



Earthquake Update

NOVEMBER 2015



When your works are complete

We have a number of projects in construction that are nearing completion and we thought you may find it useful to have some information about ensuring the works have been completed as agreed in your building contract.

Defects period

Once the works are complete, there is a 'defects period' which is the time specified in your building contract when you can identify any issues with the work done and rectify these with your building contractor. Your lead consultant is responsible for confirming your builder has met all of their obligations under the contract and is your first point of contact if you find any defects. A standard 3-month defects period is usually noted in your contract with your builder.

In addition, your contract works insurance will cover you for a defined defects period after construction is complete. This covers any accidental loss to the construction works that may come to light or occur during that period. If this is a MAS Contract Works policy, the defects period is up to six months after completion. Please note that this is referred to as the 'maintenance period' in our policy and may differ from other contract works insurance policies.



Warranties and product guarantees

The contract between you and your builder requires warranties for the relevant works and the materials used for your project. There are also implied warranties in the Building Act that cover the building work, from compliance with the Building Code to good workmanship and timely completion.

As part of the detailed design stage of your project, your lead consultant will have established what specific

warranties are required, and the warranty period for each one. On completion of the building work, your lead consultant is responsible for quality checking the physical works as well as collecting all required documentation including warranties.

Many building materials are covered by product guarantees and you should ask your builder for any that apply to your project. It's important to keep copies of all warranties and guarantees in case something goes wrong once your building works have been completed and the defects period has expired. You should also familiarise yourself with any product warranty or guarantee conditions so that you don't inadvertently do something to make them invalid. Your builder and lead consultant can assist you with understanding any particular requirements of the warranties or guarantees provided on your project.





Reminder: project variations

Following on from our September update, we've received some queries from Members and we'd like to further clarify the process for project variations.

A variation is any change to the scope of works for your project between when the building contract is signed and the project is completed – it can be a change in the material being used, or some additional work required during the building phase, which was not accounted for in the original scope and the building contract. In most cases a variation will mean there's a change in the value of the contract.

There are procedures set out in the building contract for dealing with variations including timeframes that apply to each stage of the process:

- ▶ **Variation identified during construction** – variations are generally identified when the work starts on site and the building structure is exposed. Your builder should immediately bring a proposed variation to the attention of your lead consultant, who should confirm if the variation is necessary. Your lead consultant should also take an initial view on whether or not the variation is related to earthquake damage repair.
- ▶ **Lead consultant requests price from builder** – once your lead consultant has determined a variation is required, they should issue an official notification asking your builder to confirm if the variation will mean a change in cost and provide details.
- ▶ **Builder supplies price** – your builder submits a price for the variation that changes the contract value. The price should be broken down to clearly show how the values have been calculated, along with all the supporting documents, for example, material quotes and any sub-contractor quotes. You will need to see this breakdown whether or not the variation is needed to repair earthquake damage.
- ▶ **Priced variation submitted to Beca to verify** – your lead consultant and Beca discuss the details to ensure all insured costs are reasonable and presented in accordance with the building contract. In most cases your lead consultant and a Beca representative will interact with your builder to clarify the details of the submission before agreeing to the cost. This may include asking for additional supporting documentation and an explanation of how the work will be carried out.
- ▶ **MAS reviews and approves variation** – once the value and content of the variation is confirmed, Beca submits a draft approval with all the back-up details to MAS for our final approval. We review the Beca draft approval and sign off when we're satisfied that the work is to repair earthquake damage and is in line with your policy. This may involve us asking Beca for further detail.

- ▶ **Contract varied** – once the details of the variation are agreed, your lead consultant will formally vary the contract on your behalf, including any contract price adjustments.
- ▶ **Payment process** – where we've approved the variation as covered by your policy, Beca issues the final variation approval to MAS and we will pay you the net increase in the contract value including GST if this exceeds the value of your pre-construction payment. All parties are copied into the approval. On occasion, the payment will be made directly to your builder, but this is usually done for a specific reason and only in agreement with you.

Pre-construction payment variations

Beca assesses and verifies variations before submitting to MAS for approval. If we've made a pre-construction payment (PCP) for your project, it's important that your lead consultant keeps Beca informed of variations so we can confirm that these are necessary to repair earthquake damage.

We want to make assessments progressively and monitor that the PCP is sufficient to cover the costs throughout the contract.

A member of the Beca team will usually visit your property to determine whether or not the variation is needed to repair earthquake damage.

As noted in our September update, a variation assessment should be done before the work is covered up by any subsequent works.

It's also important to have variations assessed as soon as they arise during the project because it's much more difficult to assess these once the project is complete.

Please keep in mind that while we are not a party to your building contract, we have an obligation to pay you for the reasonable cost of earthquake damage repairs in accordance with the terms of your policy.

If it turns out a variation is not covered by your policy, Beca will recommend not do any further assessment and you will be responsible for the cost of the variation.

Your lead consultant should be able to advise you on these costs, and you may wish to get them independently reviewed if they are for large value or scope items.



Our reinstatement programme progress

To date we've made 293 payments including pre-construction payments and cash settlements. Physical works have now been completed for 129 claims in our programme.

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

We'd like to remind you that many professional services such as building contractors and law firms will be closed during the holiday period. Your Beca project manager will advise you of their availability during the holidays. We would appreciate you contacting us about any time sensitive tasks for your project **before 18 December**.



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EQC land payments

As your insurer we cover the cost (in excess of EQC's liability) to repair the earthquake damage to your dwelling (and related structures) within the boundaries of your property, while EQC provides limited cover for the land within those boundaries. You can read a summary of EQC's land cover (EQCover) at <http://www.eqc.govt.nz/what-we-do/land>.

If the land beneath your property was damaged by the earthquakes, EQCover pays the lesser of either:

- ▶ the cost to repair the damaged land (within the limits in the Earthquake Commission Act 1993); or
- ▶ the value of the damaged land, or the value of 4,000 square metres, or the value of the minimum-sized building site allowed in the area in which you live – whichever is the lowest.

EQCover also covers bridges, culverts, and retaining walls that support your home or insured land for indemnity value. This means the valuation takes into account their age and state of repair. You can read more about how EQC calculates your land claim settlement, what EQC will and won't pay for land claims, and how EQC excesses work at <http://bit.ly/1WeHbbT>.

You can view an October 2015 presentation by Keith Land, EQC's Head of Canterbury Land, giving an update on land settlements at <http://bit.ly/1LYH4dZ>.

Yours sincerely,

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