



# **BUSINESS PLAN FOR THE INTRODUCTION OF A MANDATORY LICENSING SYSTEM RESIDENTIAL CONSTRUCTION CONTRACTORS IN NOVA SCOTIA**

FINAL REPORT

April 2006

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## PREFACE

The project documented in this report received an Affordability and Choice Today (ACT) grant. ACT is a housing regulatory reform initiative delivered in partnership by Canada Mortgage and Housing Corporation (ACT funder), the Federation of Canadian Municipalities (ACT administrator), the Canadian Home Builders' Association and the Canadian Housing and Renewal Association.

ACT, launched in 1990, encourages housing affordability and choice through regulatory reform. The United Nations Centre for Human Settlements recognized ACT in 1998 as one of the top global best practices for improving the living environment.

Over the years, ACT has created an impressive body of knowledge others can use to facilitate regulatory change in their communities. Projects range from innovative housing forms, secondary suites and streamlined approval procedures to NIMBY, alternative development and renovation standards, and more. ACT projects contribute in many ways to sustainable development. They have also served to enhance working relationships between local governments, the building industry and non-profit organizations.

In summary, ACT promotes regulatory reform through

- its database of solutions, which others may borrow from and adapt freely to meet their needs (see Web site address below).
- grants to local governments, builders, developers, architects, non-profit organizations and others across Canada to help facilitate the development of innovative solutions;
- other means of promoting regulatory solutions, such as workshops that highlight ACT solutions and address specific regulatory barriers.

For more information, visit ACT's website at [www.actprogram.com](http://www.actprogram.com), or contact:

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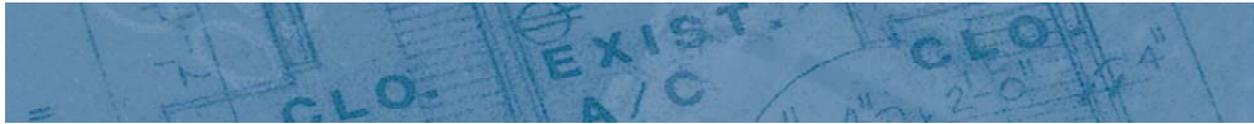
### 1.0 EXECUTIVE SUMMARY

This report presents a business plan for the implementation of mandatory licensing of contractors and builders in the residential construction industry in Nova Scotia. The plan is the outcome of extensive research and consultations carried out over the past five years by the Atlantic Home Building & Renovation Sector Council (AHB&RSC) with funding support from Human Resources and Skills Development Canada (HRSDC), the Nova Scotia Home Builders Association (NSHBA) and the Atlantic Home Warranty Program (AHWP). The development of this business plan has been guided by the Residential Construction Professionalization Advisory Committee (RCPAC), with members representing AHB&RSC, the NSHBA and AHWP, key federal, provincial and municipal agencies, the training and apprenticeship systems, and banking, insurance and consumers associations.

The principal elements of the business plan are:

- Enactment by the government of Nova Scotia of legislation to establish the Nova Scotia Residential Construction Commission (NSRCC) modeled closely on the existing Nova Scotia Real Estate Commission (NSREC), a body that licenses real estate companies and professionals in the province. To fulfill its mandate the NSRCC will undertake the following activities:
  - Registration of residential builders and renovators;
  - Development and administration of licensing standards and regulations;
  - Development and administration of training and certification standards;
  - Setting and collecting licensing fees;
  - Investigation of complaints;
  - Conducting and distributing research/information products.
- A governance structure modeled on the NSREC with a management board comprised of six industry representatives and three members of the general public. The makeup of the Board will reflect the different industry sectors and the regions of the province, and include advocates of the broad public interest.
- An office and staff headed by a Registrar (or Executive Director).
- A financial plan setting out start-up costs, capital costs and ongoing operational costs.
- A strategy for generating the revenues for the self-sustaining operation of the NSRCC.

The financial plan anticipates start-up capital costs of \$160,000 and annual operating costs of approximately \$475,000.



The NSRCC proposes to generate revenues sufficient to cover these costs through industry contributions at the outset, and through registration fees and levies on building permits. Depending on the specific fee structure, a small residential construction contractor would pay between \$275 and \$775 per year while a larger company would pay \$500 to \$1,300.

The research and consultations suggest that these costs are consistent with practices in residential construction in other jurisdictions, and with licensing regimes in other industries. It is also felt that the great majority of residential contractors will be prepared to bear these costs to receive the benefits that will come with mandatory licensing in the sector.

To the extent that these costs are handed on to consumers, they would represent no more than 0.75% of the current average construction costs for new homes in the province.

## 2.0 INTRODUCTION

PRAXIS Research and Consulting Inc. (PRAXIS) was contracted by the Atlantic Home Building and Renovation Sector Council (AHB&RSC) to prepare a business plan for the introduction of a mandatory licensing system for residential construction contractors in Nova Scotia.

In the Fall of 2005, the AHB&RSC prepared a document entitled “*Professionalization Action Plan for Nova Scotia*” to address the long-term human resources challenges facing the residential construction industry. The action plan outlined the rationale for the proposed licensing system and, specifically, proposed the formal establishment of the Nova Scotia Residential Construction Commission (NSRCC).

Research and analysis of issues and trends in Nova Scotia and other jurisdictions provides the framework of the business plan. In fact, the plan closely models the Nova Scotia Real Estate Commission – a “home-grown” independent, non-government agency from a related field of professional activity.

The business plan is a roadmap for the creation of a legitimate industry body with the authority to set standards and the resources to provide leadership and efficient licensing services to the residential construction sector. The plan delineates the goals and objectives of the proposed commission, and the operational and financial plans for fulfilling these objectives. As well, the plan provides a preliminary assessment of the financial and other, less quantifiable, benefits to industry of the introduction of a mandatory licensing system for residential construction contractors in Nova Scotia. The focus is on the start-up development phase – November 2005 to December 2007, and the first full-year of operation commencing January 2008.

### 3.0 PROPOSED MANDATORY LICENSING SYSTEM

The proposed licensing system would require that new home construction or renovation projects of a certain nature and scale (to be determined by the NSRCC):

- are 'completed, arranged for, and/or managed'<sup>1</sup> by licensed residential contractors; and
- are covered by a third-party home warranty provider.

To be licensed, residential construction contractors would register, on an annual basis, with the Nova Scotia Residential Construction Commission, pay requisite licensing fees, and meet specific knowledge, skill, and training standards.

The Nova Scotia Building Code Act and Regulations designates municipalities as being responsible for administering the permit approval and inspection process. The proposed licensing system would necessitate changes to the building code legislation to ensure that municipalities only issue building permits to those applicants meeting the requirements of the proposed licensing system.

Likewise, the introduction of the system would call for changes to the existing provision of insurance and/or warranty coverage, which provide very different types of consumer protection. In Nova Scotia, consumers of new homes currently can purchase traditional *insurance* coverage, which protects against insured perils. However, this does not include *warranty* protection against defects in materials and labour that are supplied by the builder. The latter may be provided by the individual builder through verbal agreement or written contract or, increasingly, through third-party warranty<sup>2</sup> providers such as the Atlantic Home Warranty Program (refer to Appendix I).

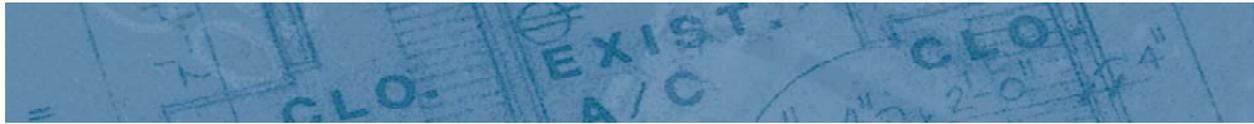
In the real estate sector, NSREC has established a mandatory self-insurance fund (refer to Appendix II) for its licensed members. The fund, fully financed through industry licensing fees, was established to compensate consumers who suffer a financial loss resulting from bankruptcy, insolvency, fraud, or breach of trust of an industry member.

To address the issue of insurance coverage, provinces have adopted mandatory third-party warranty systems:

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<sup>1</sup> This definition is used by the Homeowners Protection Office in British Columbia. The Homeowners Protection Office is a Crown Corporation responsible for licensing residential builders and building envelope renovators.

<sup>2</sup> A third party warranty means that a third party agrees to fulfill the home builder's warranty to the home buyer if the builder does not.



*In British Columbia and Québec since 1999, and in Ontario since 1976, the provincial governments have legislation requiring some or all new homes to be covered by third party warranties or insurers. The Acts in these three provinces establish coverage, application, enforcement, penalties and appeals, plus criteria and provincial review of providers. They are quite different in their application, approach and definitions.”<sup>3</sup>*

It is proposed that the Nova Scotia government legislate a mandatory, competitive and insurance-backed warranty system for all residential builders in Nova Scotia. As such, the Nova Scotia Residential Construction Commission would not establish a self-insurance fund to cover potential consumer claims.

On the renovation side, a mandatory third-party warranty system for renovated homes does not currently exist in Canada. There is a voluntary warranty program for renovation in Québec<sup>4</sup> and, for example, as one service of some private insurers. In the near term, the NSRCC would consult with key stakeholders in the insurance sector to investigate the possibility of introducing a mandatory competitive warranty system for the renovator sector.

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<sup>3</sup> Canadian Mortgage and Housing Corporation website, [www.cmhc.ca](http://www.cmhc.ca).

<sup>4</sup> Fixed fee per unit renovated is 1% of project cost, including labour and materials. Fee covers claims and costs to administer and maintain the voluntary renovation warranty program.

### 4.0 OPERATIONAL PLAN

#### 4.1 Mandate

The mandate of the NSRCC would be to strengthen consumer protection and enhance industry stability in the new home construction and renovation sector in Nova Scotia by regulating residential construction contractors and thereby promoting high standards of professionalism, competence, and integrity.

#### 4.2 Governance

A Nova Scotia Residential Construction Commission would be created under a provincial statute and operate as an independent, non-governmental agency, responsible for the regulation of residential construction contractors in Nova Scotia.

The proposed commission would be based upon the governance model of the Nova Scotia Real Estate Commission (NSREC), as a relevant and effective industry-led licensing program of business practitioners. The provincial legislation would provide the industry body with the authority to establish and enforce by-laws necessary for licensing residential construction contractors. The by-laws would prescribe the policies and procedures of the commission.

The proposed governance model for the Nova Scotia Residential Construction Commission is depicted in Appendix III.

#### 4.3 Start-up and Operational Activities

To guide and facilitate the two-year start-up development phase, a Residential Construction Professionalization Advisory Committee (RCPAC) would oversee the introduction of the appropriate provincial government legislation. Once established, the Residential Construction Commission, with the assistance of the advisory committee, would be involved in the following start-up activities:

- draft and finalization of by-laws for the NSRCC;
- develop criteria for determining nature and scale of projects subject to mandatory licensing<sup>5</sup>;

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<sup>5</sup> The NSRCC, would work within the framework of the National Building Code and the existing permit system, to set out the criteria for the type and scale of residential construction projects that would require licensed contractors.

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- investigate introduction of a mandatory third party warranty system for the renovator sector;
  - develop standards for licensing and training; and
  - establish the organizational structure (i.e. staffing, board of commissioners, committees).

It is proposed that the Nova Scotia Residential Construction Commission would formally commence operations in early 2008. To achieve its mandate, the operational activities of the NSRCC would include:

- registration of residential builders and renovators;
- development and administration of licensing standards and regulations;
- development and administration of training and certification standards;
- setting and collecting licensing fees;
- investigation of and taking appropriate action on complaints; and
- conducting and distributing research/information products.

#### 4.3.1 Registration of Residential Builders and Renovators

The NSRCC would be responsible for registering and issuing licenses to builders and renovators in Nova Scotia. The NSRCC would also be given the power to suspend, revoke, cancel and/or impose restrictions on licensees for specific violations of the legislation and by-laws.

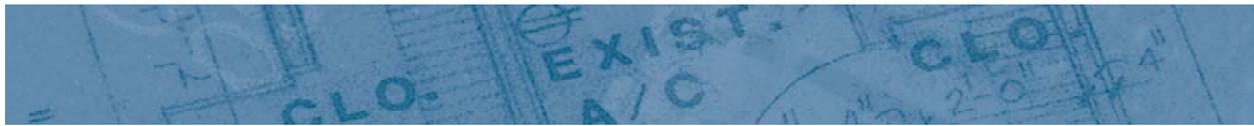
Similar to the HPO<sup>6</sup>, license applicants (refer to Appendix IV) could include “*residential builders and/or renovators who engage in, arrange for, or manage all or substantially all of the construction or renovation of a home<sup>7</sup> in Nova Scotia*”. Under this definition, developers, renovators, general contractors, project managers, construction managers, and vendors of all types of homes (single family dwellings and multi-units) would be licensed. During the start-up phase, the NSRCC would consider the HPO approach, consult further with industry stakeholders, and determine the specific activities and scope of projects to be subject to mandatory licensing. Any exemptions would be set out in the by-laws of the commission.

Each license applicant would put forward a licensee nominee as a representative of the residential builder and/or renovator. In the case of a limited liability company, the licensee nominee would be required to be

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<sup>6</sup> This definition is used by the Homeowners Protection Office in British Columbia. The Homeowners Protection Office is a Crown Corporation responsible for licensing residential builders and building envelope renovators.

<sup>7</sup> In British Columbia, the “homes” category includes detached dwellings and multi-unit construction. Multi-unit construction includes (1) attached dwelling units and (2) low-rise, multiple units (less than 600 square metres and 3 storeys or less) and (3) high-rise, multiple units (4 or more storeys).



a director<sup>8</sup> and/or an officer<sup>9</sup> of the company. For sole proprietorships or partnerships, at least one owner-operator or manager of the firm would be required to be licensed.

As part of the registration process, license applicants would be required to complete and submit an application form. The information provided by the applicant would be collected under the authority of provincial legislation and used to process the application. In addition, some of the licensee information would be made available to the general public for the purposes of strengthening consumer protection. Consumers could either contact the NSRCC directly or search an on-line database to verify whether a residential construction contractor is licensed.

The database would be designed such that the user could easily search by certain fields such as geographic location, company name or number, or name of licensee. The on-line database could include the following fields:

- NSRCC licence number;
- name of business;
- name of director nominee;
- address and, if available, website address;
- business phone and facsimile numbers;
- type of business activity (new home construction, renovation, land development);
- work history (i.e. number and size of jobs completed);
- dispute record, if any;
- first issue date and expiration date of licence; and
- any other relevant information.

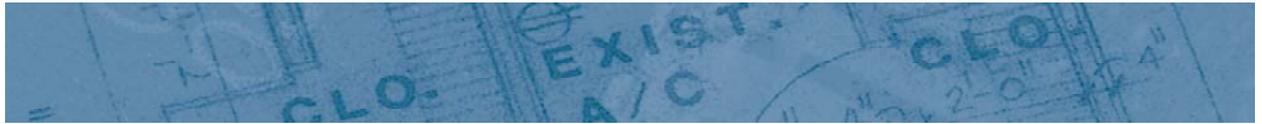
### **4.3.2 Development and Administration of Licensing Standards and Regulations**

To be licensed with the Nova Scotia Residential Construction Commission, the licensee would have to adhere to certain requirements. The NSRCC, once established with legislated authority, would decide on the specific licensing standards for mandatory licensing of contractors in Nova Scotia.

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<sup>8</sup> Directors are responsible for supervising the management of the company's business and have judiciary duty to act in the best interests of the company.

<sup>9</sup> Appointed by the board of directors, an officer usually holds positions in the company such as president, chief executive officer, secretary, and chief financial officer. In general, directors assign officers the responsibility to manage and execute the day-to-day business of the corporation.



The Homeowner Protection Office (HPO) in British Columbia (refer to Appendix V for details on the HPO model) requires licensees, among other things, to apply ordinary skill, competence and care to building new homes or envelope renovations<sup>10</sup>. It is important to note that the system faces the following challenges:

- absence of meaningful entry requirements for the homebuilding profession;
- diversity of training programs and their voluntary nature;
- onerous financial conditions imposed on builders seeking warranty insurance coverage; and
- limited ability of HPO to respond to infractions, including abuse of the owner-builder exemption<sup>11</sup>.

The HPO has recommended changes in several of these areas in a Discussion Paper issued in August 2005, *"Raising the Bar, Enhancing Professionalism in British Columbia's Residential Construction Industry"*. The proposed system in Nova Scotia needs to, or would be required in future to, ensure that it addresses these issues. Based on research and analysis of issues and trends in other jurisdictions, the following preliminary list of licensee requirements is set out for consideration by the NSRCC:

1. Full payment of applicable registration fees.
2. Proof of business number and/or HST number.
3. Proof of financial viability.
4. Completion of industry courses in areas of management, regulatory and technical training, as well as participation in a program of continuing education.
5. Employment, either as a direct employee or sub-contractor, of qualified trade persons for work in compulsory certified occupations or trades. The Professionalization Action Plan proposes that licensees would be required to employ certified carpenters by January 2009.
6. Provision of third-party home warranty on all homes constructed and/or renovated.
7. Commitment to comply with applicable or current building code regulations and standards.
8. Commitment to comply with health and safety and all other relevant legislation and regulations, including requirements under the Workers' Compensation Act.

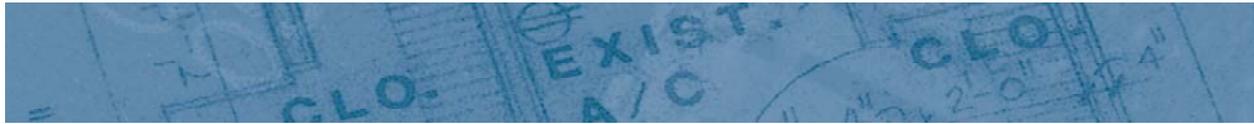
### **4.3.3 Development and Administration of Training and Certification Standards**

The NSRCC would be responsible for setting standards for training and continuing education, setting

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<sup>10</sup> Repair/renovations of multi-family, wood-frame structures in Lower Mainland of British Columbia that were damaged, between 1993 and 2000, from water infiltration problems. The situation is commonly known as the "Leaky Condo Crisis."

<sup>11</sup> An individual who builds a detached self-contained dwelling unit for their own personal use, not more than once in any 18-month period. An owner-builder is not required to be licensed or provide home warranty insurance on their own home.



guidelines for certification through prior learning assessment and recognition (PLAR)<sup>12</sup>, and accrediting institutions that provide acceptable training. Specifically, the NSRCC would closely follow the activities of the NSREC and prescribe “classes, lectures, courses of study, systems of training, periods of service and examinations for licenses and applicants for licenses”, and set standards for “continuing education and requiring the participation of licensed persons in continuing education to meet license renewal standards”.<sup>13</sup>

#### 4.3.4 Setting and Collecting Licensing Fees

The NSRCC would be responsible for setting and collecting fees from industry. In Section 5, the business plan addresses fees levied by other regulatory bodies, and the options for levying licensing fees within the residential construction sector in Nova Scotia.

#### 4.3.5 Investigation of Complaints

The NSRCC would be responsible for investigating written consumer complaints and ensuring compliance with a code of conduct. Similar to the authority of the NSREC, the NSRCC would have the power to:

- direct no further action, if there is insufficient evidence of wrong doing;
- negotiate a settlement agreement in which the industry member acknowledges the facts and agrees to the charge(s) and to a penalty as ratified by a Complaint Review Committee;
- impose an administrative penalty for specific offences;
- refer the matter to a Discipline Hearing Panel<sup>14</sup>; or
- send the matter to prosecution in the Courts if the matter relates to a person carrying on business without a required licence.

#### 4.3.6 Conducting and Distributing Research/Information Products

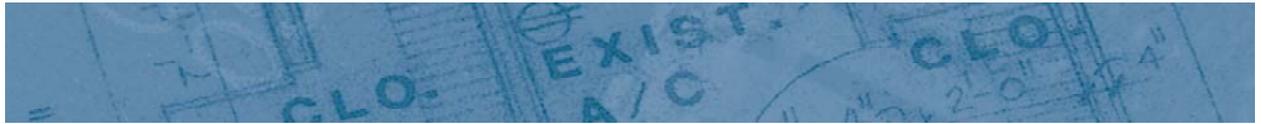
The NSRCC would conduct research, consultation, and communications activities on a continuing basis to support ongoing development of its programs and services. Extension of the system to cover

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<sup>12</sup> PLAR is a means to identify and “certify” the knowledge and skills people have acquired through non-formal learning on the job and through other life experiences.

<sup>13</sup> Nova Scotia Real Estate Trading Act (refer to [www.nsrec.ns.ca](http://www.nsrec.ns.ca)).

<sup>14</sup> The panel will consist of at least three members, as appointed by the Chair of the Discipline Committee.



renovation and self-building would require research and consultations on appropriate standards and services. Training standards and programs would be subject to updating and revision as the program evolves and as industry practices change. It would be important to remain current with developments in other jurisdictions, and to monitor best practices and innovations in the field. An important function would be liaison with industry and consumers' organizations and dissemination of information to stakeholders regarding the benefits of the licensing system and the risks associated with underground construction activities.

The NSRCC would also conduct annual surveys of contractors and consumers to determine perceptions and satisfaction levels in the residential construction sector and identify potential areas for improvement.

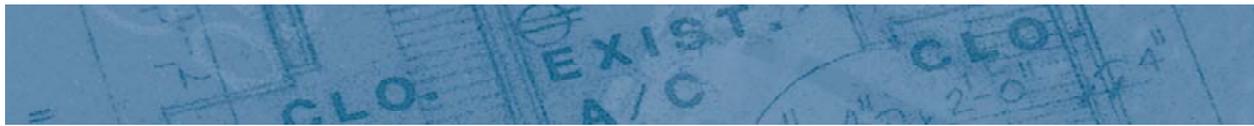
#### **4.4 Organizational Structure**

A Board of Commissioners would oversee the management and administration of the NSRCC. The Minister and the industry, through the Residential Construction Professionalization Advisory Committee, would determine the board's composition. The commissioners would be determined as follows:

- three (3) members appointed jointly by the Atlantic Home Building & Renovation Sector Council and the Nova Scotia Home Builders' Association;
- three (3) members elected by licensees of the NSRCC;
- three (3) members appointed by the Governor-in-Council (as with the NSREC, these shall be members of the general public and non-licensees); and
- the "Registrar" (or Executive Director) of the Commission.

The commissioners would represent the geographic regions of the province and across the residential construction sector. The latter would include: small, medium and large companies; residential developers, new home builders and renovators; manufactured housing; urban and rural contractors, and others that may be determined by the NSRCC.

All elected members would be required to be licensees. Members would be elected or appointed for a maximum term of three years and serve no more than two consecutive terms. No more than four members would be elected or appointed in any given year. Committees would be formed, as required, to deal with licensing, training, complaints, discipline, and finance issues.



The Board of Commissioners would engage a Registrar as the chief operating and administrative officer of the Nova Scotia Residential Construction Commission. The Registrar would be responsible for providing leadership, direction, and general administration of the day-to-day operations of the NSRCC. The Registrar would be responsible for approving and rejecting license applications, and initiating legal action to enforce licensing provisions.

The Registrar would be supported by three staff positions:

- licensing and communications officer;
- enforcement/compliance officer; and
- office administrator.

Under the authority of the Registrar, the licensing and communications officer would be responsible for the following tasks:

- reviewing licensing applications and renewals for completeness and accuracy;
- following up on incomplete applications;
- ensuring that information on building permits issued by municipalities matches information provided the licensee;
- maintaining registry of licensed builders and renovators;
- collecting license fees;
- preparing materials for distribution such as license renewal notices;
- generating reports on licensees;
- managing NSRCC website, events and publications; and
- conducting and distributing research/information products.

The compliance officer would be responsible for ensuring residential construction contractors in Nova Scotia operate in compliance with provincial legislation and the commission's by-laws. The officer would conduct audits of information from sources including the registry, investigate and mediate consumer complaints, and prepare reports to the Registrar including conclusions and recommendations.

The office administrator would be responsible for all administrative and financial duties of the NSRCC, and provide support to the Registrar and staff positions.

The proposed organizational chart for the Nova Scotia Residential Construction Commission is provided in Appendix VI.

### 5.0 POTENTIAL REVENUES

The primary source of revenue would be the collection of licensing fees from industry. In determining what fee structure to put into place, consideration will be given to the following:

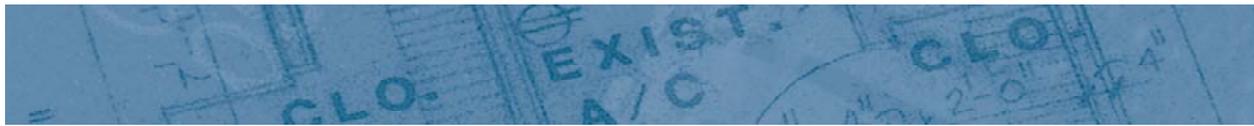
- fees levied by certifying bodies and professional associations in Nova Scotia and other jurisdictions;
- options for levying licensing fees within the residential construction sector; and
- potential revenues of two or three likely licensing fee scenarios.

#### 5.1 Review of Existing Fee Structures

A sample of annual licensing<sup>15</sup> fees levied by other self-governed regulatory bodies in Nova Scotia is provided in the following table. The fees for practising range from \$60 for a cosmetologist to \$2,140 for a lawyer. Excluding these two extremes, the initial fees average around \$500. In some cases, a renewal fee is levied at a lower rate than the initial fee.

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<sup>15</sup> These fees are entrance fees in that payment of these fees then entitles the individual to practise in the profession. It is noted that these bodies also levy fees for non-practising members, retirees, and students. As well there are fees in relation to professional liability insurance, examinations, hearings, transfers (from another jurisdiction), applications, and reinstatements.



**Table 1: Sample of Annual Registration Fees for Self-Governing Regulatory Bodies in Nova Scotia  
(Excluding Applicable Taxes)**

Organization	Practising Members	Non-Practising Members
Nova Scotia Barristers Society	\$2,140	
College of Physicians and Surgeons of Nova Scotia	\$950	Inactive - \$105
Nova Scotia Association of Architects	Initial - \$900 Renewal - \$700 Practise outside province - \$350	Retired - \$50 Student - \$25/\$50
Institute of Chartered Accountants of Nova Scotia	\$510 Non-resident - \$150	Non-practising - \$355
College of Registered Nurses of Nova Scotia	\$354	Non-practising - \$344
Nova Scotia Association of Social Workers	Private practitioner - \$363 Other practitioners - \$313	
Nova Scotia Real Estate Commission	Initial - \$200 to \$300 Renewal - \$200	
Association of Professional Engineers of Nova Scotia	\$212 Non-Canadian - \$600	Retired, non-practising - \$106
Cosmetology Association of Nova Scotia	Per person - \$60 Per salon - \$50 to \$110	

Source: Internet websites and discussions with regulatory body representatives.

In the residential construction sector, the following licensing fee structures prevail:

- HPO, British Columbia: Flat fee per residential builder licensee (\$600 initial, \$500 renewal) plus an incremental fee per unit constructed (\$25). Fees cover the costs to administer and maintain the licensing program for residential builder licensing and establish the framework for and monitoring the provision of mandatory third-party home warranty insurance. Originally, the HPO proposed a flat rate for all residential builders. The industry, however, appealed for a fee that varies by size of builder. In response, the HPO adopted such a fee structure whereby a builder pays \$550 if they build two homes, for example, or \$1,000 if they build 20 homes a year. Incremental fees account for roughly one-quarter of total licensing fee revenues of \$3.1 million.
- Régie du Bâtiment du Québec<sup>16</sup>, Québec: Fixed fee for one license category, general or specialized (\$616 initial, \$452 renewal); two license categories, general and specialized (\$938 initial, \$773 renewal).<sup>17</sup> Total fees cover cost to administer<sup>18</sup> and maintain the licensing program.

<sup>16</sup> Mandatory licensing of all contractors and trades and supervision of warranty corporation.

<sup>17</sup> Effective as of January 1<sup>st</sup>, 2006.

<sup>18</sup> The administration portion of the fee is identified to be \$294.53 for initial licensing and \$129.81 for renewals.

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- Building Practitioners Board, Victoria State, Australia: Fixed registration fee per domestic builder (A\$530 to A\$680 initial fee, A\$290 other category or upgrade, A\$180 renewal).

There are differences and similarities among the three fee structures. The HPO is the only one that has a flat-rate registration fee plus an incremental fee. The Régie du Bâtiment du Québec has different flat rates for one and two license categories. For all three, initial fees range between \$450 and \$600. Renewal fees are 20% to 40% less than the initial fee for HPO and Régie du Bâtiment du Québec. In contrast, the renewal fee is significantly lower than the initial fee for those registering in Victoria State.

## 5.2 Potential Revenues

In reviewing the existing fee structures of self-regulated bodies in the residential construction and other sectors, the following fee structure options are proposed:

1. Flat rate annual registration fee per licensee.
2. Flat rate annual registration fee plus incremental rate (based on number of units constructed or renovated).

This section first quantifies the residential construction sector and then determines the potential revenues based on the market size estimates and the fee structure options.

### 5.2.1 The Residential Construction Sector

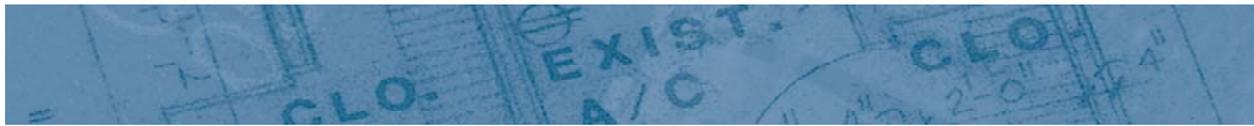
The Statistics Canada Business Register<sup>19</sup> reported 1,496 establishments involved in the building and development<sup>20</sup> of single family housing, apartments and other multiple housing, and residential renovation in June 2003. The number of establishments has been increasing at an annual average rate of 5% since 1999.

As indicated in the following table, the majority of establishments are involved in the construction of single family housing and employ less than five people.

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<sup>19</sup> The register maintains a count of business establishments that have at least one paid employee, or have annual sales revenues of at least \$30,000, or are incorporated and have filed a federal corporate income tax return at least once in the previous three years.

<sup>20</sup> Companies primarily engaged in the acquisition, assembly, sub-division and servicing of land for, and the construction of, single and multi residential buildings. Also covered is residential renovation consisting of residential additions, major improvements and repairs, rehabilitation, retro-fitting and conversions involving more than one trade.



**Table 2: Number of Establishments by Sector**

	<b>Total</b>	<b>Single Family Housing</b>	<b>Apartment and Other Multiple Housing</b>	<b>Residential Renovation</b>
<b>Indeterminate<sup>21</sup></b>	634	427	31	176
<b>1 – 4</b>	566	364	14	188
<b>5 to 9</b>	150	100	6	44
<b>10 to 19</b>	100	75	5	20
<b>20 to 49</b>	32	24	3	5
<b>50 to 99</b>	12	11	-	1
<b>100 to 199</b>	2	2	-	-
<b>Total</b>	1,496	1,003	59	434

Source: Statistics Canada Business Register, June 2003

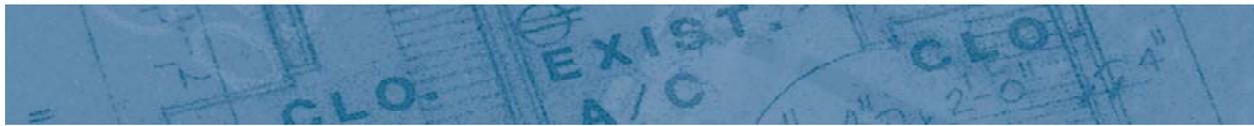
Trade contractors provide specialized services such as roofing, masonry, and drywalling. The Business Register counts the number of establishments involved in trade contracting but does not identify whether they are involved in residential and/or non-residential activities. The June 2003 Business Register reports 3,889 firms in the trades contracting sector of the construction industry in Nova Scotia. Of the 3,889 firms, nearly sixty percent offer the following specialized services:

- finish carpentry (525);
- electrical (512);
- excavating and grading (393);
- plumbing (328);
- painting and decorating (278); and
- other site work (256).

Another measure of new home construction and renovation activity is the number and value of building permits. In 2004, 5,471 building permits<sup>22</sup> were issued for the construction or renovation of single-family dwellings, cottages, doubles, row housing, and apartments. Of these permits, 63% or 3,425 were for the construction or renovation of single-family dwellings.

<sup>21</sup> The "indeterminate" category does not have any employees registered with the CRA. These businesses may indeed have no workforce (they may be simply paper entities that nonetheless meet one of the criteria for being recognized as a business establishment), or they may have contract workers, family members and/or only the owners working for them.

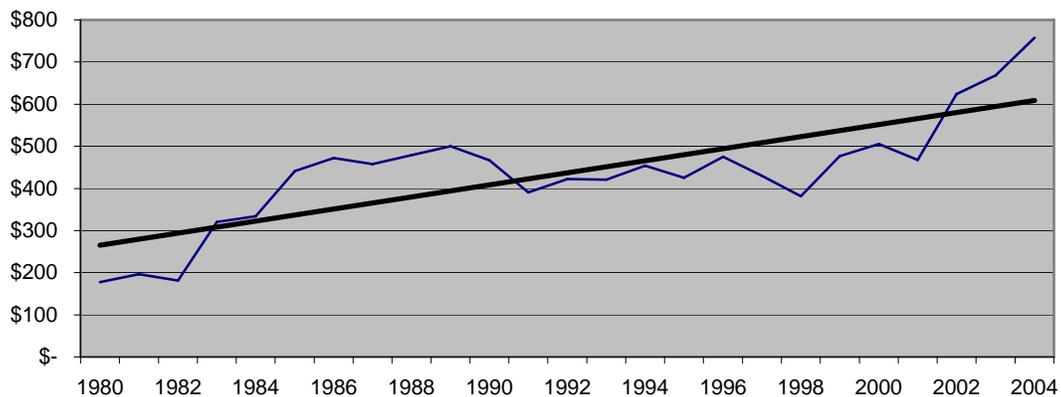
<sup>22</sup> Includes new construction, additions to existing buildings, alterations, improvements, foundations, superstructure or part of new building, mechanical, conversion from single to multiple dwelling, conversion from multiple to multiple dwelling, conversion from non-residential to residential, deconversions, installation of a pre-fabricated building, swimming pools, and garages and carports.



Statistics Canada conducts a monthly Building Permit Survey of municipalities<sup>23</sup> issuing building permits. The municipalities are required to respond to the survey and provide basic information including the permit number, type of project, type of work, value of work, total building area, and addresses of builder, owner and construction site.

The most recent (2004) Building Permit Survey reported the value<sup>24</sup> of building permits for residential construction<sup>25</sup> was \$757.44 million<sup>26</sup> in Nova Scotia. Though the data are not strictly comparable on a year-to-year basis,<sup>27</sup> the value of residential construction has generally increased over time.

**Exhibit 1: Value of Building Permits for Residential Construction, 1980 to 2004**



It is noted, however, that the building permit data understates residential construction activity for a number of reasons. One being that permits are not required for minor repair projects such as painting, tiling, roofing and the like. Secondly, some construction may require building permits but may still proceed without a permit. There is also an incentive for builders to understate values because the cost of the building permit generally depends on the estimated cost of the work.

<sup>23</sup> The survey targets all Canadian municipalities that issue permits. At present more than 2,350 Canadian municipalities, representing all provinces and territories and encompassing 95% of the Canadian population, are covered by the survey.

<sup>24</sup> Includes materials, labour, profit, overhead and may include acquisition costs. Does not include land costs.

<sup>25</sup> Includes new construction, additions, alterations, improvements, foundations, conversions, installation of pre-fabricated building, swimming pools, garages and carports.

<sup>26</sup> Source: Statistics Canada, Building Permits, Catalogue No. 64-001-XIB and CANSIM Table 026-0003

<sup>27</sup> Historically, the data are not strictly comparable due to the continuing improvement in coverage and the modifications to the geographical areas required to reflect the most recent census definitions.

In summary, the size of the residential construction sector is as follows:

- 1,496 establishments involved in building and development of single family housing, apartments and other multiple housing, and residential renovation;
- 3,889 establishments involved in trade contracting (includes residential and non-residential);
- 5,471 building permits (construction of single detached, semi-detached duplexes, row housing, and apartments); and
- \$757.44 million (value of building permits for residential construction).

### 5.2.2 Revenue Scenarios

The revenue scenarios are conservatively based on the following assumptions:

- the license applicant includes only those establishments involved in the building, development and renovation of single family dwellings<sup>28</sup>; and
- the licensee nominee is one person (owner-operator or manager for sole proprietorships or partnerships, director or officer for limited companies) per establishment.

The following table presents the potential licensing revenues based on three flat-rate scenarios.

<b>Table 3: Flat-Rate Registration Fee</b>				
<b>License Category</b>	<b>#</b>	<b>Fee Per Licensee</b>		
		<b>\$200</b>	<b>\$400</b>	<b>\$600</b>
Single Family Housing Builders/Developers	1,003	\$200,600	\$401,200	\$601,800
Residential Renovators	434	\$86,800	\$173,600	\$260,400
<b>Total</b>	<b>1,437</b>	<b>\$287,400</b>	<b>\$574,800</b>	<b>\$862,200</b>

As is shown, total revenues range between \$287,000 and \$862,000 depending on the fee structure. The licensing of single-family housing builders/developers would account for 70% of total revenues.

The following table shows the impact on revenues of three incremental rate scenarios. In this case, revenues range between \$51,000 and \$120,000.

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<sup>28</sup> Multi-unit low rise construction figures are not isolated in existing data sources and therefore are not included in the analysis.

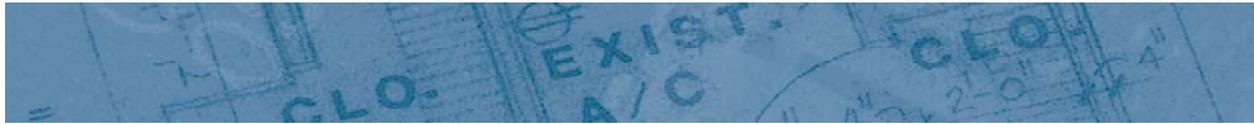


Table 4: Incremental Fee Per Unit Constructed or Renovated				
		Fee Per Unit		
Building Permit Category	#	\$15	\$25	\$35
Singles <sup>29</sup>	3,425	\$51,375	\$85,625	\$119,875

If the NSRCC were to introduce a flat fee plus an incremental fee, then the fee scenarios would translate to the following licensing fees per builder:

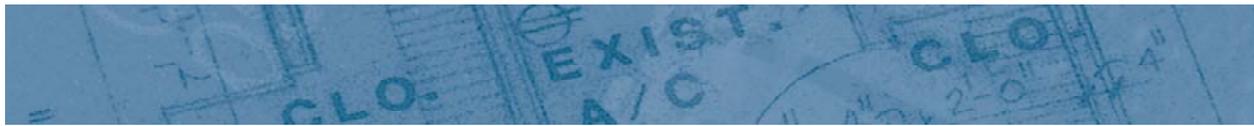
Table 5: Fees Per Builder (Assuming 5 homes/yr)				
		Incremental Fees		
		\$15	\$25	\$35
Flat Fee	\$200	\$275	\$325	\$375
	\$400	\$475	\$525	\$575
	\$600	\$675	\$725	\$775
Fees Per Builder (Assuming 20 homes/yr)				
		Incremental Fees		
		\$15	\$25	\$35
Flat Fee	\$200	\$500	\$700	\$900
	\$400	\$700	\$900	\$1,100
	\$600	\$900	\$1,100	\$1,300

In other words, a small residential construction contractor (5 homes per year) would pay between \$275 and \$775 per year, depending on the fee structure. A larger one (20 homes per year) would pay \$500 to \$1,300.

For the commission, the introduction of a flat-rate plus incremental fee structure would yield revenues as low as \$339,000 and as high as \$982,000.

Table 6: Potential Total Revenues, Flat Fee Plus Incremental				
		Incremental Fee		
		\$15	\$25	\$35
Flat Fee	\$200	\$338,775	\$373,025	\$407,275
	\$400	\$626,175	\$660,425	\$694,675
	\$600	\$913,575	\$947,825	\$982,075

<sup>29</sup> Includes cottages.



To provide context, the following table provides a summary of the registrations and revenues realized by other governing bodies:

<b>Table 7: Registrations and Revenues</b>			
	<b>As of</b>	<b>Registrations</b>	<b>Revenues</b>
Régie du Bâtiment du Québec, Québec	March 31 <sup>st</sup> , 2005	31,216 contractors and tradespeople	\$19.5 million
HPO, British Columbia	March 31 <sup>st</sup> , 2005	3,649 residential builders 31,191 registered units	\$3.1 million
Building Practitioners Board, Victoria State, Australia	June 30 <sup>th</sup> , 2005	19,400 building practitioners (of whom 10,517 are domestic builders)	A\$1.7 million <sup>30</sup>
Atlantic Home Warranty Program	February 28 <sup>th</sup> , 2005	350 builders 1,927 registered units	\$690,000 Est'd
Nova Scotia Real Estate Commission	December 31 <sup>st</sup> , 2004	1,500	\$248,000

Conference participants of PRO SPEC 2006 reviewed these revenue and fee scenarios. As well, the Executive Director of the Atlantic Home Building & Renovation Sector Council led several smaller-scale consultations with a cross-section of residential builders. Based on industry feedback received thus far, there is support for the second fee scenario – flat annual registration fee plus incremental fee (based on number of units constructed or renovated). As well, there is leaning towards an annual registration fee of \$400 to \$500 and an incremental fee of \$25.

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<sup>30</sup> Includes fees from all registered members. Licensing fee revenues for just domestic builders are not available.

## 6.0 FINANCIAL PLAN

The financial plan is based on the activities outlined in the business plan. Cost estimates are presented for the development phase, October 31st, 2005 to December 31st, 2007, and for the first full year of operation, commencing January 2008. These estimates are based upon conditions prevalent as of February 2006, the date of preparation, and upon key assumptions.

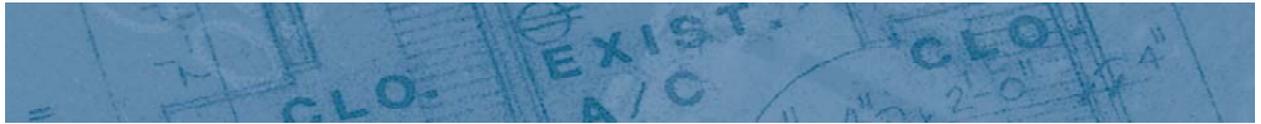
The reader is advised that some of the assumptions inevitably will not materialize, and unanticipated events and circumstances may occur subsequent to the preparation of these estimates. Therefore, the actual results achieved will vary from these estimates, and the variations may be material.

These financial estimates have been prepared solely for inclusion in the business plan report for establishing a mandatory licensing system for residential construction contractors. Accordingly, readers are cautioned that these estimates may not be appropriate for any other purpose and should be read in conjunction with the business plan.

### 6.1 Capital Assets

For the NSRCC, the capital asset requirements are projected to total \$160,000 and include the following components:

<b>Table 8: Estimated Start up Capital Assets</b>		
<b>Capital Asset</b>	<b>Assumptions</b>	<b>Amount</b>
Start-up Costs	Specific costs identified in Table 10.	\$90,000
Office Furniture/Equipment	Furnish four offices, boardroom, kitchen, bathroom, and reception/general work area. Fax machine and photocopier.	\$30,000
Computer Hardware/Software	4 computers, 2 printers, and software.	\$20,000
Leasehold Improvements	Contingency for leasehold improvements to office space.	\$10,000
Contingency	10% of costs (excluding leasehold improvements).	\$10,000
<b>Total Start-up Capital Assets</b>		<b>\$160,000</b>



## 6.2 Proposed Financing

Start-up capital assets of \$160,000 would be financed primarily by an equity contribution from the home building and renovation sector. The terms and conditions of the equity contribution are to be determined and the financial plan, therefore, does not make any allowances for interest or principal repayment.

The NSRCC would obtain a line of credit from a Canadian chartered bank to finance cash shortfalls. The maximum line of credit required for the operation is estimated to be \$30,000 to \$40,000. The interest on bank indebtedness is assumed at 9.0% per annum.

## 6.3 Start-up and Annual Operating Costs

Start-up costs are estimated to total \$90,000 and include the following expenditures:

<b>Table 9: Estimated Start up Costs</b>		
<b>Cost Category</b>	<b>Assumptions</b>	<b>Amount</b>
Salaries/Benefits	Registrar would be hired four months before full-scale operations to assist with start-up activities. Benefits equivalent to 12% of salary costs.	\$25,000
Development of Public Registry	Engage website design firm to design and develop public registry.	\$15,000
Staff Travel	Meetings and consultations with key stakeholders (including municipal and industry groups) from around the province.	\$15,000
Marketing/Public Relations	Communications costs,	\$15,000
Professional Costs	Legal and accounting costs re: start-up.	\$10,000
RCPAC Remuneration/Expenses	RCPAC member remuneration for services (per diems), travel, and other expenses. Assume 10 meetings over the two year period.	\$10,000
<b>Total Estimated Start-up Costs</b>		<b>\$90,000</b>

For the first year of operation, operating costs are estimated at approximately \$475,000 and include the following costs:

<b>Table 10: Estimated First Year Operating Costs</b>		
<b>Cost Category</b>	<b>Assumptions</b>	<b>Amount</b>
Advertising/Marketing/Public Relations	Communications costs including design and development of brochures and other print materials.	\$50,000
AGM/Conferences	AGM would be held within three to four months following the fiscal year-end. Registrar would likely attend the International Housing and Home Warranty Conference (scheduled for 2008). CHBA National Conference.	\$20,000
Computers/Website	Support services and website maintenance.	\$8,000
Dues/Subscriptions	CHBA, Canadian Home Warranty Council.	\$3,000
Insurance	Directors and officers (D&O) liability insurance, general liability insurance, and property insurance.	\$3,000
Interest	9% interest rate, \$40,000 line of credit.	\$3,600
Office	Telephone, internet, printing, photocopying, office supplies.	\$25,000
Professional Costs	Legal, consulting and audit.	\$20,000
Board of Commissioners Remuneration/Expenses	Assume 10 meetings during the first year for Board of Directors. The number of meetings would likely be reduced to 8 in the second year and 6 in subsequent years.	\$25,000
Rent/Cleaning/Utilities	Lease 1,800 to 2,000 square feet.	\$50,000
Salaries and Benefits	4 full-time staff persons. Benefits equivalent to 12% of salary costs.	\$230,000
Staff Training		\$5,000
Staff Travel		\$8,000
Contingency	Approximately 6% of estimated operating costs.	\$24,400
<b>Total Costs</b>		<b>\$475,000</b>

### 7.0 POTENTIAL BENEFITS AND DRAWBACKS

The introduction of a mandatory licensing system would impact stakeholders in the residential construction sector of Nova Scotia. The following identifies the potential benefits and drawbacks from all perspectives.

#### Consumers

The benefits for consumers would be that all newly constructed homes and renovation projects of a prescribed nature and scale would have warranty coverage, the consumer would not be liable for the safety of workers on the building site, and projects would be overseen by professionally qualified construction managers.

The possible drawback for consumers is a marginal increase in costs, as licensing fees are handed on by one means or another. Over time, consumers would have less “freedom” to employ contractors on an underground economy basis, which might alter the cost profile of building projects. This might be perceived as a negative impact.

#### Home Builders and Renovators

The principal benefit for builders and renovators would be a significant decrease in underground activity in the sector over time. To the extent that the system reduces unfair competition from builders and renovators who do not pay taxes and/or Workers’ Compensation fees, and/or who work while receiving Employment Insurance, the business environment for legitimate builders would improve dramatically.<sup>31</sup>

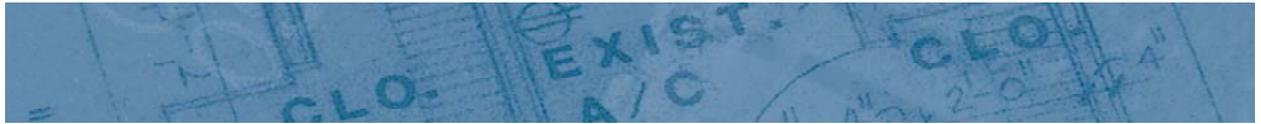
A registration and licensing system would mean that, for the first time, there would be an operating and up-to-date registry of industry operators. Over time, this would facilitate significant improvements in industry organization, communications, workplace safety and ongoing consultation processes.

In a situation of increasing skills shortages, it may be easier to attract and retain new recruits to an industry with a more developed professional identity and more defined career path.

Perceived drawbacks for builders and renovators might be payment of fees, the necessity to meet new training standards, and adjustment to a new business environment as underground activity is reduced.

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<sup>31</sup> Research carried out by the AHBR&SC indicates that upwards of 25% of all construction activity in Nova Scotia involves one form of underground activity or another.



## Workers

Given the increasing competition for skilled trades workers, with reduced underground activity and the resulting improvements in the business environment, there is the potential for expanded investments by employers in the workforce in terms of wages and benefits, and training activities.

Improved controls on underground activity would also mean that many more workers would have Workers' Compensation coverage and benefit from safety training.

Those workers with ambitions to pursue full careers in the sector would also benefit from a more professionalized industry.

## Government

Nova Scotia faces an intensifying crisis of skills shortages. Many skilled workers are being drawn away by very high wages in the western provinces, while our province continues to have a strong housing market and major new construction projects on the horizon. There is a critical need to expand and improve trades training, and to take other steps in partnership with industry to attract and retain skilled workers.

In a regulated industry, with greater potential for industry-government partnerships, it should be possible to improve industry participation in the training and apprenticeship systems to generate a more highly skilled and committed workforce.

A reduction in underground activity would potentially bring significant benefits for government in terms of increased tax and Workers' Compensation revenues, and improved consumer protection and worker safety.

The Union of Nova Scotia Municipalities has identified potential opportunities for streamlining the building inspection and assessment systems across the province. A licensing program would limit the potential exposure of municipalities to liabilities resulting from residential construction activity by unqualified and/or underground operators.

Although the specific approach is unique, this initiative would bring the Province of Nova Scotia in line with legislative and regulatory trends existing and emerging in other Canadian provinces, notably in British Columbia, Saskatchewan, Ontario, Québec and New Brunswick.



Downsides for government include the potential backlash from certain segments of the industry, particularly those who rely on one form or another of underground activity.

## APPENDIX I

### APPENDIX I

<b>Atlantic Home Warranty Program<sup>32</sup></b>	
<b>Description</b>	Industry funded warranty program designed to provide protection to new home purchasers in Atlantic Canada.
<b>Purpose</b>	Provides third party warranty to protect consumers who purchase a new home from members of the Program.
<b>Maximum Coverage (for purchaser of an enrolled residential unit)</b>	<p>Platinum Seven Plan:</p> <ul style="list-style-type: none"> <li>▪ \$10,000 optional deposit protection if builder bankrupt, insolvent or engaged in fraud</li> <li>▪ First year coverage for defects in material and labour supplied by the builder.</li> <li>▪ Year 2 – 7 coverage for major structural defects to a maximum of \$30,000.</li> <li>▪ Conciliation service to handle disagreements between homeowner and builder.</li> </ul> <p>Ultimate Plus Plan:</p> <ul style="list-style-type: none"> <li>▪ Deposit protection and conciliation service as above.</li> <li>▪ First year coverage for defects in material and labour supplied by the builder.</li> <li>▪ Second year coverage for defects that result in water penetration through foundation walls and defects in workmanship in the delivery and distribution of the electrical, plumbing and heating systems.</li> <li>▪ Year 2 – 10 coverage for major structural defects to a maximum of \$50,000.</li> <li>▪ \$1,500 for offsite living allowance</li> <li>▪ Completion coverage up to a maximum of \$3,000.</li> </ul> <p>Ultimate Plan:</p> <ul style="list-style-type: none"> <li>▪ Offers the same coverage as the Ultimate Plus except for the completion coverage.</li> </ul>
<b>Fees</b>	<p>Fixed registration fee per builder (\$600 initial, \$200 renewal)</p> <p>Enrolment fees are levied per unit constructed. Fee ranges between \$210 and \$915 depending on type of warranty program, type of unit enrolled, and status of builder.</p> <p>Fee covers claims and costs to administer and maintain the program.</p>
<b>Funds</b>	Administration Funds, Risk Retention Fund, and Extended Warranty Fund
<b>Minimum Balance</b>	No set minimum balance. Every year, KPMG LLP performs an analysis of the funds to determine if sufficient to meet expected claim costs.
<b>Protection of Funds</b>	Fully self-insured and supported by liquid investments.
<b>Use of Excess Funds</b>	Program provides funding to the Atlantic Home Builders' Training Board (AHBTB) on the basis of \$10 per unit enrolled.
<b>Net Balance of Funds</b>	\$5.4 million as of February 25, 2005 <sup>33</sup>
<b>Total Monies Collected from Licensees<sup>34</sup></b>	\$1.03 million in enrolment fees; \$200,000 in builders fees
<b># and \$ of Claims<sup>35</sup></b>	64 claims, \$239,000

<sup>32</sup> Sources: Discussions with Pat Mulcahy, Chief Executive Officer, Atlantic Home Warranty Program. Financial Statements February 28, 2005.

<sup>33</sup> Administration fund, risk retention fund, and extended warranty risk fund.

<sup>34</sup> Year ending Feb 28, 2005

<sup>35</sup> Year ending Feb 28, 2005

## APPENDIX II

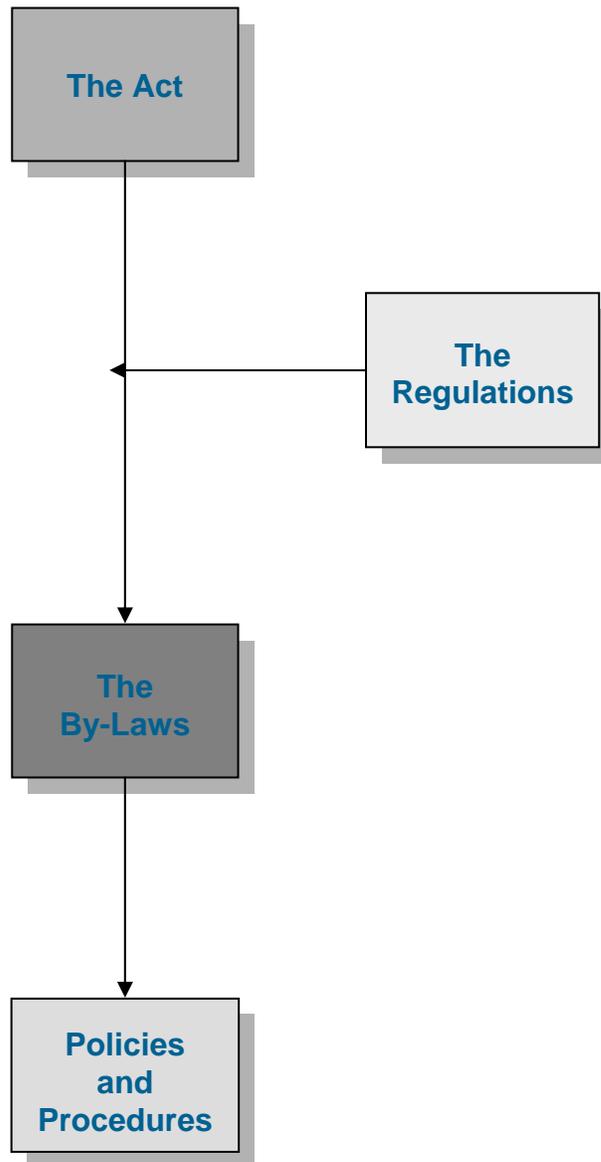
### APPENDIX II

<b>Nova Scotia Real Estate Commission<sup>36</sup></b>	
<b>Mandate</b>	The mandate of the NSREC is to protect consumers by establishing standards for applicants and licensees in the real estate industry, which will promote higher standards of professionalism, competence, and integrity. The real estate industry encompasses residential, commercial, leasing, property management, and business brokerage.
<b>Fund</b>	Real Estate Recovery Fund
<b>Description</b>	Provide a self-insurance fund for licensee members in the real estate industry of Nova Scotia.
<b>Purpose</b>	Compensate consumers who suffer a financial loss or damage resulting from a licensed person engaging in fraud or breach of trust.
<b>Maximum Claims</b>	From a single real estate transaction: \$15,000 to any claimant for a claim against a salesperson; \$20,000 to any claimant for a claim against a broker or manager; and a total of \$60,000 if there is more than one claim against a brokerage.
<b>Levy</b>	Annual fee paid by licensee to register with the fund. Fee ranges between \$10 and \$200, depending on licensee category. Fee covers claims and costs to administer and maintain the Real Estate Recovery Fund. Commission may increase fees if the Fund falls below a minimum set by the regulations or if the income from the investment of the money in the fund is insufficient to pay the administrative costs. All licensees must be covered by the fund and until 2006 all had to pay an annual assessment. As of this year, any person that has paid into a category for 5 years is no longer required to pay an assessment. If they change category then they must pay for 5 years in that category.
<b>Minimum Balance</b>	Provincial Government requires the NSREC to maintain a minimum balance of \$300,000.
<b>Protection of the Fund</b>	The commission may enter into a contract with an insurer by which the Fund may be protected against claims or losses to the Fund.
<b>Use of Excess Funds</b>	Any amount in excess of the minimum balance may be used for other purposes such as public and professional education, reform of the industry, promoting standardization and supporting just and desirable legislation affecting the industry.
<b>Net Balance of Fund</b>	\$613,361 as of December 2004
<b>Total Monies Collected from Licensees</b>	\$72,000 – 2004
<b># and \$ of Claims</b>	1 claim, \$25,000

<sup>36</sup> Sources: Discussion with Doug Dixon, Registrar, NSREC. Annual Report for 2004, Nova Scotia Real Estate Commission. 2005 Annual General Meeting. March 24, 2005.

APPENDIX III

Proposed Governance Model  
Nova Scotia Residential Construction Commission



## APPENDIX IV

### APPENDIX IV

<b>Who is Licensed?</b>	
<b>Homeowner Protection Office, British Columbia</b>	<p>License applicants are <b>residential builders</b> who engage in, arrange for, or manage all or substantially all of the construction of a new home in British Columbia. Includes developers, general contractors, project managers, construction managers, and vendors.</p> <p>The licensee nominee is an <b>individual</b>. May be a sole proprietor, partner or person acting as representative for a corporation as the director nominee. A director nominee is the director of a residential builder corporation named as the representative of the corporation on the license of the residential builder.</p> <p>Owner-builders are not required to be licensed or provide home warranty insurance on their own home. Owner-builders are individuals who build detached self-contained dwelling unit for their own personal use, not more than once in any 18-month period. An Owner Builder Declaration and Disclosure Notice must be obtained from the HPO in order to obtain a building permit or commence construction.</p>
<b>Régie du Bâtiment du Québec, Québec<sup>37</sup></b>	<p>License applicants are <b>all contractors and trades involved in construction</b>. Contractor licenses are divided into two categories: "general" and "specialized". As well, there are owner-builder licenses.</p> <p>General licenses limit the dwelling type(s) on which a general contractor can work. The specialized contractor's licenses relate to the type of work a contractor is licensed to perform.</p> <p>The licensee nominee is an <b>individual</b>. May be a sole proprietor or partner. In the case of a corporation, the licensee may be a director, shareholder (must own more than 20% of shares), or full-time manager.</p> <p>An owner-builder's license is not required in the following circumstances:</p> <ol style="list-style-type: none"> <li>1) When the work is carried out by someone on a single family dwelling intended for personal use or the use of their family.</li> <li>2) When a person has work carried out by a licensed general contractor whose main activity is the organization or coordination of work to be done by other people.</li> <li>3) When the planned construction work involves only the renovation, repair or maintenance of the homeowner's property and the estimated cost of the work is less than \$20,000.</li> <li>4) When the work falls under only one subcategory of construction work and is carried out by a contractor who holds a specialized contractor's license in that area.</li> </ol>
<b>Building Practitioners Board, Victoria State, Australia</b>	<p>The license applicant is <b>anyone who undertakes the design, construction or approval of buildings</b> (includes surveyors, inspectors, engineers, draftspersons, builders, demolishers and supervisors of temporary structures). In residential construction specifically, anyone contracted to undertake building work valued in excess of A\$ 5,000 must be registered.</p> <p>Builders are registered for one of three levels of competence: unlimited homebuilders, homebuilder managers, and small project renovators.</p> <p>The licensee nominee is an <b>individual</b>. Residential construction companies must have at least one registered building practitioner as a partner or director. Registering an individual rather than a company prevents the individual from trading under a new company name.</p> <p>Owner-builders do not have to be registered but they must provide warranty coverage to the purchaser if they sell the home within 5 years.</p>
<b>Nova Scotia Real Estate Commission</b>	<p>The licensees are:</p> <p>Individuals – broker's, salesperson's or other type of license. Individuals and companies – brokerage license.</p>

<sup>37</sup> RBQ's mandate includes ensuring acceptable quality of construction work and public safety with regards to building construction. The RBQ is responsible for the administration of several laws, regulations and codes, including the Building Act, the Safety Code and the Building Code. They are also responsible for the creation and implementation of the professional qualification standards applicable to the licensing of contractors and for the administration of license testing.

## APPENDIX V

### APPENDIX V

Overview of Homeowner Protection Office (HPO)	
<b>Jurisdiction</b>	British Columbia
<b>Structure</b>	Provincial Crown Corporation
<b>Governance</b>	Reports to the Minister of Forest and Range and is governed by a Board of Directors appointed by the Lieutenant Governor
<b>Legislation</b>	<i>Homeowner's Protection Act</i> S.B.C. 1998, c. 31
<b>Inaugural Date</b>	October 1, 1998
<b>Major Impetus for Formation</b>	Response to many of the recommendations from the original Barrett Commission report on the quality of condominium construction in British Columbia.
<b>Mandate</b>	Strengthen consumer protection for buyers of new homes and to help bring about improvements in the quality of residential construction
<b>Responsibilities</b>	<ol style="list-style-type: none"> <li>1) To <b>license</b> residential builders and building envelope renovators in British Columbia, including ensuring compliance with the requirements of the <i>Act</i> and dealing with offences.</li> <li>2) To carry out <b>research and education</b> designed to benefit the residential construction industry and consumers.</li> <li>3) To <b>monitor</b> the functioning of the third-party mandatory home warranty insurance system established under the <i>Act</i>.</li> <li>4) To provide <b>financial assistance</b> to owners of leaky homes in the form of the Reconstruction Loan Program (no-interest repair loan) and the Provincial Sales Tax (PST) Relief Grant Program.</li> </ol>
<b>Activities</b>	<p>Research and education initiatives in areas such as cost-effective building techniques, best practices for retrofitting housing, building code changes and consumer education.</p> <p>HPO maintains a public registry of licensed residential builders and building envelope renovators.</p>
<b>Current Challenges<sup>38</sup></b>	<ol style="list-style-type: none"> <li>1) Absence of meaningful entry requirements for the homebuilding profession.</li> <li>2) Diversity of training programs and their voluntary nature.</li> <li>3) Onerous financial conditions imposed on builders seeking warranty insurance coverage.</li> <li>4) Limited ability to respond to infractions under the <i>Act</i>, including abuse of the owner-builder exemption.</li> </ol>
<b>Lessons Learned<sup>39</sup></b>	<p>If considering creating a licensing system then should ensure that:</p> <ol style="list-style-type: none"> <li>1) There isn't a big loophole for owner-builders<sup>40</sup> – need tighter restrictions, at present the costs associated with administering owner-builder exemptions are not covered by a fee. HPO has estimated that these administrative costs are roughly \$449 per owner-builder and, therefore, if changing legislation to include owner-builders then they would consider charging them a \$500 fee.</li> <li>2) Have a detailed definition of what constitutes a residential builder.</li> <li>3) If extend licensing beyond new home construction, then need to consider insurance – <i>“in B.C. there was not industry appetite to extend licensing to renovation... in addition we questioned the insurance industry and determined that the risk model would require unacceptable premium levels to fly, in other words nobody was interested in underwriting the risk”</i>.</li> </ol>

<sup>38</sup> *Raising the Bar, Enhancing Professionalism in British Columbia's Residential Construction Industry*. A Discussion Paper, August 2005. Homeowner Protection Office.

<sup>39</sup> Based on discussion with Bob Maling, Registrar, HPO.

<sup>40</sup> Owner-built homes, for which no warranty insurance is provided in most cases, account for a declining share of all single detached homes in B.C. Since 1999, the number of owner-built homes, as a percentage of all single detached homes constructed, has decreased steadily from 38.3% in 1999 to 19.9% in 2004.



<b>Homeowner Protection Office, British Columbia : Summary of Licensing System</b>		
	<b>New Home Construction</b>	<b>Residential Renovation</b>
<b>Inaugural Date</b>	July 1 <sup>st</sup> , 1999	September 30 <sup>th</sup> , 2000
<b>Legislation</b>	<p>The <i>Act prohibits</i> a municipality/regional district from issuing a building permit for new home construction unless the applicant provides proof of being a Licensed Residential Builder and that the home is covered by a third-party home warranty insurance provider.</p> <p>Residential builders constructing new homes in unincorporated areas, i.e. where building permits are not required, are still expected to be licensed and provide home warranty coverage.</p>	<p>The <i>Act prohibits</i> a municipality/ regional district from issuing a building permit for building envelope renovations unless the applicant provides proof of being a Licensed Building Envelope Renovator and that the renovation is covered by a third-party home warranty insurance provider.</p>
<b>Licensees</b>	<p>License applicants are <b>residential builders</b> who engage in, arrange for, or manage all or substantially all of the construction of a new home in British Columbia. Includes developers, general contractors, project managers, construction managers, and vendors. Do not include trade contractors as felt it would be too much for the industry to bear and would be viewed as a cash grab.</p> <p>The Act requires the licensee to be an <b>individual</b>. The licensee may be a sole proprietor, partner or person acting as representative for a corporation as the director nominee. A director nominee is the director of a residential builder corporation named as the representative of the corporation on the license of the residential builder.<sup>41</sup></p>	<p>License applicants are <b>building envelope renovators</b> who engage in, arrange for, or manage a building envelope renovation in British Columbia.</p> <p>The Act requires the licensee to be an <b>individual</b>. The licensee may be a sole proprietor, partner or person acting as representative for a corporation as the director nominee. A director nominee is the director of a building envelope renovation corporation named as the representative of the corporation on the license of the building envelope renovator.</p>

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<sup>41</sup> Despite the legislation, some residential builders are not licensed. The HPO estimates that only a small percentage (1/4 of a one percent) of new residential construction does not have a licensed residential builder.



<p><b>Type of Residential Construction</b></p>	<p>New home construction <b>includes detached dwelling and multi-unit construction</b>. Multi-unit construction includes (1) attached dwelling unit (2) low-rise, multiple units (3) high-rise, multiple units.</p>	<p>Building envelope renovations means construction work <b>on multi-unit residential buildings</b> (a) to <b>repair</b> defects in the building envelope which allow unintended <b>water</b> penetration, or (b) to <b>repair</b> damage caused by unintended <b>water</b> penetration.</p>
<p><b>Exemptions</b></p>	<p><b>“Owner-builders”</b> - an individual who builds a detached self-contained dwelling unit for their own personal use, not more than once in any 18-month period. An owner-builder is not required to be licensed or provide home warranty insurance on their own home. An Owner Builder Declaration and Disclosure Notice must be obtained from the HPO in order to obtain a building permit or commence construction.</p> <p>All persons ordinarily resident in the same dwelling unit are deemed to be the same owner-builder; therefore, only one owner-builder exemptions is allowed per household.</p> <p>If the owner-builder sells the home within the first 10 years after occupancy, the owner could face legal action and is personally liable to subsequent purchasers for defects in the home.</p> <p>Multi-unit (two or more units) rental buildings, factory built homes, and non-strata titled hotels, motels, dormitories, care facilities and float homes are eligible for an exemption from the warranty insurance requirements.</p>	<p>Does not apply to buildings with only one or two self-contained dwelling units, multi-unit rental buildings, social housing, hotels and motels, dormitories, care facilities, floating homes, repairs carried out by the original builder at no cost to the owner(s) or when there is a cost-sharing agreement between the original builder and the owner(s). In addition, renovations must exceed certain dollar value<sup>42</sup> and percentage-of-wall-repaired<sup>43</sup> thresholds to be subject to the <i>Homeowner Protection Act</i> and regulations.</p>

<sup>42</sup> The building envelope renovation cost is greater than or equal to \$10,000 or \$2,000 per unit in the building.

<sup>43</sup> Building envelope renovations in which 60% or more of any cladding surface is renovated.



<b>Requirements of Licensee</b>	<p>The applicant provides proof of being a licensed residential builder/building envelope renovator and that the home is covered by home warranty insurance to the municipality/regional district prior to issue of a building permit. The proof is a completed HPO Registration Form.</p> <p>The license application and agreement form requires the licensee to agree to the following:</p> <ol style="list-style-type: none"><li>1) pay applicable fees</li><li>2) obtain home warranty insurance on all new homes constructed / building envelope renovations</li><li>3) ensure current license, if applicable, is valid and subsisting</li><li>4) will not employ a person to work in a compulsory certification occupation or a compulsory certification trade if the licensee knows, or would reasonably know, that the person is not permitted to work in that trade or occupation</li><li>5) will comply with the regulations and standards in force that are applicable to any new home to be constructed by the residential builder/ any building envelope renovation by the building envelope renovator</li><li>6) will apply ordinary skill, competence and care to building new homes/envelope renovations</li><li>7) may have license refused for renewal, or suspended, cancelled or have restrictions imposed on it, at the discretion of the registrar, for failing to comply with provisions of the <i>Act</i></li><li>8) will immediately notify the HPO of any change in address or other information detailed in the application</li><li>9) will ensure that all parties working on the new home/renovation will comply with all other relevant legislation and regulations, including but not limited to requirements under the <i>Workers Compensation Act</i></li><li>10) accepts that information collected on the form is collected under the authority of the <i>Act</i> and will be used to process the application. In addition, some of the information (the form provides specifics) is disclosed on a database made available to the public for the purposes of strengthening consumer protection for buyers of new homes.</li></ol>
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APPENDIX VI

Proposed Organizational Chart  
Nova Scotia Residential Construction Commission

