

LAI'D UPON THE TABLE OF THE HOUSE

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THE CLERK OF THE PARLIAMENT

14-11-2001



Increased workloads with 95% of our services have been placed on our services have placed on our services have placed on our people. Through these extreme pressures the Building Services Authority has been able to maintain a high service standard. This would not have been possible without our dedicated staff.



This was our year.



Building Services Authority 2000/2001 Annual Report

Building Services Authority 2001 Annual Report

BSA's communication objective is to report its performance, financial management and progress towards achieving its vision for the building industry.

Mission Statement

- Improving standards, equity and confidence in the building industry.

Values

- Partnership: Working with our customers towards shared outcomes.
- People: Respond to staff needs and acknowledge their achievements.
- Customers: Provide superior customer service.
- Performance: Continually innovate and improve in a cost effective manner.

Vision

- To be recognised as a leading Service Provider which adds value to the building industry and effectively protects its customers.

About BSA

BSA is a statutory authority, that is part of the portfolio of the Minister for Public Works and Minister for Housing. Established to regulate the building industry, under the *Queensland Building Services Authority Act 1991*, its Charter is to implement and enforce legislative reforms, educate consumers about their rights and obligations, make contractors aware of their legal rights and responsibilities, handle disputes fairly and equitably and protect consumers against loss through statutory insurance and the pursuit of prosecutions through the courts.

In 2000/01 BSA's staff numbered 200, our operating expenditure was \$30.675M, and we provided our services to customers through the Brisbane Head Office and seven regional offices across Queensland.

Our stakeholders are the Minister for Public Works and Minister for Housing, Parliament, builders, trade contractors and other members of the building industry including consumers, community organisations and industry associations.

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Operational Performance

Corporate Governance

We fully complied with statutory requirements and developed strategies to monitor and ensure the long term health of BSA's financial position. Refer to page 8.

Customers

A ground breaking CD-ROM guide to the building process was developed as part of BSA's consumer education focus.

BSA-driven changes to the Building Code of Australia in relation to termites resulted in consistent and positive gains in termite awareness and protection across Queensland. Refer to page 13.

Legislation and Policy

Domestic Building Contracts Act 2000 introduced from 1 July 2000.

To address industry concerns of fragmentation and de-skilling a comprehensive review of the licence class system was undertaken.

BSA and industry developed short and long term strategies designed to reduce the number of building defects and increase the quality of work. Refer to page 17.

People

A significant improvement in the staff satisfaction index was achieved.

An extensive training needs analysis was undertaken during the second half of the

reporting period and a wide range of corporate and program-specific training was identified for delivery in 2001/2002. Refer to page 22.

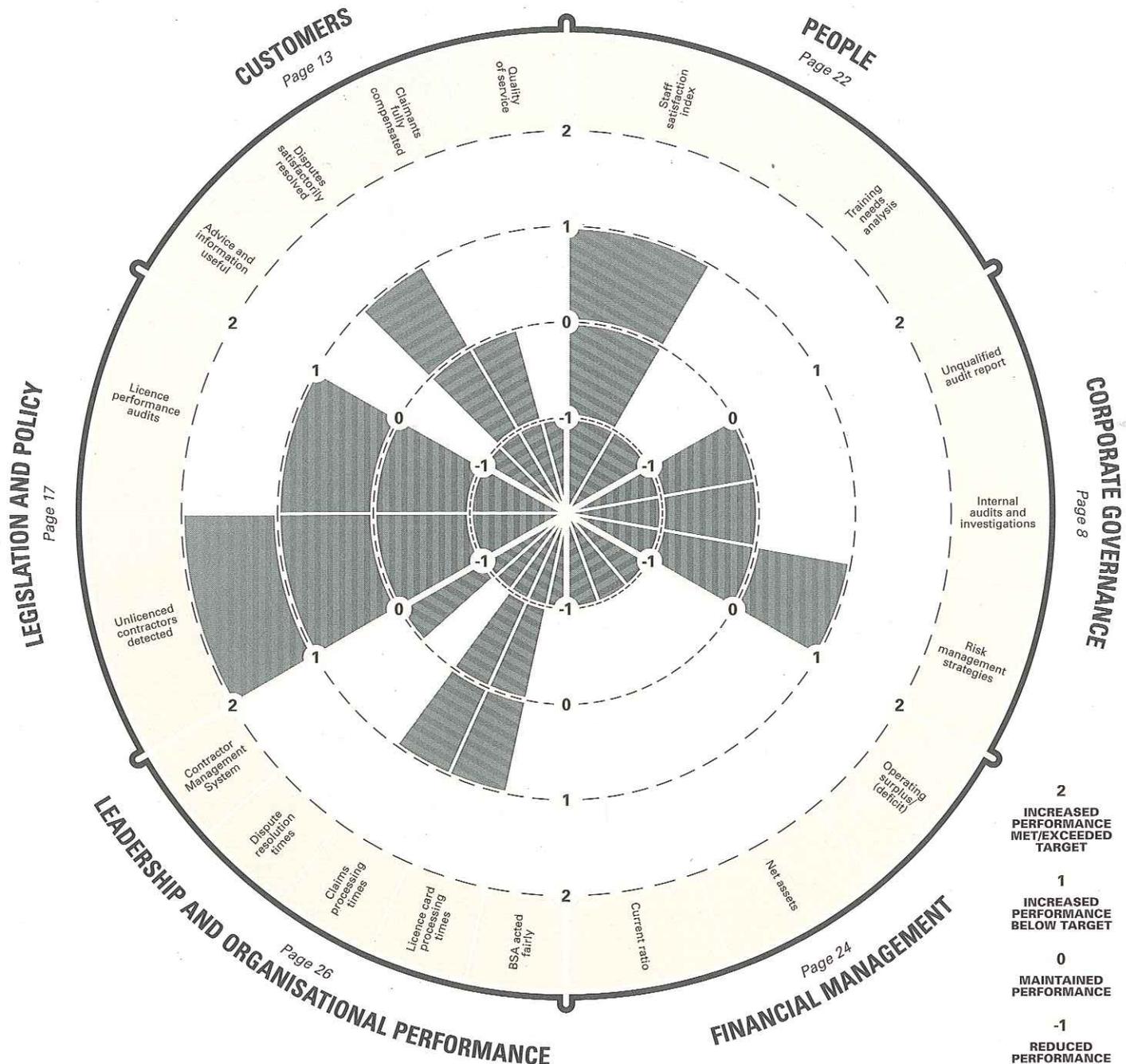
Financial Management

See pages 2 and 3 for commentary. Refer to page 24.

Leadership and Organisational Performance

Paying BSA insurance became as easy as a phone call with the introduction of BSA Insurance Phone Pay.

BSA's fairness in decision making continues to be affirmed by the outcome of independent reviews in the Queensland Building Tribunal. Refer to page 26.



Financial Performance

Organisational Performance					
	2000/01	1999/00	1998/99	1997/98	1996/97
Financial management					
- Operating surplus / (deficit) \$M	(6.952)	2.505	(0.273)	(1.882)	(1.808)
- Net assets \$M	4.658	11.604	9.168	9.441	10.714
- Current ratio	1.51	1.61	1.67	1.57	1.66

Consolidated Outcomes			
	2000/01 \$'000	1999/00 \$'000	Change %
Financial Performance			
- Operating revenue	23 723	25 470	6.38 ↓
- Operating expenses	30 675	22 965	35.60 ↑
- Operating surplus/(deficit) from ordinary activities	(6 952)	2 505	352.80 ↓
Financial Position			
- Total assets	80 746	85 728	5.80 ↓
- Total liabilities	76 088	74 124	2.60 ↑
- Net assets	4 658	11 604	59.90 ↓
Cash Flow			
- Net cash from operating activities	(5 714)	3 944	244.90 ↓
- Cash at end of financial year	5 952	12 783	53.40 ↓
Ratios			
- Current ratio	1.51	1.61	0.06 ↓
- Liabilities/assets ratio	0.94	0.86	0.09 ↑
- Liabilities/equity ratio	16.33	6.39	155.60 ↑

Comments

There has been a significant deterioration in BSA's financial position during this financial year. This has been as a result of a downturn in areas beyond BSA management's control.

Following the introduction of the GST there was a downturn in the level of building activity leading to a reduction in insurance premium income of \$1.390M. This reduction in income contributed to a

reduction in investment income of \$1.233M, which was also impacted on by a reduction in investment returns of 8.49%.

The introduction of the GST also led to an increase in insurance claims expense of \$5.340M. The impact was twofold with an increase in the costly failure to complete claims and BSA being unable to claim an input tax credit for this expense and being unable to fully transfer the cost of the GST to its reinsurers.

General Manager's Review

"BSA business continued to be conducted with integrity for the benefit of the industry and the homeowner."



Organisational Performance

I am pleased to report that after a very demanding year BSA is well placed for the future. Overall most targets were met and in a few cases targets exceeded, a great result given that service demands increased to a level never before seen and the viability of BSA under its funding structure was brought into question. However, the most pleasing result has been that BSA has risen to the challenges, met the service demands and looked towards solutions to improve its performance capacity and capability.

Customers

Demand for advice and service continued an upward climb spiral over the past 12 months. 11 400 over-the-counter enquiries were handled, 4 million visitors accessed the web-site, in excess of 140 000 licence searches were carried out, a record 5 633 disputes were notified and 1 867 insurance claims received.

Given these demands, it was pleasing to see that our customers continue to rate our service delivery as satisfactory. This result can be attributed to a strong focus over the past 12 months to ensure that dispute cases and insurance claims were handled in a more efficient manner. In addition, new initiatives introduced included easy payment of insurance through Phone Pay, a new more flexible dispute resolution policy and a more interactive web-site.

Overall the dispute resolution and insurance programs have been quite effective in protecting consumers. This year 94% of the 2 021 claims finalised were accepted with 98.8% of those approved fully compensated for their insured loss. BSA also continues to work in partnership with the industry to pursue improvement in the standard of work. The primary focus this year has been on defects in paint and plaster, leaking showers, tiles and subsidence.

Financial Management

Disappointingly, the financial outcome for 2000/01 was an operating deficit of \$6.952M. This compared unfavourably

with a surplus of \$2.505M recorded the previous year. The principle reason for the result was a 53% leap in gross insurance claim payments and lower than forecast returns on investments.

Total revenue fell \$1.624M to \$23.864M, a 6.4% decrease from \$25.470M in 1999/00. The major influence on operating revenue during the year was the marked decline in the level of building activity post introduction of the GST. Investment earnings also influenced revenue with reduced returns on investments brought about by low interest rates and a decrease in the level of funds invested.

Total expenditure increased by \$7.833M (34.1%) from \$22.965M in 1999/00 to \$30.675M. The increase can be attributed to the record level of insurance claim payments.

At the year-end the net assets of BSA's consolidated fund were \$4.658M compared with \$11.604M the previous year. This result was due to influences outside the control of BSA, however the Board took affirmative action to reverse this trend by increasing insurance premiums and introducing a new licensing fee structure based on annual allowable turnover. These changes came into effect from 1 July 2001.

Corporate Governance

BSA business continued to be conducted with integrity for the benefit of the industry and the homeowner.

Fine-tuning of our corporate direction was a strong focus this financial year. The aim was to clearly articulate the future direction of BSA. Focus over the next four years will be centred around seven critical areas: Customers, People, Financial Management, Operational Performance, Leadership, Legislation and Board Policy and Corporate Governance.

BSA is committed to measuring its performance against these seven critical areas with the overall goal of achieving long term financial stability with improved performance in service delivery and stakeholders satisfaction.

General Manager's Review (continued)

People

Change causes anxiety and effective change involves hard work and much pressure. BSA employees at all levels have responded enthusiastically to the challenge of the "Better Building Industry Reform" changes in recent years. I want to thank and pay tribute to BSA's people for their dedication to the task, their willingness to become involved in the policy changes, their "can do" attitude and their hard work.

Many outsiders, ranging from homeowners, contractors and industry associations are unaware of the dedication and hard work of BSA's employees. "Best people" do not just happen. At all levels over the past 12 months we have developed our people approach. This has been achieved by recruiting the right people, knowledge sharing, providing professional development opportunities and re-developing performance objectives. Much work is still required particularly in providing targeted learning, appraising

performance against individual objectives and BSA's values, providing appropriate remuneration and succession planning.

Future

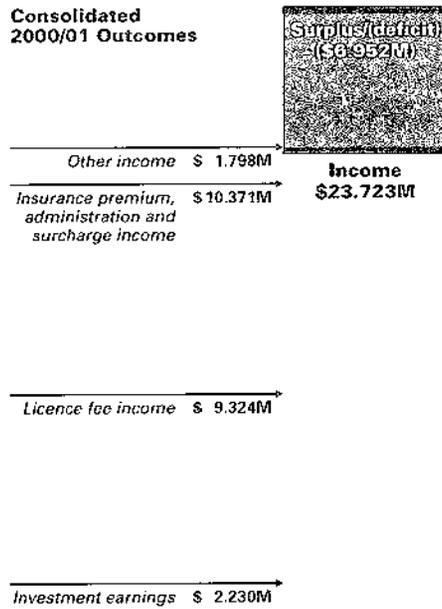
We know we need to become more customer focused, people oriented, quality driven, and cost effective and efficient. For these reasons the Board has endorsed a strategic direction to move BSA down the quality path with the ultimate aim of achieving an Australian Quality Award for Business Excellence within the next four years.

We look forward to some exciting developments on this front in the coming financial year.

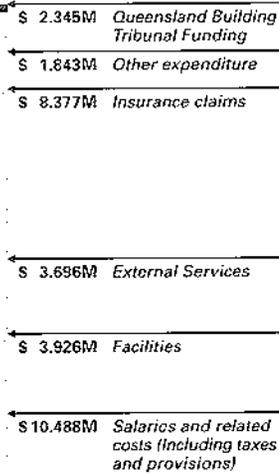


Ian Jennings
General Manager

**Consolidated
2000/01 Outcomes**



Expenditure
\$30.675M



vs

General Fund

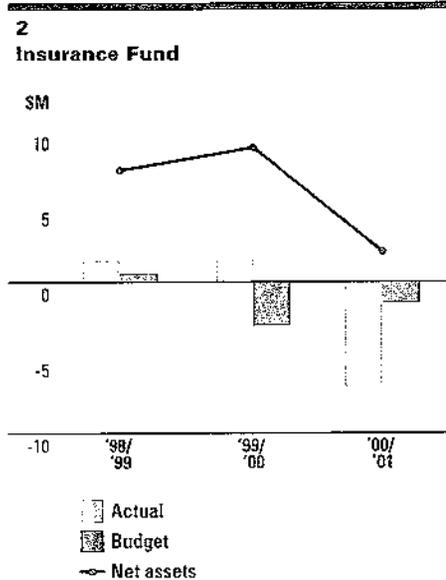
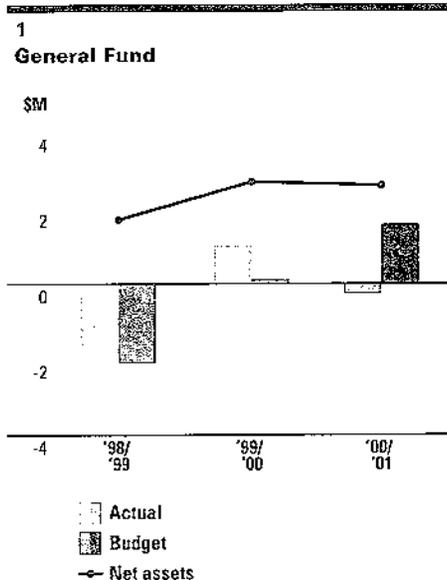
	2000/01 \$'000	1999/00 \$'000	Change %
Financial Performance			
- Operating revenue*	16 432	15 897	3.37 ↑
- Operating expenses	16 462	14 889	11.40 ↑
- Transfer to General Fund	-	-	-
- Operating surplus/(deficit)	(28)	1 008	102.80 ↓
Financial Position			
- Total assets	8 995	9 733	7.60 ↓
- Total liabilities	6 359	7 075	10.10 ↓
- Net assets	2 636	2 658	0.80 ↓

*Operating revenue includes transfers from the Insurance Fund of \$5.000M (00/01) and \$5.500M (99/00)

Insurance Fund

	2000/01 \$'000	1999/00 \$'000	Change %
Financial Performance			
- Operating revenue	12 291	15 073	18.5 ↓
- Operating expenses**	14 215	8 076	76.0 ↑
- Transfer to General Fund	5 000	5 500	9.1 ↓
- Operating Surplus/(deficit)	(6 924)	1 497	497.5 ↓
Financial Position			
- Total assets	71 751	75 995	5.6 ↓
- Total liabilities	69 729	67 049	4.0 ↑
- Net assets	2 022	8 946	77.4 ↓

**Insurance Fund operating expenses include claims expenditure of \$8.377M (00/01) and \$3.037M (99/00)



Chairman's Review

"We have met our challenges, made the most of our opportunities and identified a direction to allow us to continually grow."



Financial Management

The 2000/01 financial year has been full of challenges, with increasing demands being placed on our services and in particular the statutory insurance scheme.

In the wake of a record downturn in the building industry and the introduction of GST, there was an unprecedented 50% increase in claims. This placed the insurance scheme under extreme pressure, and posed a threat to its long term viability. In response to this threat the Board developed strategies to ensure the long term viability of the scheme, and from 1 July 2001, the following changes came into operation:

- The insurance premium rate will increase from \$5.50 per \$1 000 of contract value to \$6.00 per \$1 000.
- The General Fund Surcharge collected as part of the insurance premium will be removed from the premium and a new scheme of contractor licence fees based on annual allowable turnover for builders and trade contractors introduced.

Queensland has the only remaining Statutory Insurance Scheme in Australia. This means that unlike other states, Queensland home owners and building contractors were not impacted by the crash of private warranty insurer HIH Insurance. This underlines the importance to Queensland of preserving the role BSA plays in the industry through the insurance fund's operations.

Corporate Governance

Corporate governance is a critical task for the Board. Its main functions are to provide strategic direction, policy advice and stewardship. During the year, the Board participated with industry in strategic planning that focused on feedback on the "Better Building Industry Reforms". Feedback emphasised praise for the reforms but also endorsed recommendations that enhanced them. The Board spent considerable time and effort in putting these recommendations into effect.

Concise information that provides measures of corporate performance and financial position is an important need of the Board. Over the next 12 months the Board and organisation will cooperatively

develop a system that addresses the information needs of both, incorporating consideration of the risk and management controls required to provide this information proactively.

Leadership

In 1999 the General Manager, Matt Miller, was seconded to the Department of Fair Trading and subsequently took up an appointment as Commissioner for Fair Trading. In Matt's absence, Ray Potts, Assistant General Manager, assumed his responsibilities. I take this opportunity to acknowledge Ray's support and the contribution he has made to BSA.

In April 2001, Ian Jennings was appointed General Manager. Ian's background is in the building and construction industry, and we are confident that he has the skills and foresight to enable the organisation to achieve its vision of being recognised as a leading building industry authority and regulatory body.

We have met our many challenges and made the most of our opportunities this year and I believe that we are well placed to add value to the industry and enhance consumer protection.

Our People and Organisational Performance

This has been a year of impressive results in terms of claims processing, directions actioned and work rectified. The year also resulted in the bedding down and fine tuning of the Government's "Better Building Industry" reforms.

Directors contributed a lot of time to furthering the interests of BSA and industry. Staff also contributed much to BSA's aims. I take this opportunity to acknowledge the Board and BSA staff for their positive contributions. I thank them all for their support, their drive and commitment is truly appreciated.

A handwritten signature in black ink, appearing to read "G Rossow".

G Rossow
Chairman

Value for Money

BSA Operational Cost Effectiveness

Insurance:

Estimated average administrative cost per insurance claimant assisted was \$3 545 in 2000/01 compared with \$2 983 in 1999/00 and \$3 073 in 1998/99. The increase was brought about by increased demands on the scheme along with legal costs associated with reviews of BSA's decisions in the Queensland Building Tribunal.

Disputes:

A concerted plan to increase productivity through staff training as well as improved systems and initiatives, has continued to drive down the costs associated with dispute resolution. The cost per dispute satisfactorily resolved was \$1 553 in 1998/99. It fell to \$1 524 in 1999/00 and was down to \$1 228 in 2000/01.

Licensing:

Total licensing operational costs (excluding compliance activities) were \$3.498M in 2000/01 compared to \$3.168M in 1999/00. Significant enhancements to the information technology based Contractor Management System and staff increases were the major contributing factors to the cost escalation.

BSA Home Warranty Insurance

BSA home warranty insurance is the only home warranty provider that insures

against subsidence and settlement in addition to providing protection for the non-completion of a contract and rectification of defective work. Queensland consumers are not disadvantaged by the contractor's failure to pay the premium and their claims are not eroded by policy excesses.

Comparison with interstate premiums Contract Value \$200 000

Qld	\$1 200
NSW	\$447-1 926*
Vic	\$447-1 926*

* subject to builder's financial situation

BSA Licence Fees

BSA licence fees fund services that include licensing (including compliance), dispute resolution and building information and education. In other jurisdictions some of these services are either not funded or are funded through additional revenue sources.

Licence fees continue to compare favourably with interstate agencies and represent value for money for the range of services provided.

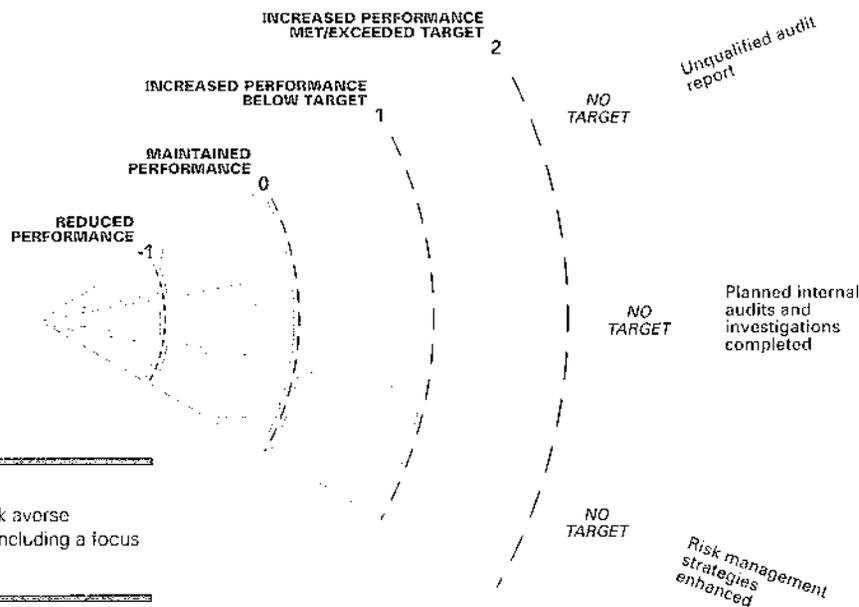
Comparison with interstate annual house builder fees:

Qld	\$252
NSW	\$342
Vic	\$680



“A frequent question from contractors is how are their fees used to provide services to the industry.”
- Katrina Holland, Customer Service Officer

Corporate Governance



Comment: Increased attention was directed to risk management and internal audit as part of a more proactive approach to using corporate governance to improve our performance and conformance.

Goals

To maintain and enhance a risk averse corporate governance model including a focus on knowledge management

Strategies

Develop strategies by which the Board and Executive management can monitor the health of the organisation

Key Performance Measures 2001/02 [2005]

- Unqualified audit report [continued]
- No major corporate governance issues [continued]
- Full compliance with statutory requirements [continued]

Desired Outcomes 2005

- Highly accountable and responsible for actions
- Best practices in corporate governance

BSA'S Corporate Governance Framework

The Chairman and Board members bring to the Board a mix of experience and skills. The Board decides on BSA's strategic direction and endorses operational plans and budgets for consideration by the Minister. Other key roles include determining industry policy within BSA's legal jurisdiction and advising the Minister on issues affecting the industry and consumers.

The General Manager is responsible for ensuring conformity with statutory and accountability requirements and for advising the Minister on key issues and performance. While the General Manager is independent of the Board's control the position regularly reports to the Board on the administration of legislation.

The Board

The Queensland Building Services Board consists of 8 members – 7 voting members who represent builders and trade contractors (3) consumers (2) the accounting profession or the insurance industry (1) and the building and constructions unions (1) and a non-voting member who is a public service officer. The Chairperson is appointed from the 7 voting members rather than in addition to them.

The current Queensland Building Services Board was appointed effective from 1 October 1999 for a term not exceeding three years.

At 30 June 2001 one consumer representative position and the public service office position were vacant. The appointment of replacement representatives was pending.



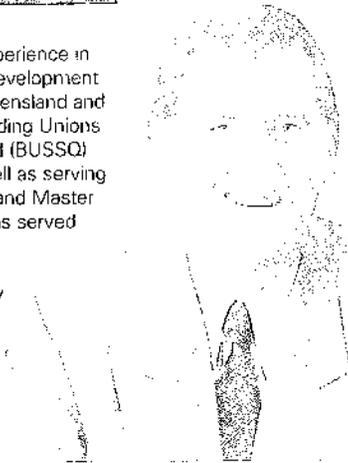
“To be truly effective, BSA must be accountable to government, the building industry and our stakeholders. Our focus must be on conformance as much as performance.”

– Ian Jennings, General Manager

→ The Board

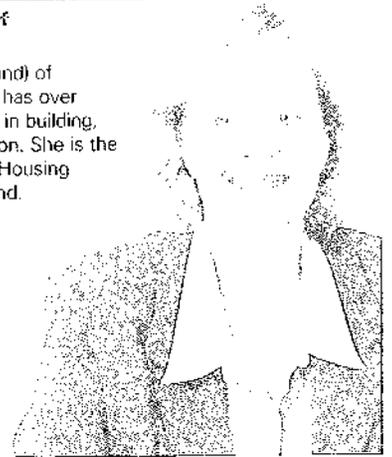
Garry Rossow – Chairman

Garry has over thirty-seven years experience in the building construction, property development and subcontracting industries in Queensland and the USA. He is a Director of the Building Unions Superannuation Scheme Queensland (BUSSQ) and several private companies as well as serving as a State Councillor of the Queensland Master Builders' Association (QMBA). He has served as Queensland Vice President of the Australian Institute of Building and is a Past President of the QMBA. Garry is a Fellow of the Australian Institute of Building, an Associate of the Australian Institute of Arbitrators and Mediators and a Justice of the Peace.



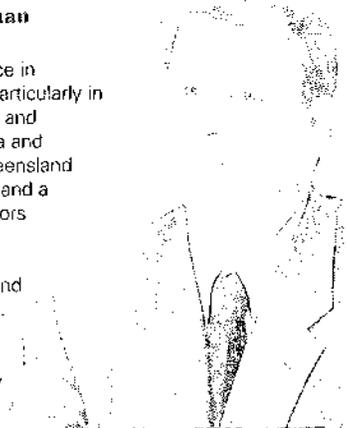
Jill Lee – Representative of licensed builders

Jill is General Manager (Queensland) of Westminster Homes Pty Ltd and has over eleven years practical experience in building, administration and site coordination. She is the immediate Past President of the Housing Industry Association in Queensland.



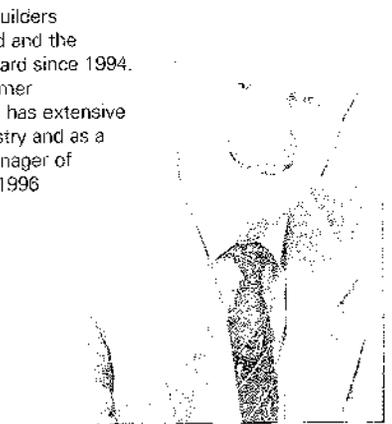
Ray Gilmour – Representative of licensed contractors other than builders

Ray has over twenty years experience in business and the building industry, particularly in the landscape sector. He has owned and operated companies both in Australia and overseas. He is President of the Queensland Association of Landscape Industries and a member of the National Subcontractors Association, the Building Industry Subcontractors Association, the Landscape Association of Australia and the Queensland Nursery Association. Ray is also a fellow of the Australian Institute of Management and a member of the Institute of Company Directors.



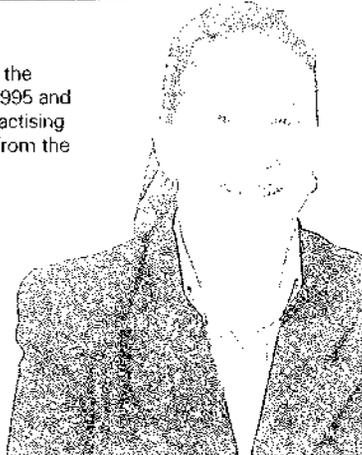
Jim Russell – Consumer representative

Jim has been a member of the Builders Registration Board of Queensland and the Queensland Building Services Board since 1994. He is currently one of two consumer representatives on the Board. He has extensive experience in the insurance industry and as a Board Director. He was State Manager of Mercantile Mutual from 1978 to 1996 and is Past Chairman of the then Life Insurance Federation of Australia Queensland Branch. Jim is Chairman of the Holy Spirit Hospital Wickham Terrace Board and the Board of the Holy Spirit Hospital Northside.



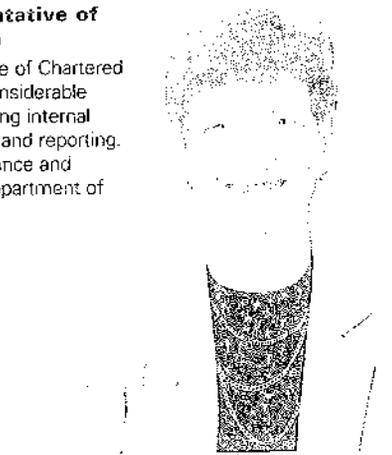
Julie Suthers – Consumer representative

Julie was admitted as a solicitor of the Supreme Court of Queensland in 1995 and the High Court in 1996. She is a practising solicitor in Mackay. Julie resigned from the Board in February 2001.



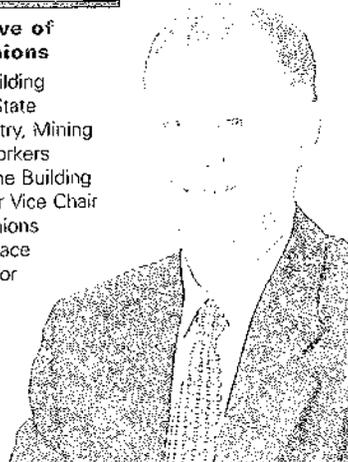
Pauline Pender – Representative of the accounting profession

Pauline is a Fellow of the Institute of Chartered Accountants in Australia, with considerable commercial experience in providing internal financial management strategies and reporting. She is the General Manager, Finance and Business Development in the Department of Primary Industries.



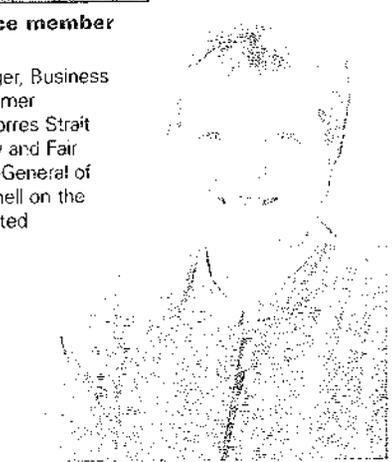
Wally Trohear – Representative of building and construction unions

Wally has been involved with the building industry for over thirty years. He is State Secretary of the Construction, Forestry, Mining and Energy Union – Construction Workers Divisional Branch and Secretary of the Building Trades Group of Unions. He is Junior Vice Chair of the Australian Council of Trade Unions Queensland and Chair of the Workplace Health and Safety Construction Sector Standing Committee. Wally is also a Director of BUSSQ and a Director of Q-Leave.



Jan Archer – Public Service member (non-voting)

Jan who was the General Manager, Business and Executive Services in the former Departments of Aboriginal and Torres Strait Islander Development and Equity and Fair Trading represented the Director-General of those departments Marg O'Donnell on the Board. This appointment terminated with the revised Administrative Arrangements Orders of February 2001.



The Role of the Board

Board members including the Chairman are non-executive and their independent and objective consideration of issues is invaluable in ensuring that BSA's strategic direction and organisational performance are aligned to statutory, government, industry and community objectives. The composition of the Board ensures an appropriate mix of experience and skill in industry, business and consumer issues.

The Board and the General Manager establish BSA's strategic direction in consultation with stakeholders, and operational planning for the attainment of corporate objectives is undertaken with staff input. BSA's performance and achievement of target outcomes is monitored by its executive management team and by the Board at its regular meetings. Two Committees have been established to assist the Board in this role – the Finance and Audit Committee and the Policy Committee.

Board Committees

Finance and Audit Committee

The Finance and Audit Committee oversees the internal audit function including the development and/or review of the audit charter, strategic and annual audit plans and management responses to the internal auditors' recommendations for improvement. The Committee also considers BSA's budgets and financial estimates, financial statements and financial position assessments. The Committee reports to the Board but also communicates issues of concern to the General Manager.

Ms Pauline Pender chaired the Finance and Audit Committee with other members being Messrs Jim Russell and Ray Gilmour. The committee was assisted by BSA's Assistant General Manager (Corporate Support and Coordination), Ray Potts, Executive Manager Insurance, Col Wright and Manager Finance, Keith Chester.

Policy Committee

The Policy Committee was established to advise the Board on matters relating to the need for new policies and the need to review existing policies governing the administration of the *Queensland Building Services Authority Act 1991*. The Committee also advises on the need for amendments to the legislation administered by BSA. The Committee provides a valuable conduit between BSA and its industry and consumer stakeholders.

The Policy Committee is chaired by Mr Garry Rossow and includes Messrs Wally Trohear and Ray Gilmour who joined the Committee, subsequent to the resignation of Ms Julie Suthers in March 2001. Non-Board members of the committee included Messrs Greg Quinn (Executive Director, Queensland Master Builders' Association), Kevin McLoughlin (Regional Director, Housing Industry Association (Queensland Division)), Bruce Loomes (Building Industry Specialist Contractors Organisation of Queensland Inc. – until November 2000), Paul Daly (State Manager, Master Painters Australia - from March 2001), Doug Foggo (President, National Subcontractors Association - from November 2000) and Ms Cherie Dalley (President, Queensland Consumers' Association Inc.). BSA's General Manager, Ian Jennings and Policy and Legislation Officer Malcolm McDiarmid are also members of the Committee with relevant Executive Managers coopted as required.

The development of responses to stakeholder recommendations emerging from the September 2000 strategic planning conference was the focus of the Committee during the year.

Only one Board meeting was conducted outside Brisbane in 2000/01. However, the value of forging regional links with industry is well recognised and it is planned to hold at least two meetings in regional centres in 2001/02.

Remuneration

The Governor-in-Council determines remuneration paid to Directors. Allowances paid to the Directors totalled \$17 750 this year down from \$23 510 last year. These figures exclude travel and associated expenses incurred in the course of their duties.

Internal Audit

Internal audit is an independent function responsible for the systematic review and appraisal of the efficiency, economy and effectiveness of BSA operations. It is instrumental in promoting and improving internal controls, accountability and operational efficiency. BSA views internal audit as a constructive value-adding element in the administration of the organisation.

BSA's strategic audit plan and annual audit plan are developed according to the identified risks and issues likely to confront the organisation. The executive management team and the Board contribute to the development of the plans which are approved by the General Manager. Steps are also taken to ensure that the internal audit function assists in the examination of BSA's annual accounts by the external auditors.

BSA's internal audit function is provided by Ernst & Young. The function is administratively responsible to the General Manager and reports to the Board through the Finance and Audit Committee.

Audits and Investigations

During the year audits and investigations reviewed:

- The process for financial assessment of tenderers for government building contracts
- The accounting treatment of insurance transactions and the insurance statement process
- The accounting treatment of insurance premium revenue
- The accounting treatment for transactions between BSA and its reinsurers
- Purchasing and accounts payable procedures
- Security risks and assessed risk levels
- GST compliance and Business Activity Statement preparation
- Final Remittances of insurance premiums by Local Councils, and
- Redeveloped information technology systems to ensure that effective controls and audit trails were present.

The internal auditors also undertook an investigation to confirm that the circumstances leading to the termination of a staff member had not extended to fraud.

Meetings Attended

Board Meetings	Full Board	Finance & Audit Committee	Policy Committee
Number of Meetings	12	5	6
Members Attended			
- Garry Rossow	11		4
- Jili Lee	12		
- Ray Gilmour	10	5	2
- Jim Russell	12	5	
- Julie Suthers	3		2
- Pauline Pender	11	4	
- Wally Trohear	6		3
- Marg O'Donnell (Represented by Jan Archer)	5		

Risk Management

The executive management team currently oversees BSA's risk management initiatives but it is planned to transfer this role to the Finance and Audit Committee in the new financial year. The amendment of the charter of the Finance and Audit Committee to include risk management was requested by the Committee and supported by the Board.

It is sensible for risk management and internal audit to fall within the charter of one committee because, to some degree, the strategic audit plan and the annual audit plan are derived from an assessment of the risks associated with an organisation's operations.

BSA's risk profile is reviewed at least annually by its executive and corporate management teams, the most recent review was completed in May 2001. The risk profile identifies the nature and extent of risk associated with BSA's operations and the means of treating that risk. That treatment can extend from doing nothing to tightening control procedures to taking insurance cover depending on the assessed probability of an event occurring and its potential to adversely affect BSA's operations, financial viability and reputation. Where the current risk profile in 2001 indicated areas presenting a high risk, BSA formulated and implemented

strategies to manage those risks. During the year the following risks were identified and strategies adopted to manage them.

Software development, database administration and network and systems administration presented a moderately high risk. The risks identified related to these system's ability to continue to meet BSA's ongoing needs and strategic objectives. Strategies were formulated and processes put in place to bring about more effective network and systems administration and maintenance agreements for information systems were put in place with key suppliers.

Also of moderately high risk to BSA were licence renewal processes. Risks identified were related to renewal assessment procedures and in particular the assessment of financial solvency. BSA formulated and implemented a changed licence structure and a renewal procedure manual as well as a new automated computer system to address this risk.

BSA has taken appropriate insurance cover against actions for negligence and/or incompetence, decisions made in error, public liability, motor vehicle accident and property damage and/or loss.

BSA's statutory insurance scheme is a source of risk that is related to the rate of builder failure. In 2000/01 the value of claims against the scheme amounted to

\$18.7M an increase of around 50% on the previously highest level of claim payments, \$12.2M experienced in 2000/01. The loss ratios grew to 116.6%. BSA minimises this risk by reinsuring 75% of the business and maintaining close actuarial oversight of the scheme's performance.

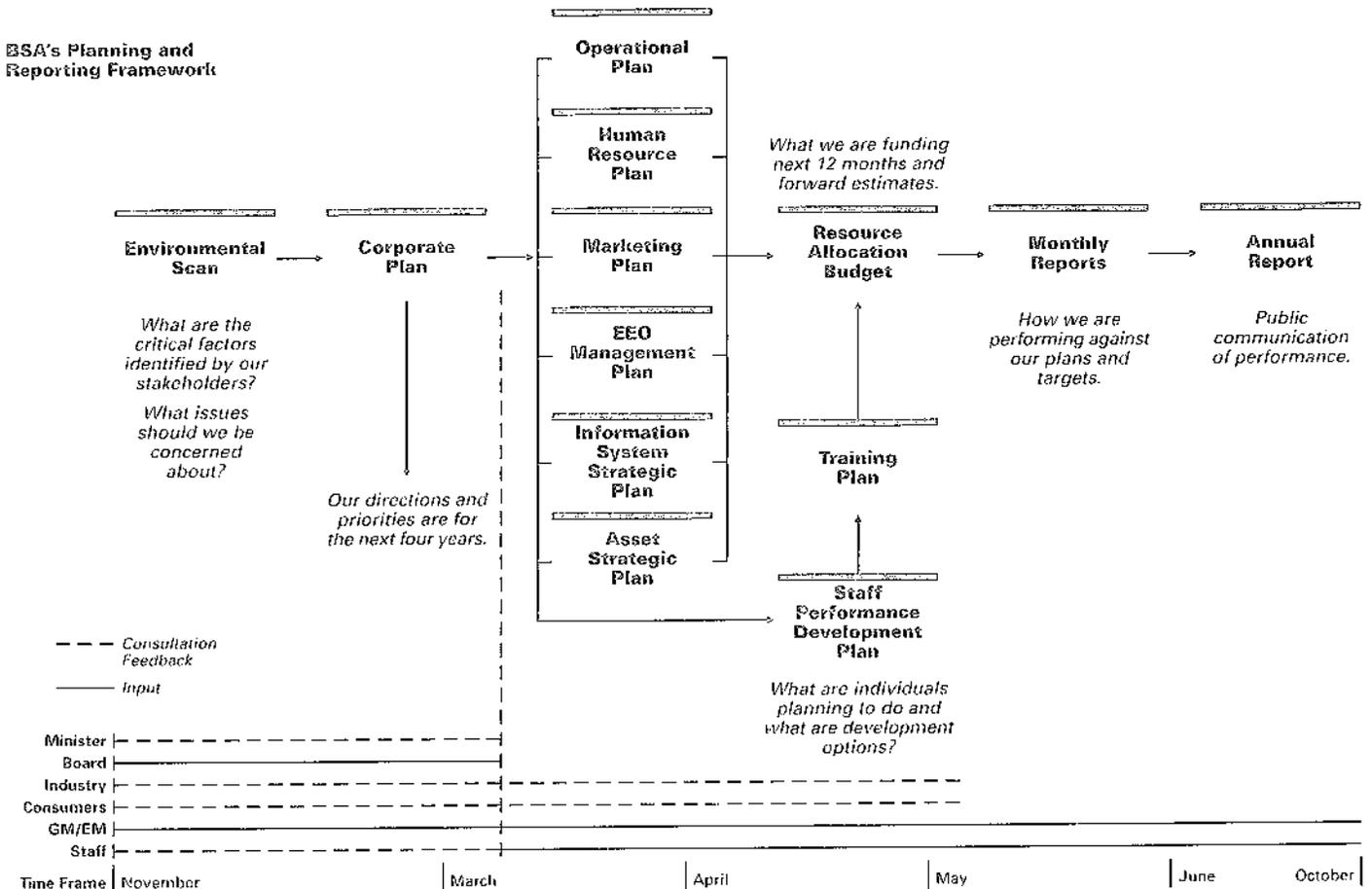
Investments

The Finance and Audit Committee also assists in developing BSA investment policy and strategies and in monitoring the performance of its two funds managers, Queensland Investment Corporation and Queensland Treasury Corporation. Funds invested at 30 June 2001 amounted to \$36.7M and returns on investments provided \$2.23M or 9.36% of the total operating revenue for 2000/01. This reflects the importance of managed investments to BSA's viability. The Committee is advised by its Actuary and funds managers in relation to the need to adjust the investment policy and strategies.

Business Planning Cycle/Resource Management Cycle

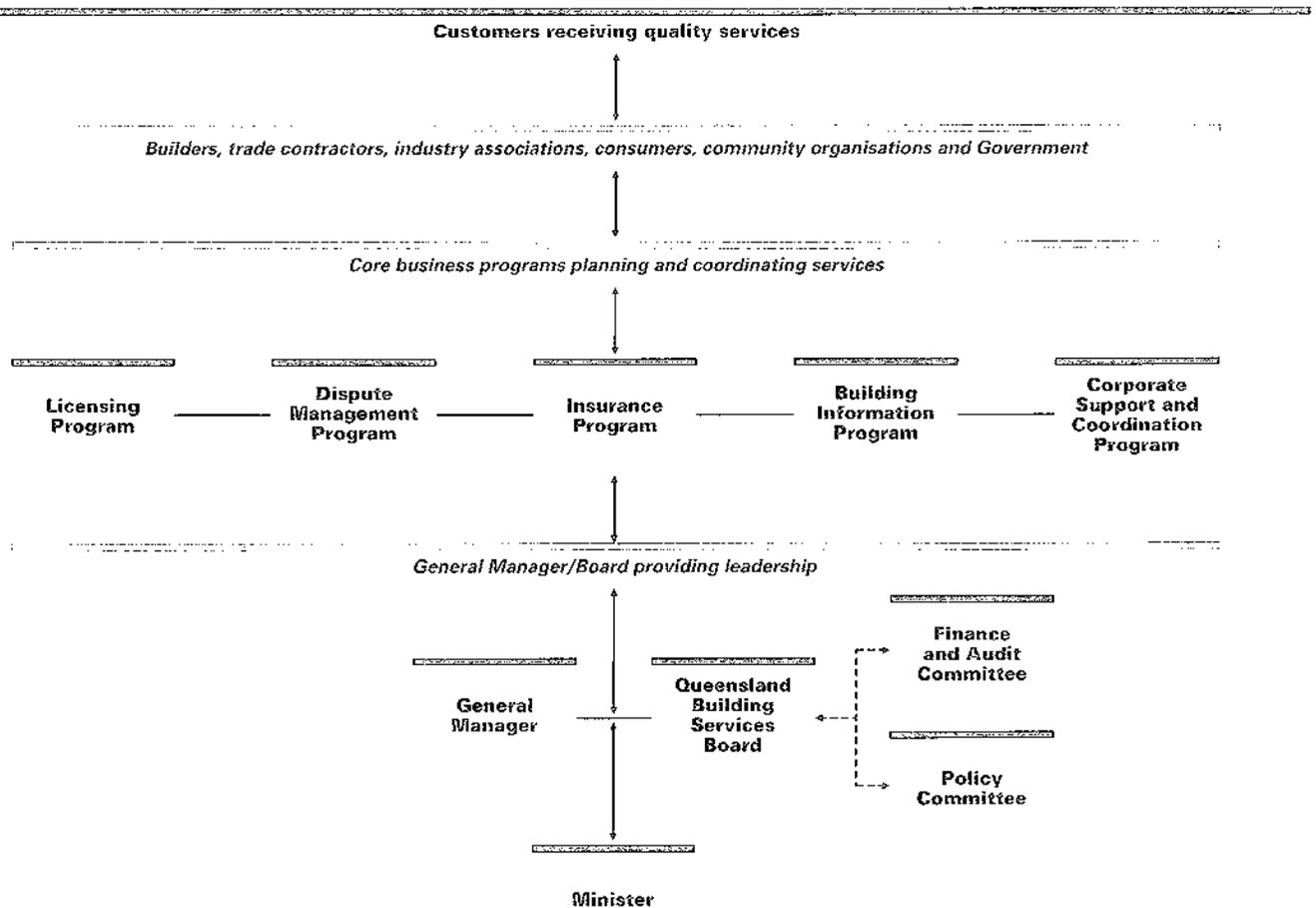
BSA has developed an integrated system of planning in which goals, priorities and operational plan targets are directly tied into day-to-day business operations. It is frequently adjusted through regular performance reviews.

BSA's Planning and Reporting Framework



Corporate Governance (continued)

Service Delivery Model



Code of Conduct

BSA's code of conduct applies to all employees and Board members. The code provides the ethical framework for behaviour, actions and decisions within BSA and plays an integral role in supporting BSA's values. It assists in ensuring that consistent standards and approaches are adopted in all our dealings.

Whistleblowers Protection Act

BSA is a "public service entity" as defined by the Whistleblowers Protection Act. BSA received no disclosures during the reporting period.

Freedom of Information

The *Freedom of Information Act 1992* provides the public with an enforceable right of access to documents held by Queensland Government agencies including BSA. Certain documents, including for example, material that is

commercially sensitive, subject to legal privilege or relating to the personal affairs of parties other than the applicant, may be exempt from access. If applicants are aggrieved by a decision to refuse or limit access, they may request an internal review by another officer or ultimately, by the Information Commissioner.

BSA received 178 applications for access to documents under the legislation during 2000/01. Approximately 38% of applications were received from licensees and 28% from home owners. Access was refused in regard to only 3 (2%) of the 158 applications finalised. 14 applications for internal review were received with the original decision being upheld in 7 cases and 7 decisions varied. 7 applications requesting external review by the Information Commissioner were lodged, with 3 decisions varied, 2 withdrawn and the remaining decisions still pending.

Energy Management

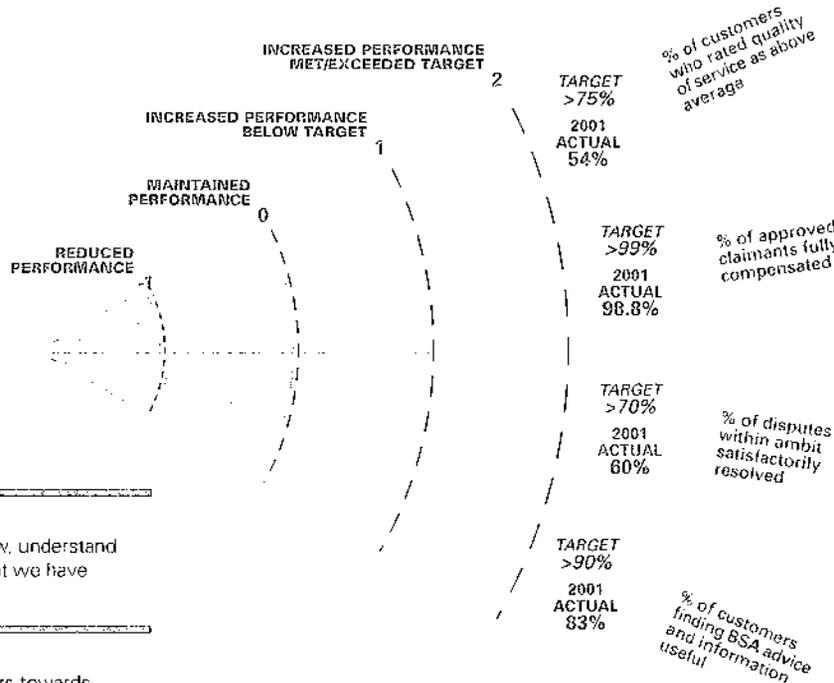
BSA began a review of its energy consumption needs and purchasing arrangements as a result of the deregulation of the electrical industry. However, limited progress has occurred on this project as a result of the current refurbishment of the existing building and redevelopment to the adjacent site. This resulted in some head office operations being relocated into temporary accommodation. They are due to relocate to their permanent accommodation in late September 2001. Following the relocation, BSA will resume its efforts in this area.

The Future

We will develop strategies by which the Board and Executive Management can monitor the health of the organisation.

2 Customers

(industry, consumers, government)



Comment:
Customer ratings of services have clearly identified areas for improvement. Consumers continue to be afforded effective protection against losses relating to residential work.

Goals

To ensure our customers know, understand and support us and know what we have achieved

Strategies

- Working with our customers towards shared outcomes in a climate of integrity, mutual respect & support
- Continue to improve our position, image and presence in the industry through community, industry and government infrastructures

Key Performance Measures 2001/02 [2005]

- Positive movement in the Customer Continuum (continued)
- Customer satisfaction survey → 70% [75%] rate service above average

Desired Outcomes 2005

Recognised as a leading Customer Service Provider

Advice and Information

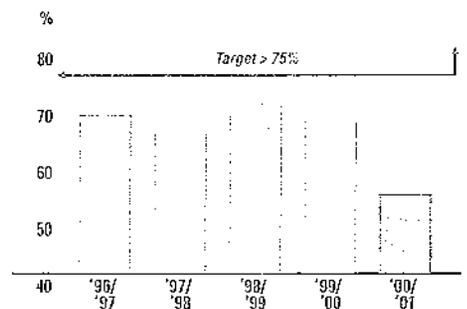
Demand for telephone advice and counter services continued the upward spiral of the past two years. The number of calls answered increased by 3% this year to 190 909. Average wait times were reduced to 80 seconds compared with 106 seconds in 1999/00. BSA believes that the introduction of a state-wide advice line would enable more effective distribution of calls and result in customers receiving a more efficient service. BSA is conducting a feasibility study in the coming year to assess this approach.

Consistent with previous years, BSA handled 11 472 over-the-counter inquiries in 2000/01.

BSA continued its emphasis on customer service standards. Monitoring was conducted through the annual customer satisfaction survey which

showed that 94% of consumers rated their personal treatment as acceptable and 54% thought the overall quality of service was above average. This data has been used in developing customer service training.

3 % of customers who rated service as above average



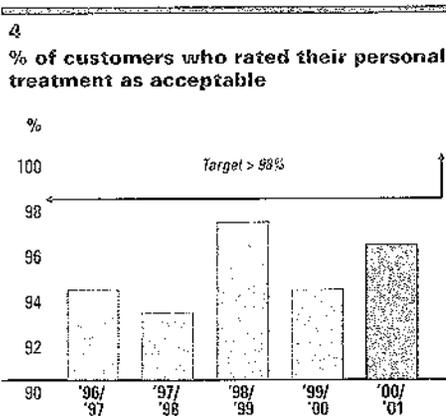
Did not meet target.



Customer information and awareness is crucial to our role. Prevention is better than cure and a better-informed public makes for a more trouble-free building process.

– Dani Axford, Manager Customer Service Centre

Customers (continued)



Improved but did not meet target.

BSA's web-site continued to provide 24-hour access to information. More than 4 million visitors accessed the site and in excess of 140 000 licence searches were carried out. Major enhancements were made to the site in 2000/01. Information on building certification was included along with details on the subscription service for consumers, contractors and building certifiers. A BSA Products section was added giving access to forms and documents for searching licensee details, BSA insurance particulars and building contracts. A consumer guide and an owner-builder section were also included and links to related government, industry and community web sites were upgraded. These additions resulted in a significant increase in down-loads and use of subscription service facilities. Positive feedback from users has encouraged BSA to consider providing other services via the web-site.

BSA also participates in major industry events as a means of enhancing contractor and consumer knowledge.

Public Profile

Two editions of BSA's flagship publication Building Links were published to coincide with major developments impacting industry. Circulation of Building Links grew from 47 000 in 1999/2000 to 55 000 in 2000/01. An increase in the number of licensees on BSA's register and the ongoing development of industry, government and community networks led to the rise in circulation. The newsletter

features not only the major activities undertaken and proposed by BSA but it also provides information on building industry reforms, state and federal government issues, legal and industry news. The newsletter is distributed to all licensees and industry associations, and was a catalyst for positive and effective media reports throughout the State.

BSA used home shows as a tool to reach consumers contemplating building a home. Promotional displays, contact presentations and information programs via industry, community and government networks throughout the State were also used to increase community awareness of BSA and its role.

BSA maintained a prominent and effective media presence in 2000/01. Media releases centred on BSA awareness campaigns such as termite protection and builder licensing, and fraud and compliance-related prosecutions. BSA prosecutions prompted concentrated media attention with a number of cases receiving widespread coverage in both metropolitan and regional media. There was also a weekly column published in the Courier Mail.

The weekly column, Homework, focused on providing readers with information on a wide range of educational and topical issues from legislative changes to raising awareness of more general building issues.

BSA used media coverage in the wake of the HIH Insurance collapse to allay the fears of home owners, explaining that unlike the participants in privatised southern schemes, Queensland home owners had no exposure as they were protected by Queensland's statutory insurance scheme.

On the anniversary of the Childers Hostel tragedy BSA announced its new Fire Protection Contractor Licensing system. Media coverage was sought and it was hoped that community awareness of the new requirements and other safety and accountability issues arising from the Palace Backpacker disaster would be heightened. The approach was successful; media coverage was widespread with all TV Networks and some radio stations in

attendance, and the story syndicated Australia-wide.

Educating Our Customers

Consumer feedback on seminars remained positive with 98% of those who participated in the surveys indicating they would recommend the seminar to others. The seminar, A Journey Through The Building Process, was updated throughout the year in response to periodic changes in legislation, the introduction of the *Domestic Building Contracts Act 2000* (DBC Act) and the First Home Owner's Grant.

In 2000/01 all consumer education seminars were held in Brisbane. BSA suspended regional seminars due to resource and staffing constraints. Delivery options for the dissemination of seminar information state-wide were reviewed. The option settled on was a CD ROM and BSA commenced development of this medium during the year. The CD will significantly enhance access to a proven package of information and advice, particularly for consumers from regional and remote areas who have little or no prospect of attending a seminar in person. The CD will be launched in 2001/02 and is the prototype for future delivery of information packages to contractors and consumers.

The DBC Act was introduced and BSA produced resource material to support the information needs of consumers and contractors.

BSA continued to support the needs of older persons through advertising and group presentations, as well as participation in Seniors Week events state-wide. Relevant consumer information and a specially developed fact sheet "The Older Persons Guide To The Building Process" were distributed throughout Queensland with the help of key older persons' groups such as the Australian Pensioners and Superannuants League and the National Seniors Association.

An awareness campaign was launched in response to concern about the risk of termite infestation. The campaign focussed on educating the community in the management of this risk. A television

“Your officer remained professional throughout, resulting in swift action to our benefit and preventing the necessity for notices to be served.”

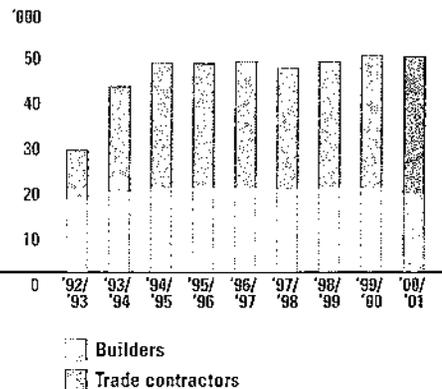
– Consumer

commercial was screened throughout the State and printed materials were distributed to households in most parts of Queensland via local government newsletters or rates notices. Significant consultation with other government agencies and industry was a prerequisite for the campaign. More than 750 000 brochures were distributed. As a consequence, telephone calls and visits to BSA's web-site increased substantially. Media interest in the issue also ensured that communities were well informed. Overall, the campaign was a great success.

As part of the campaign, a booklet on termites was developed and circulated to all government networks and to industry. Demand for the booklet remains strong. It will be added to the web-site to ensure better access to this important information.

BSA established its role as a lead agency in termite awareness and successfully influenced legislative changes provided for in the Building Code of Australia.

5
Number of licensed builders and trade contractors



BSA's compliance agenda continued to contribute to the increase in trade contractors.

Licensee Base

At 30 June 2001, there were 47 718 licensed contractors, representing a marginal drop of 265 from the previous year. Builder numbers of 17,384 were consistent with the previous year.

The number of trade contractors increased with new entrants growing from 3 330 last year to 3 593. This number has grown 7.5% from last year and 18% from 1999/00.

The increase in trade contractor licence applications is attributed to the increased compliance efforts by BSA throughout the year in targeting unlicensed contractors.

Protecting Consumers

Resolving disputes

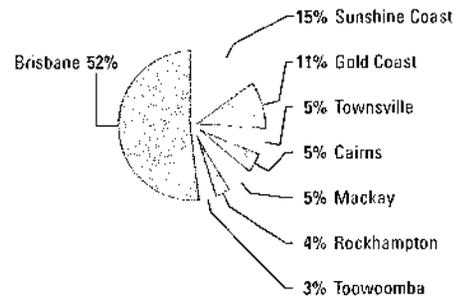
Dispute forecasts were exceeded by close to 5% with a record 5 633 notifications received. Overall, the number of dispute notifications increased by 7% over 1999/00. Despite this, significant ground was made in dealing with outstanding disputes with 5 898 cases finalised this year, an increase of 6.2%.

Excluding cases where BSA's dispute resolution process could not play a role (i.e. those cases outside BSA's jurisdiction (2 071) and those referred directly for processing as insurance claims (2 033), (64)% of the remaining (3 787) disputes finalised were satisfactorily resolved through BSA's dispute resolution process.

A number of significant dispute prevention initiatives were developed and introduced. BSA involved industry in the development of short and long term strategies designed to reduce the number of building work defects and increase the quality of work for the benefit of the consumer and contractor. BSA maintained strong involvement in industry-led reference groups, providing input from a regulatory perspective and sharing the vision for a better building industry.

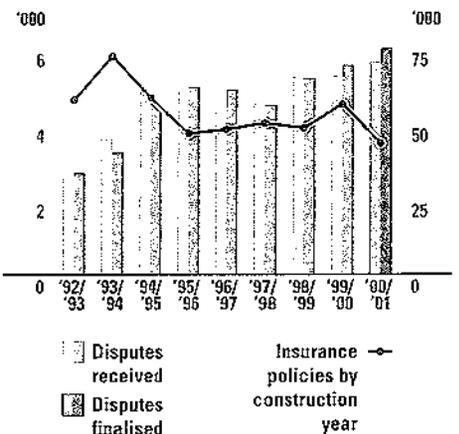
Dispute resolution processes and insurance claims processing have identified key areas for the prevention of disputes. Progress was made in the areas of paint and plaster, leaking showers, tile and subsidence defects. This was achieved through BSA-convened working parties comprising broad industry representation. BSA also played a significant and high-profile role in recommending changes to legislation controlling the building certification industry.

6
Regional distribution of dispute notifications received in 2000/01

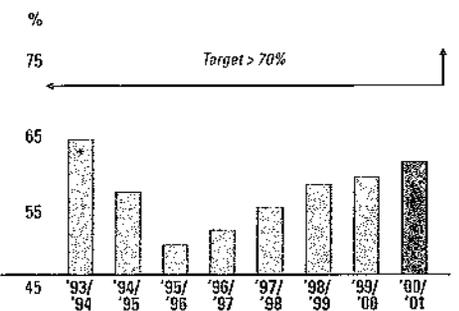


South East Queensland continued to account for 78% of all disputes notified.

7
Dispute notifications received/finalised compared with building activity



8
% of disputes within ambit of dispute resolution service able to be satisfactorily resolved



* limited certainty due to data coding problems

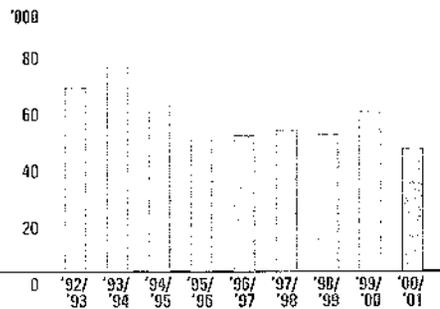
Improved effectiveness of BSA's dispute resolution process has resulted in a continued improvement in performance.

“I wish to thank all concerned for the professional, courteous and efficient manner in which our problem has been handled. I am sure that people's perceived problems could be reduced to harmonious solutions.”

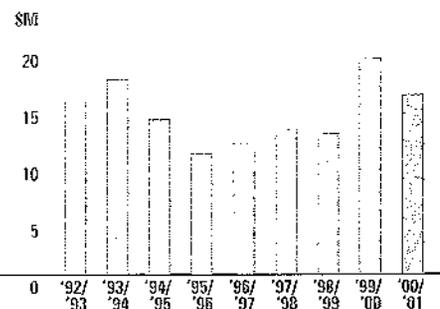
- Consumer

Customers (continued)

9
Accrued policies by construction year



10
Gross premium receipts

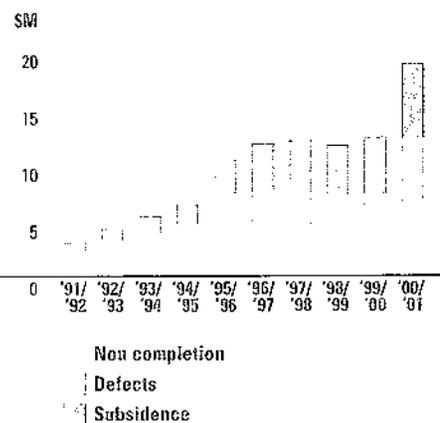


The volume of policies and associated premium receipts from new business, decreased from 1999/2000. The major influence was the building industry slow down following the pre-GST driven mini construction boom.

11
Proportion of claims expenditure by type

Category	2000/01	1999/00
Non-completion	32%	24%
Defects	33%	35%
Subsidence	35%	41%

11
Claim payments by type



The value of claim payments reached record levels as the result of the post-GST industry slow down and the unfavourable decision on GST from the ATO.

Insuring Consumers

BSA's non-profit insurance scheme, the only remaining statutory scheme of its type in Australia, was designed to ensure consumers were given appropriate and affordable insurance cover without the impost of a policy excess.

BSA processed 43 412 policies this year with gross premium receipts of \$15.88M. This is a reduction of 24% over 1999/00 when BSA experienced a boom in the latter 6 months as consumers clamoured to have homes constructed before GST. New construction contracts stalled on 1 July 2000 but toward the end of the reporting period, low interest rates and an increase in the first home buyer's grant brought about a gradual increase in new housing approvals. BSA insurance continues to provide effective protection for consumers against losses associated with the construction of a new home, and alterations and/or additions to an existing home. This year 94% of the 2 021 claims finalised were accepted with 98.8% of those approved claimants fully compensated for their insured loss. This excellent outcome is testimony to the policy's focus on providing appropriate and effective insurance cover.

Managing Consumer Claims

Our focus has been on providing efficient services to contractors and processing the high volume of claims resulting from the post-GST building slump

A sharp decline in building activity brought about by the introduction of GST resulted in a spate of contractor failures. The inability of some businesses to plan for and adapt to the new tax system and loss of cash flow because of the post GST building slump, contributed to contractor failure. As a result, BSA paid out a record \$18.73M in claims this year compared with \$12.25M in 1999/00 with 98.8% of the 1 647 approved claimants fully compensated for their loss. The rate of claims put the fund under extreme financial pressure and placed additional demands on BSA staff who had to meet the needs of a total 1 867 claimants. Not only did the number of claims increase by 10%, the average cost per claim rose, particularly in relation to non-completion claims where there was a 55% rise because of GST.

The unusual nature of our insurance scheme prompted BSA to seek a ruling from the Australian Taxation Office (ATO) on its treatment of GST. The ATO ruled that BSA is unable to reduce its tax liability by the amount of GST paid in its claims settlements. This resulted in a

10% cost increase on claims. Additionally, the fund bore the entire amount of GST on non-completion claims (contracts to complete homes started before the introduction of GST and whose contractors have since failed). As a result, non-completion claims accounted for 32% of all claim approvals.

Subsidence claims peaked at \$6.595M. Major contributing factors were, the foreseen, but sharp increase in claims relating to the latter stages of the mid 1990s building boom and the increase in maximum policy cover from \$50 000 to \$100 000 introduced in January 1997.

A factor in the value of these claim payments is the unique benefits of the Queensland Insurance Scheme with its "no fault" subsidence policy. Under this provision, owners are insured whether or not the subsidence can be related to a construction defect. Contractors are also protected as they are not held responsible if they have obtained an engineer's design for the foundations and the work has been certified by an engineer.

Contractors with the most significant claim approvals during the year:

Licensee	No. of Claims	Amount (\$)
- Carey MC	22	487 710
- Maindonald PWM	12	424 095
- Designer Steel Homes Pty Ltd	11	385 353
- Kenroy Homes Australia Pty Ltd	5	375 139
- Cornerstone Constructions (Qld) Pty Ltd	40	319 499
- Johnston IM	12	317 200
- Cameli J	11	315 571
- Signature Home Builders Pty Ltd	19	308 099
- Avonwood Homes (Old) Pty Ltd	17	281 209
- Wallcol Constructions Pty Ltd	2	255 415
- Holland AJ	18	223 609
- Carey AM	14	220 600
- Langmere Pty Ltd	7	218 220
- Mastermen Homes Pty Ltd	22	205 568
- Denville Homes Pty Ltd	20	203 759
- Eagle Hawk Constructions Australia Pty Ltd	9	200 000

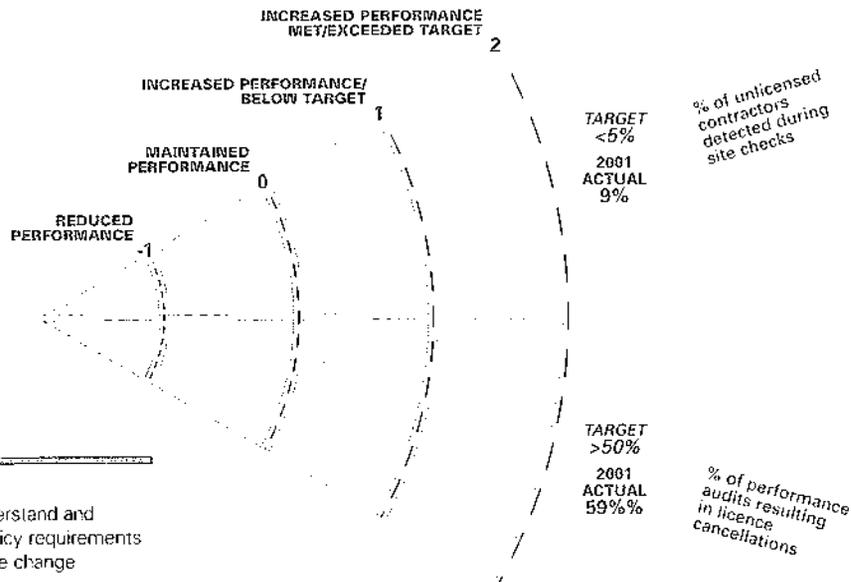
The 241 claims associated with these 16 contractors accounted for \$4.74M and represent 13% of the number of claims received and 25% of the claims expenditure for the year.

The Future

We will work with our customers towards shared outcomes in a climate of integrity, mutual respect and support.

We will continue to improve our position, image and presence in the industry through community, industry and government infrastructures.

3 Legislation and Policy



*Comment:
BSA's compliance agenda has delivered positive outcomes and improved licensing system integrity.*

Goals

To ensure that customers understand and comply with legislative and policy requirements and have the ability to influence change

Strategies

- Involve customers in consultative processes
- Promote understanding of legislation and policy
- Develop a comprehensive industry compliance strategy to identify and deal with breaches of the legislation and policy
- Monitor and review legislative and policy requirements

Key Performance Measures 2001/02 [2005]

- → 50% [70%] of Customers surveyed demonstrate an awareness of BSA and requirements of QBSA and DBC Acts
- → 60% [70%] of DTR's complied with satisfactorily
- BSA decisions upheld in → 90% [95%] of reviews
- Unlicensed contractors not more than → 4% [3%] of all licensees check via site inspections
- → 90% [95%] of insurance claimants have paid premiums
- Legislative amendments implemented [continued]

Desired Outcomes 2005

A better informed, educated and compliant industry

Regulating the Industry

The *Domestic Building Contracts Act 2000* (DBC Act) and the *Queensland Building Tribunal Act 2000* were introduced on 1 July representing the second stage of the Government's Better Building Industry reforms. This followed amendments to the *Queensland Building Services Authority Act 1991* in 1999 that involved changes to the licence renewal process and the introduction of more exacting financial requirements for licensing. The aim of these changes was to improve security of payment for contractors.

At its annual strategic planning conference in September 2000, BSA invited stakeholders to share their views on the effectiveness of the first-stage reforms. The Queensland Building Services Board and its Policy Committee reviewed the major issues raised and formulated 25 recommendations for action. One of the recommendations

proposed was a review by key stakeholders of the *Subcontractor Charges Act 1974*. These stakeholders have recommended amendments to the Act. Recommended changes were similar to provisions contained in the *Subcontractors' Charges Amendment Bill 1998* which lapsed according to parliamentary procedure, with the change of government in May 1998, and was not reintroduced.

The DBC Act provides Queensland consumers with a range of rights without burdening them with unnecessary obligations. Under the Act, consumers must be properly informed about the contract process before a contract is entered into and there must be a cooling-off period in which the consumer can cancel a contract.

BSA embarked on an awareness campaign to support the introduction of the DBC Act. This was conducted through

“We must ensure that new legislation and board policy remains in tune with industry and consumer needs and priorities. It is equally important for us to continue to crack down on those who are not complying with legislation.”

– Michael Chesterman, Compliance Manager

Legislation and Policy (continued)

an extensive media campaign, editorial articles in BSA's publication Building Links and wide distribution of literature across government and industry networks. A major initiative was the development of BSA's 'One Pack Building Contract Kit'. The kit includes BSA's Consumer Guide and all appropriate forms. After 12 months of road testing, BSA's contract package and supporting documentation is scheduled to be updated early in the new financial year.

BSA provided information and considerable practical assistance to industry regarding the scope and operation of the new legislation and in the development and approval of Contract Information Statements which contractors are now required to provide to their clients.

Working with Industry

In response to calls from the building and construction industry the Building Services Board appointed a working party to conduct a comprehensive review of licensing.

The working party comprises representatives of industry, government, training organisations and the trade union. The approved terms of reference call for a report that contains recommendations that will determine the future direction of BSA's licensing framework.

The review will need to consider national qualifications and supporting units of competency as well as a number of industry proposals such as restricting professional development and registration to contractors and subcontractors, when developing licence class recommendations.

Research has been undertaken and data collected on licensees who already hold restricted licences. The aim is to identify inconsistencies and deficiencies in the currently prescribed classes, related scopes of work and the packages of technical competencies currently required for licensing in each of these classes.

With the approval of both the Board and the Minister, a program of consultation has been initiated. Written submissions have been sought from a broad range of industry stakeholders.

As part of the consultation process face-to-face feedback sessions are planned.

The working party will submit its recommendations to the Board early in the next financial year.

Industry Compliance

BSA's compliance program focused on carrying out financial performance audits on contractors displaying signs of financial distress, as well as undertaking unlicensed contracting investigations.

BSA is improving the integrity of the licensing system through a range of strategies. These strategies include prosecuting contractors for failing to rectify defective work within the required time and excluding insolvent companies and individuals from holding any form of licence for five years under the anti-phoenix provisions of the legislation.

In 2000/01 the new "Excluded Persons" provisions of the Act resulted in 150 builders and trade contractors being categorised by the BSA as "excluded persons" and therefore barred from participating in the licensing system for 5 years.

BSA's licensing system was further improved through information technology initiatives. These initiatives included a rework of the 'Frequently Asked Questions' section of BSA's website, providing on line annotated Independent Review reports and annotated deed of covenant and assurance documents for accountants as well as providing regular information updates to accountants on the email subscription service.

The 'anti-phoenix' provisions of the legislation were relied upon to exclude a record number of individuals or companies from holding or obtaining a licence. Five-year exclusions apply to those heavily involved with a failed business. BSA's ability to act in such a decisive manner is a direct consequence of the "Better Building Industry" reforms. The reforms came about as a result of representations from industry stakeholders who wanted BSA to ensure that licensees associated with failed business operations could not regain a licence simply by "re-inventing" themselves. NSW and Victoria are now

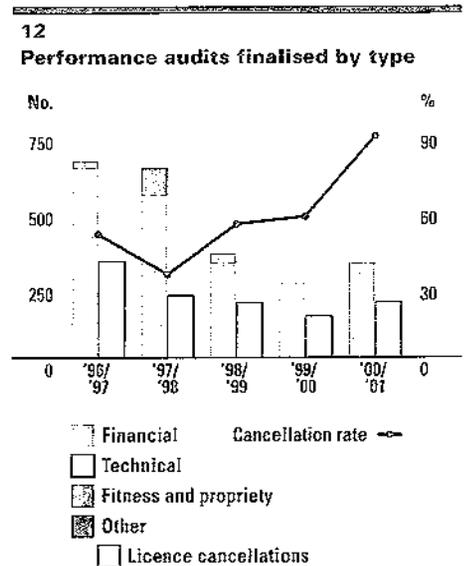
considering putting similar processes in place to deal with this very significant industry issue.

During the year, compliance staff continued to play a pivotal role in updating the financial requirements for licensing. These requirements are contained in three separate Board policies:

- Self certifying statutory declaration covering trade contractors with up to \$75 000 annual turnover.
- Self certifying statutory declaration covering trade contractors earning between \$75 000 and \$250 000 and building contractors earning between \$1 and \$250 000.
- Detailed financial requirements covering all classes earning more than \$250 000. This policy requires that contractors have their financial position verified by an accountant or auditor at the time of licence application, licence renewal or in response to a performance audit initiated by BSA.

The implementation of the reforms associated with financial requirements for licensing represent very positive compliance outcomes because they are pro-active initiatives designed to eliminate contractors who are "security of payment" risks to other contractors and stakeholders.

The 311 financial performance audits conducted resulted in 183 licence



“The information answered the questions I needed answered ... it helped us make informed decisions clarifying our liabilities.”

- BSA licensee

cancellations. The audits also resulted in conditions, suspensions or notices of intention to impose a condition being applied to a further 260 licences. BSA's audit program targeted those contractors who were considered most likely to cause serious financial problems for other licensees and consumers.

BSA monitored contractor payment trends through information received from suppliers, consumers and other contractors and determined whether reasonable grounds to start an investigation existed. During the year, the most significant matter of this nature involved Jezer Construction Group Pty Ltd ("Jezer").

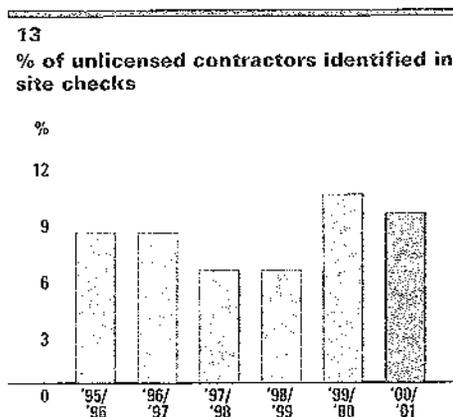
After a comprehensive investigation into the financial position of the company, BSA imposed conditions on its building licence. BSA concluded that the company had insufficient financial resources to meet possible liabilities in relation to building work. The company sought a review of BSA's decision in the Queensland Building Tribunal. BSA was satisfied the matter had been resolved when company directors pledged unlimited personal guarantees for proved debts owed by Jezer to its creditors including subcontractors and suppliers.

BSA's extensive use of the anti-phoenix provisions of the legislation during the year resulted in a number of licence cancellations. Of 287 compliance-related licence cancellations during the year, 114 were for directors of failed companies who were cancelled under the anti-phoenix provisions preventing them from operating licensed companies in the future.

Unlicensed Contracting

Unlicensed contracting remains a significant industry issue because of the adverse consequences for those who contract with unlicensed operators. BSA believes that a typical unlicensed contractor is often inexperienced, unable to demonstrate basic technical competencies or meet the financial criteria required to hold a licence.

BSA has been extremely active in pursuing unlicensed contracting, the need



Unlicensed contractor detection is a compliance strategy implemented to reduce unlicensed activity.

to develop a more strategic focus to address this major industry issue resulted in the development of several major initiatives:

- developing a system to allow for the issuing of Infringement Notices for unlicensed contracting under the State Penalties Enforcement Registry (SPERS).
- amending the legislation to make it an offence for a licensed contractor to knowingly engage an unlicensed person to undertake building work.
- forming regional compliance committees including relevant government and non-government stakeholders with a view to sharing appropriate information concerning alleged unlicensed contracting.
- Conducting a state-wide compliance blitz of building sites to check the licensing credentials of contractors.

BSA acknowledges that more needs to be done to achieve better outcomes, but has nevertheless been successful in a significant number of instances in identifying and pursuing unlicensed contractors. We are also working toward raised awareness of the need for contractors to be licensed and for consumers to enquire as to the licensing status of any contractor they are considering employing.

Disciplinary Proceedings and Prosecutions – Unlicensed Contractors

Disciplinary proceedings and prosecutions were initiated in the Queensland Building Tribunal and the Magistrates Court against 122 contractors for unlicensed contracting. Of the 134 cases finalised, \$189 567 in fines and \$39 319 in costs were endorsed to be paid by these unlicensed contractors. The most significant outcomes in this regard were:

- Port Bibra Pty Ltd and Cadmist Pty Ltd. T and C New Homes Constructions Pty Ltd ("T and C") was a registered building company that went into provisional liquidation in September 1999. In the course of investigating the collapse of T and C, it became evident that there was a close connection between T and C and a company called Port Bibra Pty Ltd. While Port Bibra Pty Ltd obtained a house building licence in June 1999, it emerged that for a number of years, Port Bibra and its predecessor, Cadmist Pty Ltd, performed administration and management services in relation to the work carried out by T and C. BSA initiated action against Port Bibra Pty Ltd and Cadmist Pty Ltd in the Queensland Building Tribunal. In February 2001 the Tribunal handed down the following fines:
 - Port Bibra Pty Ltd – \$30 000 for unlicensed contracting
 - Cadmist Pty Ltd – \$20 000 for unlicensed contracting.

Natissa Pty Ltd trading as AAA Brooks. BSA initiated disciplinary action for unlicensed contracting, as well as for negligently and incompetently applying pesticides on new home sites. The Tribunal fined the company \$20 000 for trading without a licence, and a further \$30 000 for under-spraying chemicals in a manner well below the Australian standard.

Actions under the Fair Trading Act

BSA initiated actions in the Queensland Building Tribunal where it believed licensees had breached the Fair Trading Act. The most significant matter involved

“The information on how to contract and the traps to look out for is invaluable ... we're very pleased with the results.”

– BSA licensee

two related pest control companies, Termisafe Preferred Pty Ltd (formerly trading as Guardian Pest Management) and Cardigan Bay Pty Ltd (formerly trading as Gold Coast Pest Control). In proceedings before the Tribunal, the companies pleaded guilty to two counts of misrepresentation under the Fair Trading Act as a result of selling unauthorised termite damage warranties to unsuspecting homeowners. In handing down fines totalling \$50 000, the Tribunal said the companies had displayed "a reckless and cynical disregard in relation to its consumers" and described the companies' behaviour as "gravely serious misconduct".

Accountability Interventions

BSA has, for a number of years, pursued an accountability agenda in relation to failed building operations where there is evidence of impropriety or illegality. To achieve this objective BSA liaises with other regulatory authorities such as the Insolvency and Trustee Service of Australia (ITSA) and the Australian Securities and Investment Commission (ASIC) where issues of mutual concern are identified. BSA also provided a total of \$36 500 to liquidators, administrators or bankruptcy trustees when directors were thought to have acted improperly or illegally. This funding was provided to improve the prospect of asset recovery for creditors and to ensure the appropriate accountability measures were brought to bear on failed companies and their directors.

Significant actions initiated in this regard included:

- Riaps Pty Ltd. Under a construction management contract, Riaps Pty Ltd, acting as a principal in the construction of a unit development at Port Douglas known as "La Pacifique", went into administration in June 1999. Initially, under a Deed of company arrangement, the director of the company, proposed to pay all non-related creditors in full (\$360 000). This arrangement failed, resulting in the company proceeding into liquidation. BSA provided funding to the liquidator to enable him to conduct a public examination into the affairs of the company and obtain legal advice. BSA is presently considering another request from the liquidator for additional funds to enable proceedings to be initiated against parties associated with the company.

An ongoing matter satisfactorily resolved during the year was the case of Border Island Pty Ltd (the former owner

of Double Island, 25kms north-east of Cairns) that went into administration with debts of \$5.6M.

Money was owed to local subcontractors and suppliers as a result of substantial improvements undertaken to tourist accommodation on the Island. An initial attempt by local creditors to replace the Sydney-based administrator failed and threatened prospects of a nil return to creditors.

BSA helped fund a successful Supreme Court challenge, which established a clear conflict of interest involving the Sydney-based administrator and a related company also in liquidation. The Court ruling resulted in a Cairns-based firm being appointed to administer the failed company. Consequently, the company was sold for \$4.5M, paving the way for an excellent return to creditors of 76 cents in the dollar. Local subcontractors, expecting to receive a nil return, expressed considerable praise for BSA's support in this matter.

BSA also obtained orders from the Queensland Building Tribunal for several public examinations. The most notable involved MHD Constructions Pty Ltd, formerly known as Merlin Homes. In February 2001 the company collapsed leaving dozens of creditors out-of-pocket with debts in excess of \$2.5M. Prior to the company's collapse in October 2000, BSA had imposed a condition on its licence, preventing it from carrying out building work because of major financial concerns.

The managing director of the company had previously been associated with another large building company, Masterman Homes Pty Ltd, which collapsed in 1997 with debts in excess of \$6.5M. He was the general manager of Masterman Homes until shortly before its collapse.

In view of the magnitude of the failure of MHD Constructions Pty Ltd, BSA determined that it would be in the public interest for an enquiry to be undertaken into the affairs of the company.

During a three-day tribunal hearing in April 2001, the company director:

- Denied providing BSA with false information on the financial position of the company;
- Denied the company had traded insolvent for a period of time prior to its collapse;
- Admitted repaying substantial loans to friends and relatives shortly prior to the collapse of the company;
- Admitted to depositing regular cheques from his parents into the company's bank account, but cancelling the

transactions before the funds could be moved. According to the director this technique, known as 'kiting', made it look like the company's cash flow was healthy, temporarily keeping his financiers at bay.

BSA has provided the liquidator of MHD Constructions Pty Ltd with details of its enquiry into the collapse of the company for the purpose of assisting him determine whether any specific actions should be initiated against the director and other relevant persons under the compactions law.

As a result of his involvement with MHD Constructions Pty Ltd, the director is now excluded from holding a licence, or being associated with a building company until 2006.

Government Contractor Financial Audits

BSA acted as an agent of the Government in assessing the financial capacity of licensed contractors tendering for capital works projects. During the year 559 financial assessments were completed, with 9.5% of contractors assessed as unsatisfactory.

Dispute Resolution Policy

The policy allowing contractors 21 days to remedy complaints prior to BSA intervention contributed significantly to a decrease in the number of directions issued. The intention of the 21-day policy was to streamline the dispute resolution process. In line with this objective, the number of directions decreased from 1 852 in 1999/00 to 1 348 in this year. This was despite a record 5 633 dispute notifications – 378 more than in 1999/00. The number of directions issued as a proportion of finalised disputes was 23% in 2000/01, a 10% reduction since 1999/00. In summary, the 21-day policy has helped to reduce the number of directions issued by BSA. The decrease could also be seen as a measure of the industry's preparedness to resolve problems before they reach a statutory level.

Disciplinary Proceedings and Prosecutions – Disputes

An increase in resources allocated to prosecutions resulted in a significant rise in the number of legal proceedings initiated and fines issued. BSA pursued 290 'failure to rectify' cases this year compared with 164 in 1999/00. In line with the initiatives to streamline disciplinary procedures, BSA is continuing the development of the SPERS operating under the Justices Act. SPERS will

provide a quicker, more efficient discipline administration and also allow BSA to deal more effectively with contractors who fail to comply with directions. Overall, the system will enhance the process of disciplinary action and prosecutions.

Private Certification

Private Building Certification was introduced in May 1998, offering an alternative to local government's role in issuing building approvals.

As the accrediting body under the legislation, BSA:

- Issues licences subject to various requirements to building certifiers both Council and private to practice in Queensland.
- Ensures certifiers carry adequate professional indemnity insurance.
- Carries out a comprehensive audit process to ensure compliance with legislation.
- Investigates complaints and determine discipline against building certifiers.
- Maintains an industry and educational role.

At the end of this financial year there were 378 licensed building certifiers, 288 hold private certifier endorsement and 90 hold local authority certifier endorsement only.

Complaint investigation is a major component of BSA's charter. The bulk of complaints related to Town Planning issues. In 2000/01 complaints about building certifiers increased 33% to 100 from 67 in 1999/00, forcing BSA to increase its resources to meet the demand.

Complaints received

Type	Number
Town Planning	121
Technical (BCA)	15
Standard Building Regulation	78
Conflict of Interest	9
Code of Conduct	6
Total	229

Complaint status

Type	Number
Finalised Complaints by BSA	191
Current Complaints (< 30 days old)	2
Current Complaints (> 30 days old)	36
Total	229

BSA decisions appealed to Chief Executive

Type	Number
Not Decided	14
Decision Reversed	7
Decision Upheld	11
Total	32

Audit Information

Under Section 29 (1) (e) of the *Building Act 1975* BSA carried out 202 audits, including 22 building certifiers located in Townsville, Cairns and other nearby centres in May 2001. Audits fall into two categories being random or as a result of a proven complaint. BSA intends to conduct random audits on all building certifiers every two and half to three years.

In the coming year BSA will complete audits along the most populated areas of

the eastern seaboard and will establish a framework to audit the more remote areas of Western Queensland.

Education and Industry Liaison

In February 2001 BSA developed and implemented a certification section within BSA's website as an adjunct to the other web information available. In addition to regular mail outs BSA published six editions of CERTNEWS, a publication designed to keep building certifiers informed of topical issues.

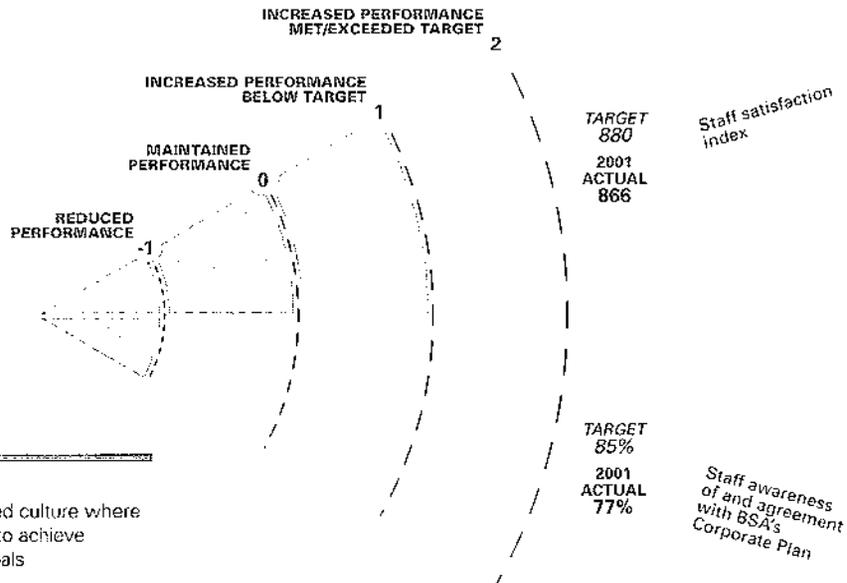
BSA is participating in a review of private certification being conducted by the Local Government Association of Queensland, which is to be completed in October 2001.

BSA anticipates that private building certification will continue to remain a high priority.

The Future

In the future BSA plans to involve customers in the consultative process while promoting an understanding of legislation and policy. Our aim is to develop a comprehensive industry compliance strategy to identify and deal with breaches of legislation and policy, while monitoring and reviewing legislative and policy requirements.

4 People



Comment: BSA's staff satisfaction index is approaching that of a well-managed organisation. Staff alignment with the corporate plan will be enhanced through the implementation of training and awareness programs in the coming year.

Goals

To establish a people-orientated culture where staff are recognised and able to achieve organisational and personal goals

Strategies

- Create a positive, stable and professional team within a supportive, safe and discrimination-free environment
- Increase the opportunity for staff to learn and demonstrate acquired competencies

Key Performance Measures 2001/02 [2005]

Workforce Attitude Survey
(Index of → 850 [880])

Desired Outcomes 2005

Recognised as a people-orientated employer

Staff Numbers

The number of full time equivalent (FTE) staff increased from 195.8 at 30 June 2000 to 200.2 by 30 June 2001. The number of permanent staff increased by 11 to 179 and the number of temporary staff reduced by 6 to 21. The increase in

FTE staff was necessary because of the continuing increase workload pressures associated with the processing of licence renewals and applications, coupled with the need to establish a full time capacity to review the current licence class structure.

Staffing levels have increased by a full time equivalent of 4.4 positions to meet increased customer demand for services. The overall staffing profile and numbers stabilised throughout the year, this facilitated the substitution of a number of temporary positions with permanent positions and the creation of most additional positions on a permanent basis.

BSA staff numbers as at 30 June 2001

Division/Unit	2000/01		1999/00		1998/99	
	Permanent	Temporary	Permanent	Temporary	Permanent	Temporary
Executive	7	2	8	1	7	0
Licensing	24.8	6	18.8	6	18.8	1
Dispute Management	27.5		28	2	21	3
Corporate Support and Coordination	38.4	5	33.06	5.6	29.16	4.6
Insurance	15.6	1	14.6	3	12	4
Building Information	14.5	1	15.1	2.4	16	0
Regional Offices (7)	51	6.4	50.9	7.34	45.69	3
Sub-totals	178.8	21.4	168.46	27.34	149.65	15.6
Totals	200.2		195.8		165.25	

People Development

BSA continued to provide training opportunities for staff in 2000/01 in line with its commitment to improving employee knowledge and skills.



“BSA values my knowledge and expertise and I feel confident that I can build on this and contribute positively to the future development of this organisation.”

– Mandy McCosker, Manager Insurance Claims and Scheme Development

BSA staff as at 30 June 2001

	Male	Female	Total
Administration AO1-AO3	12	65	77
Officers AO4-AO5	49	47	96
Middle Management AO6-AO8	26	3	29
Executive Management SO2-SES	6	0	6
Total	93	115	208*

* This total is greater than the figure of 200.2 full time equivalent staff reported in Staff Numbers as some staff are engaged on a part time or job share basis.

BSA staffing - VER's, retrenchments and redeployments

Action	2000/01	1999/00	1998/99
VER packages taken	1	1	4
Total value of VER's taken(\$)	17 621	50 510	152 514
Involuntary Retrenchments	0	0	0
Total value of retrenchments (\$)	0	0	0
Staff redeployed internally	0	0	5

Unfortunately, the number of opportunities offered was limited due to increased demands for resources in all service programs. 125 staff attended one or more of the 49 training courses offered. Financial and other assistance was extended to 19 staff pursuing relevant tertiary qualifications. An extensive training needs analysis was undertaken during the second half of the reporting period and a wide range of corporate and program-specific training was identified for delivery in 2001/02.

Diversity and Ethical Standards

Women comprised 55% of BSA staff at 30 June 2001. The four Aboriginal and Torres Strait Islander Trainees employed through the "Breaking the Unemployment Cycle" initiative remain with BSA. Three of them have been granted permanent appointments.

BSA has accommodated an increasing number of requests for alternative working arrangements including job-share and work-from-home, permanent and part-time work for both men and women.

The major focus of BSA's Equal Employment Opportunity Consultative Committee was the development of a mentoring program, determination of training needs and the review of policies to ensure alignment with EEO principles.

BSA's Code of Conduct provides an ethical framework for staff behaviour, actions and decisions and promotes the core public sector values of respect for the law and the system of government, respect for others as well as integrity, diligence, economy and efficiency. The Code is available to all staff through BSA's intranet. Regrettably, there was one

reported case of harassment during the year and it was still under investigation at the end of the reporting period.

BSA Staffing - Separations

The pattern of staff separations remained reasonably consistent with past years and could be regarded as slightly high compared to public sector benchmarks. The Authority is in the process of addressing the issue of staff retention through a number of strategies.

BSA Staffing - VER's, Retrenchments and Redeployments

Several work units changed their staffing profile during the year resulting in the use of one VER: there were no staff retrenchments.

Workplace Health and Safety

Although no major incidents were reported in 2000/01, the number of working days lost through compensable accident or injury increased from 57.5 in 1999/00 to 172. This represents 0.6% of total workdays. There were two notified incidents of work-related stress and three cases involving repetitive strain injury.

Workforce Attitude Survey

A significant improvement in the staff satisfaction index as assessed through the staff attitude survey was achieved.

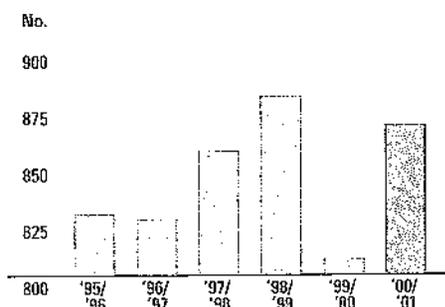
The overall index improved from 807 to 866 and increased in all 12 factors assessed by survey questions. Each of these factors is either "well managed" or "soundly managed" as measured by the benchmark Workforce Attitude Survey.

To enhance BSA's drive for continuous improvement in all aspects of the

BSA staffing - Separations as at 30 June 2001

	2000/01	1999/00	1998/99
Permanent employees	178.8	168.46	149.6
Separations	19	20	23
- Resignations	12	16	10
- Transfers to other Queensland Public Service (QPS) agencies	4	3	8
- Retirements due to ill health	0	0	1
- Retirements due to age	1	0	0
- Voluntary early retirements	1	1	4
- Redundancy	0	0	0
- Dismissals	1	0	0
Turnover rate (%)	10.6	11.8	15.4
Average tenure of permanent employees resigning or transferring to other QPS agencies	4.4	5.0	4.1
Temporary employees	21.4	27.34	15.6
Separations	30	31	34

14 Staff satisfaction index



business a strategic and operational analysis of the results will be undertaken in the coming year.

Enterprise Development Agreement

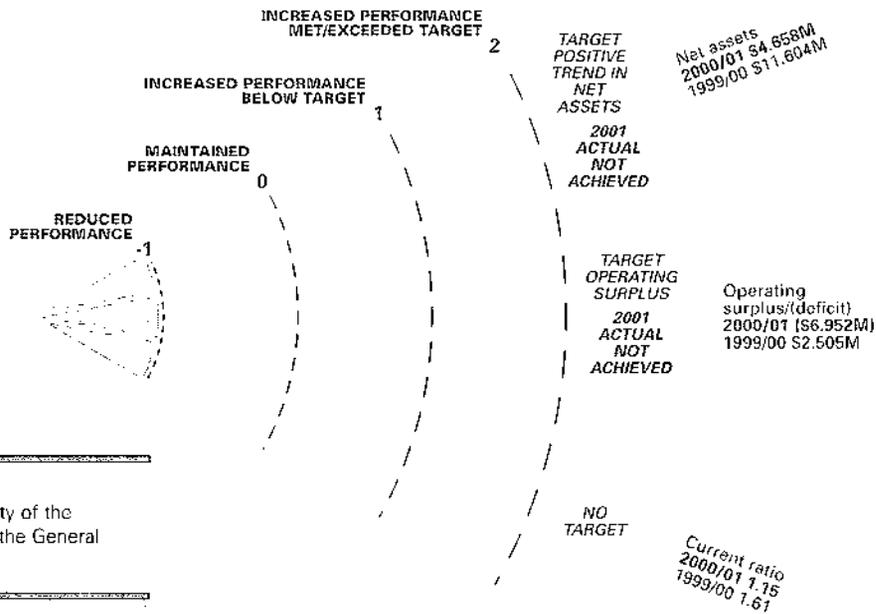
Significant progress was made towards negotiating a replacement agreement to facilitate continued business development and appropriately recognise the remuneration, reward and employment aspirations of staff.

Negotiation of BSA's Enterprise Development Agreement extended over a number of months and is expected to conclude early in the new financial year. A major objective is to close the gap between BSA pay rates and conditions and those enjoyed by core public service departments.

The Future

We will continue to create a positive, stable and professional team within a supportive, safe and discrimination-free environment, increasing the opportunity for staff to learn and demonstrate acquired competencies.

5 Financial Management



Comment:
The \$6.952M reduction in net assets is largely attributable to the \$6.924M deficit in the operating result for the Insurance Fund brought about primarily by the 53% increase in insurance claims payments and the flow-on effect from the provision for claim payments in future years.

Goals

To ensure the long term viability of the Statutory Insurance Fund and the General Fund

Strategies

- Regularly review the actuarial performance of the Insurance Fund and its ability to respond quickly to the need for adjustment of premiums and policy coverage
- Develop and implement a 5 year financial management plan for the General Fund (income and expenditure)

Key Performance Measures 2001/02 [2005]

- No deterioration in average loss ratios for 1995–2000 [Average loss ratios since 2001 of less than 80%]
- Loss ratio for 2000/2001 less than 100%
- Administration cost per claim finalised at less than → \$2,750 [\$2,500]
- Operating deficit in the General Fund of <\$1.8M [Net assets in the General Fund of <\$0.5M]
- Average cost per dispute finalised <\$675 [<\$600]
- Average cost per Licence transaction (Application or Renewal) <\$60 [<\$50]
- Cost neutrality framework for delivery of defined services developed [implemented]

Desired Outcomes 2005

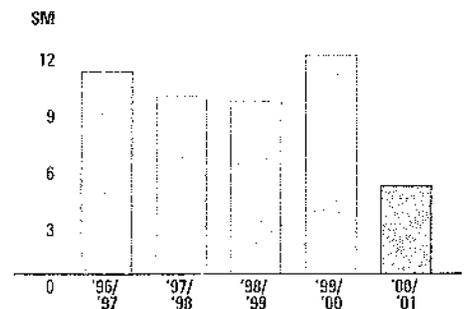
- Positive loss ratios
- Reduced insurance fund administration costs
- Ongoing solvency of the General Fund
- Reduced cost structures

The consolidated funds recorded a substantial operating deficit of \$6.952M compared with the originally forecast deficit of \$0.547M and the deficit of \$6.811M estimated at the mid-year review. While the general fund contributed to the result, the insurance fund bore the major share with a deficit of \$6.924M. This variance can be attributed to record insurance claims payments of \$18.7M, a 53% increase in the highest amount paid previously, and the flow-on effect for the actuarially calculated provision for future claims costs.

The loss ratio of the insurance scheme led to a sharp increase in the cost of reinsurance. This prompted a review of the funding strategy introduced on 1 October 1999. Under that strategy, a surcharge on insurance premiums was transferred to the General Fund to assist in meeting program delivery costs that could not be funded from licence fees. Under a revised strategy approved by the Government and introduced from 1 July 2001, the amount previously collected as surcharge (\$3.719M in 2000/01) will be retained by the fund and the premium increased from 0.55% to 0.6% of the contract value. The resultant shortfall in General Fund income will be met from increased and restructured licence fees effective from 1 July 2001. For example, fees for a general building company with an annual turnover less

than \$.025M will rise from \$363 to \$400 and those for an individual trade contractor or house builder with an annual turnover of more than \$10M will increase from \$141 to \$360.

15 BSA consolidated net assets



The trend reversal achieved in 1999/00 could not be sustained in 2000/01.

Debt Management

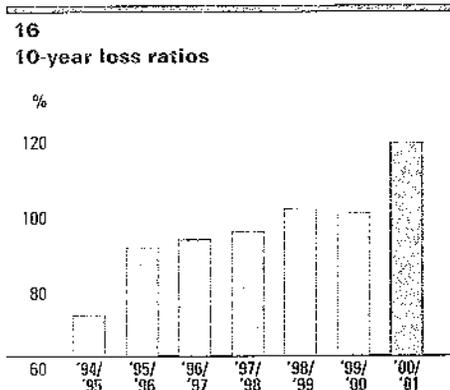
BSA's debt management team recovered \$1.034M in 2000/01 compared with \$1.491M the previous year. Recovery of insurance claim payments was made more difficult in 2000/01 because of a higher rate of insolvency and difficult economic conditions within the industry.

Almost \$0.300M in Queensland Building Tribunal and Magistrate Court fines was recovered. This represented an increase of 30% on the amount recovered

in 1999/00 and reflects an increased focus on pursuit of these debts.

Insurance Scheme Viability

Actuarial review of the statutory insurance scheme's performance in January 2001 showed a marked deterioration in loss ratios. The 10-year loss ratio had increased from 98% (assessed at 30/6/2000) to 116.6% (assessed at 31/1/2001). The 5-year average loss ratio rose from 116% to 132.1%.



Critical to the scheme's viability is the need to match risk and premium to produce a desired loss ratio of 80%. The year's results prompted BSA to analyse claims and identify areas of risk that are outside the scheme's primary focus, the protection of homeowners.

This analysis revealed that non-completion claims by developers of high-density residential developments could be costing the scheme up to \$1M a year. It was also identified that the introduction of the *Domestic Building Contracts Act 2000* meant it was no longer necessary or appropriate to provide insurance benefits beyond the maximum deposit referred to in the Act. Removal of these exposures from the Policy coverage has been calculated to reduce loss ratios by 7%. An insurance premium of \$5.50 per \$1 000 construction value was introduced on 1 October, 1999. This premium comprised the insurance cost, GST and a surcharge collected to provide funding for other BSA initiatives and the Queensland Building Tribunal. From 1 July 2001 the premium was increased to \$6.00 per \$1 000 construction value with the surcharge

removed to allow the full premium to be allocated to running the scheme. The net effect has been a 50% increase in the amount of premium allocated to the cost of underwriting.

Managing the Scheme

GST has had a significant impact on the cost of administering the scheme. BSA incurred an unfunded liability of \$0.3M for the GST on the unexpired portion of risk for policies issued after 8 July 1999 but before premiums increased on 1 October 1999 to include GST.

The GST also impacted heavily on claim payments. This was because of the dramatic decline in building activity, the resulting financial failure of contractors and the added cost of claim settlements. The long term viability of the fund was ensured by the insurance premium rate increase.

To provide superior homeowner benefits, the statutory insurance scheme varies from normal insurance practices as it requires the contractor to pay the premiums. While the consumer benefits are substantial, an ATO ruling that unlike general insurers BSA cannot claim a tax credit for the GST component of its claim settlements has disadvantaged the scheme. BSA made an unsuccessful attempt through the State Treasury Department to have the GST Legislation amended to overcome this anomaly. Since then, a further submission has been made for a formal assessment by the ATO. This assessment had not been received by the end of the reporting period. If unsuccessful, BSA will have to appeal the assessment or amend its legislation to overcome the problem. In the meantime, the cost of this GST is being wholly funded by the scheme.

New Policy Wording

After identifying areas of the policy coverage that needed change, BSA took the opportunity to revise the policy wording. As a result, Insurance Policy Conditions Edition 5 was developed for release on 1 July 2001.

The new policy has been reformatted to overcome difficulties identified in the existing version. The policy accounts for

the areas of exposure previously identified as outside the intended scope of the scheme.

Reinsurance

The reinsurance contract entered into on 1 October, 1999 expired on 30 June 2001. As a result of the adverse claims experience, agreement was reached with reinsurers to enter a 3-year reinsurance contract on the basis that the underwriting premium would increase by 50% and policy parameters would be adjusted to remove two identified areas of unintended policy previously referred to in Insurance Scheme Viability. BSA and its reinsurers expect that loss ratios in future years will better represent the target 80%. In recognition of the reinsurers support and the accumulated losses of past years, the agreement also provides for a 5% increase in the underwriting premium allocation on each of the two policy anniversaries. The agreement's 3-year lifespan is reliant on the average loss ratio for the last 5 years not deteriorating by any more than 2% per year for the next 2 years. Should this not be the case the renewal premium will be open to re-negotiation.

Given the adverse experience of the scheme and the hardening reinsurance market, BSA considers itself fortunate to receive the support of its reinsurers under the terms previously described.

Consultants

The total expenditure for consultants in 2000/01 was \$263 568. The major expenditure in this area related to the finance and accounting function, in particular, BSA's requirement for actuarial advice on the insurance scheme. Other significant expenditure related to Human Resources management and the development of the Enterprise Development Agreement.

The Future

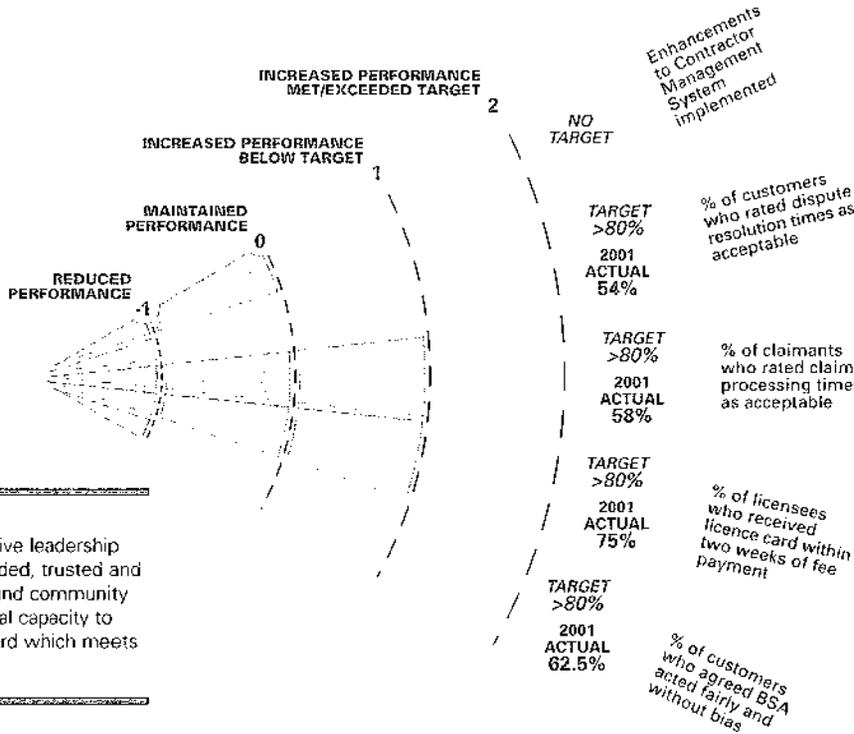
We will regularly review the actuarial performance of the Insurance Fund and our ability to respond quickly to the need for adjustment of premiums and policy coverage. We will develop and implement a five-year financial management plan for the General Fund.



"We must continue to improve our processes, maximising efficiency and building a strong revenue base that will place us in a strong financial position in the future."

- Ray Potts, Assistant General Manager

5 Leadership and Organisational Performance



Comment: Parties to disputes generally recognise BSA treats them appropriately and is fair in determining disputes. More timely processing of disputes and insurance claims will improve customers satisfaction. Enhancements to our information technology has led to a positive result for processing times.

Goals

- To foster a culture of adaptive leadership so that we are highly regarded, trusted and visible within the industry and community
- To provide the organisational capacity to deliver services to a standard which meets customer requirements

Strategies

- Implement a leadership culture which drives the values of the organisation
- Develop, drive and achieve government and industry policy initiatives
- Continually improve in line with AQC business excellence framework
- Develop staff capabilities and build upon our business systems to ensure our infrastructure is contemporary, leading edge and cost effective

Key Performance Measures 2001/02 [2005]

- Workforce Attitude Survey - Factor B >80% (>85%] agreement
- Sound progression to national consistency on key issues within the industry and government [achieved]
- AQC business excellence framework developed [AQC Quality Award]
- Efficiently and effectively managed organisation [continued]

Desired Outcomes 2005

- Best practice organisation
- Best business practices in service delivery
- Efficiency gains in costs and resourcing

Insuring Consumers

The success of BSA's Statutory Insurance Scheme is linked to a range of superior insurance benefits. BSA is the only home warranty provider that insures against subsidence and settlement in addition to providing protection for the non-completion of a contract and rectification of defective work. Consumer claims are not eroded by policy excesses that apply to claims on privately operated schemes. Each new home is provided with insurance protection up to \$200 000 for 6 years through the payment of a single insurance premium. Operation of the scheme as a statutory monopoly provides insurance benefits to everyone who contracts with a licensee regardless of whether the insurance premium has been paid.

Under the scheme, contractors must produce evidence of insurance coverage before a certifier can grant development approval. This ensures the effectiveness of premium collection strategies.

Paying BSA insurance became easier from 1 July 2000 with the introduction of BSA Insurance Phone Pay. This allows contractors to pay their premium over the phone using debit arrangement or credit card. The policy is mailed to the consumer the same day and the contractor or their certifier is faxed a confirmation notice within an hour of the phone request. Use of a 1300 phone number ensures the

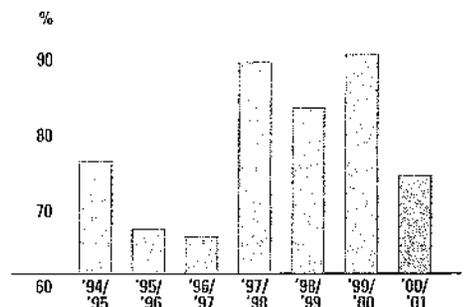
same ease of access even in regional and rural areas. The same local call costs apply throughout the State.

Equity in Decision-Making

BSA continued to demonstrate fairness in determining claims. Review applications lodged in the Queensland Building Tribunal increased to 3% of BSA's total decisions on claims. This was due to the increased volume of complex non-completion claims following the post-GST building industry slow down.

Although the number of reviews returned in BSA's favour fell from 85% in 1999/00 to 81% in 2000/01 the fairness

17 % of Tribunal reviews of insurance decisions resulting in favourable outcome for BSA



Reviews of BSA's insurance decisions produced a positive result for BSA of 73%.

of BSA's dispute resolution system continues to be affirmed through a high rate of positive outcomes.

The legislative amendments as part of the reform package have provided BSA with more efficient and accurate grounds for licence suspension and cancellation. 74% of licensing and compliance decisions were affirmed during review proceedings in the Queensland Building Tribunal.

Dispute Resolution Effectiveness

Improvements in our efficiency in the field continued with the time taken to perform initial inspections reduced by up to seven days to an average 22 days. This has been achieved in part due to the use of laptops by field staff. The reduction in times has occurred even though the 21-day resolution period remains in force, a factor that was blamed for the increase in processing times last year.

The annual customer satisfaction survey indicated that the majority of customers were pleased with the timeliness of the dispute resolution process and the personal service given by our staff. Feedback also suggests that our staff have continued to keep customers well informed during the resolution process.

Claims Processing Effectiveness

Anticipated improvements in the timeliness of claim processing were not achieved this year. This was due to an increase in the number and complexity of claims received. The customer survey revealed that while 94% of clients rated our service as satisfactory, 42% were dissatisfied with the time taken to process their claim. BSA recognises that greater attention needs to be given to some aspects of our claim processing if we are to achieve a satisfactory customer service rating.

Operational Cost Effectiveness

Disputes

A concerted plan to increase productivity through staff training and improved systems has continued to drive down the costs associated with dispute resolution. The cost per dispute satisfactorily resolved was \$1 228 compared to \$1 524 in 1999/00.

Insurance

Estimated average administrative cost per insurance claimant assisted was \$3 545 in 2000/01 compared with \$2 983 in 1999/00 and \$3 073 in 1998/99. The increase in costs was brought about by an upturn in claims and legal costs associated with reviews of BSA's decisions in the Queensland Building Tribunal.

Licensing

Total licensing operational costs (excluding compliance activities) were \$3.498M in 2000/01 compared to \$3.168M in 1999/00. Significant enhancements to the information technology based Contractor Management System and staff increases were the major contributing factors to the cost escalation.

Staff Accommodation

Plans for the relocation of BSA's Gold Coast office to Robina were finalised during the year. The move was necessary because of the expiry of the lease over the existing premises and the need to improve access for customers.

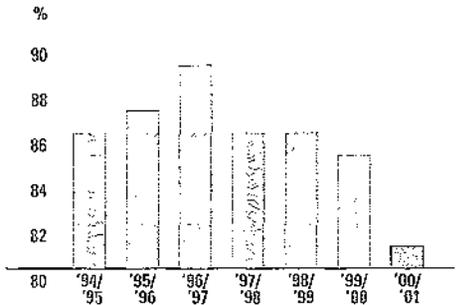
The relocation is scheduled for September 2001. The redevelopment of BSA's head office began with plans to make the building more energy efficient and improve accessibility for customers.

Information Technology

Information Technology plays a vital role in supporting our business operations. Continued enhancements to the Contractor Management System (CMS) during the year were driven by the need to implement the legislative reforms and utilise contemporary technologies to improve our business processes. This resulted in enhancements to the licensing module, redevelopment of the dispute management modules for dispute management and the call recording system being completed and successfully implemented. CMS is targeted for completion in 2001/02 with the redevelopment of software applications for Insurance Claims and Owner Builders.

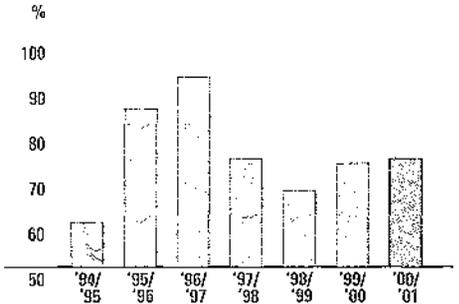
Remote computing support for building inspectors was trialed during the year, and will be extended in 2001/02.

18
% of Tribunal reviews of dispute management decisions resulting in favourable outcome for BSA



The fairness of BSA's dispute resolution, whilst slightly less than previous years financial year continues to be affirmed through Tribunal reviews.

19
% of Tribunal reviews of licensing decisions resulting in favourable outcome for BSA



Reviews of BSA's licensing and compliance decisions produced a positive result for BSA of 74%.

Infrastructure upgrades during the year were focused on replacement of end of lease equipment.

National Agenda

BSA is a member of Building Licensing Australia which consists of all State Building Licensing entities. The Charter of this group is a discussion forum. BSA through this body continued its push for national consistency regarding licensing. It is hoped that the philosophies developed through the licence class review will be generally adopted nationally.



“BSA must keep abreast of emerging technology and use it to improve internal processes and importantly, reduce costs to the customer and the organisation.”
- Renee Wilkes, Manager Administration Branch

Annual Performance Review

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Purpose and Scope

The Queensland Building Services Authority (BSA) is constituted under the provisions of the *Queensland Building Services Authority Act 1991* (the Act) and is a statutory body within the meaning given in the *Financial Administration and Audit Act 1977*.

The Financial Statements have been prepared:

- to satisfy the provisions and prescribed requirements of the *Financial Administration and Audit Act 1977*; and
- to convey information on BSA's financial performance for the year and its financial position at the close of the year to the Minister for Housing, the Queensland Parliament, contractors, consumers and the broader community.

The statements are general purpose in nature and provide a full presentation of all the financial activities of BSA.

Disclaimer

The graphs, tables and captions that appear in the body of the Annual Report do not form part of the Financial Statements as certified by the Auditor-General.

Guide to BSA's Financial Performance Review

BSA is self-funded and under its legislation is required to maintain two funds - the General Fund and the Insurance Fund. The General Fund meets all operational costs except those relating to insurance claims and the administration of the insurance scheme. The General Fund also funded the operations of the Queensland Building Tribunal (the Tribunal). Section 26 of the Act allows for the transfer of funds from the Insurance Fund to the General Fund for use in administering the Act. The maximum amount able to be transferred is set by regulation at \$5.5M.

BSA's Financial Performance Review comprises:

- Financial Overview; and
- Financial Statements for the year ended 30 June 2001.

The Financial Overview provides a strategic review of BSA's financial position at 30 June 2001 and analyses performance for the financial year 2000/01 in the context of current issues and historical trends.

The Financial Statements present BSA's consolidated financial position and the financial results for 2000/01. At Note 23 "Segment Information", the results and financial position of each Fund are presented and include the level of funding provided to the Tribunal.

The Financial Statements comprise:

- the Statement of Financial Performance which details BSA's income and expenditure for the year ended 30 June 2001;
- the Statement of Financial Position which reflects the financial position of BSA at 30 June 2001;
- the Statement of Cash Flows which shows BSA's cash receipts and payments for the year ended 30 June 2001; and
- Notes to and forming part of the Financial Statements.

Items in the Statement of Financial Performance, Statement of Financial Position and Statement of Cash Flows are referenced to the Notes, where more detail of balances is provided. The accounting policies used in the preparation of the Financial Statements are summarised in Note 1 of the Notes to and forming part of the Financial Statements.

Financial Performance Review

Financial Overview

Claims against the insurance scheme set all time records and resulted in the substantial erosion of net assets in the Insurance Fund.

Consolidated 2000/01 Outcomes

BSA's consolidated financial outcome for 2000/01 was an operating deficit of \$6.952M compared to a surplus of \$2.505M the previous year. This was a significant deterioration on the originally budgeted deficit of \$0.547M and a slightly worse result than the mid-year forecast deficit of \$6.811M. The principal reasons for the result were a 53% leap in gross insurance claim payments, increases in administrative expenses and lower than forecast returns on investments.

Operating Revenue

Total revenue fell \$1.747M (6.9%) from \$25.470M in 1999/00 to \$23.723M. Licence fee income increased by \$1.049M (12.7%) from \$8.275M to \$9.324M but insurance premium income decreased by \$1.390M (11.8%) from \$11.761M to \$10.371M. Investment revenue also fell by \$1.233M (35.6%) from \$3.463M to \$2.230M.

The major influence on operating revenue during the year was the marked decline in the level of residential building activity post the introduction of the GST. This caused the number of insurance policies issued to fall by 11 699 or 21.2% from 55 111 in 1999/00 to 43 412 in 2000/01. Investment earnings were influenced by reductions in interest rates and markets and a decreasing level of funds on investment.

An increase in licence applications from 5 063 in 1999/00 to 6 993 in 2000/01 and a Consumer Price Index based average 2.8% increase in licence fees from 1 July 2000 contributed to the overall increase in licence fees.

Operating Expenses

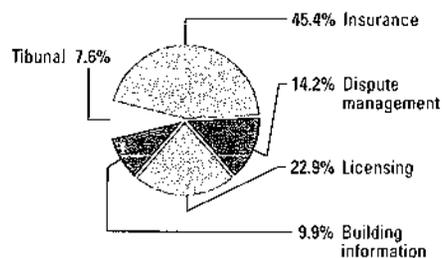
Total operating expenditure increased by \$7.710M (33.6%) from \$22.965M in 1999/00 to \$30.675M with \$5.340M or 68% of that increase being attributable to the record level of insurance claim payments. The cost of salaries and contract personnel grew by \$1.042M (13%) to \$9.075M due primarily to an increase in the use of contracted specialists and to much lesser degree by a final 3% increase in salaries under the now expired Enterprise Development Agreement. Tight constraints on discretionary expenditure were not sufficient to prevent administrative expenses increasing by \$1.225M to \$9.216M. The cost of providing information technology services, the investigation of defective work complaints including engineering and scientific advice and litigation to ensure the integrity of the licensing system were the major contributors to the increase.

BSA was also required to increase the funding provided to the Tribunal by \$0.500M from \$1.845M to \$2.345M.

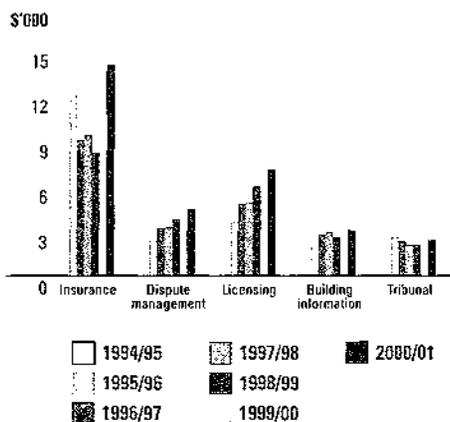
Program Costs

Figure 1 shows the proportion of 2000/01 operating expenses related to the delivery of each of BSA's programs and the Tribunal. Compared to 1999/00 the proportion of expenditure associated with the Insurance program increased 12.5% from 32.8% to 45.3% reflecting the substantial increase in claims costs. The proportion of expenditure incurred in delivering each of the other programs and the Tribunal services reduced relative to the 1999/00 distribution

1
Program costs and Tribunal funding - 2000/01



2
Inflation adjusted comparison of program costs and Tribunal funding



3
Inflation adjusted costs of Licensing sub-programs

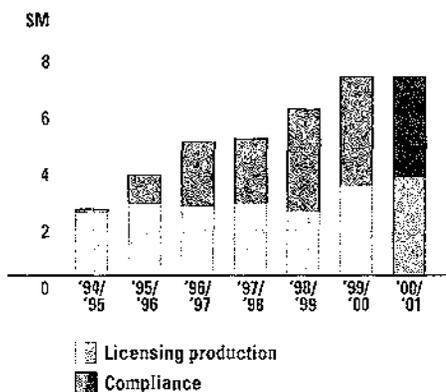


Figure 2 compares changes in program costs and Tribunal funding on an inflation-adjusted basis over the period 1994/95 to 2000/01. Figure 3 examines changes in Licensing program (inflation-adjusted) cost during the same period in terms of its two sub-components, Licensing Production and Development (application and renewal processing) and Compliance. Licensing Production and Development costs increased \$0.281M reflecting the additional effort involved in processing renewals under the more stringent requirements introduced in October 1999. Compliance related expenditure fell by \$0.278M due mainly to a lesser degree of activity in enforcing licensee accountability issues through funding assistance to liquidators and trustees.

Insurance program costs (inflation adjusted) increased by \$6.097M due primarily to the record level of claims payments and the movement in the provision for future claims.

Dispute Management program costs (inflation adjusted) increased by \$0.338M to serve the continued growth in consumer demand.

Section 25(3) of the *Queensland Building Services Authority Act 1991* provides that the cost of administering the *Queensland Building Tribunal Act 2000* is to be paid from the General Fund. The funding provision made in the original budget for 2000/01 of \$1.845M maintained the level of the previous year. However, following an approach by the Tribunal to the Cabinet Budget Review Committee for additional funding, BSA was required to increase the allocation by \$0.500M to \$2.345M. The Government has decided to fund the Tribunal from the Consolidated Fund in 2001/02. However, should BSA be required to make a significant contribution to Tribunal funding in the future, the General Fund will need a commensurate increase in revenue or a reduction in expenditure that equates to a contraction of its statutory role.

Transfers from Reserves

A contractor and consumer education reserve was established in 1994/95 for the purpose of encouraging and assisting education and research related to the building industry as provided for under s25(5) of the *Queensland Building Services Authority Act 1991*. In 2000/01 the balance in the reserve reduced by a further \$0.090M following expenditure of \$0.105M on a termite prevention education initiative (\$0.102M) and research into plasterboard joint staining (\$0.003M) off-set by income of \$0.015M from the sale of owner-builder study guides.

Financial Performance Review

Consolidated 2000/01 Outcomes

Statement of Financial Position

The \$6.946M reduction in net assets from \$11.604M to \$4.658M is a major concern and a significant reversal of the \$2.436M increase achieved in 1999/00. It reflects the \$6.924M deficit in the operating result for the Insurance Fund brought about primarily by the 53% increase in insurance claims payments and the flow-on effect from the provision for claim payments in future years.

The \$4.982M (5.8%) reduction in total assets from \$85.728M at 30 June 2000 to \$80.746M resulted principally from a net decrease in cash and investments of \$5.156M, reductions in prepayments-outward reinsurance and accrued premiums totalling \$4.207M and offset by increases in reinsurance and other recoveries receivable of \$4.604M.

Total liabilities increased to \$76.088M at 30 June 2001, an increase of \$1.964M (2.6%) on the 30 June 2000 figure. The significant increase for future insurance claims and associated costs of \$6.709M and reductions of \$2.093M in payables and \$2.484M in unearned premiums were the major contributors to this result.

BSA's ability to discharge short term commitments is measured by the current ratio (current assets/current liabilities). The operating result for the year has caused the ratio to decline from 1.61 at 30 June 2000 to 1.51 at 30 June 2001 but this is nevertheless a healthy position.

Capital Expenditure

Capital expenditure for the year, net of proceeds from disposals, amounted to \$1.054M compared to \$1.239M in 1999/00 and comprised:

◦ Leasehold improvements	\$0.061M
◦ Motor vehicles	\$0.245M
◦ Computer software	\$0.695M
◦ Furniture and equipment	\$0.053M

The major redevelopment of BSA's computer systems and applications continued during the year with the major focus being on the completion of the Call Recording and Dispute Management systems. The computer system's redevelopment costs have been capitalised as intangibles and will be amortised over the expected useful life of the asset from the time it is first used. The \$0.031M expended on the development of a CD ROM to put educational material on the residential building process within reach of more consumers is included in the computer software costs.

BSA has a fleet of 38 motor vehicles, 70% of which are utilised by Building Inspectors in the delivery of the dispute management service.

Consultancy Expenditure

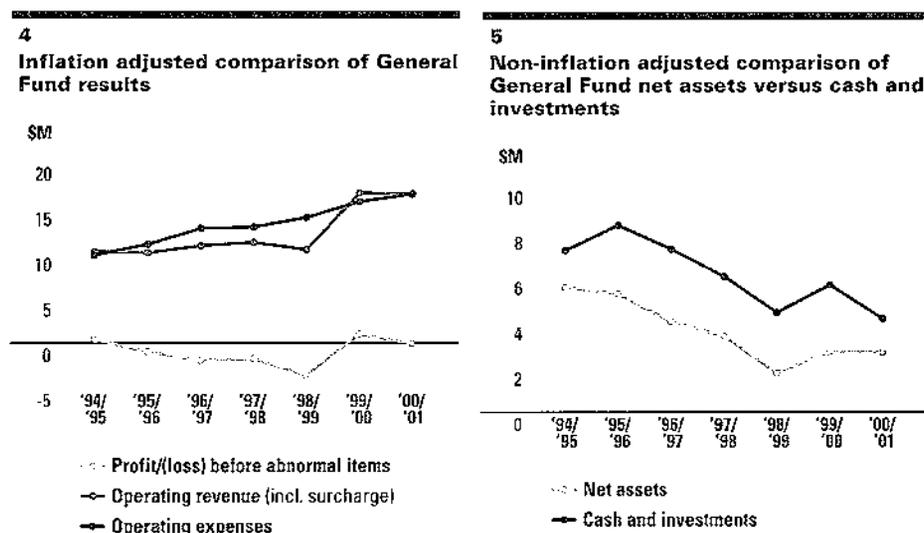
Expenditure on consultant's fees increased from \$0.168M in 1999/00 to \$0.198M. Actuarial and internal audit services constitute the bulk of consultancy usage by BSA. Other significant expenditure related to Human Resources management and the development of the Enterprise Development Agreement.

General Fund 2000/01 Outcomes and Performance Review

	2000/01 \$000	1999/00 \$000	1998/99 \$000	1997/98 \$000	1996/97 \$000
Historical Comparison of General Fund Performance					
<i>Non-inflation adjusted</i>					
Statement of financial performance					
Operating revenue	16 432	15 897	9 730	10 392	9 974
Operating expenses	16 460	14 889	12 827	11 631	11 194
Operating profit / (loss) before abnormal items	(28)	1 008	(3 097)	(1 239)	(1 220)
Abnormal items	0	0	1 450	0	0
Operating profit / (loss) after abnormal items	(28)	1 008	(1 647)	(1 239)	(1 220)
Statement of financial position					
Total assets	8 995	9 733	8 080	10 211	10 334
Total liabilities	6 359	7 075	6 361	6 845	6 338
Net assets	2 636	2 658	1 719	3 366	3 996
<i>Inflation adjusted</i>					
Statement of financial performance					
Operating revenue	16 432	16 591	10 325	11 118	10 756
Operating expenses	16 460	15 609	13 878	12 815	12 656
Operating profit / (loss) before abnormal items	(28)	982	(3 553)	(1 697)	(1 901)
Abnormal items	0	0	1 539	0	0
Operating profit / (loss) after abnormal items	(28)	982	(2 014)	(1 697)	(1 901)
Statement of financial position					
Total assets	8 995	10 158	8 574	10 924	11 143
Total liabilities	6 359	7 384	6 750	7 323	6 834
Net assets	2 636	2 774	1 824	3 601	4 309
Inflation factor					
At the beginning of the financial year	126.4	123.1	122.3	121.1	120.4
At the end of the financial year	134.0	126.4	123.1	122.3	121.1
Average	130.2	124.8	122.7	121.7	120.8
CPI movement	1.0000	1.0437	1.0611	1.0698	1.0783
AWOTE movement to June 2000	1.0000	1.0530	1.1028	1.1337	1.1830
50% CPI, 50% AWOTE applied to expenditure	1.0000	1.0484	1.0819	1.1018	1.1306

Financial Performance Review

General Fund 2000/01 Outcomes and Performance Review



The General Fund returned an operating deficit after abnormal items of \$0.280M compared with a forecast surplus of \$0.228M in the mid-year budget review and an actual surplus of \$1.008M in 1999/00. As a result, net assets of the General Fund have reduced slightly by \$0.022M (after allowing for an increase in the asset revaluation reserve of \$0.006M) to \$2.636M at 30 June 2001. The income of \$16.432M which included a \$5.000M transfer from the Insurance Fund compared favourably with the original budget \$16.622M (including a \$5.500M transfer from the Insurance Fund) and the mid-year forecast of \$16.085M. Expenditure excluding the Tribunal, was \$14.115M compared to the original budget of \$13.202M and the mid-year forecast of \$13.512M. This situation can be attributed mainly to the higher than expected cost of prosecuting offences against the *Queensland Building Services Authority Act 1991* including major offences arising from investigations into the causes of termite infestation and in responding to appeals against BSA's decisions on licensing and dispute resolution issues. The cost of engineering and scientific investigations undertaken to assist in resolving consumer complaints of defective building work also exceeded budget by a significant margin. However, these investigations are largely unavoidable given the nature of the defects reported and the onus placed on BSA for brokering an equitable solution to building disputes.

Figure 4 examines BSA's General Fund operating revenue and expenditure trends in inflation adjusted terms for the period 1994/95 to 2000/01. Revenues remained relatively flat until 1999/00 when \$5.500m was transferred from the Insurance Fund under the strategy endorsed by the Government for providing the level of funding needed for delivery of the licensing, dispute management and building information programs. A further transfer of \$5.000M was made in 2000/01. On the other hand, expenditure has continued to increase in response to a number of factors. The most significant of these are increases in the demand for general building information and advice, assistance with dispute resolution and a more vigorous and extensive compliance agenda. The increased effort associated with the processing of licence renewals under the more stringent criteria introduced as part of the Better Building Industry Reforms also influenced the upward expenditure trend.

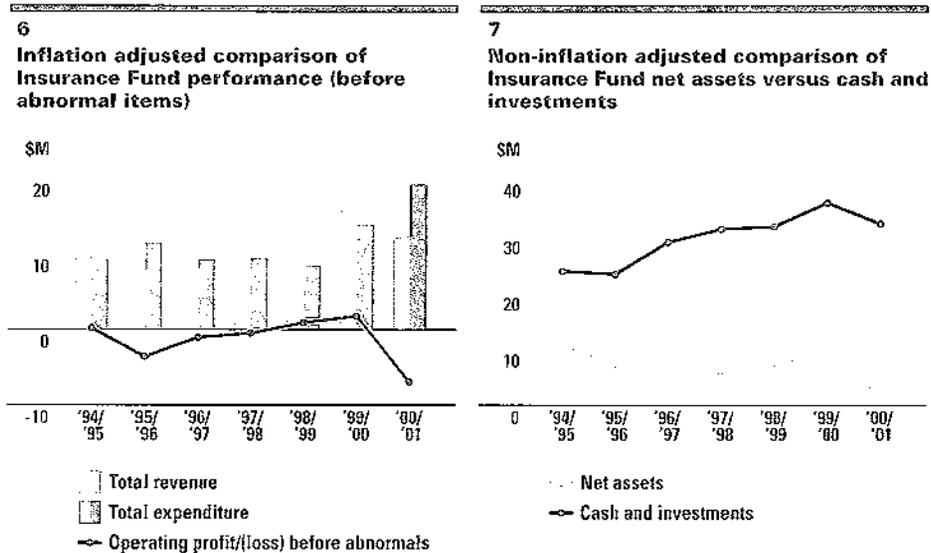
Figure 5 shows the changes in the General Fund's net asset and cash and investments holdings over the period 1994/95 to 2000/01 and shows the impact on net assets of the transfer of \$10.5M from the Insurance Fund over the two years 1999/01. The reduction in cash and investment holding in 2000/01 results from a reduction in cash as a result of operating activities of \$0.372M and investment in capital acquisitions of \$1.207M.

Insurance Fund 2000/01 Outcomes and Performance Review

	2000/01 \$000	1999/00 \$000	1998/99 \$000	1997/98 \$000	1996/97 \$000
Historical comparison of Insurance Fund Performance					
<i>Non-inflation adjusted</i>					
Statement of financial performance					
Gross revenue	12 291	15 073	8 862	8 417	7 646
Operating expenses	5 838	4 794	4 731	4 521	4 545
Claims expenses	8 377	3 037	3 113	4 086	3 689
Transfer to General Fund	5 000	5 500	0	0	0
Total expenses	19 215	13 331	7 844	8 607	8 234
Operating profit / (loss) before abnormal items	(6 924)	1 742	1 018	(190)	(588)
Abnormal items	0	(245)	356	(453)	0
Operating profit / (loss) after abnormal items	(6 924)	1 497	1 374	(643)	(588)
Statement of financial position					
Total assets	71 751	75 995	69 855	67 934	62 550
Total liabilities	69 729	67 049	62 406	61 859	55 832
Net assets	2 022	8 946	7 449	6 075	6 718
<i>Inflation adjusted</i>					
Statement of financial performance					
Gross revenue	12 291	15 731	9 404	9 005	8 244
Operating expenses	5 838	5 026	5 119	4 981	5 139
Claims expenses	8 377	3 184	3 368	4 502	4 171
Transfer to General Fund	5 000	5 740	0	0	0
Total expenses	19 215	13 950	8 487	9 483	9 310
Operating profit / (loss) before abnormal items	(6 924)	1 781	917	(478)	(1 066)
Abnormal items	0	(256)	378	(485)	0
Operating profit / (loss) after abnormal items	(6 924)	1 525	1 295	(963)	(1 066)
Statement of financial position					
Total assets	71 751	79 315	74 125	72 679	67 445
Total liabilities	69 729	69 978	66 221	66 179	60 201
Net assets	2 022	9 337	7 904	6 500	7 244
Inflation factor					
At the beginning of the financial year	126.4	123.1	122.3	121.1	120.4
At the end of the financial year	134.0	126.4	123.1	122.3	121.1
Average	130.2	124.8	122.7	121.7	120.8
CPI movement	1.0000	1.0437	1.0611	1.0698	1.0783
AWOTE movement to June 2000	1.0000	1.0530	1.1028	1.1337	1.1830
50% CPI, 50% AWOTE applied to expenditure	1.0000	1.0484	1.0819	1.1018	1.1306

Financial Performance Review

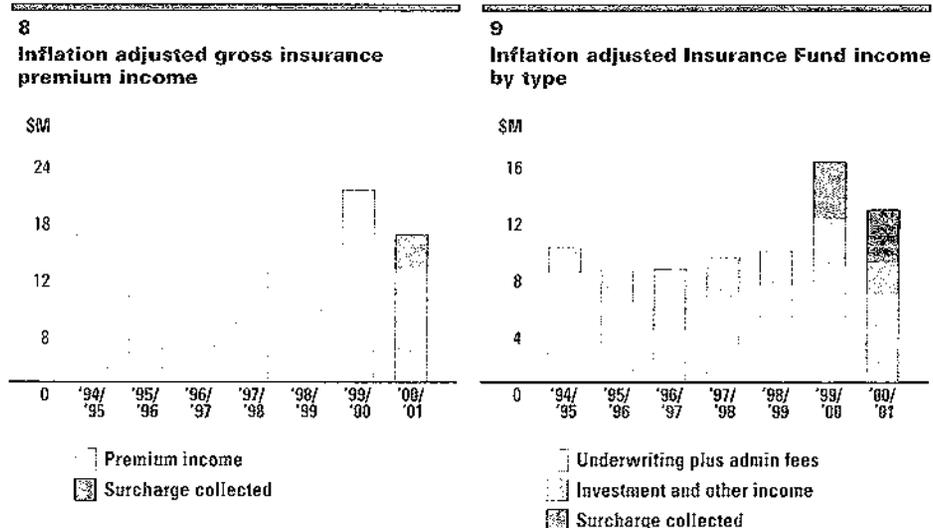
Insurance Fund 2000/01 Outcomes and Performance Review



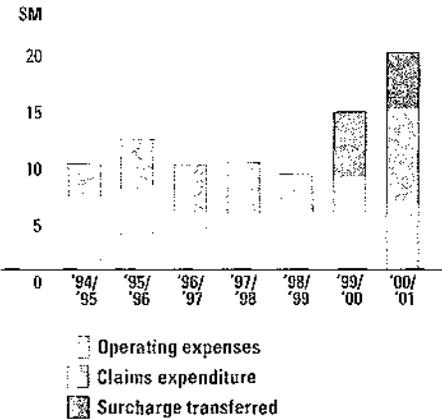
Insurance Fund results are depicted in Figures 6 and 7. The Fund recorded an operating deficit of \$6.924M compared with a forecast deficit of \$0.140M in the original budget which was revised to a deficit of \$6.944M in the mid year review. In 1999/00 the Fund recorded a surplus of \$1.497M. The Insurance Fund net asset position deteriorated markedly from \$8.946M at 30 June 2000 to \$2.022M as 30 June 2001. Figure 7 depicts the changes in the Insurance Fund net assets and cash and investments over the period since 1994/95 and shows the impact of the record level of claims approved and paid in the reporting year.

Gross income for the year was \$12.291M compared with the original forecast of \$13.885M which was reduced to \$10.277M at midyear. The mid year adjustment was due to the worse than expected fall-off in building activity post the introduction of the GST and the much lower than anticipated returns on investments. In the last few months of the year building activity improved under the influence of the first homeowners grants scheme and the number of policies issued in the year fell short of the original forecast by only 88. However, because insurance premiums are now based on the value of work under contract, income is sensitive to any change in the nature of activity. The average contract value in 2000/01 was \$74 624 compared to \$76 902 in 1999/00. This suggests that the bulk of activity in the first three quarters was concentrated mainly on renovations and additions rather than new dwelling construction.

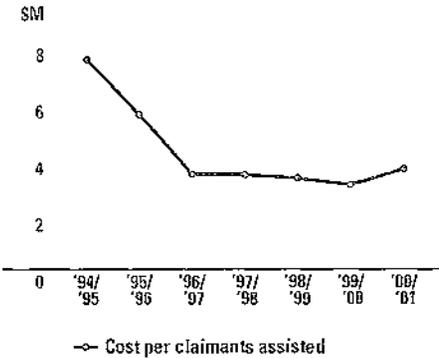
Figure 8 illustrates inflation-adjusted gross premium income for the period 1994/95 to 2000/01 and indicates the cyclical nature of industry activity as well as the effect of



10
Inflation adjusted Insurance Fund expenditure by type



11
Inflation adjusted comparison of administration costs per claimant assisted



the GST, pre and post introduction. The surcharge component of premium (\$3.719M in 2000/01) is shown separately as it is collected solely to service the requirements of the General Fund.

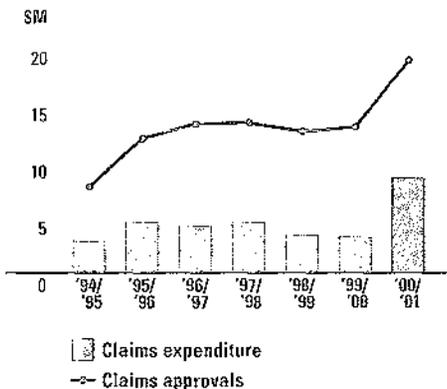
Figure 9 compares inflation-adjusted income by type for the period 1994/95 to 2000/01. Reduced premium income, substantial increases in claim payments and lower returns combined to reduce investment income.

The unprecedented level and value of insurance claims made in 2000/01 pushed expenditure for the year to a record \$19.215M compared with the original forecast of \$14.024M and mid year forecast of \$17.221M. The transfer of \$5.000M to the General Fund is included in the expenditure figure.

Figure 10 shows Insurance Fund expenditure by type in inflation adjusted terms over the period 1994/95 to 2000/01. Operating expenses in 2000/01 increased 16% on the previous year and is commensurate with the increased claims activity. The higher numbers of more complex non-completion claims and reviews of BSA decisions also contributed to the rise in operating expenses. For these reasons the inflation-adjusted cost per claimant assisted increased from \$2 983 in 1999/00 to \$3 545 in 2000/01 (Figure 11 refers).

Gross claim payments for the year was a record \$18.726M and 50% up on the previous year figure of \$12.250M. (Figure 12 refers). The actuarially assessed provision for future claims costs and the administration of those claims also increased by \$6.709M. BSA reinsures a percentage of the insurance risk and its share of the 2000/01 claims payments and the provision for future claims was \$8.377M.

12
Inflation adjusted comparison of claims expenditure and gross claim payments



Statement of Financial Performance

for the year ended 30 June 2001

	<i>Note</i>	2001 \$000	2000 \$000
Operating revenues from ordinary activities			
Licence renewal and application fees	2	9 324	8 275
Underwriting premiums	3	2 510	2 261
Investment revenue	4	2 230	3 463
Administration fees	3	4 142	5 616
Surcharge collected	3	3 719	3 884
Other revenue	5	1 798	1 971
Total operating revenues from ordinary activities	23	23 723	25 470
Operating expenses from ordinary activities			
Administrative expenses	7	9 216	7 991
Underwriting claims	3	8 377	3 037
Salaries and contract personnel		9 075	8 033
Other expenses	8	1 662	1 859
Queensland Building Tribunal funding		2 345	1 800
Uncollected GST payable on insurance premiums	9	-	245
Total operating expenses from ordinary activities		30 675	22 965
Profit/(loss) from ordinary activities	11, 28, 23	(6 952)	2 505
Transfer from reserves	10	90	72
Net profit/(loss)	10, 28	(6 862)	2 577
Increase/(decrease) in reserves:			
Asset revaluation reserve	10	6	(69)
Contractor and consumer education reserve	10	(90)	(72)
		(84)	(141)
Total changes in equity other than those resulting from transactions with owners as owners		(6 946)	2 436

The above Statement of Financial Performance is to be read in conjunction with the Notes to and forming part of the Financial Statements.

Statement of Financial Position

as at 30 June 2001

	Note	2001 \$000	2000 \$000
Current assets			
Cash	1(q)	(501)	(473)
Receivables	13	1 533	1 825
Reinsurance and other recoveries receivable	14	10 476	8 800
Deferred acquisition costs	1(g)	–	240
Other financial assets	12	36 698	41 826
Other	15	4 082	8 173
Total current assets		52 288	60 391
Non-current assets			
Reinsurance and other recoveries receivable	14	25 095	22 167
Property, plant and equipment	16	1 836	1 976
Intangibles	17	1 527	1 194
Total non-current assets		28 458	25 337
Total assets	23	80 746	85 728
Current liabilities			
Payables	18	12 167	14 260
Provisions	19	1 636	1 909
Future claims and associated costs	21	15 710	13 742
Unearned premiums	20	5 125	7 609
Total current liabilities		34 638	37 520
Non-current liabilities			
Provisions	19	862	757
Future claims and associated costs	21	40 588	35 847
Total non-current liabilities		41 450	36 604
Total liabilities		76 088	74 124
Net assets	23	4 658	11 604
Equity			
Reserves	10	675	759
Retained profits	11	3 983	10 845
Total equity		4 658	11 604

The above Statement of Financial Position is to be read in conjunction with the Notes to and forming part of the Financial Statements.

Statement of Cash Flows

for the year ended 30 June 2001

<i>Note</i>	2001 \$000	2000 \$000
Cash flows from operating activities		
Received from roll fees	8 687	8 602
Surcharge collected	2 987	3 884
Received from administration fees	3 118	5 217
Received from interest	555	562
Received from other revenue	1 542	1 644
GST collected on sales	3 424	1 514
GST refunds received from the ATO	972	-
	21 285	21 423
Payments to creditors	(8 111)	(9 222)
GST paid on purchases of goods and services	(2 146)	-
GST paid to the ATO	(2 098)	-
Payments to employees	(9 097)	(8 063)
	(21 452)	(17 285)
	(167)	4 138
Received from premiums	5 871	10 134
Payments to reinsurers	(7 291)	(7 915)
Claims paid	(17 516)	(11 783)
Received from reinsurers	13 389	9 370
	(5 547)	(194)
Net cash provided by operating activities	28	3 944
Cash flows from investing activities		
Payments for plant and equipment	(1 247)	(1 662)
Proceeds from sale of investments	-	1 531
Proceeds from sale of plant and equipment	130	217
Net cash used in investing activities	(1 117)	86
Net increase/(decrease) in cash held	(6 831)	4 030
Cash at the beginning of the financial year	12 783	8 753
Cash at the end of the financial year	29	12 783

The above Statement of Cash Flows is to be read in conjunction with the Notes to and forming part of the Financial Statements.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements are general purpose financial reports that have been prepared in accordance with applicable Australian Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Abstracts) and the requirements prescribed by:

- the *Queensland Building Services Authority Act 1991*;
- section 46F of the *Financial Administration and Audit Act 1977*; and
- the *Financial Management Standard 1997*.

The financial statements are prepared in accordance with the historical cost convention and do not take into account changing money values or, except where stated, current valuations of non-current assets. The accounting policies adopted are consistent with those of previous years unless otherwise stated. Comparative information is reclassified where appropriate to enhance comparability.

The Queensland Building Services Authority (BSA) is comprised of a General Statutory Fund and an Insurance Fund as stipulated by Sections 25 and 26 of the *Queensland Building Services Authority Act 1991*. The financial statements of the Authority have been prepared as a consolidation of both Funds. The balances and effects of transactions between the Funds included in the consolidated financial statements have been eliminated. Note 23, shows the results and financial position of each Fund as at 30 June 2001.

Having regard to the nature of the general insurance business conducted by the Authority, certain disclosures have been made in the Statement of Financial Performance and Statement of Financial Position, which are additional to those required by the *Financial Management Standard 1997*.

(b) Ministerial portfolio

The BSA is a statutory body within the portfolio of the Minister for Public Works and Housing. The principal place of business for the BSA is 11 Edmondstone Street, South Brisbane, Queensland.

(c) Premium revenue

Insurance premiums comprise amounts charged to policyholders. The earned portion of premiums received and receivable, including unclosed business, is recognised as revenue. Premium is treated as earned from the date of attachment of risk. Premiums on unclosed business are accrued at the end of the reporting period with the earned component being treated as income.

The pattern of recognition of income over the policy of indemnity period is based on time, where this closely approximates the pattern of risk underwritten. Unearned premiums are determined by apportioning the premiums written in the year, using the one twenty-fourth method for reinsurance business, over the period of indemnity from the attachment of the risk.

(d) Outward reinsurance

Premiums ceded to reinsurers are recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of outward reinsurance premiums is treated at the balance date as a prepayment.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 1 Summary of significant accounting policies (continued)

(e) Claims

Claims expenses and a liability for outstanding claims are recognised in respect of direct insurance business. The liability covers claims reported but not yet paid, incurred but not reported (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims, IBNR's and settlement costs using statistics based on past experience and trends. Outstanding claims relating to "long-tail" classes are subject to independent actuarial assessment. "Long-tail" classes refer to claims not settled within one year of the incidence of risk.

The liability for outstanding claims for "long-tail" classes is measured as the present value of the expected future payments. These payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as inflation. Such estimates are subject to uncertainty due to variations of both a random and non-random nature, which may affect components of the estimates. The expected future payments are discounted to present value at the balance date using market determined, risk adjusted discount rates. The details of rates applied are included in Note 21.

The liability for outstanding claims is calculated using a "best estimate" methodology, which is a central estimate of likely future claim payments. This central estimate is intended to be neither optimistic nor pessimistic about the development of claims in the future.

Goods and services tax (GST) on claims expenditure

The Authority incurs GST for which it is currently unable to claim an input tax credit on all claim settlements made from and including 1 July 2000.

For claims settled after 30 June 2000 for events which occurred before 1 July 2000 the Authority is able to claim a percentage of the GST paid (in accordance with the participation rates as detailed in Note 3) from its reinsurers.

A percentage of the GST paid cannot be passed to the reinsurers for claims for which the event occurred after 30 June 2000.

(f) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid and IBNR's are recognised as revenue. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable in relation to "long-tail" classes are measured as the present value of the expected future receipts, which are calculated on the same basis as the liability for outstanding claims.

The details of discount and inflation rates applied are included in Note 21.

(g) Acquisition costs

A portion of acquisition costs relating to unearned premium revenue was recognised as an asset as it represented a future benefit. Deferred acquisition costs were amortised over the financial years expected to benefit from the expenditure. The asset was fully amortised during the reporting period and is no longer brought to account, as insurance policies are no longer written by agents, on BSA's behalf.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 1 Summary of significant accounting policies (continued)

(h) Receivable and revenue recognition

Insurance claims recoverable from licensed builders are recognised when a claim is paid to the consumer. Tribunal fines receivables are recognised when an order from the Tribunal is issued in favour of the Authority. Magistrates Court fines receivables are recognised when a conviction from the Magistrates Court is issued in favour of the Authority. Appraisals of government contracts receivable are recognised when the services provided by the Authority are invoiced at the end of each month.

Debtors are reviewed on an ongoing basis. Debts, which are known to be uncollectable, are written off. A provision for doubtful debts is raised where some doubt exists and in any event where the debt is more than 180 days overdue.

(i) Non-current assets

The carrying amount of non-current assets is reviewed to determine whether they are in excess of their recoverable amount at balance date. The recoverable amount of an asset is the amount expected to be recovered through the net cash inflows arising from its continued use. If the carrying amount of non-current assets exceeds the recoverable amount, the asset is written down to the lower amount. To the extent that a revaluation decrement reverses a revaluation increment previously credited to, and still included in the balance of, the asset revaluation reserve, the decrement is debited directly to that reserve. Otherwise, the decrement is recognised as an expense in the Statement of Financial Performance. In assessing recoverable amount the relevant cash flows have not been discounted to the present value. The threshold for recognising non-current physical assets in the financial statements on acquisition is \$1 000.

Property, plant and equipment are valued taking account of the deprival value approach embodied in the Queensland Treasury Policy on Recording and Valuation of Non-current Physical Assets.

An election has been made to continue to use deprival value as the basis of valuation until 30 June 2001. However, from 1 July 2001, some non-current physical assets will be revalued using fair value principles in accordance with *AAS 38 Revaluation of Non-current Assets*.

(j) Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(k) Depreciation and amortisation

Depreciation and amortisation are provided as appropriate on all non-current assets, other than land, using a straight line method of calculation at rates determined by the estimated useful life of the assets to the economic entity commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessment for major items.

Depreciation commences from the date an asset is controlled, serviceable and ready for use. The rates of each class of asset are:

Office furniture and equipment	15% – 33.33%
Motor vehicles	15%
Computer equipment	33.33%
Leasehold improvements	20% – 50%

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

	Note	2001 \$000	2000 \$000
Note 2 Licence renewal and application fees			
Renewal fees		8 430	7 582
Application fees		894	693
		9 324	8 275
Note 3 Underwriting			
3.1 Underwriting premiums			
Premiums received		8 037	10 388
Less: Outward reinsurance premium expense		6 025	7 679
Loss year distribution paid to reinsurers		203	-
Authority's share of premiums		1 809	2 709
Less: Unearned premiums at end of year	20	1 281	1 982
Total premiums received and earned during the year		528	727
Add: Unearned premiums brought to account		1 982	1 534
Underwriting premiums		2 510	2 261
Underwriting claims			
Claims approved and charged		25 920	13 028
Less: Reinsurance and other recoveries revenue		17 543	9 991
Underwriting claims	24	8 377	3 037
Profit/(loss) on underwriting		(5 867)	(776)
Participation in the Insurance Scheme			
Date	Authority	Brokers/Reinsurers	
Pre - 01/07/91	10%	90%	
01/07/91 - 30/06/98	25%	75%	
01/07/98 - 30/09/99	30%	70%	
01/10/99 - 30/06/01	25%	75%	
3.2 Administration Fees			
Administration fees received		3 826	5 217
Movement in the provision for future claims processing	21	316	399
Administration fees after provision for future claims processing		4 142	5 616
3.3 Surcharge collected		3 719	3 884

The surcharge collected is transferred to the General Statutory Fund pursuant to a change to Section 26 of the Queensland Building Services Authority Act 1991. The actual amount transferred in the reporting period was \$5M.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

	<i>Note</i>	2001 \$000	2000 \$000
Note 4 Investment revenue			
Interest		498	562
Changes in net market value of investments			
- Realised		-	19
- Unrealised		1 732	2 882
		2 230	3 463
Note 5 Other revenue			
Court fines awarded		502	472
Search fees		245	284
Owner builder fees		342	365
Gain on sale of non-current assets	6	7	(8)
Other		304	381
Appraisal of government contracts		398	477
		1 798	1 971
Note 6 Gain on a disposal of non-current assets			
Proceeds from sale of non-current assets		130	217
Carrying value of non-current assets sold or disposed		(123)	(225)
Gain on disposal	5	7	(8)
Note 7 Administrative expenses			
Equipment maintenance		325	228
Information Systems Maintenance		695	378
Computer lease rentals		511	318
Miscellaneous office equipment		106	110
Office rentals and outgoings		1 018	936
Legal fees		1 382	1 150
Engineering and other commission fees		1 296	793
Consultants fees		198	168
Printing and stationery		752	871
Travelling expenses		130	134
Motor vehicle expenses		181	227
Postage and telephones		846	785
Superannuation		704	655
Payroll tax		461	408
Fringe benefits tax		75	82
Advertising		83	274
Other		453	474
		9 216	7 991

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

<i>Note</i>	2001 \$000	2000 \$000
Note 8 Other expenses		
Auditors remuneration – audit of financial statements	42	12
Board members' fees and functions	31	51
Premium acquisition costs and sighting fees	295	319
Provision for doubtful debts	208	404
Depreciation	576	571
Amortisation	363	240
Provision for long service leave	157	81
Provision for annual leave	(10)	181
	1 662	1 859
Note 9 Uncollected GST payable on insurance premiums		
Provision for GST	–	(245)
	–	(245)
Note 10 Reserves		
Consumer and contractor education reserve 1(p)	129	219
Asset revaluation reserve	546	540
	675	759
Contractor and consumer education reserve		
Balance at beginning of year	219	291
Add: Funds transferred from revenue	15	22
Less: Funds applied/transferred to retained profits	105	94
Balance at end of year	129	219
Asset revaluation reserve		
Balance at beginning of year	540	609
Add: Revaluation of assets	52	42
Less: Write down of assets	46	111
Balance at end of the year	546	540
Note 11 Retained profits		
Balance at beginning of year	10 845	8 268
Profit/(loss) from ordinary activities	(6 952)	2 505
Transfer (to)/from reserves	90	72
Balance at end of the year	3 983	10 845
Note 12 Other financial assets		
On call and overnight deposits and cash trust investments	6 453	13 256
Government and semi-government stock – at market value	30 245	28 570
	36 698	41 826

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note	2001 \$000	2000 \$000
Note 13 Receivables		
Current		
Sundry debtors	15 843	18 076
Less: Provision for doubtful debts	14 310	16 251
	1 533	1 825
Note 14 Reinsurance and other recoveries receivable		
Current		
Reinsurance and other recoveries receivable	10 476	8 800
Non-current		
Reinsurance and other recoveries receivable	25 095	22 167
Note 15 Other assets		
Current		
Prepayments	238	122
Prepayments – Outward reinsurance	20 3 844	5 627
Accrued premiums	–	2 424
	4 082	8 173
Note 16 Property, plant and equipment		
At cost and valuation*	3 350	3 029
Less: Provision for depreciation	1 514	1 053
	1 836	1 976
* An independent valuation of all property, plant and equipment, except motor vehicles, was undertaken in 1998. Motor vehicles and other asset acquisitions during the financial years ended 30 June 1999, 2000 and 2001 are included at cost.		
Note 17 Intangibles		
Non-current		
Computer systems redevelopment costs	1(k), 1(o) 2 206	1 541
Less: Amortisation	710	347
	1 496	1 194
CD Rom development costs	1(k), 1(o) 31	–
	1 527	1 194
Note 18 Payables		
Current		
Sundry creditors	6 806	8 152
Accruals	1 306	178
Roll fees	3 806	4 443
GST collected on premiums	249	1 514
Other	–	(27)
	12 167	14 260

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

<i>Note</i>	2001 \$000	2000 \$000
Note 19 Provisions		
Current		
Long service leave	726	637
Annual leave	910	926
Provision for GST payable	30	346
	1 636	1 909
Non-current		
Long service leave	409	358
Provision for GST payable	30	453
	862	757
Note 20 Unearned premiums		
Current		
Authority's share	3	1 281
Outward reinsurance	15	3 844
	5 125	7 609
Note 21 Future claims and associated costs		
Expected future claims payments	66 023	57 702
Discount to present value	(9 725)	(8 113)
Liability for outstanding claims	56 298	49 589
Current	15 710	13 742
Non-current	40 588	35 847
	56 298	49 589
Represented by:		
Future claims provision	50 012	42 987
Future claims processing provision	3	6 286
	56 298	49 589
	2001 %	2000 %
The following average inflation rates and discounts rates were used in the measurement of outstanding claims:		
For the succeeding year		
Inflation rate	3.5	3.5
Discount rate	6.0	6.0
For subsequent years		
Inflation rate	3.5	3.5
Discount rates	6.0	6.0
	2001 years	2000 years
The weighted average expected term of Settlement of the outstanding claims from the balance date is estimated to be:		
	2.9	2.8

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

	2001 \$000	2000 \$000
Note 22 Commitments		
Operating lease commitments		
Total operating lease expenditure contracted for at balance date but not provided for in the accounts, payable:		
– Not later than one year	1 569	1 168
– Later than one year and not later than five years	3 813	3 148
– Later than five years	83	833
	5 465	5 149
The Authority leases property, plant and equipment under operating leases expiring from 1 to 10 years. Property leases generally provide the Authority with a right of renewal at which time all terms are renegotiated.		
Note 23 Segment information		
As stated in Note 1(a), the Authority is comprised of a General Statutory Fund and an Insurance Fund. The General Statutory Fund derives the majority of its revenue from fees received from building industry contractors to obtain and renew licences required under the <i>Queensland Building Services Authority Act 1991</i> and the transfer of funds up to a maximum of \$5.500M from the Insurance Fund in accordance with legislative amendments which took effect from 1 October 1999. The Insurance Fund derives its revenue from underwriting premiums and administration fees from operating the insurance scheme.		
Segment revenue derived by each of the funds is as follows:		
General Statutory Fund	16 432	15 897
Less: Transfer of funds from Insurance Fund	5 000	5 500
	11 432	10 397
Insurance Fund	12 291	15 073
	23 723	25 470
All revenue has been derived externally.		
Segments results, of each fund are as follows:		
General Statutory Fund	(28)	1 008
Insurance Fund	(6 924)	1 497
	(6 952)	2 505

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

	2001 \$000	2000 \$000
Note 23 Segment information (continued)		
The carrying amount of net assets in respect of each Fund is as follows:		
General Statutory Fund	2 636	2 658
Insurance Fund	2 022	8 946
	4 658	11 604
The carrying amounts of total assets with respect to each fund are as follows:		
General Statutory Fund	8 995	9 733
Insurance Fund	71 751	75 895
	80 746	85 728
Represented by:		
General Statutory Fund		
Cash assets	(232)	(362)
Other financial assets	4 352	5 938
Receivables	538	465
Other assets	1 057	572
Property, plant and equipment and intangibles	3 280	3 120
	8 995	9 733
Insurance Fund		
Cash assets	(269)	(111)
Other financial assets	32 346	35 888
Receivables	36 566	32 327
Other assets	3 025	7 841
Property, plant and equipment and intangibles	83	50
	71 751	75 996

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

	Current Year \$000	2001 Prior Years \$000	Total \$000	Current Year \$000	2000 Prior Years \$000	Total \$000
Notes 24 Net claims incurred						
Current period claims relate to risks borne in the current reporting period. Prior period claims relate to a reassessment of the risks borne in the previous reporting period.						
Gross claims incurred and related expenses – undiscounted	7 447	20 142	27 589	7 518	5 493	13 011
Reinsurance and other recoveries – undiscounted	(4 965)	(13 666)	(18 631)	(5 418)	(3 846)	(9 264)
Net claims incurred – undiscounted	2 482	6 476	8 958	2 100	1 647	3 747
Discount and discount movement – gross claims incurred	(1 294)	(376)	(1 670)	(1 296)	1 313	17
Discount and discount movement – reinsurance and other recoveries	861	91	952	933	(1 007)	(74)
Net discount movement	(433)	(285)	(718)	(363)	306	(57)
Total discounted net incurred claims	2 049	6 191	8 240	1 737	1 953	3 690

	Note	2001 \$000	2000 \$000
Other recoveries undiscounted			
Claims recoverable from Licensees		16 260	8 397
Provision for doubtful debts		(16 117)	(7 099)
		143	1 298
Reinsurer's portion		(280)	(645)
Total undiscounted recoveries		(137)	653
Total discounted net incurred claims		8 240	3 690
Less: Other recoveries undiscounted		(137)	653
	3	8 377	3 037

Explanation of material variances

The change in net claims incurred from prior years for direct business is primarily as a result of settling of prior years claims liabilities, the inclusion of current year liabilities and refinements to the valuation methodology.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 25 Events subsequent to balance date

At 30 June 2001 the value of the Insurance Fund's investments in the Queensland Investment Corporation Investment Trust stood at \$20.4M. Due to a general downturn in equity markets the value of those investments had reduced by \$0.716M at 31 August 2001 and the recent events in the United States has the potential to further influence their value. However, these investments are long term and it is not the intention of the Authority to realise them in 2001/02.

Note 26 Consolidated revenue grant – contingent liability

During the 1998/99 financial year the Authority received a \$1.45M grant from the State Government Consolidated Revenue. The grant was made to provide short-term funding support for BSA pending resolution of BSA's long-term funding strategy through the Government's Better Building Industry reforms. The grant was treated as income in the Authority's accounts and as a general expense in the Government's accounts for 1998/99. As a result of a subsequent Cabinet Decision, the Government requires the grant to be repaid on a future date. Treasury advice is that the funds are to be repaid as a dividend, with the timing of this repayment dependent upon BSA's capacity to do so and to be examined in the 2001/02 budget development process.

As at 30 June 2001, the value of the contingent liability remained at \$1.45M. Provision for payment of the contingent liability, in full or part, was not made in the 2001/02 BSA budget.

Note 27 Financial instruments

BSA invests in Queensland Investment Corporation (QIC) Cash Trust, QIC Investment Trust and Queensland Treasury Corporation (QTC) Cash Fund.

The investment managers of the pooled investment vehicles have invested in a variety of financial instruments, including derivatives, which expose the Authority's investment to a variety of investment risks, including interest rate risk, credit risk, market risk and currency risk.

The Authority obtains regular reports from each investment manager on the nature of the investment made and the associated risks and returns. The Authority seeks information from the investment managers of each proposed collective investment, and may also seek independent advice from other qualified persons, so as to determine the nature and extent of risk, and expected returns associated with each investment prior to determining its suitability as an investment for the Authority. This includes the receipts of a formal Risk Management Statement from each manager.

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 27 Financial instruments (continued)

a) Interest Rate Risk Exposures

The Authority's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

	Floating interest rate \$000	Fixed interest maturing in:			Non - interest bearing \$000	Total \$000
		1 year or less \$000	Over 1 to 5 years \$000	More than 5 years \$000		
2001						
Financial assets						
Cash	-	-	-	-	(501)	(501)
Receivables	-	-	-	-	1 533	1 533
Investments	-	-	-	-	-	-
- At call deposits	6 453	-	-	-	-	6 453
- QIC stock	30 245	-	-	-	-	30 245
	36 698	-	-	-	-	36 698
	36 698	-	-	-	1 032	37 730
Weighted average interest rate	5.85%	-	-	-	-	-
Financial liabilities						
Payables	-	-	-	-	12 167	12 167
Net financial assets	36 698	-	-	-	(11 135)	25 563
2000						
Financial assets						
Cash	(473)	-	-	-	-	(473)
Receivables	-	-	-	-	1 825	1 825
Investments	-	-	-	-	-	-
- At call deposits	13 256	-	-	-	-	13 256
- QIC stock	28 570	-	-	-	-	28 570
	41 826	-	-	-	-	41 826
	41 353	-	-	-	1 825	43 178
Weighted average interest rate	9.44%	-	-	-	-	-
Financial liabilities						
Payables	-	-	-	-	14 260	14 260
Net financial assets	41 353	-	-	-	(12 435)	28 918

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 27 Financial instruments (continued)

b) Credit risk exposures

The credit risk on financial assets of the Authority which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provisions for loss.

The Authority does not have any material credit risk exposure to any single debtor, or group of debtors, under financial instruments entered into by the Authority. The credit risk exposure does not take into account the value of any security held in the event other parties fail to perform their obligations under a financial instrument.

c) Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities approximates their carrying value.

The net fair value of other monetary financial assets, being Queensland Investment Corporation Stock is based on the quoted market price provided by QIC.

	2001 \$000	2000 \$000
Note 28 Reconciliation of net cash provided by operating activities to operating profit/(loss) from ordinary activities		
Net cash provided by operating activities	(5 714)	3 944
Non-cash items in operating surplus:		
Provisions for doubtful debts	1 941	(6 627)
Provision for employee entitlement	(147)	(262)
Provision for GST	-	(245)
Depreciation and amortisation	(939)	(811)
Net gain on sale of plant and equipment	7	(8)
Changes in net market value of investments	1 675	2 901
Net change in operating assets and liabilities:		
Increase/(decrease) in receivables	2 147	6 837
Increase/(decrease) in other current assets	(2 082)	441
(Increase)/decrease in sundry creditors and accruals	1 478	(2 430)
(Increase)/decrease in roll fees	637	(439)
(Increase)/decrease in accrued claims	(6 709)	(375)
(Increase)/decrease in unearned premiums	2 485	(1 749)
Increase/(decrease) in deferred acquisition costs	(240)	26
Increase/(decrease) in prepayments – outward reinsurance	(1 783)	1 302
Payment from provision for GST	292	-
Profit/(loss) from ordinary activities	(6 952)	2 505

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

<i>Note</i>	2001 \$000	2000 \$000
Note 29 Reconciliation of cash		
For the purposes of the Statement of Cash Flows, cash includes cash on hand and on deposit with financial institutions for operating activities.		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the Statement of Financial Position as follows:		
Cash	1(q) (501)	(473)
Deposits at call	6 453	13 256
Total cash and cash equivalents	5 952	12 783
As stated in Note 1(a), the Act requires the cash and cash equivalents to the General Statutory Fund and Insurance Fund to remain separate. The cash and cash equivalent balance of the two funds as at 30 June 2001 is:		
General Statutory Fund		
Cash	(232)	(362)
Deposits at call	2 241	3 948
Insurance Fund		
Cash	(269)	(111)
Deposits at call	4 212	9 308

Notes to and forming part of the Financial Statements

for the year ended 30 June 2001

Note 30 Provision for GST payable

Insurance policies issued under BSA's statutory insurance scheme cover consumers for a period of 6 years and 6 months, from the date of the building contract. Under the current provisions of the GST legislation, GST is payable on all insurance policies written after 8 July 1999 in respect of the period of cover that extends beyond 1 July 2000. Modifications to BSA's premium structure to enable GST to be collected were introduced on 1 October 1999. Consequently, a provision of \$0.346M was made for the period between 8 July 1999 and 1 October 1999 when GST was payable but not collected. (Refer Note 19).

Building contractors pay the insurance premiums on behalf of consumers. However, the Australian Taxation Office (ATO) has ruled that contractors are able to claim an input tax credit in respect of GST paid on the premium. However, as consumers, not contractors, are the beneficiaries of claim settlements, there is a break in the "chain of supply" which prevents BSA from being able to claim a decreasing adjustment in respect of its claims expenditure. BSA is seeking an amendment to the GST legislation to address this anomaly. In the event that it succeeds, BSA will incur a GST liability in regard to new insurance business written during the period 2 December 1998 to 8 July 1999. An additional provision of \$0.399M was made at 30 June 2000 for this potential liability, which is now assessed at \$0.453M, the balance of the provision as at the reporting date. (Refer Note 19).

Note 31 HIH Insurance

The Authority has five outstanding professional indemnity claims insured under an HIH professional indemnity insurance policy for which it may incur the liability attaching.

As at 30 June 2001 only one of the claims had an amount (of \$10,000 actual) attached.

The Authority is unable to assess the amount of the potential liability attaching to the other four claims.

Certificate of the Queensland Building Services Authority

We have prepared the following consolidated financial statements pursuant to the provisions of the *Financial Administration and Audit Act 1977, Financial Management Standard 1997* and other prescribed requirements and certify that in our opinion:

- (a) the prescribed requirements in respect of the establishment and the keeping of accounts have been complied with in all material respects;
- (b) the Statement of Financial Performance has been drawn up so as to present a true and fair view of the results of the Authority for the year ended 30 June 2001;
- (c) the Statement of Financial Position has been drawn up so as to present a true and fair view of the Authority's financial position as at 30 June 2001; and
- (d) the Statement of cash flows has been drawn up so as to present a true and fair view of the cash flows of the Authority for the year ended 30 June 2001.



Garry Rossow
Chairman



Ian Jennings
General Manager

Brisbane
26 September, 2001

Independent Audit Report

Queensland Building Services Authority

Scope

I have audited the general purpose financial statements of Queensland Building Services Authority prepared by the statutory body for the year ended 30 June 2001 in terms of section 46F of the *Financial Administration and Audit Act 1977*. The financial statements comprise the Statement of Financial Performance, the Statement of Financial Position, Statement of Cash Flows, Notes to and forming part of the financial statements and certificates given by the Chairman and the General Manager.

The Queensland Building Services Authority is responsible for the preparation and the form of presentation of the financial statements and the information they contain. I have audited the financial statements in order to express an opinion on them.

The audit has been conducted in accordance with *QAO Auditing Standards*, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included the examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with prescribed requirements which include Australian Accounting Standards so as to present a view which is consistent with my understanding of the entity's financial position and the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In accordance with section 46G of the *Financial Administration and Audit Act*, I certify that I have received all the information and explanations I have required and, in my opinion –

- the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
- the statements have been drawn up so as to present a true and fair view in accordance with prescribed accounting standards and other prescribed requirements of the transactions of the Queensland Building Services Authority for the financial year 1 July 2000 to 30 June 2001 and of the financial position as at the end of that year.


J.P. Beh
Director of Audit
(Delegate of the Auditor-General)
27 September 2001

Queensland Audit Office
Brisbane

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