$ (000's)	2010/2011 Forecast \$ (000's)	2011/2012 Forecast \$ (000's)
REVENUE					
Builder license fees	\$ 4,560	\$ 4,731	\$ 4,359	\$ 4,395	\$ 4,171
Reconstruction fee	15,863	10,217	8,148	8,556	8,984
Provincial contribution for program	3,386	2,500	3,000	3,000	3,000
Interest and other	438	223	147	173	180
Loan discount recoveries*	6,624	6,769	4,766	4,926	5,111
Total Revenue	\$ 30,871	\$ 24,440	\$ 20,420	\$ 21,050	\$ 21,446
EXPENDITURES					
Reconstruction loan grants	\$ 15,231	\$ 13,124	\$ 10,183	\$ 14,237	\$ 8,500
PST Relief Grants	3,221	2,375	2,875	2,875	2,875
Interest subsidy - financial institution loans	4,777	3,248	2,335	2,159	1,921
Interest subsidy - housing co-op repair loans	1,900	2,536	5,240	5,665	5,356
Salaries and wages	2,677	3,094	2,571	2,571	2,571
Loss provision on no-interest loans	(387)	368	814	633	521
Operating expense	2,359	2,772	1,830	1,844	1,633
Interest expense	1,596	1,351	2,069	3,817	4,930
Research studies and education	237	328	147	164	122
Total Expenditures	\$ 31,611	\$ 29,196	\$ 28,064	\$ 33,965	\$ 28,429
(Deficit)	(\$ 740)	(\$ 4,756)	(\$ 7,644)	(\$ 12,915)	(\$ 6,983)
Surplus (Deficit) by Program:					
Reconstruction Program	(\$ 1,805)	(\$ 4,756)	(\$ 8,434)	(\$ 13,721)	(\$ 7,786)
Other Programs	\$ 1,065	\$ 0	\$ 790	\$ 806	\$ 803

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

Financial Outlook *cont'd*

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.

	2007/2008 Actual	2008/2009 Forecast	2009/2010 Budget	2010/2011 Forecast	2011/2012 Forecast
New residential builder licences	1,356	850	800	800	800
Residential builder license renewals	4,091	3,800	3,600	3,600	3,500
New homes constructed – subject to \$40 fee	37,143	24,143	18,107	19,013	19,963
New homes constructed – subject to \$750 fee	21,151	13,623	10,864	11,408	11,978

Table 3 ➤ Reconstruction Program

	2007/2008 Actual \$ (0,000's)	2008/2009 Forecast \$ (0,000's)	2009/2010 Budget \$ (0,000's)	2010/2011 Forecast \$ (0,000's)	2011/2012 Forecast \$ (0,000's)
<i>(expressed in millions of dollars)</i>					
Total revenue	30.9	17.1	13.0	13.6	14.2
Total expenditure	31.6	21.9	21.4	27.3	22.0
Deficit	(0.7)	(4.8)	(8.4)	(13.7)	(7.8)
Total loans outstanding	202.9	241.0	268.0	297.0	273.0
Due to Province	53.1	74.4	95.9	123.0	138.3

Table 4 ➤ Full Time Equivalents (FTEs)

	2007/2008 Actual	2008/2009 Forecast	2009/2010 Budget	2010/2011 Forecast	2011/2012 Forecast
FTEs	35	35	34	34	34

Table 5 ➤ Interest Rates

	2007/2008 Actual %	2008/2009 Forecast %	2009/2010 Budget %	2010/2011 Forecast %	2011/2012 Forecast %
Average bank prime interest rate	6.00	4.13	3.31	3.94	4.25
Average interest on co-op repair loans	4.25	4.25	4.25	4.50	5.00
Average short term borrowing interest rate	4.06	2.14	2.20	3.38	3.70



PO Box 11132 Royal Centre
Suite 2270
1055 W Georgia Street
Vancouver BC
Canada V6E 3P3

604-646-7050 TELEPHONE
604-646-7051 FACSIMILE
1-800-407-7757 TOLL-FREE
www.hpo.bc.ca WEBSITE
hpo@hpo.bc.ca EMAIL

