

Auditor-General's overview

New Zealanders are fortunate in that the state provides some insurance cover to homeowners against natural disasters. A public entity, the Earthquake Commission (EQC), is responsible for paying the first \$100,000 of damage (all figures in this overview exclude GST) to insured homes after each damaging earthquake.

The 2010 and 2011 earthquakes in Canterbury damaged about 180,000 homes. For more than 20,000 homes, the damage will cost more than \$100,000 to repair, so it is the responsibility of private insurers. EQC contributes \$100,000 to the cost, but the private insurer manages the claim.

EQC is responsible for the remaining 160,000 or so damaged homes. It anticipates paying cash to settle about half of the claims and managing repairs to the rest.

This report is about how EQC has performed in managing the home-repair programme – a topic that has come under intense public scrutiny. I am aware that there are many stories highlighting examples of poor customer service by EQC. Unfortunately, I cannot provide a remedy for those individuals. My staff have not, and cannot, examine or attempt to resolve disputes about individual claims – that is the role of the Office of the Ombudsman and the courts (because EQC is not covered by the ombudsman scheme for private insurance companies).

What I can do is provide an independent and balanced assessment of EQC's performance in managing the home-repair programme, given the context and circumstances, and highlight where EQC can improve services for those still affected and in preparation for future events.

By June 2013, EQC had repaired more than 40,000 homes (just over half of the homes for which it is managing repairs) at a cost of about \$1.5 billion (including home-heating and emergency-repair initiatives, which have cost about \$154 million). The total also includes spending of \$180 million on project management. During our audit, EQC brought forward the completion date – when all repairs are expected to be finished – from the end of 2015 to the end of 2014.

In my view, EQC's performance to date has been mixed. It has performed well in managing repair costs and setting the home-repair programme up quickly, but has not performed as well in dealing with homeowners. Although efficiency is clearly important, this report is a timely reminder for EQC and others that being in the public service means serving the needs of people.

Positive aspects of EQC's management of the home-repair programme include:

- homeowners have not had to compete directly with each other for materials or tradespeople;

- some homeowners have been very satisfied with repairs (about 80% of homeowners with repairs just completed in 2013); and
- there has been a focus on safe work practices.

EQC has not performed as well with other aspects of the home-repair programme. For example:

- it was late in the programme before repair slots were actively allocated to the homes of vulnerable people;
- homeowners have experienced inconsistency in information and processes, and long periods without specific information from EQC about their claim, leading to a lack of certainty while waiting for repairs;
- some homeowners have been dissatisfied (about 20% of homeowners with repairs just completed in 2013), including dissatisfaction with the quality of repairs or the time taken to complete the repairs after work has started; and
- some important systems, controls, and support functions should have been in place and fully effective sooner, including controls to help manage risks to repair quality.

For homeowners, waiting to have a home repaired is trying and stressful. If the surveyed level of dissatisfaction with repairs in the programme in 2013 applied to the whole programme, then the owners of more than 14,000 repaired houses would be dissatisfied or very dissatisfied with the repairs. Some of this dissatisfaction would be likely to arise from a gap between the expectations of some homeowners and what EQC is able to do.

Repair costs have been reasonable to date, but there are risks to that continuing. Keeping repair costs at a reasonable level depends on EQC managing essential controls and systems, staying ahead of the private insurance and central city repair and rebuild work, and completing the home-repair programme by the December 2014 deadline set by EQC.

Project management costs (on average, about 12% of the cost of a repair to date) have been at the higher end of what we consider to be reasonable in the circumstances. Achieving reasonable project management costs at the end of the home-repair programme depends heavily on EQC:

- completing the home-repair programme by its December 2014 deadline;
- managing its hub reconfiguration project effectively to deliver the expected benefits; and
- continuing to control repair-cost inflation.

I have recommended that EQC prioritise actions that will give homeowners more certainty and improve the consistency of its practices. I have also recommended, among other matters, that EQC continue monitoring project management costs and quality assurance data to ensure that costs and quality are appropriate.

My office will carry out follow-up work to track the progress EQC has made with the recommendations in this report and to review the final total programme costs, following the expected completion of the home-repair programme by the end of 2014.

A complex situation

EQC has had no comparable situations to draw direct experience and lessons from given the scale and complexity of the repair activity is unprecedented in New Zealand. The affected population is a higher proportion of the country's total population, a much higher proportion of damage is covered by insurance, and the effect on the overall economy is proportionally bigger, especially when compared to the effects of large-scale natural disasters in other countries.

Progress has been complicated by more earthquakes and the need to apportion damage correctly to each earthquake, evolving repair techniques and guidance, and the effect of "zoning" land in Christchurch. Complications did not arise in a linear sequence but with many complexities coinciding (including land remediation and dwelling repairs).

In March 2011, EQC renewed reinsurance cover while large earthquakes were still occurring in Canterbury. EQC again renewed reinsurance cover in 2012 and in 2013. Securing reinsurance was important because, without it, the direct cost of the home-repair programme to the taxpayer would be significantly higher, and so too would the cost of another large-scale natural disaster during the period of cover. If EQC had failed to obtain reinsurance cover, the wider New Zealand insurance industry and potentially the wider economy could have been adversely affected.

Because of the high degree of Parliamentary and public interest in the subject of this report, we have deliberately included more descriptive material than usual. We hope this helps people to understand the complex and evolving circumstances experienced by everyone involved in the home-repair programme. Our approach has meant a lengthy report, so each Part begins with a summary of our findings.

Lessons for other public entities

Public entities naturally concentrate their planning around likely events. But the uncertainty and complexity of the contemporary world mean that this alone is not enough to serve the future needs of New Zealanders well.

In my view, public entities need to sensibly prepare for potentially catastrophic but unlikely events. Those events can require public entities to administer large and complex initiatives that must be quickly set up. Examples of such events include the failure of significant financial institutions, a large mining disaster, a global pandemic, a shipping disaster, or a food contamination scare.

Being prepared for these types of situation is difficult but possible. Although detailed action planning cannot be done before an event, entities can prepare a coherent strategic approach, or framework, ahead of such events. A disciplined approach is required when responding to these events, particularly once the immediate emergency phase of the event has passed.

Acknowledgements

I thank the community organisations, EQC, Fletcher Construction, and the other people who have assisted my team during our audit.

In particular, I acknowledge and thank those members of the public who invited my audit team into their homes and shared their earthquake experiences.



Lyn Provost
Controller and Auditor-General

31 October 2013

Our recommendations

We recommend that the Earthquake Commission:

1. continue to improve its approach to auditing repairs in the home-repair programme so the Commission is well informed about the scale and type of repair quality risks, can mitigate those risks where possible, and can match the resourcing of its quality assurance processes to the significance of those risks;
2. continue to improve communication with individual homeowners about their claims, giving homeowners as much certainty as possible as early as possible;
3. continue to refine key performance indicators for the home-repair programme to consistently and meaningfully cover cost, time, quality, and safety, with targets where practicable;
4. continue to review and, if necessary, adjust the configuration of repair and project management services in the home-repair programme to deliver the best value and results in the circumstances and treat homeowners fairly and consistently; and
5. identify and record the lessons, tools, and information from the home-repair programme that could usefully support responses to future large-scale natural disasters.

The Earthquake Commission has work under way to address several of these matters. More detailed information is provided in the following Parts of this report.