

# 1. Portfolio overview: Building and Construction

## KEY ISSUES

The Government has an ambitious plan to improve the building and construction system. Key initiatives include streamlining building consents, increasing access to overseas building products, and right-sizing risk for earthquake-prone buildings.

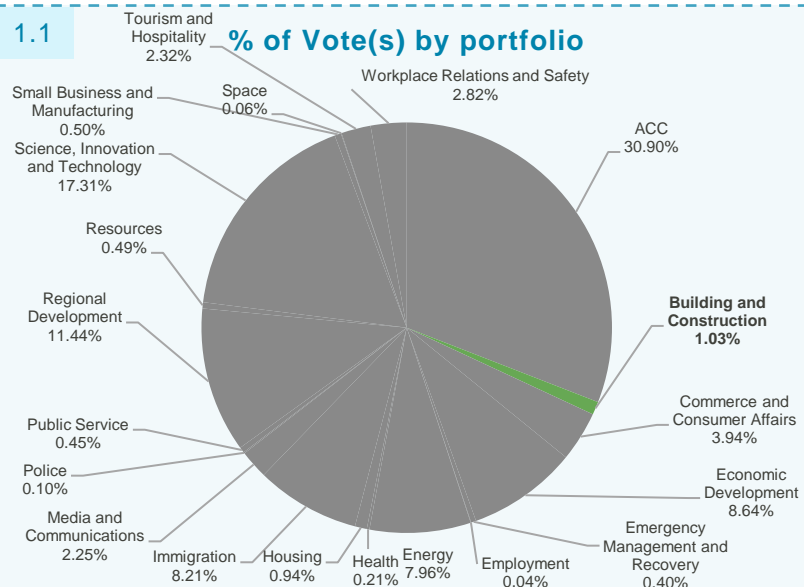
Overall, the intention of the changes is to reduce regulatory burden on consumers and deliver economic value by making it cheaper and easier to build. It will be important that these significant building system changes are considered as a package to confirm that expected benefits outweigh costs.

There is an opportunity to make use of the surplus within the building levy memorandum account to fund the initial policy and legislative stages of some new initiatives. However, there will be ongoing operational costs associated with implementing and delivering new functions, these costs will be clearer once further policy work and regulatory impact analysis has been completed. Managing future costs will likely require a combination of additional cost-recovery measures, an increase of the building levy rate, and savings in other areas (e.g. through reducing, streamlining or degrading existing regulatory functions).

The Building & Construction portfolio also delivers licensing of Electrical Workers and Licensed Building Practitioners and administers the Multi-proof scheme, which are all mostly funded through 3rd-party fees. Fees reviews must be completed to determine appropriate settings, as current fees do not cover costs. If increases in 3rd-party funding are not supported, then significant cuts will be required to services provided.

## SPEND BY PORTFOLIO

1.1



## TARGETS AND PRIORITIES

### Government targets

What targets do you contribute to?

### Indirect contribution to target 9, reduce emissions

#### Strategic priorities

- Streamline the building consent system to make it more efficient, reduce costs and support housing growth.
- Increase access to overseas building products to lower costs and improve competition.
- Improve the seismic system to ensure buildings are safe and durable, and appropriately balance life safety, risk and cost.
- Improve resilience to fire and climate change and reduce building-related emissions.

### Portfolio priorities – Initiatives

**Streamline the building consent system** includes a range of Government commitments aimed at reducing the time and cost associated with consenting and providing greater consistency and efficiency within the system. Key work includes removing consent requirements for Granny Flats; enabling remote visual inspections; developing options for self-certification; exploring the future structure of Building Consent Authorities; and examining liability and insurance settings.

This package of reforms is intended to reduce regulatory burden and enable a more nuanced approach to risk. To ensure that the building system continues to protect homeowners and deliver safe and durable buildings, complementary changes also need to be considered to improve practitioner competency and strengthen consumer protections.

**Increase access to overseas building products** will include legislative changes to mandate the use of products from comparable jurisdictions, alongside measures to better align Australia/New Zealand building standards and greater adoption of international standards.

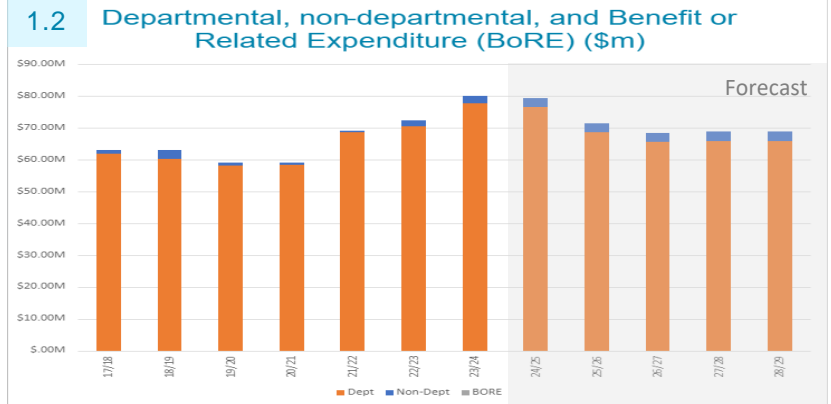
**Improve the seismic system** will include a review of the settings within the Earthquake-prone Building scheme, alongside wider work to ensure seismic requirements are appropriately managing risk

**Improve resilience to fire and climate change** will include a review of regulatory measures to ensure that buildings are safe, and light-touch/non-regulatory measures to enable consumers to reduce building-related emissions.

### Managing Operational pressures

The above reforms may create new functions within MBIE's operational and service delivery teams. Without additional funding, this will result in reductions in service levels and/or increased risk of regulatory failure

## EXPENDITURE BY TYPE



### Recent changes in expenditure

Expenditure has reduced since FY 23/24 due to reduced spending on weathertight resolution services, and the discontinuation of earthquake prone buildings loan and remediation support services from FY 24/25. The Construction Sector Accord was funded in FY 22/23 and FY 23/24 and then ended before FY 24/25. Fiscal Sustainability savings are reflected in FY 24/25 and out-years.

### Expected changes in expenditure

Salaries make up around 50% of expenditure so wage increases could be a significant driver of expenditure within the portfolio.

Other expenditure increases will depend on the scale and timing of the development and implementation of the package of proposed new initiatives to improve the building and construction system.

Revenue from the building levy is driven by the overall level of building activity across New Zealand, which will depend on broader economic factors (e.g. cost of borrowing, population growth, labour supply).

### Monitoring and funding of Crown companies or entities

Not applicable

## 2. Portfolio overview: Current specific fiscal risks, workforce, and third-party revenue

### SPECIFIC FISCAL RISKS

Title / Description	Amount and Probability	Mitigations
<b>NONE</b>		

### WORKFORCE

#### 2.2

#### Drivers and implications of change(s) in FTE

Over the next 1 – 2 years delivering Government commitments will drive FTE demand in policy roles (e.g. in progressing legislative changes). Over the medium to longer term the implementation and ongoing delivery and monitoring of new initiatives will create FTE demand in operational and service delivery teams.

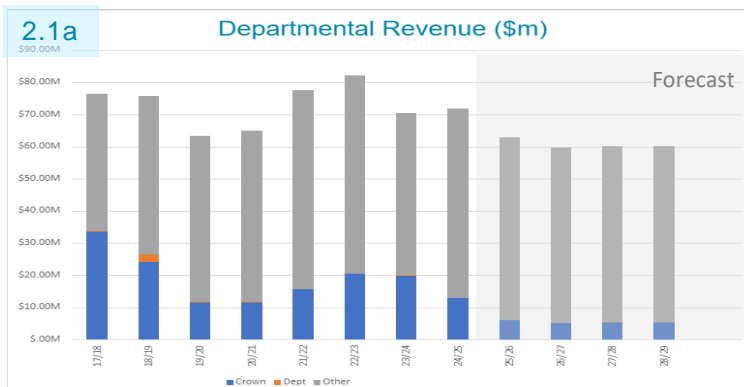
Within operational functions, an estimated minimum of 4 FTE would be required to provide monitoring and assurance for those elements of the reform programme already confirmed. However, the exact number and timing for any total new operational FTEs will depend on detailed policy design decisions, which have not yet been made. Operational teams have already absorbed a number of new functions within existing FTE and further absorption is not feasible without service degradation.

If the headcount is not increased, then this would require degrading the level of delivery elsewhere, which would reduce the effectiveness of regulatory products and increase the risk of regulatory failure. Under a scenario where no additional FTEs are made available the following trade-offs could be considered:

- No proactive monitoring and education for Building Performance Information Requirements/ Multi-proof/ CodeMark schemes,
- Reduced servicing for Multi-proof (could result in not delivering to statutory timeframes),
- Not progressing monitoring and review functions in relation to offshore building products,
- Reduced monitoring and engagement activities with BCAs on the collection of the building levy.

### DEPARTMENTS WITH THIRD PARTY REVENUE (INCLUDING TAX, FEES, LEVIES, EXCISE, DUTIES AND CHARGES)

#### Revenue sources



#### Scenarios that could impact third-party revenue

Scenarios	Incidence in last 10 years	Likely in next 10 years?
[Specific Fiscal Risks (list any current risks related to third party revenue as outlined in latest EFU)]	<b>No SFR</b>	
[Other potential shocks (e.g. those that might not have reached materiality/probability threshold for a SFR)]		
Significant and sustained slump within the building sector reduces overall building levy revenue	No	Possible
Approval not given for fee / levy changes will result in revenue failing to cover costs	No	No

#### Activities funded by third-party revenue and when were they last reviewed

Activity name	% User funded	Date last reviewed	Date next reviewed	Material under or over recovery	Key performance measure and 2023/24 performance
Chief Execs functions under the Building Act – Building Levy	100%	July 2024	July 2027	Built up surplus, now <b>Under recovery</b>	Minister's satisfaction survey. Achieved
Occupational Licensing – Electrical workers	88%	Jan 2019	In progress, aim FY 24/25	Deficit and <b>Under recovery</b>	An internal audit and assurance rating received on the quality and timeliness of administration of licensed building practitioners and electrical workers regimes - Rating of acceptable or better- Actual- Achieved
Occupational Licensing – Licensed Building Practitioners	100%	Jan 2019	In progress, aim FY 24/25	Surplus now <b>Under recovery</b>	An internal audit and assurance rating received on the quality and timeliness of administration of licensed building practitioners and electrical workers regimes - Rating of acceptable or better- Actual- Achieved
Multi-Proof	100%	Fees last set in 2010. Review began in 2020 but not completed	Q3, FY 25/26	Deficit and <b>under recovery</b>	Current focus is some broader policy work regarding the place of Multi-proof in the regulatory system, then the Minister will be briefed on options to address the deficit and the cost recovery model

### 3. Portfolio Managing within baselines: Current and future drivers

Confidential advice to Government

#### FUTURE DRIVERS

**Climate change:** Climate change is expected to increase the frequency and severity of extreme weather events including floods and storms. These will create short-term damage to existing buildings and infrastructure, which will in turn put pressures on the building sector labour force and housing supply. There will be a need for more agile and responsive building regulatory settings – to ensure that buildings are being designed and constructed to withstand more unpredictable and extreme climate events.

**Technology change:** the development and adoption of new technologies, such as artificial intelligence, could bring new opportunities and challenges for the construction industry. This includes opportunities to streamline building design and consenting processes, and to provide better information to markets and consumers on managing risk. Technologies such as off-site manufacturing have the potential to lead to quicker and more efficient build processes.

**Demographic change:** many populations, including New Zealand, are aging, putting pressure on labour markets and governments' finances, and increasing reliance on immigration. This, in turn, puts pressure on the housing market and improving the efficiency of residential construction. The building and construction sector is reliant on workers from overseas, including temporary migrants. There is likely to be competition for this workforce from overseas (e.g. the Australian government has a target of building 1.2 million homes over the next decade, significant construction in Queensland ahead of the 2032 Olympics).

#### Choices to mitigate/manage long term pressures

Policy that causes demand or demand driver	Options to manage this?	Lead time required to make changes?
Climate change	Guidance/ updated standards	2 – 3 years
Technology change	Considered as part of consent system changes	2 – 4 years
Demographic change	Considered as part of consent system changes	2 – 4 years

Plan for managing within baselines (Table 4.1)

Area	Impact					Description
	24/25	25/26	26/27	27/28	28/29	
Budget 2024 savings	3.45	1.8	1.8	1.8	1.8	Savings through end of Earthquake Prone Building remediation support services and loan, and reduction in weathertight services, policy saving.
Fee review	-	2.8	2.8	2.8	2.8	Estimated current deficit in 3 <sup>rd</sup> party revenue, to be addressed by fees reviewed
Access Levy memo account	-	2.67	3.71	4.75	5.87	There is approx. \$57.3 million surplus in the memorandum account (unaudited, as at August 2024). This balance is forecast to trend down towards zero over the next 3 –4 years due to reduced building consent activity. The memorandum account could be used to off-set cost pressures, though would result in the surplus reducing more quickly.
Review of Building Levy	-	TBC	TBC	TBC	TBC	The next review of levy settings (rate and threshold) is due in FY 26/27. The review could be brought forward to assess appropriate level to cover cost pressures and/or any new policy initiatives associated with reforming the building consent system.
Additional savings	-	TBC	TBC	TBC	TBC	Retire regulatory products to free up resource for new products. Reduce pro-active assurance activity, focus on response to notified issues.

## 4. Portfolio Managing within baselines: Workforce and capability

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### Strategy for workforce costs, including remuneration

Bargaining is underway and we are unable to provide full details of MBIE's remuneration strategy while that is ongoing. The focus of MBIE's approach is to ensure workforce costs balance affordability alongside ongoing sustainability and enable delivery of MBIE's work programme.

MBIE is working through what measures need to be put in place to balance those cost pressures we have been directed to absorb. This is being done as part of our preparation for Budget 2025.

### Capability – non-workforce (e.g. organisational systems, processes, governance, technology and data)

MBIE has both a significant enterprise ICT infrastructure and technology platforms that underpin specific economic systems and engagement with businesses and the public – from key application processes (e.g. visas), registries (e.g. licenced builders), to contact centre help lines (e.g. tenancy).

MBIE is investing in modern, cloud-based, scalable, multi-use platforms to reduce system complexity. Two specific areas requiring ongoing investment and effort are the transition of visa processing off legacy systems (Immigration) and the upcoming need to replace legacy assets that support the corporate registries (e.g.: the companies office). In the next 12-24 months moving off all on-premise data centres into the public cloud is also a key shift.

Simplification and the considered use of AI will contribute to greater efficiency and effectiveness across the business. Cyber threats are a growing issue. In response we have already delivered a number of modern security tools as part of a zero-trust architecture. We continue to implement these across MBIE.

MBIE collects and manages a wide range of data. We have invested in and are implementing a cloud data platform designed to make data more accessible, but also safe. This work is prioritised within our new Data Strategy which brings together new technology and data capabilities, and a new way of working to deliver the value of analysis and insights that shape policy and operational decisions at speed. MBIE has extensive governance and risk management systems in place, managing both strategic, policy and operational matters.