13.1 Building Consent Authority Reform

Author: **Paul Cooper, Group Manager Environmental Services**

Authoriser: **Nigel Trainor, Chief Executive**

Section under the Act	The grounds on which part of the Council or Committee may be closed to the public are listed in s48(1)(a)(i) of the *Local Government Official Information and Meetings Act 1987.*
Sub-clause and Reason:	s7(2)(a), s7(2)(b)(ii) and s7(2)(j) - The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons, The withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information and The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage
Plain English Reason:	To protect a person's privacy, including the privacy of deceased persons, To protect commercially sensitive information and To prevent use of the information for improper gain or advantage.

Recommendation

That Council notes the attached Initial Proposal: A Business Case for a private Building Consent Authority as a Council Controlled Organisation (the Initial Proposal); and

1. That Council directs Officers to undertake a s 17A Local Government Act 2002 review of the performance of its regulatory functions under the Building Act 2004 using the initial proposal as a starting point; and
2. That Council endorses officers concurrently liaising with the Ministry of Business, Innovation & Employment and other local authorities through this review; and

Council resolves that this report, the attached Initial Proposal, and recommendations remain in public excluded until further Council direction; and

Council resolves that the report and recommendations remain in public excluded until such time as Type here.

Council delegates authority to the Chief Executive to review the report and recommendations in 6 months to consider its release to the public.

Council resolves that the report and recommendation remain in public excluded permanently.

3. .

Purpose of Report

1 This report's purpose is to advise Council on the functioning of the Council's regulatory activities under the Building Act 2004, in the face of building consent system reform, and an Initial Proposal for the creation of a "private Building Consent Authority" (BCA) using a Council Controlled Organisation (CCO) to provide these functions to Council via contract.

2 The recommendation is to progress the development of this option through a s 17A review to provide a statutory basis and structure for the work.

3 The idea of a CCO providing building control services is not new, however the novel component of the attached Initial Proposal, is that the CCO could also provide commercial services to the community. This approach increases revenue opportunities and could provide increased community benefits via cheaper regulatory fees or creating a risk pool fund to cheapen insurance costs, or potentially provide a dividend back to its shareholders.

Assessment of Significance

4 The assessment of significance against the criteria of Council's Significance & Engagement Policy is Low. This report only seeks a decision whether to explore the concept further, to better understand the benefits for the community and Council. If Council at some point in the future decided to create a CCO, then a formal community consultation process would be required under the guidance of the Local Government Act 2002.

Background

5 The building consent system is currently being reformed by the Ministry for Business, Innovation & Employment (MBIE) to deliver increased efficiency, increased consistency, and increased certainty for our community.[1]

6 At workshops run by MBIE, the indication was that reform will seek to encourage voluntary consolidation of BCA's, or they will consider simply regionalising BCA's – for example the 11 BCA's in the Southern Cluster, or the BCA's in Canterbury.

7 MBIE have indicated that the Minister for Building and Construction Chris Penk is open to sector led solutions that move the system towards these desired outcomes.

8 An Initial proposal (Attachment 1) has been prepared that provides background discussion, context and how Council might proceed to respond to this reform, starting with the problem statement, which reads as follows:

"Territorial Authorities tend to provide Building Act regulatory services individually. Despite the service requirement being the same in every district, each Council delivers it slightly differently. There is a prima face case for delivering this service as a Council Controlled Organisation (CCO) in a scalable framework, for improved efficiency and consistency."

9 The scope of the new entity will be to provide all the current regulatory functions of the Building Unit, both as BCA and as a Territorial Authority (TA). The CCO will also be able to engage in commercial activities, a revenue generating option not currently available to Council. There are relatively complex regulatory issues to grapple with in establishing a private BCA and enabling commercial activity through Council Organisations. The intent is that the s 17A review will provide the structure for addressing these issues.

10 The Initial Proposal outlines how Council can set up a CCO to be a private BCA to provide the building control activity on behalf of Council, operating under a small independent board.

11 It further suggests that it could be structured in such a way that other councils can join the CCO to deliver building control functions, as shareholders, and in doing so maintain strategic control via a shareholder group of councils. With scale comes more efficiency, consistency and certainty across a wider geographic area.

[1] https://www.building.govt.nz/getting-started/building-system-reforms/review-building-consent-system

12 The commercial opportunities, in terms of access to markets, will exist across any geographic area the CCO chooses to operate across, regardless of ownership. The regulatory functions conducted by the CCO will be within the district/s of those covered by the member councils in the shareholder group, and potentially beyond that via contracts with other BCA's and third parties.

13 If Council chooses to do nothing in response to reform, it is likely that an outcome will be imposed on us, for example a consolidation of all Canterbury BCA's into one BCA as mentioned previously. MBIE have also indicated that if the sector responds with voluntary solutions during reform, these may influence the reform.

Discussion

14 The attached Initial Proposal (Attachment 1) provides more detailed background and discussion, including structure, liability, market analysis and high-level financial information.

Options and Preferred Option

15 Recommendations are sought from Council for officers to pursue the proposal in a meaningful way to a point that a future Council decision can be made whether to go to the community for consultation with a view to creating a CCO to provide building control activities and commercial activities for the community.

16 Officers' advice is that a s 17A review provides a useful mechanism for structuring this process. This type of review is required to look at governance, funding and delivery. Mandatory delivery options are required to be considered[2], however in the context Officers consider a scalable CCO as described in the Initial Proposal is the most likely reasonably practicable alternative.

17 A useful aspect of a s 17A review is the consideration of governance oversight if functions are delivered by a different entity, such as a CCO.

18 Under s 17A Councils are required to review the cost-effectiveness of their current arrangements for meeting community needs for good-quality regulatory functions. Essentially reviews are required to occur every six years, unless the operating context (legislative or contractual) is too constrained for alteration within the following two years; or the benefit is not worth the cost of the review. Council has not previously reviewed its Building Act regulatory functions given the constrained operating context; however, Officers consider the proposed reform arguably changes this factor.

19 If the results of the s 17A review suggest that the costs of continuing outweigh the benefits, this will be brought back to Council for further direction.

20 **Option 1** (preferred option) – Council endorses the proposal for further development toward establishing a Council Controlled Organisation to deliver building control activities and commercial activities by conducting a s 17A review of the Building Control activity under the Local Government Act 2002; or

21 **Option 2** – Council decides not to pursue the proposal for further development toward establishing a Council Controlled Organisation to deliver building control activities and commercial activities.

[2] The required options are: (i) a CCO; (ii) a multi-Council CCO; (iii) another local authority; or (iv) another person or agency.

22 The consideration of how Council might approach the issue can be distilled down to the two approaches:

22.1 Council can front foot reform change, which may set Council up well if the change happens as signalled currently; or

22.2 Council can adopt a more cautious approach and (like our neighbouring Councils) see how reform develops – which will allow for a late change in direction for reform from central government but not allow for a degree of local control in terms of reform outcome.

Consultation

23 Council officers will continue to liaise and work with MBIE and potential shareholder councils. Should the s 17A review suggest the preferred delivery method of Building Act regulatory functions be via a CCO, and Council chooses to pursue that model further, then a Special Consultative Procedure must be undertaken under s 83 of the Local Government Act 2002.

Relevant Legislation, Council Policy and Plans

24 Building Act 2004

25 Building (Accreditation of Building Consent Authorities) Regulations 2006

26 Local Government Act 2002

27 Companies Act 1993

Financial and Funding Implications

28 Officers will liaise further with MBIE and potential shareholder councils. The complex nature of standing up a private BCA, that is both accredited and registered, will require changes to current regulations and a careful consideration of potential legal implications for shareholders, as well as the appropriate company structure. The foundational documents for the new entity will be critical to any subsequent success, and for this reason officers recommend the use of a suitably qualified individual to provide advice to the Council side of the process. This may require an unbudgeted amount - circa $50,000 over the 12 to 18 month development period, should the proposal be pursued further.

Other Considerations

29 The prospect of rapid and significant change in how building services are delivered by councils is confronting to some practitioners in the sector. This matter is sensitive in nature, not only to Timaru District Council employees, but to employees in neighbouring councils and beyond. Officers' advice is that this factor supports the current public excluded nature of this report.

30 The author has met with Officers of several councils to discuss the proposal in confidence. Immediate neighbouring councils see the proposal as an existential threat, particularly as the Local Water Done Well reform process progresses. Most have a "let's wait and see" approach to the proposal at this stage.

Attachments

1. Draft Private BCA as a CCO Business Case

2. Draft Private BCA as a CCO Financial Forecast Models

CONFIDENTIAL

Business Plan for Private Building Consent Authority as a Council Controlled Organisation

Prepared by: Paul Cooper, Group Manager Environmental Services; and

Jayson Ellis, Building Control Manager.

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Problem Statement

1. Territorial Authorities tend to provide Building Act regulatory services individually. Despite the service requirement being the same in every district, each Council delivers it slightly differently. There is a prima face case for delivering this service as a Council Controlled Organisation (CCO) in a scalable framework, for improved efficiency and consistency.

Introduction

2. The Building Control activity, meaning both the Building Consent Authority (BCA) and the Territorial Authority (TA) functions conducted under statute by Council, is localised to the Timaru District.

3. The BCA has its own quality assurance manual, which is subjected to bi-annual audits by International Accreditation New Zealand (IANZ) on behalf of the Ministry for Business Innovation and Employment (MBIE). Each BCA has its own (slightly different) manual, its own internal auditing requirements, quality assurance, support staff and technical staff, and there is significant replication across every BCA and Council – circa 67 BCA's across the country.

4. This business case suggests that this delivery model is inefficient in terms of the human resources required, the unnecessary expense, replication across districts and the inconsistent experience for the customer between BCA's.

5. When individual BCA's are busy, they struggle to meet their statutory obligations in terms of building consent timeframes, meaning that off-site contractors are engaged to process consents (at a higher cost).

6. Small and medium sized BCA's can't justify in-house specialists such as structural engineers, so pay a premium, at the applicants expense, to use consultant engineers as needed.

7. A further consideration is that a Council BCA must not make a surplus from the activity, but can deliver services at a deficit, with support for the activity from rates - currently the amount of rates support is circa $1M.

8. Council has previously expressed a view that "user pays" is a preference where it can be achieved. If Council were to create a private BCA as a CCO, the CCO could move to the user pays model – releasing the current 20% to 30% cost burden from ratepayers, once it can adjust what remains (stranded overheads etc.).

9. The CCO can be created in such a way that other Councils can join the entity by agreement, and over time it can acquire scale. As scale is acquired over more districts as other Councils opt in, the CCO can start to provide more efficiencies to keep costs to applicants reasonable and services consistent across a wider area.

10. A CCO, if it had a Council Controlled Trading Organisation (CCTO) component within its structure, will have the ability to trade commercially in particular building services, which will add another positive benefit to the proposed model.

The profit generated by commercial activities may in time off-set the true cost of BCA and TA services, and/or provide a small dividend to the shareholder group (member Councils).

11. Conversations with the Ministry for Business Innovation & Employment (MBIE) have been encouraging and have indicated that Minister Chris Penk is open to innovative ideas such as this. The Minister is looking for ways to improve the consenting system to find efficiencies and make system changes that make consenting quicker and easier for applicants. This has been confirmed in the government announcement on the topic on 29 September 2024 and at MBIE workshops on the reform programme in November 2024.

12. Conversations with some local real estate agents (in strict confidence) has revealed occasional disappointment with the level of service provided by the private sector presently for building reports. One of those spoken to stated that they would advise all their clients to use the CCO for pre-purchase reports and maintenance reports (for increased confidence in the reporting) if the CCO existed as described in this proposal.

13. The concept works, in terms of meeting the Minister's goals for the reform, when two or more BCA's come together as one BCA across a wider area than that of one Council.

Executive Summary

14. The Timaru District Council (TDC) is proposing the establishment of a Private Building Consent Authority (BCA) as a Council Controlled Organisation (CCO). This initiative aims to enhance efficiency, reduce costs, and provide consistent services across multiple districts. The current model, where each Territorial Authority (TA) provides Building Act regulatory services individually, has led to inefficiencies and inconsistencies. By creating a CCO, TDC can deliver these services in a scalable framework, improving customer experience and operational efficiency.

15. The proposed CCO will initially be owned by TDC, with the potential for other South Island Councils to join. This collaborative approach will allow the CCO to achieve economies of scale, reducing costs for applicants and providing consistent services across a wider area. The CCO via a CCTO component in its structure will also have the ability to trade commercially, offering services such as pre-purchase inspections (and several other products), which can generate surplus revenue to offset the costs of BCA and TA functions that will operate under the CCO component of the company structure.

16. Conversations with the Ministry for Business Innovation & Employment (MBIE) and selective local real estate agents have been positive, indicating support for the proposed model. The CCO will be structured to ensure a seamless transition, with existing staff from TDC continuing to deliver services. The company will be governed by a small board of experts and led by a Chief Executive, ensuring a lean and focused operation.

17. The financial analysis indicates that the transition to a CCO will in time result in cost savings and efficiencies. The company will aim to be cost-neutral within 3 to 5 years, with the potential to generate surplus revenue from commercial activities. It is imperative that any CCO be financially sustainable. The proposed model not only aligns with the government's goals for reforming the building consents process, but also provides a timely opportunity for innovation and improvement.

The Company and its Structure

18. The company, in terms of staff, will largely be embedded in the Council facilities it currently occupies, working alongside Council staff from other departments.

19. Timaru District Council (TDC) has an example of this arrangement working exceptionally well in its Environmental Compliance Unit, where the Environmental Health Officers employed by Food & Health Standards (2006) Limited (FHS) sit alongside and are supported by Council staff. This hybrid contractual arrangement with FHS has been in place for 6 years and is a good example of the public and private sector working together to provide excellent services to the community.

20. TDC also has contracts with neighbouring Councils, namely Waimate District Council and Mackenzie District Council, to provide Environmental Compliance services via its contract with FHS, with alcohol licensing services provided in an integrated fashion by in-house staff as part of the contract arrangements.

21. It is anticipated that the new company will provide building services, both BCA and TA functions, and will operate in a similar manner, be seamless in terms of transition, and in time provide the benefits of the CCO model, both to Council (all Councils in the shareholder group) and to the community.

22. During the start-up phase the company will have a small board of three with a mix of experts in commercial experience, financial experience and local government regulatory experience. The appointments process of board members will include elected members from Council (or councils) in the shareholder group being on a Board Appointment Committee, but no elected members will be on the board. The purpose of this is to ensure the board is lean and sharply focussed, without the added complexity of elected members from different Councils being members.

23. The board, once selected and a chair appointed, will appoint a Chief Executive (CE) to run the company. The CE will appoint as his or her second-in-charge, the Building Control Manager. The staff will be, at the onset, the same staff that are currently employed by Council to deliver BCA and TA building services.

24. The company will deliver exceptional building services to its shareholder group (district Council(s)) as a private BCA, supported by a commercial component to the business that will provide building services that do not conflict with its regulatory functions.

25. It is proposed that the work of the CCO be predominantly in the regulatory function at the outset. This will give comfort to MBIE and the community that the focus of Council(s) through its CCO is the safety and wellbeing of the community.

26. The purpose of the commercial activities undertaken by the CCTO component will be to off-set the cost of providing BCA and TA functions to the districts within the area covered by the shareholder group, and/or to provide a small dividend, and/or to contribute to a risk pool fund to reduce liability costs on the shareholder group.

27. The company would take its current staff from the Council. The 29 people delivering services for TDC comprises of 16 technical Building Control Officers (including team leaders), 6 administration roles, a quality assurance role, 4 compliance roles a Building Advisory Role and the Building Control Manager.

Company Mission Statement

28. The board when in place will determine the company mission statement. For the purpose of start-up, the initial statement will read as follows:

29. To deliver exceptional building control services to its customers, that are without fear of favour, efficient and consistent across all the districts it serves.

Company Goals

30. To provide the statutory functions of a BCA and TA for the Councils in its shareholder group and to maintain accreditation; and

31. To create efficiencies and savings across the services it provides over an in-house model; and

32. To work towards being cost neutral for the Councils in its shareholder group; and

33. To ensure a consistent customer experience across the districts it serves to provide more confidence in the system; and

34. To generate sufficient revenue from its commercial activity to support achieving these goals and other benefits for the shareholder group.

Company Performance Targets

35. The suggested performance targets for the CCO are firstly that it delivers building regulatory services, as the Council Building Unit currently does, to a high standard and maintains accreditation as a BCA.

36. Secondly, the CCO must deliver building services, both regulatory and commercial, so that the activity is at least cost neutral, preferably in surplus once established (the activity is currently supported by the ratepayer at $1M and the company will be deemed established between 3 and 5 years from start-up).

37. Thirdly, the company must show consistent annual growth, from running at a deficit early in the establishment period to running at a surplus between 3 to 5 years from start-up.

Market Analysis

38. The concept of a private BCA via a CCO is not new, with one existing in Manakau under Manakau City Council prior to the merger and the creation of Auckland City Council. What is new is an openness to innovation from the government where it can demonstrate system improvement for the building consents process. This window of openness provides the opportunity for creating a company that is a private BCA that also provides TA and commercial services for its shareholders.

39. To achieve the stated goal of this business plan, Council will need to work closely with MBIE, seek minor changes to legislation that guide the creation of BCA's, and work towards achieving BCA status via accreditation and registration over the next 12 to 18 months, should Council wish to pursue the idea. MBIE have indicated a strong interest in the proposal.

40. The shareholder group can be one Council initially, but some limited interest has been expressed in the concept by several Councils in the South Island. The interest is to be involved in the conversation, without any commitment.

41. The BCA in the Timaru District processes and deals with approximately 900 to 1400 building consents per year, dependant predominantly on market conditions and the economy. We are currently operating at the bottom of a trough in that regard, meaning the function will require increased ratepayer support.

42. Of note the Local Government Act 2002 at section 62 prevents a CCTO from being financially supported by Council, hence the need for a somewhat complex company structure around services delivered – broadly split into regulatory functions (BCA & TA) being delivered under a CCO structure, with commercial trade delivered under a CCTO structure, as a single entity under an independent board.

43. The commercial component of the company can explore established markets that don't conflict with its core functions. The simplest part of the commercial market, and most natural fit for the start-up phase, is that of providing pre-purchase inspections for potential property buyers, their banks and insurance companies. Indicative figures show that circa 40 to 100 sales per month occur in the Timaru District depending on the market conditions, each of which is potentially available for a pre-purchase inspection or pre-sale inspection. Services could be provided far beyond Timaru District, therefore there is an opportunity to take a meaningful market share, but these matters will be for the new entity to consider.

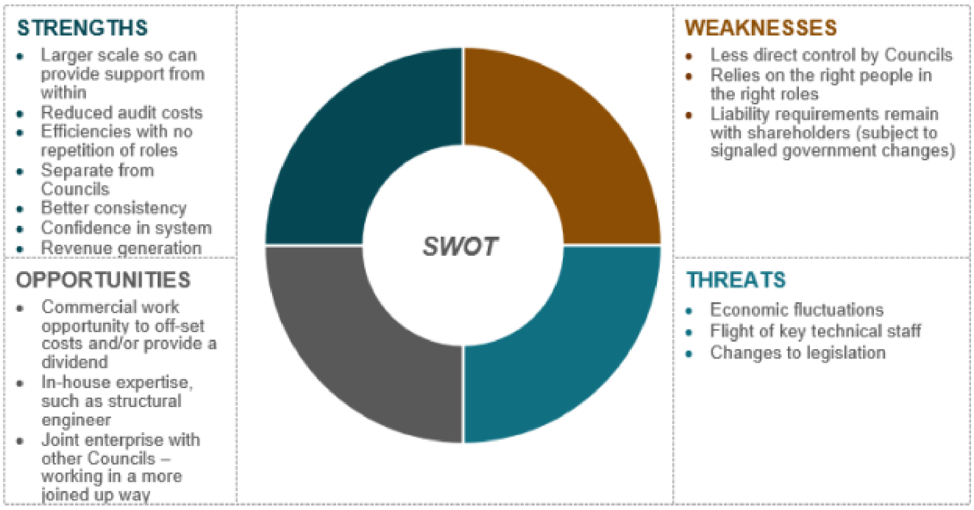
44. The pre-purchase inspection and property maintenance report market fits well with services already provided, with the decades long exceptional reputation of Council services providing a foundation of credibility and the ideal assurance for customers of quality service.

45. The current providers of this product in South Canterbury may be impacted by this model, should the new entity choose to pursue it.

46. Other opportunities might include asbestos reports, mould reports, backflow protection inspections and many other products – none of which will conflict with the BCA function.

47. Use of in-house engineers and specialists to provide niche expertise advice to customers outside of the districts covered by the BCA and TA functions of the CCO may also become viable revenue streams, particularly if more than one Council is in the shareholder group.

48. The way that in-house structural engineers, designers and fire system engineers can provide commercial work is by servicing areas anywhere outside of the area regulated by the CCO, as they will likely perform regulatory functions within the area of the CCO.



Work to be Undertaken

49. The following is a high-level breakdown of work to be undertaken by the company. The commercial activities listed are indicative and can be shaped to meet the market:

<u>Regulatory Activities</u>

- Building Consent Applications
- Other Minor Applications (e.g. solid and liquid fuelled heating appliances, demolition, marquees, solar hot water systems etc.)
- Project Information Memorandum (PIM)
- Building Consent Amendments
- Exempt Building Work

- Compliance Schedules and Building Warrant of Fitness
- Certificates of Acceptance
- Other Building Expenses (e.g. Notice to Fix, Dangerous and Insanitary Buildings etc.)
- IQP Processing
- Fencing of Residential Swimming Pools
- Earthquake Prone Buildings

Commercial Activities

- Pre-purchase inspections
- Maintenance reports
- Pre-sale building inspections
- Healthy homes assessments
- Moisture testing
- Backflow Protection Inspections
- Earthquake hazards and risks check
- Mould checking and testing
- Asbestos testing
- Specialist engineering reports

Legislation

50. The company will provide BCA and TA functions under several statutes on behalf of the shareholder Council(s). These include:

- Building Act 2004
- Building (Accreditation of Building Consent Authorities) Regulations 2006
- Local Government Act 2002
- Companies Act 1993

Efficiencies to be Realised

51. Initially the CCO will be solely owned by Timaru District Council but the intention is to quickly attract other South Island Councils to join via a framework designed to make joining the CCO relatively easy and give comfort to all parties.

52. This will be achieved with a shareholder agreement that outlines structure, organisational boundaries and how proportionality, based on the number of building consent applications processed over the last 3 years in the district, will form the basis for the allocation of benefits from being a shareholder. Every 3 years this exercise will be re-run to establish if any movement in needed for the settings in the following 3-year period.

53. The higher the number of Councils in the shareholder group, the more efficiencies will become available to be realised. This will be via a centralised administration hub for building services and consent processing, consolidation of quality assurance functions across shareholder Councils, consolidation of the need for a Building Control Manager across all shareholder Councils, savings in corporate overheads, IT cost savings in relation to both software and hardware, potential vehicle fleet savings, a right-sized group of technical staff and savings in auditing costs for accreditation.

54. A survey of several different Council BCA's in the South Island willing to take part found a surprising spread of service level as it relates to the ratio of the average Building Control Official numbers against building consent numbers, with the following results:

South Island BCA Technical Resource Ratio/Comparison

BCA	Number of BCOs Performing a Technical Role	Annual Average Number of Consents Granted (over last 5 years)	Average Number of Consent Granted Per BCO	Annual Average Number of Consent Inspections Performed (over last 5 years)
Timaru	16	1077	67	3626
Queenstown Lakes	21 (+5 contractors)	1700	65	18000
Ashburton	10	636	63	3526
Dunedin	27	2687	99	10485
Central Otago	11	1010	91	4976
Westland	7	238	34	957
Tasman	14	1364	97	7555
Marlborough	12	1318	94	4536
Waitaki	7	700	100	2915
Gore	5	355	71	1744
Christchurch	40	4913	122	32521
Waimate	2	266	133	836

55. The figures show that the Timaru District Council BCA has opted for a level of comfort to absorb fluctuation in the market and allow for technical officers to progress at differing levels of competency. The average number of consents to technical officers for the 12 BCA's is 86, whereas TDC's is 67. There could be an argument for running a leaner operation, once the changeover to the new company happens and commercial activities are correctly sized for the market.

56. The thinking is that there will be set-up costs associated with the transition, such as appointing and funding a board and a Chief Executive, but thereafter efficiencies will become available to be realised as time progresses, and the company builds.

Liability and Insurance

57. The current system for building consents places a high level of liability with the BCA, and much of governments focus in the last 2 decades has been on ensuring BCA's are fit for purpose, in terms of carrying most of the risk in the system.

58. The risk associated with building consent work is covered for Council by insurance, currently circa $60,000 per Anum. This figure, as part of a group of councils, ensures that we can access up to $30M, with an excess of $100k. This arrangement for insurance will be unaffected by any transition to a CCO.

59. Our broker (Aon) has stated that because the intended company structure and shareholder agreement will see the line of sight for liability between a Council's district where a claim is located, and that particular Council maintained, little will change.

60. Insurance for the commercial activities has yet to be sized, as the activities have not been determined. Liability for any commercial work undertaken by the CCTO component of the company will remain with that part of the business, and not fall to shareholders. Insurance products already exist in the private sector for the types of commercial work that could be undertaken.

Financials – looking back

61. The high-level financial analysis of the TDC Building Control Unit, currently providing BCA and TA functions, can be seen in the table below:

Item	Name1	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue	Rates	403,544.00	636,150.00	723,748.64	874,559.52	1,008,212.16
	Rates Penalties	2,906.67	6,140.67			
	Fees & Charges	1,758,070.49	2,118,523.30	2,162,925.69	2,234,905.93	1,972,357.21
	Other Revenue	18,521.21	20,571.67	14,356.22	24,381.33	24,444.19
Revenue Total		**2,183,042.37**	**2,781,385.64**	**2,901,030.55**	**3,133,846.78**	**3,005,013.56**
Expenditure	Personnel Costs	1,732,435.45	1,797,184.07	2,176,880.01	2,414,389.91	2,586,103.67
	Contribution Plans	58,973.50	56,990.10	71,483.64	77,497.31	89,486.58

	Depreciation	18.48	14.88	59.54	0.0	0.0
	Finance Costs (interest internal)	0.0	0.0	0.0	11,145.75	19,076.04
	Other Operating Expenses	222,095.73	489,183.56	496,979.02	471,422.33	516,918.74
	Internal Charges	286,592.73	441,742.17	874,019.21	911,846.28	360.457.93
Expenditure Total		**2,300.115.38**	**2,785,114.78**	**3,619,421.42**	**3,886,301.58**	**3,572,042.96**
		(117,073.01)	**(3,729.14)**	**(718,390.87)**	**(752,454,80)**	**(567,029.40)**

62. The salary budget at circa $2.5M was and will remain the largest cost to Council, with revenue (including rates funding) sitting at approximately $3M. A portion of the corporate overhead costs in the row headed “Other operating expenses” ($516,918.74) will apply to the new company. The heading “Internal charges” ($360,457.93) includes the corporate overhead charges, which as a value will need to be re-calculated as to what it will cost for the new entity. The market drives some variables, as can be seen in a circa $500k shortfall in revenue against budget due to a slowdown in consent numbers.

63. The CCO will have to create a reserve to cope with fluctuations in the market, in order to give sufficient time to make any necessary changes that might be required to sustain it through lean times.

64. The corporate overhead charges can be broken down into the following:

65. *District Building Controls* relates to occupying the space in the main TDC Council building, desk space, heating, power and vehicle fleet.

66. *Planning and Regulatory Management* is the costs associated with the component of the salary cost associated with the activity from the Group Manager and Chief Executive.

67. *Information Technology* relates to the costs associated with laptops, servers etc. and phone costs for each staff member and a selection of software applications, excluding the portal and system for receiving and managing building consents.

68. *People and Capability* is the heading associated with human resource activities, workplace counselling services etc.

69. The *Risk and Assurance* heading relates to paying the activity’s portion of the cost of providing a Risk and Assurance activity within Council.

70. *Customer Services* relates to the activity’s portion of providing funds towards people to answer the phones and fill front desk roles.

71. *Financial Services* relates to costs associated with management accounting for the activity.

72. Finally, *Corporate Planning* relates to costs associated with the Local Government Act Council reporting requirements.

73. These costs are partly funded by rates currently, but when the CCO comes into being, while some will remain, some will fall away or in fact become a source of revenue for services provided to the shareholder Councils. For example, the unit, had it been a CCO for the period, would have received circa $360k for services to other Council activities (e.g. LIM's).

74. Therefore, the foundation for the financials for the new company start with the high-level revenue and expenses, with the gap currently funded by rates closed by realised efficiencies, any revenue from commercial activity and increasing fees to reflect a user pays philosophy.

Financials – Looking Forward

Scenario 1 – TDC forms a CCO alone

75. Please note that the figures provided are high-level and indicative only. They are simply provided to frame the conversation about how a CCO might transition from a rate payer supported position, to a position of self-sufficiency with a surplus.

76. The attached spreadsheets (Attachment 1) provide financial figures for TDC setting up a CCO to deliver its regulatory functions for the Building Control function (BCA & TA). The CCTO component of the company will at some point deliver opportunities for revenue from commercial activities.

77. The company, based on these indicative figures, will start to bring in revenue at a surplus level in years 3 to 5. This may vary depending on the CCO's strategic approach and economic conditions. Any surplus can benefit the shareholder (TDC), as previously described in this document, via off-setting fees for customers using regulatory services, and/or providing a dividend, and/or contributing toward a reserve for lean times. The same reserve might also act as a risk pool, to cover the excess on any insurance claims that were realised.

Scenario 2 – TDC merged with two smaller BCA's in a CCO

78. The indicative financial figures in the second attached spreadsheet are for scenario 1, consolidated with a BCA from another district that is 25% of the scale of TDC's private BCA, and a third BCA from another district that is 30% of the scale of TDC's private BCA (proportionate by the consent numbers in each of the three districts).

79. The consolidation of three BCA's from the outset enables the CCO to generate a surplus from year 1, due to the realisation of more efficiencies and increased revenue.

Time to Transition to CCO

80. Any transition to a new company providing services has several key milestones to be achieved before it can happen, in terms of meeting the requirements of the Building Act 2004 (the Act), the Local Government Act 2002 (LGA) and the Building (Accreditation of Building Consent Authorities) Regulations 2006 (BR's).

81. Section 6 of the LGA states that a CCO can't exist to make a profit and a CCTO can exist to make a profit.

82. The LGA under section 56 requires that a public consultation be undertaken before the standing up of any new CCO. The Community must have a say in any significant change to how services will be delivered.

83. Section 57 gives direction on how to appoint directors to the board under a Council policy, covering things like skills and knowledge and remuneration.

84. Section 59 of the LGA gives guidance that a CCO (or CCTO) has principal objectives to achieve the objectives of its shareholders (whether commercial or non-commercial), to be a good employer, exhibit a s sense of social and environmental responsibility and have regard to the interests of the community in which it operates. This section further states that a CCO or CCTO must conduct its business affairs in accordance with sound business practice.

85. Section 62 of the LGA is a prohibition of guarantees that states a Council must not give any guarantee, indemnity, or security in respect of the performance of any obligation by a CCTO.

86. The LGA also provides guidance on a Statement of Intent for a CCO under section 64. Under section 64A Council may direct the CCO to provide particular plans and reports, such as asset management plans, a long-term plan or thematic plans.

87. A Shareholder Agreement between shareholders and the CCO would need to be developed. This agreement would be the tool that controlled how shareholders interact with each other and the CCO (in relation to CCO and CCTO activities).

88. It would provide a mechanism for Councils to join the CCO if particular conditions are met, and also a method for exiting the CCO (this would take much longer and be more complicated than joining the group). It would also detail how liabilities are covered by the shareholder group.

89. In terms of liabilities, all members of the shareholder group will be encouraged to buy insurance for the purpose of covering any BCA liability together to reduce costs (largely this practice takes place already).

90. MBIE have advised through Principal Advisor Paul Hobbs that a Private BCA (as this would be as a CCO) can be set up, registered and accredited. One or more TA's can decide under section 212 of the Act to set up a private BCA, but the TA would need to remain a registered BCA (like a ghost BCA).

91. The exact process for doing this is simplified because a TA (or TA's) would be doing it, which is encouraging, however a change to the law under section 212 will be required for a CCO to deliver the BCA and TA functions on behalf of multiple Councils.

92. Speaking to MBIE, post Minister Penk's announcement about regionalising BCA's on 29 September 2024, it is anticipated a paper will go to cabinet in 2025 on the topic, after consulting with key stakeholders (TDC being one) and then all Councils. The timeline then for moving to the CCO model appears to be approximately 12 to 18 months.

93. As central government has recently indicated its direction toward more joined up services in terms of reducing the number of BCA's and other changes to the building consent system, it may be prudent to start shaping that future now with our neighbouring Councils and beyond.

94. At this point in the reform pipeline, it seems entirely appropriate to use the section 17A process under the LGA, to determine a recommendation as to the best delivery method for the building control function.

95. Councils should talk about how best to shape their building control services under current rules, with an eye on the opportunity for developing a private BCA via a CCO within 12 to 18 months.

96. TDC could choose to move toward having a CCO deliver its BCA and TA functions in the shorter term, stepping through the LGA, the Building Act, BR's and MBIE requirements, in order to be well placed to absorb other BCA's as central government's desire to regionalise the building consent process progresses in policy settings.

Indicative Financials Timaru BCA Stand Alone CCO Option

	2026	2027 (+5%)	2028 (+5%)	2029 (+5%)	2030 (+5%)
CCO Revenue of Operations					
Fees & charges	$2,169,592	$2,278,071	$2,391,975	$2,511,573	$2,637,152
Consent Software	$170,000	$170,000	$178,500	$187,425	$196,796
TA Function Revenue	$693,000	$727,650	$764,032	$802,234	$842,345
Prepurchase Inspections etc.	$150,000	$220,000	$400,000	$500,000	$730,000
Specified System Inspections	$54,000	$60,000	$65,000	$65,000	$70,000
Council Storm Water Device inspection	$20,000	$25,000	$25,000	$30,000	$30,000
Fire Safety reports and Fire Design	$64,000	$67,200	$115,200	$120,960	$127,008
Building Design	$0	$300,000	$330,750	$347,287	$364,651
Building Compliance Gap Analysis Report	$80,000	$84,000	$88,200	$92,610	$97,240
Project Management Services	$15,000	$43,200	$45,360	$49,896	$54,885
Total revenue	**$3,415,592**	**$3,975,121**	**$4,404,017**	**$4,706,985**	**$5,150,077**
CCO Expences of Operations					
Salaries and wages	$2,456,204	$2,599,609	$2,767,099	$2,836,276	$2,907,183
Board & CE	$330,000	$338,250	$346,706	$355,373	$364,258
Rent (156 Sq m) TDC Building use	$50,000	$50,000	$50,000	$50,000	$50,000
IT Services	$351,000	$20,000	$20,000	$20,000	$20,000
Human Resources	$80,000	$30,000	$30,000	$30,000	$30,000
Health & Safety & PPE	$15,300	$5,000	$8,000	$5,000	$5,000
Risk & Insurance - Public & Professional liability	$60,000	$60,000	$60,000	$60,000	$60,000
BCA Accreditation	$64,000	$16,000	$51,000	$16,000	$51,000
Legal Services (external)	$100,000	$50,000	$50,000	$50,000	$50,000
Consenting Software	$170,000	$170,000	$178,500	$187,425	$196,796
BCA External Contractor (support)	$0	$30,000	$50,000	$50,000	$50,000
Subscriptions and Memberships	$15,000	$15,000	$15,000	$15,000	$15,000
Vehicle insurance	$6,000	$6,000	$6,000	$6,000	$6,000
Vehicle Lease	$40,000	$40,000	$40,000	$40,000	$40,000
Training	$60,000	$80,000	$80,000	$80,000	$80,000
Financial Accounting Services	$140,000	$140,000	$140,000	$140,000	$140,000
Other start up expences and ongoing contingency found (estimate)	$50,000	$20,000	$20,000	$20,000	$20,000
Total cost	**$3,987,504**	**$3,669,859**	**$3,912,305**	**$3,961,074**	**$4,085,237**

By year	**2026**	**2027**	**2028**	**2029**	**2030**
	$571,912	$305,262	$491,712	$745,911	$1,064,840
	Deficit	**Surplus**	**Surplus**	**Surplus**	**Surplus**

Combined Notes TDC Option

Revenue	Explanitory Notes
Fees & charges	Building consent related, includes a 10% increase from the prevoious FY
Consent Software	Cost of using the consenting software based on 1000 consents
TA Function Revenue	Includes PIM, LIM, COA, Pool, BWOFs & Audits, Compliance Schedules.
Prepurchase Inspections etc.	Includes circa 600 to 900 inspections per year @ $700ea
Specified System Inspections	359 council owned backflow devices requiring annual checks @ $150
Council Storm Water Device inspection	Council required to perform this inspection on behalf of the property owner. Currently 80 @$250ea
Fire Safety reports and Fire Design	Potential 80 reports annually @ $800. These could be within or out of district work.
Building Design	designing residential buildings for customers. Allow setup in yr1. Employ full time FTE in yr 2
Building Compliance Gap Analysis Report	Allow 100 reports @ $800ea. This relates to alterations of existing buildings e.g, Earthquake prone buildings
Project Management Services	This service assists customers with project related matters and managing council services, utilising existing advisory officer role.

Operational Costs	Explanitory Notes
Salaries and wages	Including full complement of tech officers (currently 16) to ensure regulatory and commercial activities can be performed. 2026 reduced to 27 FTE (1 less admin & 1 less compliance officer). 2027 increase of 2.5% plus the inclusion of a full time designer @ $80k. 2028 increase of 2.5% plus the inclusion of a Fire engineer/designer @ $100k.
Board & CE	Allow 3 board members and a CE. Board salary $20k ea member $30k chair with CE salary @ $250k. Including a 2.5% increase over subsequent years.
Rent (156 Sq m) TDC Building use	Based on local commercial rates
IT Services	Allowance for 27 FTEs for IT support, hardware, software and licences @ $13k p/p for 1st year start up, then $20k per year allowance for ongoing maintenance and updating gear.
Human Resources	CCO to contract TDC to provide HR services, including 1st year set up and ongoing normal services
Health & Safety & PPE	Includes set up for footware, hardhats, jackets, vests and tools etc approx $850 per tech officer. Then ongoing maintenance for subsequent years
Risk & Insurance - Public & Proff Liability	The estimated premium is based on $8m cover
BCA Accreditation	Includes initial set up as an accredited and registered BCA, competency assessments and the ongoing accreditation requirments
Legal Services (external)	Allowance for 1st year set up and a residual amount for subsequent years.
Consenting Software	The new Objective Build consenting programme will be fully funded by the user, no cost to the BCA.
BCA External Contractor (support)	This allows for external support should recources be stretched and time frames are at risk. Standard BAU practice
Subscriptions and Memberships	Including Standards NZ, BOINZ & ABC membership
Vehicle insurance	Based on current allocation of vehicle charges
Vehicle Lease	Based on current allocation of vehicle charges @ $600 p/m
Training	Regulatory Requirements for qualifications, competencies and professional development
Financial Accounting Services	Based on an external accountancy provider for financial services to the CCO. Potentially contract TDC to provide financial services.
Other start up expences and ongoing contingency found (estimate)	An estimated contingency

Indicative Financials CCO Option including Timaru and 2 Other BCAs

	2026	2027	2028	2029	2030
CCO Revenue of Operations					
Fees & charges BCA 1 (TDC)	$2,169,592	$2,278,071	$2,391,975	$2,511,573	$2,637,152
Fees & charges BCA 2	$600,000	$630,000	$661,500	$694,575	$729,303
Fees & charges BCA 3	$500,000	$525,000	$551,250	$578,812	$607,753
Consent Software	$255,000	$255,000	$267,750	$281,137	$295,194
TA Function Revenue Council 1 (TDC)	$693,000	$727,650	$764,032	$802,234	$842,345
TA Function Revenue Council 2	$207,900	$218,295	$229,209	$240,670	$252,703
TA Function Revenue Council 3	$173,250	$181,912	$191,008	$200,558	$210,586
Prepurchase Inspections	$200,000	$320,000	$400,000	$600,000	$800,000
Specified System Inspections	$75,000	$78,750	$82,687	$86,821	$91,162
Council Storm Water Device inspection	$25,000	$26,250	$27,562	$28,940	$30,387
Fire Safety reports and Fire Design	$96,000	$100,800	$120,960	$127,008	$133,358
Building Design	$0	$768,000	$806,400	$846,720	$889,056
Building Compliance Gap Analysis Report	$112,000	$117,600	$123,480	$129,654	$136,136
Project Management Services	$0	$86,400	$90,720	$99,792	$109,771
Total revenue	**$5,106,742**	**$6,313,728**	**$6,708,533**	**$7,228,494**	**$7,764,906**
CCO Expences of Operations					
Salaries and wages	$2,821,000	$3,024,775	$3,202,894	$3,282,966	$3,365,040
Board & CE	$330,000	$338,250	$346,706	$355,373	$364,258
Rent - Building Control Office Space x 3 office locations	$60,000	$60,000	$60,000	$60,000	$60,000
IT Services	$403,000	$30,000	$30,000	$30,000	$30,000
Human Resources	$100,000	$50,000	$50,000	$50,000	$50,000
Health & Safety & PPE	$18,700	$6,000	$10,000	$6,000	$6,000
Risk & Insurance - Public & Professional Liability	$80,000	$80,000	$80,000	$80,000	$80,000
BCA Accreditation	$75,000	$18,000	$53,000	$20,000	$60,000
Legal Services (external)	$150,000	$100,000	$100,000	$100,000	$100,000
Consenting Software	$255,000	$255,000	$267,750	$281,137	$295,194
BCA External Contractor (support)	$30,000	$30,000	$50,000	$50,000	$50,000
Subscriptions and Memberships	$22,100	$22,100	$22,100	$22,100	$22,100
Vehicle insurance	$10,000	$10,000	$10,000	$10,000	$10,000
Vehicle Lease	$40,000	$40,000	$40,000	$40,000	$40,000
Training	$85,000	$85,000	$85,000	$85,000	$85,000
Financial Accounting Services	$140,000	$140,000	$140,000	$140,000	$140,000
Other start up expences and ongoing contingency found (estimate)	$80,000	$40,000	$40,000	$40,000	$40,000
Total cost	**$4,699,800**	**$4,329,125**	**$4,587,450**	**$4,652,576**	**$4,797,592**

By year	**2026**	**2027**	**2028**	**2029**	**2030**
	$406,942	$1,984,603	$2,121,083	$2,575,918	$2,967,314
	Surplus	**Surplus**	**Surplus**	**Surplus**	**Surplus**

Combined Notes - Combined CCO Option

Revenue	Explanitory Notes
Fees & charges BCA 1 (TDC)	Building consent related fees and charges
Fees & charges BCA 2	BCA 2 is based on 30% the size of TDC
Fees & charges BCA 3	BCA 3 is based on 25% the size of TDC
Consent Software	Based on 1500 consents combined between BCA 1,2,3.
TA Function Revenue Council 1 (TDC)	Includes PIM, LIM, COA, Pool, BWOFs & Audits, Compliance Schedules.
TA Function Revenue Council 2	BCA 2 is based on 30% the size of TDC
TA Function Revenue Council 3	BCA 3 is based on 25% the size of TDC
Prepurchase Inspections	Commercial activity based on 1200 inspections combinedin the first year, allowing for growth in market share for subsequent years.
Specified System Inspections	500 combined council owned backflow devices @ $150
Council Storm Water Device inspection	council should perform this on behalf of the property owner. Combined 100 @ $250ea
Fire Safety reports and Fire Design	potential 120 reports annually @ $800, includes additional revenue from the inclusion of the fire engineer FTE in 2028.
Building Design	Designing residential buildings for customers. Allow setup in yr1. Allow to employ full time FTE in yr 2. Propose 8 designs per month @ $8k ea average.
Building Compliance Gap Analysis Report	Allow 140 reports combined @ $800ea
Project Management Services	Allow 1 FTE for all 3 partners.This service assists customers with project related matters and managing council services, utilising existing advisory officer role. Propose 4 Res p/m @ $900ea and 2 Com p/m @$1800ea. Anticipate increased service of 10% in 2029 and 2030.

Operational Costs	Explanitory Notes
Salaries and wages	Including 31 FTE @ $91k avg (TDC has 29) to ensure regulatory and commercial activities can be performed. Salary increase of 2.5% plus the inclusion of designer FTE @ $80k and project management service @ $50k. Salary increase of 2.5% plus the inclusion of a Fire engineer/designer @ $100k.
Board & CE	Allow 3 board members and a CE. Board salary $20k ea member $30k chair with CE salary @ $250k. Including a 2.5% increase over subsequent years.
Rent - Building Control Office Space x 3 office locations	Allowance of 188m2 combined @ $320 p/m2
IT Services	Allowance for 31 FTEs for IT support, hardware, software and licences @ $13k p/p for initial set up, then maintenance and replacement ongoing.
Human Resources	Include CCO 1st year set up and ongoing contracted HR services
Health & Safety & PPE	Includes 1st year set up of footware, hardhats, jackets, vests and tools approx $850 per tech officer x 22. Then ongoing maintenance for subsequent years
Risk & Insurance - Public & Proff Liability	The estimated premium is based on $10m cover
BCA Accreditation	Includes initial set up as an accredited and registered BCA , competency assessments and the ongoing accreditation requirments.
Legal Services (external)	Allowance for 1st year set up and a residual amount for subsequent years.
Consenting Software	The new Objective Build programme will be fully funded by the user/customer, no cost to the BCA.
BCA External Contractor (support)	This allows for external support should recources be stretched and time frames are at risk. Standrad BAU practice.
Subscriptions and Memberships	Including Standards NZ, BOINZ, ABC memberships
Vehicle insurance	Based on allocation of vehicle charges combined.
Vehicle Lease	Based on allocation of vehicle charges @ $600 p/m
Training	Regulatory Requirements for qualifications, competencies and professional development, combined.
Financial Accounting Services	Based on an external accountancy provider for financial services to the CCO
Other start up expences and ongoing contingency found (estimate)	An estimated contingency