



Earthquake Update

SEPTEMBER 2015



Understanding how variations work

Today marks five years since the first earthquake and we'd like to acknowledge the impact this devastating event had on our Canterbury Members. Although it has taken longer than anyone expected, many projects in our programme are moving into construction and building activity will ramp up further as we move into the busy season in spring and summer. In this update we've outlined some information about project variations that you may find useful.

If we've made a pre-construction payment (PCP) based on an estimate (with a scope of damage or proposed reinstatement approach from EQC, your lead consultant or your builder), the best time to review the payment amount is once the agreed works have been priced and reviewed through a tender process. Once the tender recommendation is finalised, we will make a payment adjustment if necessary. We may also adjust your payment later on to reflect any variations during construction.

What's a variation?

Variation is a contract term that means a change to the scope of work and/or price in the contract you have with your builder. Once payment has been made and your project is underway, there may be unexpected issues that come up during construction that we haven't accounted for in the payment. If this happens, the extra work to address an issue discovered during construction is known as a variation.

For example, let's say your windows are sticking and your lead consultant expects once your house is re-levelled, they will stop sticking. Sometimes re-levelling doesn't fix all of the windows and the additional work required to free up any that are still sticky is a variation. Other variations may relate to foundations and drainage that can only be properly inspected once construction has started.

Who pays for a variation?

If the unexpected repair work is needed to address damage that occurred as a result of the earthquakes, we may need to adjust your PCP to cover this work. It's important to note that some variations may also result in a credit and you will need to meet these costs. Repairs for pre-existing issues that are not related to earthquake damage, or any improvements you choose to make to your property, are not covered by your policy.



How do PCP adjustments work?

Beca has a dedicated team working to manage the projects in our programme and they advise us on technical matters, including variation requests during construction.

When your tender is finalised, your PCP will cover the agreed contract price for earthquake repairs which includes the fixed price to do the work. This may also include the amount your lead consultant or builder estimates it will cost to do an aspect of the work, but won't be certain of the cost until construction. This is known as a provisional sum.

Your PCP may also include an amount to cover items that may or may not be needed once construction begins, and as such aren't included in the contract with your builder – these are called uncommitted sums.

How a variation is paid depends on how it is covered in your PCP. If the variation is covered by a provisional sum, your lead consultant will change the value of the provisional sum from an estimate to a fixed price once it is known. You should be aware that the contract price may increase or decrease, depending on how the fixed price compares to the earlier estimate. This type of variation is unlikely to require a top-up payment.

If a variation is covered by the uncommitted sums in your PCP, you pay your builder using the PCP funds. In some circumstances the total cost to repair your earthquake damage may exceed the PCP amount, and we'll consider making a top-up payment, depending on the reason for the increased cost.



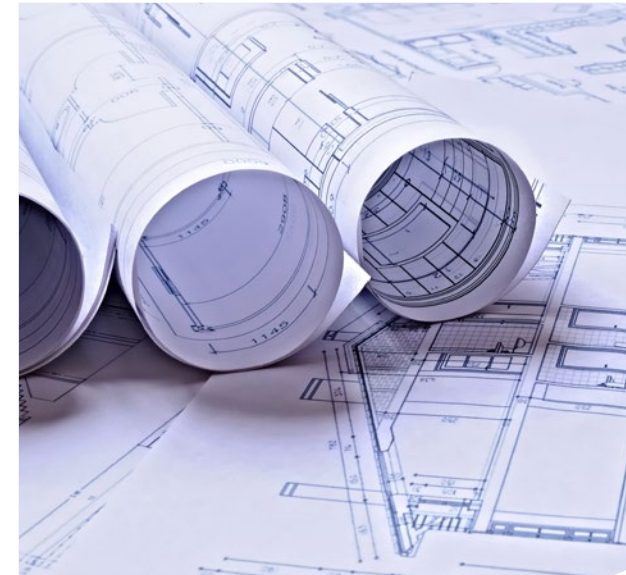
When are payment adjustments made?

The timing of a payment adjustment depends on whether the variation is likely to increase the contract price beyond the value provided for in your PCP. We anticipate the majority of top-up payments for minor variations will be made at or near the end of the building contract, once the final cost of construction is more certain.

There are instances where we'll make a top-up payment earlier, for example for a single major variation such as an unexpected foundation repair. As a general rule of thumb, if a variation is found to result from earthquake damage and is covered by your policy, we'll make a top-up payment early enough to avoid you having to pay for the repair work from your own funds.

It's important that you and your lead consultant and/or builder continue to engage with our team during construction so that we can assess whether a variation is needed to repair earthquake damage as soon as possible. This is particularly important where the work will be covered up, for example wall framing, as the assessment will be difficult to make once the wall is covered.

Remember that we're here to support you while your project is completed and we encourage you to call us on **0800 800 627** or email info@mas.co.nz with any questions.



Our progress

To date physical works have been completed for 125 claims in our programme, and we've made 273 payments – both PCPs and cash settlements.

During the past month we've received a further eight claims confirmed as over-cap by EQC and transferred to our programme.

We continue to progress claims to tender to ensure the actual and reasonable costs are known, but in the interim we appreciate working together to arrange payments so you have the benefits of the funds. We know that it can often be difficult to reach independent trustees or lawyers, and we're happy to talk to them directly if you'd find that helpful.



EQC to address repair issues

You may be aware that the Ministry of Business, Innovation and Employment (MBIE) recently released a report following a survey of home inspections between March and June, most of which had undergone structural repair work for earthquake damage. The report revealed that more than a third of the houses had work done that did not comply with the Building Code.

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Third party payments

In some circumstances we'll pay a third party – this is usually where a bank or financial institution holds a mortgage over the property. Because a mortgage gives the bank the first right to any cash proceeds relating to the mortgaged property, we're required to pay them directly to meet our obligations.

The bank can then use the cash to pay off any outstanding debt or ensure that any repair or rebuild work is carried out (depending on the mortgage agreement you have with them) – you will need to discuss with your bank how the payment is applied or spent.

You should also be aware that even if your home loan has been paid off, your bank may not have released the mortgage, so it's a good idea to get in touch with them when you've received your PCP to arrange the release. Please note we'll pay you directly for losses such as contents or alternative living expenses which do not relate to the property on the title and as such aren't affected by mortgages.

MBIE reported that almost all the non-compliant repairs were minor and many were linked to the 'jack and pack' method of re-levelling floors that had settled unevenly. This process involves temporarily jacking homes to install packing material between foundation piles and timber sub-floor framing. EQC and its project manager Fletcher EQR have promised to recheck and, where necessary, fix unconsented repairs on 3600 properties.

We'd like to assure you that MAS has checks and balances in place to ensure the quality of foundation repairs for properties in our programme. We work with the professional lead consultants and licensed engineers and building practitioners who you've chosen for your project. They follow the Christchurch City Council consenting guidelines and process for foundation repair solutions in all circumstances.

Yours sincerely,

MAS EQ Team

Call us today:
0800 800 627
Visit us online at www.mas.co.nz

