



BRIEFING

Budget 2024: Building and Construction summary portfolio information for your Ministers discussion

Date:	2 February 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	

Action sought		
	Action sought	Deadline
Hon David Seymour Associate Minister of Finance	To inform your upcoming discussion	5 February 2024
Hon Chris Penk Minister for Building and Construction	To inform your upcoming discussion	6 February 2024
Hon Melissa Lee Minister for Economic Development	For your information	

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
David Hall	General Manager, Building System Performance	Privacy of natural persons		✓
Privacy of natural persons	Policy Director	Privacy of natural persons		

The following departments/agencies have been consulted

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

Budget 2024: Building and Construction summary portfolio information for your discussion with Hon David Seymour

Date:	2 February 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	

Purpose

To provide financial information about the Building and Construction portfolio for your discussion next week.

Executive summary

- MBIE has identified three options for savings within the building and construction portfolio:
 - \$1.3 million from the wind-down of the Weathertight Homes resolution service;
 - \$2.3 million through halting the Earthquake Prone Buildings Loan Scheme and Remediation Support Services Pilot; and
 - \$100,000 through reduction in policy spending.
- Collectively these represent a 36% reduction in the Crown appropriation in 2024/25, compared to the most recent baseline figures.
- The remainder of the building and construction portfolio is third-party funded through the building levy and other cost-recovery fees (approximately \$60 million in 2024/25).
- As third-party funding can only be used for specified purposes, reducing activities in the building-levy funded appropriation will not deliver immediate fiscal benefits to the Crown.
- However, MBIE is continuing to look at opportunities for longer-term savings and efficiencies across the portfolio, including through identifying lower value functions and programmes that could be discontinued, and through reviewing the settings for levies and fees to ensure that cost-recovered functions are right-sized.
- We propose that the key vehicle for identifying these future savings be through the Government's priority work programme on streamlining the building consent system, as this work will help to identify functions and activities that can be stopped or delivered more efficiently.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that MBIE has identified choices within the Building and Construction portfolio that could create fiscal savings of \$3.7 million in the 2024/25 financial year, which would equate to a 36% reduction in the crown appropriation baseline

Noted

- b **Agree** to the following \$2.258 million departmental baseline savings for the Building and Construction portfolio

\$ million	Total Savings	Consult with Ministers of/for	Decision
Departmental Expenditure Savings Options			
<i>Weathertight services</i>	1.3		Yes/No
<i>Earthquake prone buildings remediation support services pilot</i>	.858		Yes/No
<i>Policy</i>	.100		Yes/No
Total Departmental Savings Options by Financial Year	2.258		

- c **Agree** to the following \$1.5 m non-departmental baseline savings for the Building and Construction portfolio

\$ million	Total Savings	Consult with Ministers of/for	Decision
Non-Departmental Expenditure Savings Options			
<i>Earthquake prone buildings administration of the financial assistance scheme</i>	1.5		Yes/No
Total Non-departmental savings options by Financial Year	1.5		

- d **Note** that MBIE is currently progressing work on streamlining the building consent system, to deliver on Government priorities and coalition agreements, and expect this work to identify longer-term savings and efficiencies within the Building and Construction portfolio

Noted



David Hall
**General Manager, Building System
Performance**
Building, Resources and Markets, MBIE

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Hon Chris Penk
Minister for Building and Construction

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Hon David Seymour
Associate Minister of Finance

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Hon Melissa Lee
Minister for Economic Development

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Background

1. On 27 November 2023 MBIE provided the Minister for Building and Construction with a briefing that outlined fiscal sustainability options for the portfolio.
2. Since then, officials have clarified Government priorities for building and construction and begun work to implement them. This has included stopping work on the construction industry transformation plan and accelerating work on streamlining the building consent system, mandating approval of overseas building products and reviewing settings for the seismic system.
3. We have also completed further assessments to identify growth in the portfolio since 2017 and additional savings options, as outlined in further detail below.

MBIE Financial Update

4. All policy and operational areas of MBIE are initially targeting the 7.5% savings from their baselines. They are on track to achieve the approximately \$45m in savings that this represents. All corporate and technology functions are included in this work (HR, IT and other corporate functions).
5. In addition, a 15% target has been set for discretionary spending, for example travel, conferences, training and recruitment. Once Ministers have made final decisions, these corporate and technology functions will seek further operational efficiency savings to support these decisions. MBIE's departmental base (which is a portion of MBIE's eligible base) for the savings target has been reduced to approximately \$570m as INZ and other functions were removed through the Treasury calculations.

Description of programmes within the portfolio

6. The building and construction portfolio has oversight of the institutions and markets involved in the construction and maintenance of buildings in New Zealand, including commercial and residential buildings and related vertical infrastructure. The portfolio is responsible for setting the direction for, and design of, New Zealand's building regulatory system, to help deliver safe, durable, and healthy homes and buildings. More efficient building regulations are a key lever for support housing growth.
7. Through Vote Building and Construction, MBIE delivers:
 - a. **operational functions** – managing the operational aspects of the building regulatory system including monitoring the performance of Building Consent Authorities, complaints investigation and disputes resolution, building emergency management, education and guidance, and administering occupational licencing and product certification schemes
 - b. **policy functions**- providing policy advice to the Government on building and construction, including the policy, legislation and rules relating to the Building Act and other relevant Acts, technical building expertise and stewardship of the Building Code;
8. *Annex One* provides a more detailed summary of portfolio functions.

Breakdown of expenditure and FTE growth since 2017

Summary of portfolio expenditure

9. The majority of the building and construction portfolio expenditure is third-party funded. This includes revenue from the Building Consent Levy, Licensed Building Practitioner Fees and Electrical Workers fees, and cost recovery of the Multiproof scheme. Building and Construction third party funding totals \$65.4 million in 2023/24 and approximately \$60 million in 2024/25.
10. Third party funding can only be used for purposes specified in the relevant legislation. For example, the building levy must be spent on activities associated with the Chief Executive's functions under the Building Act or other related Acts.
11. Those areas of work within the portfolio that cannot be funded through levies or cost-recovery mechanisms are funded through a Crown appropriation. Taking into account already-banked savings associated with Government commitments, the baseline for the Crown appropriation in 2024/25 is approximately \$10 million.

Changes in expenditure

12. The following table provides a comparison of departmental and non-departmental expenditure and FTEs in 2017 and 2023. Figures include both operating and capital expenditure and Crown and third-party revenue.

	Actuals 30 June 2017 \$000	Budget (OBU) 2023/ 24 \$000
Departmental	93,097	86,751 (\$21.3 million Crown, \$65 million third-party)
Non-Departmental	89,817	21,632
Total	182,914	108,383
FTE	130.4	232.9

13. The decreases in non-departmental expenditure since 2017 reflect a number of functions which related to the Housing New Zealand Corporation (HNZC) or Social Housing portfolios, but where the Minister for Building and Construction was one of the responsible appropriation Ministers at the time. For example, KiwiSave HomeStart Grants (\$74 million), and HNZC support services (\$8.7 million).
14. Other key changes since 2017 include:
 - a. Increases in building regulation and control services (from \$27.2 to \$49.8 million) and occupational licensing (from \$9.5 to \$16.4 million)
 - b. Reduction in spending associated with the Canterbury earthquake recovery (\$3 million) and Weathertight services (from \$8.7 to \$4.7 million)
 - c. Increase in earthquake prone buildings loan and remediation support services
15. *Annex Two* provides a table with further detailed breakdown of expenditure changes.

Increase in FTEs

16. A 2017 review of MBIE's building regulatory system identified gaps in regulatory system leadership, inconsistent management practices and capacity gaps in some areas that was limiting its ability to deliver on its required functions. Following this review there were significant structural changes within MBIE, and a sustained programme of work to address the known deficiencies and improve MBIE's effectiveness as a regulator. This included:
 - a. Developing a clear regulatory strategy and set of performance indications to measure progress and track outcomes
 - b. Increased investment in strategy, policy, assurance and determination functions, and recruitment of specialist resources (e.g. technical building experts, engineers) to address capability gaps
 - c. Improving the way regulatory activities are delivered, including through identifying ways or delivering services remotely and adopting a risk-based approach to the review of performance of territorial authorities.
17. A 2021 Building Levy Baseline¹ review concluded that MBIE had made significant improvements over the previous four years in addressing these challenges, though there were still areas for improvement.
18. In addition to this, there have been increases in FTE numbers across a number of teams to deliver on new building regulatory functions, emerging Government priorities and volume growth in the sector. This includes:
 - a. New service delivery and compliance functions (e.g. Building Emergency Management, Building Product Information Requirements, BuiltReady)
 - b. Increase in resources to deliver on Government priorities (e.g. climate change, plaster board shortage, Building Code and AS/VM updates to improve compliance pathways for the sector)
 - c. Establishment of the Construction Sector Accord and Industry Transformation Plan – now stopped
 - d. Increased building activity (residential consents increased from 30,453 in 2017 to 50,736 in 2022) resulting in higher volume and more complex compliance and enforcement activities, such as determinations and disputes resolution services
 - e. Spikes in demand for building system support, resulting from external events such as the Kaikoura Earthquake (2016 – 2017), COVID impacts on the building sector (2020 – 2021) and Cyclone Gabrielle (2023).
19. Annex Three provides a more detailed breakdown of changes in FTEs over the period.

Alignment of current expenditure with Government priorities

20. The Building and Construction Ministerial portfolio letter to the Prime Minister includes four priorities, which are collectively aimed at delivering a higher performing sector, setting the conditions for innovation, competition and growth:
 - a. ***Streamlining the building consent system and reducing regulatory costs*** – this includes simplifying consent requirements for lower risk activities, exploring options for self-certification, changes to liability and building insurance, and progressing structural improvements to the way consents are processed

¹ Martin Jenkins – Building Levy Baseline Review, 2021

- b. **Mandating overseas building products and systems that meet international standards equivalent to New Zealand's** - to help lower costs through improved competition and by removing barriers to high-quality products entering the market
 - c. **Reducing building-related emissions and improving climate change resilience** – delivering regulatory and non-regulatory measures to support the sector to transition to low emissions building systems, and make sure buildings are constructed to withstand more extreme weather
 - d. **Ensuring that the seismic system balances life safety risk and cost** - an improved approach to the earthquake-prone buildings system, including a review of current settings and exploring opportunities for more effective seismic risk management, including options for supporting greater market-driven risk reduction.
21. Work on these four areas is expected to result in shifts in spending priorities over the medium to longer term. For example, there has been significant growth in recent years in MBIE functions that are aimed at addressing problems within the building consent system. To the extent that the government's work on streamlining consents can reduce complexity and remove red-tape in relation to consents, some of these functions may not be required, or may be able to be delivered more efficiently.
22. In addition to the four priority areas, other significant work planned or underway includes:
- a. Strengthening fire safety requirements across boarding houses and across the sector, in response to the Loafers Lodge incident and
 - b. Re-looking at dam safety regulatory requirements, including size of dams captured by new requirements, in response to Ministerial request
 - c. Ensuring we have appropriate occupational regulation settings in place for key sector professionals (e.g. Engineers) which fosters a skilled and competent workforce, while protecting the public from harm and holding poor performers to account.

Revenue and expenditure options

Savings options

23. We have identified three potential savings options for you to consider for Budget 2024, focusing on the Crown appropriation.
24. Note that Crown expenditure was already forecast to reduce in 2024/25 from \$17.7 million to \$10 million due to the Government's decision to halt work on the Construction Sector Accord as part of its commitment to end Industry Transformation Plans. While this is noted in the table below it is not included in percentage savings targets.

	2024 / 2025 (000's)	Notes
Crown (Dept & Non-Dept)	\$17,721	
Minus Construction Accord (\$7,680)	\$10,041	
New Savings - Weathertight	-\$1,300	Reflects progressive wind-down of service
New Savings - Earthquake prone building remediation services	-\$858	Remediation support pilot
	-\$1,500	Administration of loan scheme
New Savings – Policy	-\$100	Assumes a 10% reduction from approximately \$1 million
Total New Savings identified	\$3,758	36% of baseline (excl. Construction Accord)
Revised Baseline	\$6,283	

Wind-down of Weathertight Services

25. Weathertight issues, or 'leaky buildings' were a significant public policy and regulatory issue for the first decade of the 2000s. Over time, the number of open claims being managed and resolved by Weathertight Services has reduced significantly, although the work associated with the remaining open claims will be complex as many of them involve multi-unit properties or have unique circumstances.
26. Therefore, Weathertight Services is transitioning towards closure over the next five years. Over the 2023/24 financial year this includes adjusting the operating model and integrating some operations and systems functions, leading to a reduction in FTEs and less reliance on technical specialists. Through Budget 2023 savings have already been identified of \$1.1 million in 2024/25, \$2.2 million in 2025/26 and \$2.9 million in 2026/27 and outyears.
27. In addition to this, MBIE has now identified options to scale back the service by 15%. This will deliver additional savings of \$1.3 million in 2024/25 and \$0.2 million in following years.

Earthquake Prone Buildings (EPB) – Loan and Remediation Support Services

28. The Earthquake Prone Building Loan scheme provides loans of up to \$250,000 to residential earthquake-prone building unit owners who do not have means to pay for remediation and cannot access a commercial loan. There is a \$10 million loan fund (capital appropriation, ends 2023/24), and the scheme is administered by Kāinga Ora.

29. Although the loan scheme has been in place for four years no loans have been approved to date. This is due to the timeframes and complexity associated with undertaking the relevant assessments and collectively agreeing a remediation plan ahead of loans being issued, along with uncertainty and differing interpretations between MBIE and Kāinga Ora on insurance requirements. Sixty-three applicants across six buildings have received a conditional eligibility approval.
30. The Remediation Support services pilot is providing case management support to 10 residential earthquake prone buildings (working with approximately 105 individual owners). It is aimed at helping to address technical and legal barriers to enable owners to achieve an outcome such as remediation, selling the building or demolition.
31. Halting the loan scheme and the pilot could deliver approximately \$2.3 million in savings in 2024/25. There would also be a savings of \$10 million in capital expenditure associated with not issuing the loans (noting that the current appropriation is due to end this financial year) and out-years administration savings of \$1.5 million. Note, that if any loans that are currently in the application process are approved, that this would reduce the ongoing level of savings in loan administration and capital.
32. Decisions about EPB expenditure is closely linked with policy decisions about requirements for remediating earthquake prone buildings. MBIE is providing a briefing and draft Cabinet paper to the Minister for Building and Construction seeking agreement to review EPB settings and pause remediation requirements. If Cabinet agrees to this proposal, then it would be sensible to pause the loan scheme until it is clear what future remediation requirements are, and which buildings these would apply to.
33. We recommend that decisions relating to savings from the support service and loan expenditure are therefore made alongside these wider policy decisions, with careful consideration given to how decisions impact, and are communicated to, affected building owners who were in the process of seeking support.

Policy

34. MBIE has a multi-category appropriation in each of its Votes, covering a range of policy functions to provide flexibility in delivering against government priorities. We are proposing a 10% reduction for the activity as a whole, through reprioritising work and focusing on delivering on the Government's identified priorities. Alongside wider MBIE direction, we are

Savings on contractors, vacancies and overheads

35. In line with the cross-MBIE approach, building and construction teams are targeting a 15% reduction in discretionary spend. MBIE is also continuing to assess options for savings in overheads and supporting services (for example HR, finance call centre services). Savings in these areas will have a proportional saving for the building and construction portfolio.
36. Note that within the building and construction portfolio there are often requirements for specialist technical expertise provided by research contracts or consultants, for example in relation to geotechnical engineering, product investigations and emergency response. This work tends to be project based and short term, in response to emerging issues and risks.

Revenue options

Building Levy

37. The building levy (the levy) is paid by building consent applicants and is collected on all building work valued over \$20,444 (GST incl). The levy rate is currently set at \$1.75 per \$1,000 of the estimated value of building work. The total levy collected in any financial year is driven by the volume and value of building consents issued.
38. As at 30 June 2023, the Building Levy memorandum account contained approximately \$71.6 million. Note, however that as building consent numbers are now trending down new building levy revenue is also expected to decrease, with forecast revenue for 2023/24 being lower than expenditure. Based on current forecasts, the memorandum account balance will reduce to \$34 million by 2027.
39. The Minister for Building and Construction has signalled agreement to adjusting the threshold at which the levy is collected to \$64,000. While changing the levy threshold will not create fiscal savings in Crown appropriations it does deliver a small direct saving to levy payers. Subject to Cabinet agreement, a new levy threshold can be implemented from 1 July 2024.

Fees Review

40. The other main category of third-party funding is for fees and a levy to recover the cost of the Occupational Licensing appropriation. This appropriation funds the activities related to the electrical workers (EW) registration board and licensed building practitioners (LBPs) scheme. A fees review could be considered to address cost pressures within these appropriations.

Plans for future reprioritisation

41. As noted above, MBIE is undertaking a significant programme of work, in line with the Government's commitments to review and streamline the consent system. This work will deliver a package of legislative and non-regulatory measures aimed at improving the efficiency of the system. The proposed timeline will involve seeking Cabinet agreement to identified building consent system legislative changes in early 2025, working towards passing a Bill before the end of the Government's first term.

Next steps

42. Officials are available to provide you with more detailed information on the portfolio and to respond to any questions that you have.

Annexes

Annex One: Summary description of functions within the portfolio

Annex Two: Summary of Building and Construction Expenditure changes 2017- 2023

Annex Three: Changes in portfolio FTE since 2017

Annex One: Summary of Building and Construction Functions

Key functions	Statutory	Discretionary	Additional information
Policy Advice & Ministerial servicing	Yes		
Oversight of Building Code, Technical Advice	Yes		
Information and Education		Yes	Note that guidance / education often supports lighter touch regulation or non-regulatory approaches
Evidence, Data and Insights		Yes	Informs sector performance and policy functions
Oversight of Territorial Authorities, technical reviews	Yes		
Building Consent Authority Accreditation, Oversight of IANZ, monitoring and compliance	Yes		
Building Products Assurance Enforcement of Building Products Information Requirements*	Yes		
Earthquake Prone Buildings – monitoring	Yes		
Building Levy compliance	Yes		
Dam safety assurance *	Yes		New regulations due to come into force
Building Emergency Management *	Yes		
Building Products (Certification scheme – Codemark)	Yes		
National Multiple-use approval (Multiproof)	Yes		
Modular component manufacturing scheme (BuiltReady)* Oversight of JAZ-ANZ*	Yes		
Earthquake Prone Buildings Remediation Support Service *	Yes		
Maintenance of Registers	Yes		
Occupational Regulation, Licensing, Complaints investigation	Yes		
Support for Statutory Boards	Yes		

Note that (*) items are new or expanded functions since 2017.

Annex Two: Summary of Building and Construction Expenditure changes 2017- 2023

2017 (Actuals as at 30 June 2017)	2023 Budget (OBU) 2023/ 24
Departmental	Departmental
Building Regulation and Control	Building Regulation and Control
Canterbury Recovery – Engineering	
Canterbury Recovery – Building and Housing Assistance*	
Hurunui / Kaikoura Recovery *	
Occupational Licensing	Occupational Licensing
Weathertight Services	Weathertight services
Policy Advice & Ministerial Servicing	Policy Advice & Ministerial Servicing
Tenant Health and Safety*	
Residential Tenancy Services *	
	Residential Earthquake prone-building support services
	Supporting performance of statutory boards
Departmental total: \$93.1 m	Departmental total: \$86.6 m
Non-Departmental	Non-Departmental
Weathertight Homes	Weathertight Services
HNZC Housing Support Services*	Earthquake Prone Building Loan Scheme
Kiwisaver HomeStart Grant*	Admin of Earthquake Prone Building
Auckland Vacant or Underutilised Crown Land Programme *	
Non-Departmental: \$89.8m	Non-Departmental: \$21.6 m
Total: \$182.9m	Total: \$ 108.4m

Note that (*) items were included in Vote Building and Housing in 2017 with the Minister for the Building and Construction as one of the Appropriation Ministers, but reflect work that is now part of the Housing portfolio.

Annex Three: Changes in portfolio FTEs since 2017

Business Unit	FTE (establishment date)	FTE June 2023	Change	% change	Main drivers of change
Te Whakatairinga Service Delivery (includes operational functions)					
Building & Tenancy Building System Delivery & Assurance, Determinations, Weathertight Services Information & Education	59	78	+19	▲32%	Increased FTEs in Determinations and Building System Delivery and Assurance to enable delivery of new regulatory functions, and in response to volume growth in building consents and activity. Reduced FTEs in Weathertight as the service closes current cases and winds down.
Building Resources and Markets (includes operational and policy functions)					
Building Systems Performance Policy, Building Performance & Engineering, Strategy, Service Design Construction Sector Accord	64	134 (-22)	+48	▲ 75%	Increased FTEs to address emerging government policy priorities e.g. climate change, plasterboard shortage, and respond to expanded work programmes (e.g. Commerce Commission market study, consent review) Increase of 22 FTEs to support Construction Sector Accord and Industry Transformation Pls (now stopped) Increased FTEs within support and expertise in response to technical queries and issues arising from volume increases in building activity
Digital, Data and Insights (includes operational functions)					
Evidence and Insights Other supporting roles	7	10 10	+13	▲ 185%	Includes monitoring sector trends, completing building sector surveys and data and other supporting roles across MBIE.
Total	130	232 (210)	+102	▲78%	