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Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit



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Earthquake Commission: Managing the Canterbury Home Repair Programme – follow-up audit

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Auditor-General's overview

In October 2013, I published a report on the performance of the Earthquake Commission (EQC) in managing the Canterbury Home Repair Programme (the programme). I said that my staff would carry out follow-up work to track EQC's progress with my recommendations.

In my 2013 report, I described EQC's role, the challenging circumstances for it and the people of Canterbury, and how the programme was performing at the time. The circumstances have continued to be challenging, changing, and complex.

In 2013, I concluded that EQC's performance in managing the programme had been mixed. EQC had set up the programme quickly and had generally managed repair costs well. However, EQC had not dealt with homeowners as well. Project management costs were also at the upper end of what I considered to be reasonable in the circumstances.

I made five recommendations to help EQC give homeowners more certainty and improve the consistency of EQC's repair practices. I recommended that EQC improve its auditing of repairs, improve its communication with homeowners, refine its key performance indicators, review the configuration of repair and project management services, and identify and record lessons learned.

In my 2013 report, I described the importance of ongoing reinsurance cover. Since that report, EQC has continued to obtain reinsurance while working to improve the programme.

Securing reinsurance is important because, if EQC had not had it when the Canterbury earthquakes happened, the direct cost of the programme to the taxpayer would have been higher. Continuing to secure reinsurance is important for reducing the cost to the taxpayer of another large-scale natural disaster during the period of reinsurance cover. If EQC had failed to continue to obtain reinsurance cover, the wider New Zealand insurance industry and potentially the wider economy could have been adversely affected.

EQC has made improvements to the programme

Since 2013, EQC has made improvements to all of the areas of programme activity that I made recommendations for. These improvements include introducing an initiative to give customers more certainty about when their homes would be repaired, rationalising repair hubs to support more consistent repair processes and practices, and introducing more consistent and complete performance indicators.

EQC has a contract with Fletcher Construction Limited to project-manage repairs in the programme. The contract requires Fletcher Construction to source and manage contractors, monitor and inspect repair work, and keep full and accurate repair records as the provider of project management.

On 18 May 2015, EQC agreed a variation to its contract with Fletcher Construction to support the eventual completion of the programme. The variation now includes a set of incentives and performance measures about repair quality, time, and cost.

Although contractors and Fletcher Construction have responsibilities in the programme, EQC continues to be ultimately responsible for the programme.

It is difficult to assess EQC's overall performance in managing repair quality

We found it difficult to assess EQC's overall performance in managing repair quality, even though EQC has improved its understanding of repair quality since my 2013 report.

On one hand, there are problems with the quality of some repairs. On the other hand, many thousands of people are residing in repaired houses. Homeowners' perceptions of the quality of repairs depend heavily on their individual circumstances and experiences.

Some of the programme's repair work has not met the requirements of the Building Code, as found in the Ministry of Business, Innovation and Employment's 2015 report about 101 home repairs in Canterbury.

Although that report's findings are not statistically representative of the whole programme and are about a small number of all repairs, they indicate problems with some programme controls for some repairs. That report has also resulted in EQC intending to recheck the repair files of 3600 homes (as at 28 August 2015).

EQC estimates that about 8%-10% of homes repaired in the programme have needed some aspect of the repair work to be remedied. However, EQC's survey of customer satisfaction immediately after repairs have been completed shows that 84% of surveyed customers were satisfied or very satisfied with the quality of repairs in 2014/15.

EQC has continued to support good health and safety practices. This is reflected in low numbers of reported serious harm incidents and low numbers of reported injuries for every million hours worked, compared with construction industry benchmarks. This is a considerable achievement.

The programme has taken longer than expected

EQC's original target date for ending the programme was December 2015. EQC brought the end date forward to December 2014 but did not meet this target. December 2014 was a "stretch target", but EQC did not make this clear in its communications to customers, who might have had different expectations.

Some homeowners have not received the level of certainty they were expecting and have had to wait a long time for information.

EQC says that it is “exerting every effort to ensure that the remaining settlements are completed as soon as reasonably practicable”. However, EQC has not set a new end date for the programme.

Repair costs have continued to be well managed

As at 30 June 2015, about \$2.7 billion had been spent on the programme. Of this, about \$399 million has been spent on programme management and claims administration, including \$340 million on the project management services provided by Fletcher Construction. About \$258 million of this is direct project management costs, including staff and facilities. The remainder is the margin on repair costs paid to Fletcher Construction.

EQC has continued to manage repair costs well. The increase in repair costs since February 2011 is below the Canterbury inflation rate for new houses in Canterbury. The rates ceiling approach used within the programme to control actual repair costs has continued to be effective.

Since 2013, the project management component of the programme's total costs has increased.

The unique scale and type of the programme means that there are no other directly equivalent programmes to definitively compare project management costs against. Instead, those costs can be indicatively viewed only against other indicators of project management costs.

The programme's project management costs are generally at the upper end of multiple New Zealand indicators of project management costs as a proportion of building costs. Viewed from another perspective, EQC's claims-handling costs are in the middle of a large reinsurer's experience of those costs for a range of international jurisdictions.

There are still repairs to be completed

According to EQC, 66,252 repairs had been “practically completed” as at 30 June 2015. This has been, and continues to be, a major exercise. EQC refers to these as “primary substantive repairs”. Also, a large number of emergency repairs and home heating installations were carried out early in the programme.

Although considered to be “practically completed”, some of these repairs still require further work, such as a repair to a garage or drainage work, to be fully completed.

As at 30 June 2015, EQC estimated that there were an additional 1018 primary substantive repairs in progress (yet to be practically completed) and 1767 primary substantive repairs yet to start.

An estimated 2923 repairs already carried out require further investigation to determine whether they need additional work to be fully completed.

Complaints could be better managed

Although EQC has made improvements to how it manages complaints since 2013, it cannot easily identify all complaints about the programme, has no formal mechanisms for using complaints information to improve its processes, has not fully integrated complaints systems between EQC and Fletcher Construction, and could improve its resolution of complaints.

The nature of EQC's customer interactions has been the subject of many complaints. EQC has received advice on how to improve its customer service and has made this advice publicly available.

Effective management of repair costs but mixed customer experiences

For several reasons, it is difficult to reach an overall conclusion on the performance of the programme in terms of efficiency (whether results have been maximised for the cost), effectiveness (whether the programme has delivered the expected results), and economy (whether the cost has been reasonable).

These reasons include the trade-offs that have to be made in the programme, including between timing and cost. They also include the programme's broadly defined goals – to properly complete all repairs safely, as quickly as practicable, and in a manner that provides value for money in the circumstances.

Two aspects of the performance of the programme are particularly notable. The first is EQC's effective management of repair cost inflation – meaning that repair costs appear to be economic in the circumstances. The second is EQC's mixed performance in terms of customer interactions and experience – meaning that the programme has not been fully effective in the circumstances for some customers, including some vulnerable people.

EQC has not completed repairs for vulnerable people significantly sooner than for other customers. However, it has, on average, issued work orders to begin repair work sooner for those customers. Large numbers of people have been identified as vulnerable, and efforts have been made to work with vulnerable people in the programme.

Some people who are still waiting for repairs to be completed may not be able to live in their homes. Their frustration with the performance of the programme

is understandable. Others who have faced long periods of uncertainty about the status of repair work or who have needed more work done after the original repair work may also be frustrated with the programme's performance.

It is important that EQC does not lose sight of the ongoing importance of effective service delivery and learning from customers' complaints.

Lessons are being learned and identified

EQC has started to record lessons learned from the programme and is committed to being able to deal with large-scale events in the future. For example, EQC has recognised that a long and complex process to resolve claims has caused distress to homeowners and that this has been compounded by dissatisfaction with the quality of EQC's communications. It is important that these lessons are well understood in case they are needed in the future.

I thank the many people in community organisations, EQC, Fletcher Construction, and other agencies for their input to this report.



Lyn Provost

Controller and Auditor-General
18 November 2015

Introduction

- 1.1 In this Part, we describe:
- why we are following up on the performance of the Earthquake Commission (EQC) in managing the Canterbury Home Repair Programme (the programme);
 - our objectives and expectations;
 - the scope of our work;
 - how we carried out our follow-up work; and
 - the structure of this report.

Why we are following up on the Earthquake Commission's performance

- 1.2 In October 2013, we reported on the findings of a performance audit (our 2013 report)¹ examining EQC's performance in managing the programme. In our 2013 report, we said that we would carry out follow-up work to assess the progress EQC has made with our recommendations in that report.
- 1.3 Our 2013 report said that EQC's management of the programme had been mixed. EQC had performed well in managing repair costs and setting the programme up quickly, but it had not performed as well in dealing with homeowners.
- 1.4 Our 2013 report provided background information on EQC, the programme, and the circumstances in which the programme was operating. Readers should refer to that report for the detail.
- 1.5 In summary, EQC's Board and Ministers decided on a home-repair programme because of its potential to contain inflation in the cost of repairs, ensure that funds were used for repairs, and maintain the quality of housing stock in Canterbury. Maintaining the quality of housing stock was considered important in encouraging people to stay in the region (because the equity in their homes would be maintained).
- 1.6 In this follow-up report, we:
- describe the progress that EQC has made since our 2013 report in response to each of our recommendations; and
 - assess the effect of EQC's progress on the achievement of the programme's overall objectives and ongoing value-for-money risks.

Our objectives and expectations

- 1.7 The overall objective of our work was to assess and report on EQC's progress with addressing our recommendations in our 2013 report. In doing so, we wanted to assess whether EQC has:

¹ *Earthquake Commission: Managing the Canterbury Home Repair Programme*. Available on our website: www.oag.govt.nz.

- improved the programme where needed; and
 - continued the more positive aspects of its management of the programme.
- 1.8 We expected that EQC would have improved each of the areas we identified in our 2013 report and that the improvements would contribute positively to the effectiveness and efficiency of the programme.
- 1.9 We also expected that the programme would repair people's homes to the required quality within acceptable costs and time frames, and be carried out efficiently.
- 1.10 We did not make a recommendation in our 2013 report about how EQC manages complaints. However, we have looked at this as part of our work because it is of considerable public interest. It is also, in part, related to EQC's communication with homeowners that was the subject of a recommendation in our 2013 report.

The scope of our work

- 1.11 EQC's main objectives are set out in section 5 of the Earthquake Commission Act 1993 (the Act). They are to:
- administer the insurance against natural disaster damage provided for under the Act (EQC handles residential claims, not commercial claims);
 - facilitate research and education about matters relevant to natural disaster damage; and
 - manage the Natural Disaster Fund, including arranging reinsurance.
- 1.12 As part of addressing the first objective, EQC used a reinstatement option in the Act to put the programme in place in Canterbury. We looked at EQC's responsibilities for the first objective in relation to dwellings, excluding land and contents claims.

How we carried out our work

- 1.13 To carry out our work, we obtained and analysed:
- the findings of an EQC internal audit examining EQC's progress with the recommendations from our 2013 report, including independently reviewing the main documentary evidence used by EQC;²
 - time-series information from EQC on various aspects of its performance, including on complaints, vulnerable people, customer satisfaction, costs, and number of repairs completed;
 - investigations by the Ministry of Business, Innovation and Employment (MBIE) into home repairs in Canterbury;
 - an EQC-commissioned consultant's report on EQC's customer interactions;

- the Building Research Association of New Zealand’s New House Owner Satisfaction Surveys from 2011 to 2014;
- EQC’s accountability documents, including annual reports and statements of intent;
- the contractual arrangements between Fletcher Construction Limited and EQC;
- a 2010 Research New Zealand survey on residential consumers’ experience of commissioning building work;
- external reviews on asbestos exposure and management;
- the Review of EQC’s Customer Satisfaction Survey commissioned by the State Services Commission and published in November 2013;
- Quotable Value’s cost builder information;
- information given to us by members of the public; and
- information about project management costs in other building and construction projects.

1.14 We spoke with:

- EQC staff in Wellington and Christchurch;
- Fletcher Construction staff in Christchurch;
- representatives from the Canterbury Communities’ Earthquake Recovery Network (CanCERN), the Canterbury Earthquake Recovery Authority (CERA), the Residential Advisory Service in Christchurch, and Southern Response Earthquake Services Limited (Southern Response);
- representatives from MBIE in Wellington;
- a representative from the Office of the Ombudsman;
- representatives from a major international reinsurer; and
- representatives from the Building Research Association of New Zealand, the Master Builders Association of New Zealand, and Rawlinsons Limited (on behalf of the New Zealand Institute of Quantity Surveyors).

1.15 We also observed an EQC “circuit breaker” meeting.³

The structure of this report

1.16 In Part 2, we outline our overall findings about the performance of the programme. This includes our assessment of EQC’s performance against the value-for-money dimensions of timeliness, quality, quantity, and cost of repairs. We also describe some of the characteristics and changes in the environment that EQC has been working in since 2013.

³ These are meetings to progress claims that have been difficult to progress – the meetings involve crucial decision-makers and specialist staff.

- 1.17 In Parts 3-7, we describe the improvements that EQC has made. We set out our conclusions about EQC's progress against each of the recommendations we made in our 2013 report. The topics covered are:
- repair quality (Part 3);
 - informing homeowners (Part 4);
 - key performance indicators (Part 5);
 - programme configuration (Part 6); and
 - complaints (Part 7).
- 1.18 In Part 8, we discuss the lessons that EQC has learned from managing the programme and identify what we consider to be the most important lessons.
- 1.19 In the Appendix, we describe what we found and recommended in our 2013 report. The information is organised around each of the recommendations we made in our 2013 report.

Overall findings

- 2.1 In this Part, we outline:
- some of the characteristics of, and changes in, the environment that EQC has been working in since 2013;
 - EQC's improvement activities since our 2013 report;
 - our assessment of the performance of the programme against the dimensions of quality, timeliness, cost, and quantity; and
 - our overall assessment of the performance of the programme.

A challenging, changing, and complex operating environment

- 2.2 No repair programmes are directly comparable with EQC's programme. This limits EQC's options for making informed direct comparisons about its performance relative to other organisations.
- 2.3 The environment that EQC has been operating in since our 2013 report has continued to be challenging, changing, and complex.
- 2.4 Within this environment, EQC has continued to operate and improve the programme, while successfully obtaining reinsurance. We described the importance of ongoing reinsurance cover in our 2013 report. Since that report, EQC has continued to obtain reinsurance while working to improve the programme.
- 2.5 In short, the direct cost of the programme to taxpayers would be higher without reinsurance, and the wider New Zealand insurance industry could have been affected. Reinsurers have regularly looked at EQC's performance as part of deciding whether to continue to provide reinsurance.
- 2.6 EQC has had to work with several decisions and events since 2013. EQC has adapted to and accommodated these decisions and events, including:
- additional guidance released by MBIE on assessing, repairing, or rebuilding multi-unit dwellings, and site ground improvement;
 - WorkSafe New Zealand (WorkSafe) concluding its investigation into the management of asbestos in the programme;
 - the Royal Society of New Zealand and the Office of the Prime Minister's Chief Science Advisor review of scientific evidence about the risks of asbestos exposure to residents of houses undergoing renovation and repair work; and
 - MBIE finalising its reports about 13 EQC home repairs as part of its Canterbury earthquake damage and repair work, and assessing repairs to 101 homes.

The Earthquake Commission's progress since our 2013 report

- 2.7 Figure 1 shows the main improvement activities that EQC has carried out since our 2013 report. EQC has improved all the areas of activity that we made recommendations for in our 2013 report.
- 2.8 These improvements have helped EQC to:
- continue to manage overall repair cost inflation well;
 - promote good health and safety practices;
 - give some customers more certainty about repairs;
 - have a better understanding of what it needs to do to become a more customer-focused organisation;
 - have a better understanding of the quality of repairs delivered in the programme; and
 - know what is required to deliver a similar programme better if it needs to in the future.

Effective management of repair costs but mixed customer experiences

- 2.9 We have considered EQC's improvements since our 2013 report in determining our overall assessment of the programme's performance against EQC's goals. These were that all repairs are completed properly, safely, as quickly as practicable, and in a manner that provides value for money in the circumstances.
- 2.10 EQC did not anticipate the scale of multiple events and circumstances that it has faced. It was forced to work in a reactive manner from a "standing start". EQC had to draw from the limited workforce available in Canterbury. EQC also needed to clearly identify earthquake damage and then repair that damage.
- 2.11 EQC set up the programme quickly and made ongoing improvements to its management of the programme. We provide our assessment of the performance of the programme in Figure 2 in terms of quality, cost, timeliness, and quantity since it started.
- 2.12 In Figure 2, we break down:
- quality into technical repair quality, customer interactions, surveyed customer satisfaction with quality, and health and safety;
 - cost into repair cost and programme management cost; and
 - timeliness into performance against the time frames set by EQC for the programme, and the overall time frame in which the programme has been delivered.

Figure 1
Main improvement activities since 2013 against the dimensions of quality, cost, timeliness, and quantity

Quality			
Technical quality of repairs	Quality of customer interactions	Surveyed customer satisfaction with quality	Management of health and safety
<p>Increased attendance by the quality assurance team at repair sign-off visits.</p> <p>Completed a rationalisation of repair hubs.</p> <p>Strengthened contractor management.</p>	<p>Commissioned a report on the quality of EQC's end-to-end customer interactions, which advised that "the journey towards a customer focused organisational model and culture is a strategic necessity".</p>	<p>Maintained high levels of surveyed customer satisfaction with repair quality, immediately after a repair has been completed.</p>	<p>Continued leadership of good health and safety practices in construction work.</p>

Cost	
Project management cost	Repair work cost
<p>More complete and consistent reporting of programme performance.</p> <p>Signed a contract variation with Fletcher Construction.</p>	<p>Maintained ongoing good management of repair cost inflation. As at 30 June 2014, EQC estimates that the cost of a repair is on average 14.2% higher than it was in February 2011. In comparison, the Canterbury inflation rate for purchasing a new house, which will have been affected by similar cost pressures and industry cost structures as home repair work, was 30.9% during roughly the same period. EQC told us that its underlying labour rates for repair work have not increased since April 2014. The Canterbury inflation rate for the cost of a new house increased by 3.96% in 2014/15.</p>

Timeliness	
Timeliness against targets	Overall timeliness of repair completion
<p>Introduced a certainty initiative to give customers more certainty about when their homes would be repaired.</p>	<p>Increased focus on outstanding repairs and the issues delaying completion of repairs.</p>

Quantity
Volume of repairs completed
<p>Completed 26,156 primary substantive repairs from July 2013 to June 2015.</p>

Figure 2
Performance of the programme since it started against the dimensions of quality, cost, timeliness, and quantity

Quality			
Technical quality of repairs	Quality of customer interactions	Surveyed customer satisfaction with quality	Management of health and safety
<p>According to the survey carried out immediately after repairs have been completed, customer satisfaction with quality remains high, generally in the range of 80%-90%.</p> <p>The programme has put a lot of emphasis and effort into supporting good health and safety practices. These efforts have been successful, even though there have been some risks with asbestos management (as investigated by WorkSafe).</p> <p>EQC has identified that about 8%-10% of repairs have needed additional work after the original work has been completed. Some repair work has not met the requirements of the Building Code, with some problems with the programme's quality controls in some instances.</p> <p>EQC does not have formal processes for learning from complaints. EQC has obtained advice on how to improve its customer service. The advice has identified that "the journey towards a customer focused organisational model and culture is a strategic necessity".</p>			
Cost			
Project management cost		Repair work cost	
<p>Programme management costs have increased in absolute and proportional terms. About \$340 million had been spent on project management to the end of June 2015.</p> <p>Repair cost inflation has been well managed.</p>			
Timeliness			
Timeliness against targets		Overall timeliness of repair completion	
<p>EQC's original target for completing all repairs was December 2015. It brought this date forward to December 2014 but has not met this target and some other targets.</p> <p>Some homeowners have not received the level of certainty they were expecting and have had to wait long periods of time for information.</p> <p>EQC has not completed repairs for vulnerable people significantly sooner than for other customers. However, it has, on average, issued work orders to begin repair work sooner for those customers. Efforts have been made to work with vulnerable people in the programme.</p> <p>During the programme, EQC introduced an initiative to give customers more certainty about when their homes would be repaired.</p>			
Quantity			
Volume of repairs completed			
<p>The programme had, as at 30 June 2015, practically completed 66,252 repairs.</p> <p>The programme has also completed 65,642 emergency repairs and 19,499 clean heat installations (based on information from Fletcher Construction as at 1 October 2015).</p>			

Our overall assessment

- 2.13 For several reasons, it is difficult to reach an overall conclusion on the performance of the programme in terms of efficiency (whether results have been maximised for the cost), effectiveness (whether the programme has delivered the expected results), and economy (whether the cost has been reasonable). These reasons include:
- the changing and complex circumstances in which the programme is operating;
 - the lack of directly comparable benchmarks from equivalent repair programmes;
 - the trade-offs that have to be made in the programme, including between timing and cost;
 - some uncertainty about the quality of repairs achieved in the programme;
 - stakeholders' differing experiences of the programme; and
 - broadly defined programme goals – to properly complete all repairs, safely, as quickly as practicable, and in a manner that provides value for money in the circumstances.
- 2.14 Two aspects of the performance of the programme are particularly notable. The first is EQC's effective management of repair cost inflation – meaning that repair costs appear to be economic in the circumstances. The second is EQC's mixed performance in terms of customer interactions and experience – meaning that the programme has not been fully effective in the circumstances for some customers, including some vulnerable people.
- 2.15 Some people who are still waiting for repairs to be completed may not be able to live in their homes. Their frustration with the performance of the programme is understandable. Others who have faced long periods of uncertainty about the status of repair work or who have needed more work done after the original repair work may also be frustrated with performance.
- 2.16 It is important that EQC does not lose sight of the ongoing importance of effective service delivery and learning from customers' complaints.

3

Repair quality

- 3.1 In this Part, we describe EQC's progress against our 2013 recommendation about repair quality.
- 3.2 We recommended that EQC continue to improve its approach to auditing repairs in the programme so that it 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.
- 3.3 The Appendix provides further information on what we found and recommended in 2013 about EQC's management of repair quality.
- 3.4 It is important to note that repair quality issues range from minor, such as touch-ups to internal painting, to less minor, such as poor sub-floor work where piles have not been connected to bearers.

Summary

We found it difficult to assess EQC's overall performance in managing repair quality, even though EQC has improved its understanding of repair quality. EQC's survey of customer satisfaction immediately after repairs have been completed shows high levels of customer satisfaction with the quality of repairs. However, some of the programme's repair work has not met the requirements of the Building Code. There is a level of rework in the programme, but there are no definitive directly comparable benchmarks to compare this against. EQC does not have a formal process for learning from complaints. EQC has continued to support good health and safety practices.

- 3.5 One of the main objectives of the programme was to repair homes to a consistent quality. EQC has continued to improve its approach to auditing repairs in the programme. EQC is better informed about the scale and type of risks to the quality of repairs. It has taken steps to mitigate those risks, but there have been some problems with quality control for some repairs within the programme.
- 3.6 When assessing quality, several factors must be considered. These include whether the repairs were effective from a customer and a technical point of view, whether interactions with customers were good during the repair, and whether good health and safety practices were used.
- 3.7 We found it difficult to assess EQC's overall performance in managing repair quality, even though EQC has improved its understanding of repair quality.
- 3.8 Forming a conclusion on the overall quality of repairs is difficult. On one hand, there are problems with the quality of some repairs. On the other hand, many thousands of people are residing in repaired houses. Homeowners' perceptions

of the quality of repairs depend heavily on their individual circumstances and experiences.

- 3.9 EQC has continued to support good health and safety practices. This is reflected in low numbers of serious harm incidents and low numbers of injuries for every million hours worked, compared with a construction industry benchmark. This is a considerable achievement.

Improvements and continued activities

Improvements

- 3.10 Since 2013, EQC and Fletcher EQR (EQR)⁴ have between them:
- introduced a quality assurance process that involves EQC visiting a large sample of homes when completed repairs are signed off;
 - introduced a guideline requiring that work is not to be signed off with known defects or remedial work needed;
 - introduced “circuit breaker” meetings to progress difficult claims with complex repair issues;
 - introduced a Claim Record Book for each dwelling repair that requires project completion certificates to be issued only after it is confirmed that all minor defects have been rectified (EQC could not tell us how many project completion certificates had been issued);
 - strengthened contractor management through a tiered approach, with contractors being allocated to a tier based on their performance, more regular reviews of contractor performance, and rationalising of contractors;
 - completed a rationalisation of repair hubs with the aim of achieving more consistent repair processes and documentation over a reduced number of operating locations;
 - transferred control of sampling and testing for asbestos from contractors to EQR; and
 - looked for building industry benchmarks for repair quality to compare its performance against.
- 3.11 EQC’s quality assurance work includes monitoring remediation work, investigating complaints, quality assurance inspections, and attending the “sign-off” stage of a repair.
- 3.12 Aspects of EQC’s strengthening of its quality assurance work were in response to some issues with the quality and supervision of repair work in the programme.

4 Fletcher EQR is a business unit of Fletcher Construction that project manages repairs in the programme on EQC’s behalf.

- 3.13 When we did our follow-up work, EQC was continuing to assess the adequacy of its quality assurance processes with the aim of reporting on this to EQC's Board in October 2015. EQC has recognised that inconsistent practices, inconsistent definitions of quality assurance, and a lack of documentation are impediments to achieving adequate quality assurance processes.⁵

Continued activities

- 3.14 Since 2013, EQC has continued to:
- maintain an effective focus on health and safety;
 - survey customer satisfaction with repair quality, and other matters, immediately after repairs have been completed;
 - use the standard industry concept of practical completion in relationships with contractors;⁶
 - review contractor performance; and
 - investigate issues such as fraud through its Claims Review Team.
- 3.15 EQC's support of good health and safety practices has been successful. EQC told us that there have been 38 million hours of work without a fatality. We comment further in paragraphs 3.25-3.27 about the low levels of injury within the programme.

Activities not performed

Recommendations from the Ministerial review of EQC's customer satisfaction survey

- 3.16 EQC has not addressed some recommendations from a Ministerial review of the customer satisfaction survey that EQC conducts immediately after repairs have been completed. KPMG carried out the review,⁷ to which we had input.
- 3.17 EQC continues to conduct this survey. The Ministerial review suggested that a different organisation conducting the survey would strengthen perceptions of independence.
- 3.18 EQC decided not to have an independent third party conduct the survey because EQC wanted to preserve the opportunity for its call centre agents to assist

5 EQC Board paper (15 July 2015), *Canterbury Home Repair Programme Quality Assurance Overview*.

6 Work is considered "practically complete" when houses can be used for their intended purpose without material inconvenience, and the repairs are complete except for minor defects and minor omissions that are still to be completed.

7 KPMG for the State Services Commission (December 2013), *Independent Review of the Earthquake Commission's Customer Satisfaction Survey*.

customers with any queries and address any issues raised during calls. EQC also achieved cost savings by conducting the survey itself.

- 3.19 However, not having an independent third party conduct the survey still runs the risk of a perception of a lack of independence. EQC told us that, in its view, outsourcing the survey would not lead to improved customer outcomes, and the benefits of EQC conducting the survey outweighed the benefits of outsourcing the survey.
- 3.20 EQC has also not addressed a recommendation in the Ministerial review that it document the purpose and methodology of each of the two customer satisfaction surveys it uses, including the customer satisfaction survey conducted immediately after repairs have been completed.

Recording of repair quality information

- 3.21 We referred to the introduction of Claim Record Books in paragraph 3.10. These contain hard copy templates of forms to be completed at various stages during the repair. They are intended to serve as records of the repair work and support consistent repair management processes. In our view, information in the Claim Record Books could be collated to provide information about the quality of repair work.
- 3.22 EQR told us that it scans forms from the Claim Record Books into its systems to enable monitoring. However, EQR does not collate important information from the scanned forms, including:
- the reasons for missing homeowners' signatures – a possible indicator of whether the sign-off process is being properly followed;
 - the number of practical completion certificates issued – a record by the person responsible for the repair that a repair has been completed;
 - the number of invoices from repair contractors that have not been paid because the necessary documents have not been provided (such as a PS3, Memorandum of Building, inspection records, and others) – a possible indication that some of the repair process steps were not followed; and
 - the proportion of completed repairs that have the necessary documents on file (such as a PS3, Memorandum of Building, inspection records, and others) – a possible indication that some of the repair process steps were not followed and a possible indication of the quality of record-keeping.
- 3.23 Project management of the programme was expected to involve maintaining full, complete, and accurate records. EQC told us that EQR started finalisation processes in 2014 to check that the required paperwork – such as that described in paragraphs 3.21-3.22 – is available, anomalies identified, and further investigation completed. As at late October 2015, most of these processes are yet to be carried out for repair

work that needed the oversight of the technical repair hub. EQC told us that, in early November 2015, there were about 3600 claims overseen by the technical repair hub that still needed these processes to be finalised.

- 3.24 The monthly audits of a proportion of repairs against repair work standards in the programme that we described in our 2013 report ended in June 2014. EQR did this auditing, which EQC considered to be a limited quality review process. EQC's quality assurance work has been strengthened since then.

Forming an overall conclusion on the quality of repairs is difficult

Health and safety practice

- 3.25 EQC has placed much emphasis on health and safety in the programme. An indicator of this is the 12-month rolling average of the number of reported injuries for every million hours worked in the programme. From March 2014 to March 2015, this rate has been declining and generally below the target rate of no more than six injuries reported for every million hours worked. This compares favourably with industry norms.
- 3.26 One indicator of these industry norms is the 2014 results from the Business Leaders' Health & Safety Forum's *Benchmarking Report*.⁸ This found that, for the members of that forum participating in the benchmarking in 2014, there was an average of about 46 injuries for every million hours worked in the construction sector.
- 3.27 From July 2013 to March 2015, there have been only 11 serious harm incidents reported in the programme. In that period, about 26,000 repairs were completed. The number of reported injuries for every million hours worked is low compared to the volume of work carried out in the programme.
- 3.28 Asbestos management is an area of risk. WorkSafe launched an investigation in response to allegations about the adequacy of EQC's and EQR's systems for identifying and managing asbestos during the initial stages of the rebuild.
- 3.29 WorkSafe concluded in October 2014 that, during the programme, considerable improvements have been made in the way contractors manage asbestos. WorkSafe found that the level of asbestos likely to have been released was very low, as was the risk to workers. WorkSafe also found that the risk to residents is likely to have been even lower.⁹

⁸ Business Leaders Health & Safety Forum (April 2015), *Benchmarking Report for the period 1 January 2014 to 31 December 2014 – including three year trends for 2012 to 2014*, page 14. This report is available at www.zeroharm.org.nz.

⁹ WorkSafe New Zealand's 21 October 2014 press release, *Asbestos investigation completed*. Available at the WorkSafe section of www.business.govt.nz.

3.30 An April 2015 report on behalf of the Royal Society of New Zealand and the Office of the Prime Minister’s Chief Science Advisor looked at asbestos exposure in New Zealand.¹⁰ It found that:

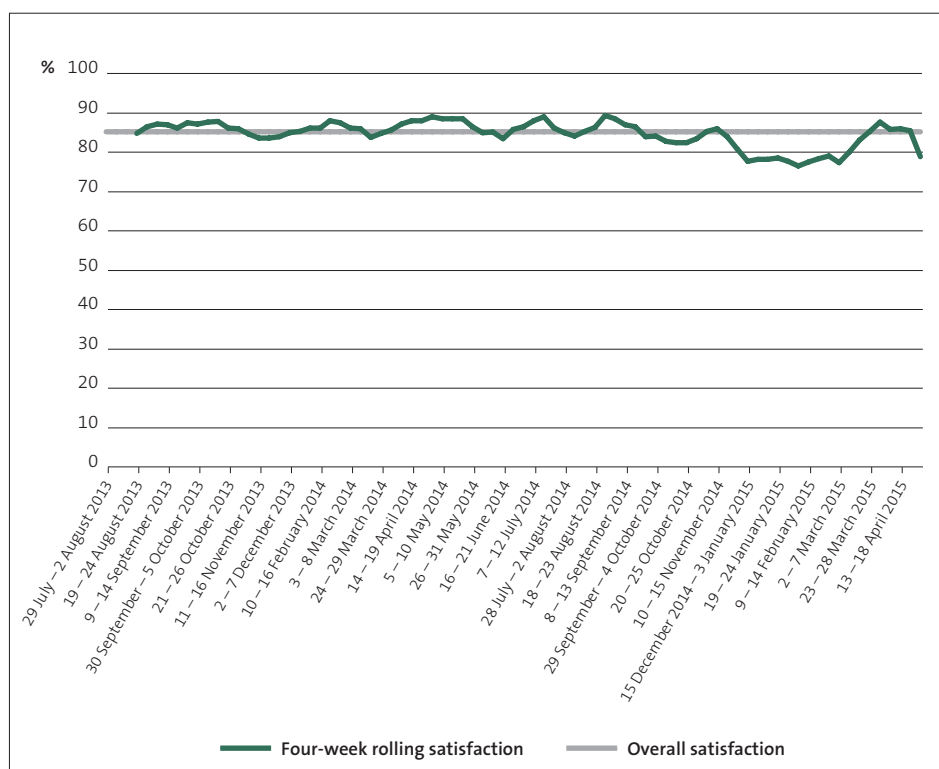
... remediation activities such as those that have taken place in Canterbury are unlikely to result in any significant increase in risk to homeowners and occupants of damaged houses, unless they were performing the work themselves, without taking proper precautions such as wetting the surfaces and using a respirator.

Repair quality

Surveyed customer satisfaction

3.31 There is a high level of surveyed customer satisfaction with the quality of repairs. Figure 3 shows the percentage of customers who rated their satisfaction with the quality of repairs immediately after the repairs had been completed as being “satisfied” or “very satisfied” (using a four-week rolling average).

Figure 3
Percentage of surveyed Earthquake Commission customers satisfied with the quality of repairs on completion, July 2013 to April 2015



Source: Graph based on information provided by EQC.

10 *Asbestos exposure in New Zealand: Review of the scientific evidence of non-occupational risks.*
Available at www.pmcsa.org.nz.

- 3.32 Using the survey question on satisfaction with the quality of repairs alone as a measure for the quality of repairs is narrow and does not provide a full view of repair quality. This is because the measure:
- is only one of several satisfaction measures surveyed at the same time;
 - is experiential in nature (and this is only one type of quality measure) and is limited to the work that homeowners can see (for example, cosmetic repairs rather than foundation repairs);
 - is conducted before some defects have had time to appear;
 - runs the risk of a lack of independence because EQC conducts the survey and EQC has not taken the steps the Ministerial review of the survey recommended to address this perception risk; and
 - relies on there being a direct link between repair quality and customer satisfaction.
- 3.33 In EQC's view, most repairs in the programme are cosmetic, with defects being typically immediately obvious – that is, within a week of the repairs being completed. Because of this, EQC does not believe the survey question about the quality of repairs is too narrow.
- 3.34 The link between actual repair quality and customer satisfaction is not exact. For example, a 2014 Building Research Association of New Zealand (BRANZ) survey of new homeowners found that the proportion of respondents who were at least fairly satisfied with the overall quality of the work was about the same as the proportion of those who had to call back their builder to fix defects. This means that customer satisfaction is not a direct measure of the actual quality of repairs, depending on how quality is defined.
- 3.35 Another example is the MBIE report we discuss in paragraphs 3.50-3.60. About two-thirds of the participants in the MBIE report indicated that they were satisfied with their repairs even though slightly more than half of the repairs covered by the survey did not comply with the Building Code or potentially had minor defects.
- 3.36 The BRANZ surveys also found that defects reported by homeowners mainly related to finishes rather than to weathertightness and durability issues. This is because those issues are not immediately visible to homeowners.¹¹
- 3.37 In our view, EQC's customer satisfaction survey measures the perceived quality of repairs, not the actual quality of repairs. All of the measures in the customer satisfaction survey are "experiential" – that is, based on observation and experience.

3.38 Carrying out the customer satisfaction survey within a week of repairs being completed means that repair quality issues could arise after this time.

Unanticipated additional work rate

3.39 We attempted to determine the normal industry rate of rework and unanticipated additional work for repairs to residential dwellings. We looked at publicly available information from surveys and research reports, and met with informed industry participants. The comments we received and the information we obtained did not present a consistent view or a view that could be directly compared with EQC's repair work.

3.40 However, it was clear that some level of rework and unanticipated additional work is normal in the residential construction industry. There is also some level of non-compliance in the industry with the requirements of the Building Code on first inspection by a building consent authority.

3.41 The indicators we found include those from the 2010 Research New Zealand survey, those used in BRANZ's annual surveys of new homeowners, and BRANZ's site inspections of 225 homes under construction.¹² None of these indicators was directly comparable with EQC's repair work.

3.42 However, EQC has used the results of a 2010 Research New Zealand survey¹³ as an internal benchmark to measure its own estimated remedial repair rate against.

3.43 In comparing its performance with the findings of the 2010 Research New Zealand survey, EQC told its Minister that "Approximately 8% of the homes within the programme have required some remedial action, a rate that is lower than comparable building programmes."

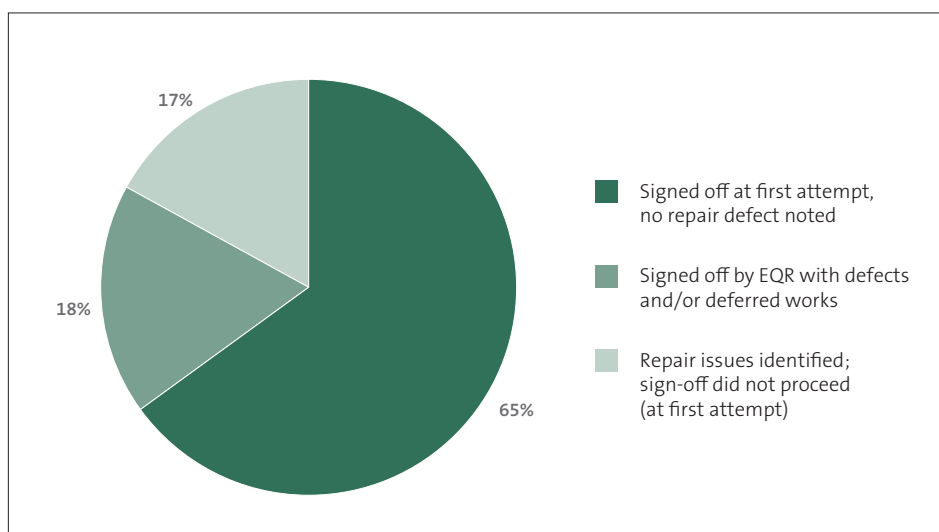
3.44 In our view, this is not an appropriate comparison. We have shared our detailed analysis with EQC, explaining why we came to this conclusion.

3.45 Figure 4 shows that some repairs with defects or deferred work were signed off between November 2013 and April 2015. This is for about 20% of the site visits made by EQC's quality assurance team. Only two-thirds of repairs get signed off at the first completion inspection without defects or deferred works.

12 The results of the site inspections were reported in the June/July 2015 edition of *Build*, pages 84-85.

13 Research New Zealand (May 2010), *Residential Consumers' Experiences of Commissioning Building Work. A Survey of Homeowners who Obtained Building Consents in 2005*. This survey covered 752 building projects exceeding \$50,000 in value carried out between 2005 and 2010 for which building consent was obtained in 2005.

Figure 4
Levels of sign-off of repairs during quality assurance team visits, November 2013 to April 2015

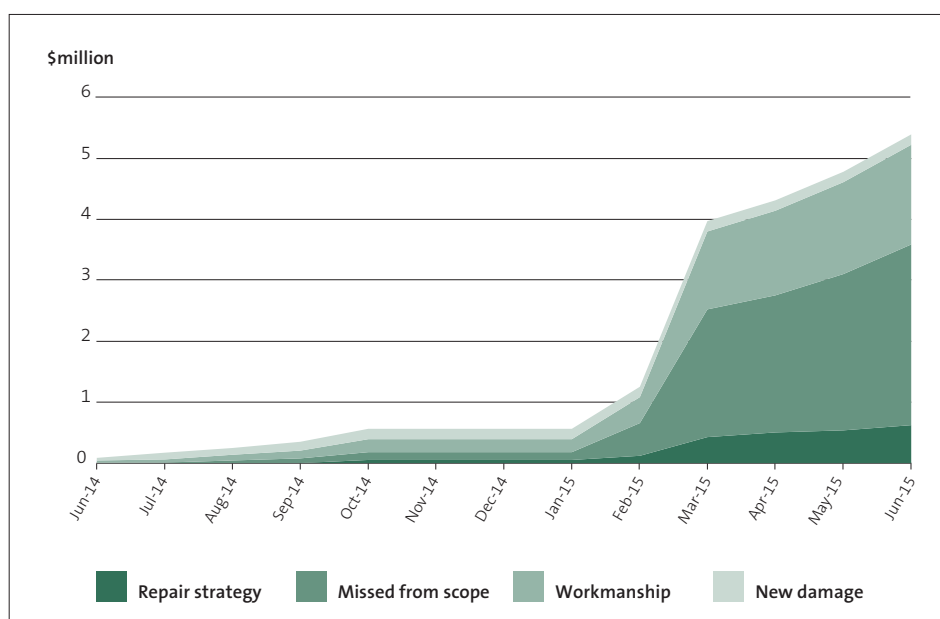


Source: Graph based on information provided by EQC.

- 3.46 EQC estimates that about 8%-10% of homes repaired in the programme have needed some aspect of the repair work to be remedied. We refer to this work in this report as “unanticipated additional work”. We have examined the methodology and documentation EQC has used to determine this rate. There is a logic to EQC’s analysis, but it is clear that the figure is an estimate.
- 3.47 EQC estimates that the quality of workmanship is a contributing factor in about 70% of the unanticipated additional work cases by volume (30% by value). These costs are potentially recoverable from the contractor. Other contributing factors are failed repair strategy,¹⁴ damage omitted on scopes of work, missed work included on scopes of work, and new damage. Figure 5 shows the value of unanticipated additional work performed during the programme by cause, between June 2014 and June 2015. EQC told us in July 2015 that the current average cost of unanticipated additional work at the time of our work was about \$6,500 for each repair.

¹⁴ EQC told us that the state of the housing stock, including the level of deferred maintenance, has an effect on deciding which repair strategies are appropriate.

Figure 5
Unanticipated additional work by cumulative value and cause, June 2014 to June 2015



Source: Graph based on information provided by EQC.

3.48 EQC has a potential liability under the Building Act 2004 for implied warranties and under the Consumer Guarantees Act 1993 for the next one to 10 years.

3.49 In proportional terms, the cost of unanticipated additional work carried out to date is very small (less than 1.2% of total repair costs). Although there is some degree of uncertainty about the absolute cost of unanticipated additional work during the full life of the programme, the estimated cost is also very small in proportional terms (less than 1.4% of total repair costs).

Ministry of Business, Innovation and Employment’s repair survey

3.50 A further indicator of repair quality is the findings of MBIE’s work looking at:

- 13 complaints about EQC’s repair work; and
- 101 repairs in Christchurch, most of which (74) are EQC repairs.

3.51 It is important to note that MBIE’s findings are not statistically representative of repairs throughout the programme.

3.52 MBIE’s first piece of work provides an indication of the types of risks that EQC needs to be alert to. These include non-compliance with the Building

Code for reasons such as poor-quality sub-floor repair work (for example, using inappropriate packing material, not securing piles to bearers, or using inappropriate foundation fillers), and repair strategies that are inconsistent with MBIE guidelines.

- 3.53 MBIE's second piece of work provides some indicative information about the quality of certain repairs that have been carried out under the building consent exemption in the Building Act.¹⁵
- 3.54 MBIE released its report on 19 August 2015. The report looked at completed structural repairs that were exempt from requiring a building consent under Schedule 1 of the Building Act. The sample of homes with exempt structural repairs is considered to be a relatively small proportion of the total number of homes covered by the programme.
- 3.55 Twenty-six of the 74 homes in the sample repaired by EQC (selected by MBIE from a list of 2182 homes provided by EQC against MBIE criteria) were found to be non-compliant with the structural and/or durability provisions of the Building Code.
- 3.56 Repairs to a further 23 homes were found to potentially have minor defects, although it is not clear how many of these 23 homes were EQC repairs.
- 3.57 MBIE did not identify any potentially lethal risks, and it considers that remedying the non-compliant repairs would be relatively easy for most homes. MBIE found that non-compliance issues were essentially restricted to "jack and pack"¹⁶ repairs and crack repairs of perimeter concreted foundations in homes with suspended timber floors.
- 3.58 MBIE did not find any compliance issues with more technically complex repair methods, such as levelling concrete slab floors by grout injection. The Building Act's exemptions from requiring a building consent were generally applied appropriately.
- 3.59 EQC considers that the value of MBIE's findings is limited because no control group was established, the sample size is small and not statistically valid, and customers agreed to participate, which introduces bias.
- 3.60 However, EQC is intending to recheck the repair files of 3600 homes (as at 28 August 2015) as a result of MBIE's findings.

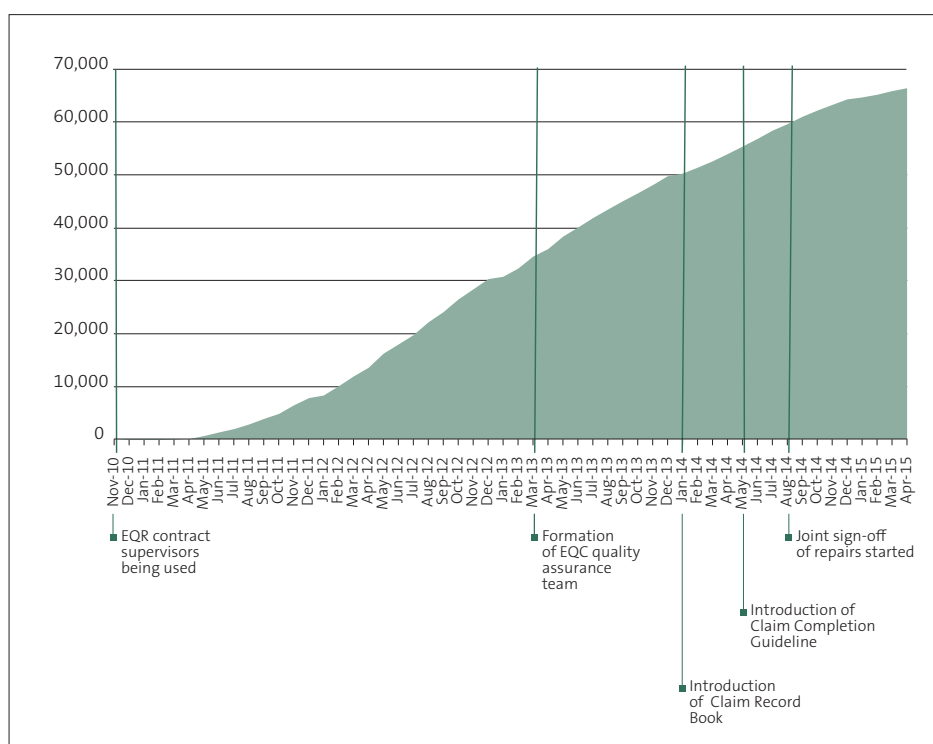
15 MBIE's report is focused on new building work that is exempt from requiring a building consent. MBIE considered whether this exempted work has been finished to a standard compliant with the Building Code. The sample of 101 repairs was selected from information provided by EQC, Housing New Zealand Corporation, other insurance companies, and repairs completed by people after opting out of the programme.

16 This is a method used to make floors level. Jacks are used to raise a house to a level. Where this reveals gaps between piles and bearers, material is placed on top of the piles in those gaps – referred to as packing – to support the levelled house. The jacks are then removed. There are expectations about when it is appropriate to use this method, the nature of the material used for packing, and how that material is to be secured.

Quality controls and the risk of substandard quality work

- 3.61 There has been a lot of publicity about the role of contractors and licensed building practitioners in the issues discussed in the MBIE report. For some of the repairs covered by MBIE's report, it is clear that some contractors' controls on workmanship, some of EQC's controls on contractor performance and work supervision, and/or some of EQC's quality assurance controls did not prevent the quality issues from arising. In this sense, there have been some problems with the controls over some of these repairs. We describe some of the controls in paragraphs 3.66-3.68.
- 3.62 Inadequate quality control was one of the risks of a home-repair programme that EQC was aware of before 2010.
- 3.63 EQC identified that substandard repair work was one of the programme's main risks. EQC management has acknowledged that there will be potential quality risks with the repairs carried out early in the programme. EQC knew in October 2013 that the programme's controls for ensuring compliance with the Building Code were not being consistently followed.
- 3.64 EQC has strengthened its repair quality controls. Figure 6 shows the cumulative number of completed repairs and when some of the quality controls were introduced.

Figure 6
Cumulative number of completed repairs and timing of the introduction of selected quality controls, November 2010 to April 2015



Source: Graph based on information provided by EQC.

- 3.65 Several controls were in place when we did our work.
- 3.66 One of the controls in place from the beginning of the programme was using licensed building practitioners for some repair work. Licensed building practitioners are required to meet the standards of competence for licensing, such as ensuring that building work is of an appropriate standard. This control has the potential to ensure that the contractor will complete any additional work and can be subject to a formal complaints process.
- 3.67 The controls that EQR was responsible for included:
- **Contractor induction and management processes.** This control was strengthened over time. Criminal, credit, and conflict-of-interest checks became a routine part of the contractor accreditation process from around May 2013. This control has the potential to stop poor-quality contractors from entering the programme and to remove contractors doing poor-quality work from the programme. EQC has recognised that this control may not have been effective

in managing the performance of sub-contractors and was not consistently applied to repair hubs until at least late 2013.

- **Supervision of contractors by contract supervisors.** This control was in place from around the start of the programme. This control enables the potential monitoring of work in progress and inspection of completed repair work. EQC has identified that contract supervisors “had too many files to meet performance expectations”.
- **Site sign-off process.** This control enables the potential inspection of completed repair work. EQC has acknowledged that the sign-off process from engineers was not operating effectively for some sub-floor work managed through the technical repair hub.

3.68 The controls that EQC was responsible for included:

- **EQC staff attendance at a sample of joint on-site sign-offs.** This control was introduced from August 2014. Members of the EQC quality assurance team now attend a sample of joint on-site sign-offs. That team has been in place since March 2013.
- **Introduction of a claim completion guideline.** This control was introduced in May 2014. The control requires that repair work is not to be signed off as completed with known defects or additional work required.
- **EQC’s investigations team.** This team primarily carries out investigations related to fraud. From time to time, these investigations discover quality issues. EQC told us that the team has carried out 151 contractor audits since mid-2013.

3.69 As we noted in our 2013 report, when EQC was procuring a provider of project management services, EQC wanted the provider to accept primary responsibility for substandard repair work.¹⁷ None of the bidders would accept primary liability.

3.70 Although contractors and EQR have responsibilities in the programme, EQC continues to be ultimately responsible for the programme. EQC will seek remediation from third parties, including contractors and EQR, depending on whatever warranties or other legal recourse options are available.

3.71 EQC needs to continue to be alert to risks to the quality of repairs. These risks include non-compliance with the Building Code, repair strategies that are inconsistent with MBIE guidelines, and poor-quality sub-floor repair work. EQC has acknowledged the importance of having systems and processes to effectively manage any future unanticipated additional work.

¹⁷ Paragraphs 3.35-3.37.

4

Informing homeowners

- 4.1 In this Part, we describe EQC's progress against our 2013 recommendation about improving its communication with homeowners. We recommended that EQC continue to improve its communication with individual homeowners about their claims, giving homeowners as much certainty as possible as early as possible.
- 4.2 The Appendix provides further information on what we found and recommended in 2013 about EQC informing homeowners.

Summary

- 4.3 EQC has made improvements to its communication with home owners. However, when we did our work, some homeowners were experiencing a long delay in getting certainty about when the repairs will start on their homes or whether their repairs are over-cap and will be transferred to a private insurer.
- 4.4 EQC's survey of customer satisfaction immediately after repairs have been completed shows a high level of satisfaction with various aspects of being well informed. However, the levels of satisfaction against these aspects are gradually reducing. At the same time, the remaining repairs are more complex than those completed earlier in the programme.
- 4.5 EQC has sought advice on how to improve its customer interactions. It has made that advice publicly available.

Improvements and continued activities

Improvements

- 4.6 Since 2013, EQC has:
- commissioned a report that has identified the improvements EQC needs to make to its systems and information to improve customer interactions;¹⁸
 - introduced a certainty campaign and squad;¹⁹
 - changed its stance to allow customers in formal dispute with EQC to access advice from the Residential Advisory Service;
 - implemented initiatives for vulnerable people, including a more personal style of communication with vulnerable people through community liaison officers, a wider range of definitions and sources of information to identify vulnerable people, improved tracking of vulnerable people's claims, and acceptance at a senior management level of the need to improve the reliability and visibility of reporting of information about vulnerable people;

18 *Linking Strategy to Implementation*. EQC Customer Interaction Review. November 2014. The report is available on EQC's website: www.eqc.govt.nz.

19 This is an initiative intended to give homeowners more certainty about when repairs of their homes would begin.

- began setting up a customer query team to manage queries about finalised claims;²⁰ and
- participated in the recent In the Know Hub initiative.²¹

Continued activities

- 4.7 EQC's operational priorities have continued to include improving customer contact and communication, and actively managing confirmed vulnerable claims.
- 4.8 EQC has also continued to engage with community organisations.

The Earthquake Commission still needs to be more customer focused

EQC has implemented several initiatives to improve its communication with homeowners and give them as much certainty as possible. However, some homeowners were getting certainty only in 2015 about whether their repairs are over-cap and will be transferred to a private insurer. Overall, EQC still needs to become more customer focused. As stated in the Linking Strategy to Implementation report commissioned by EQC, "the journey towards a customer focused organisational model and culture is a strategic necessity".

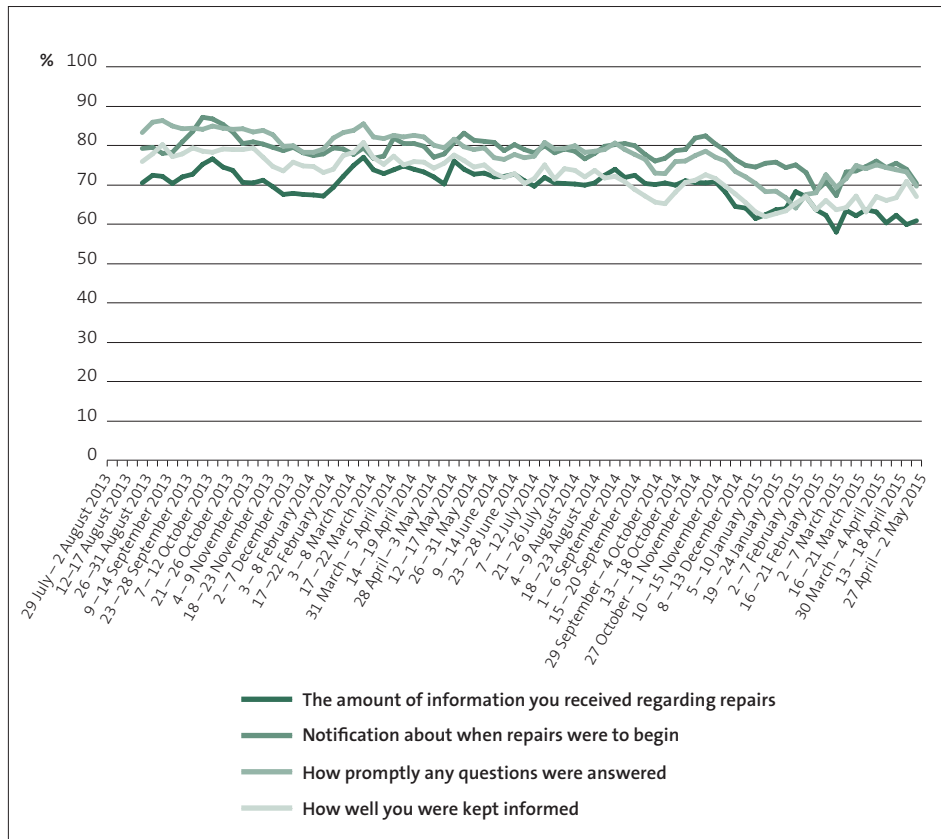
- 4.9 EQC commissioned a report on its customer interactions. This report identified the improvements EQC needs to make to its systems and processes to improve its customer interactions. EQC intends to make incremental improvements during the remainder of the programme. However, it has decided not to incur the significant risk of a major change to systems while responding to events in Canterbury.
- 4.10 Representatives from community organisations told us that, in their view, it remains challenging to get access to decision-makers in EQC on behalf of their clients. There is also a lack of transparency with some of EQC's decision-making processes, particularly in terms of complaints resolution.
- 4.11 However, customers in formal dispute with EQC are now able to access advice from the Residential Advisory Service. Before early 2014, there was an understanding that EQC claimants already in EQC's complaints process could not be assisted by the Residential Advisory Service advice.
- 4.12 EQC's survey of customer satisfaction immediately after repairs have been completed shows a high level of satisfaction with various aspects of being well

20 EQC has advised us that this team has answered 3511 phone calls and received 2071 requests for documents to the end of September 2015.

21 The In the Know Hub is a place where people can go to ask questions about the residential repair and rebuild processes, including EQC's part of that process.

informed (see Figure 7). However, the levels of satisfaction against these aspects are gradually reducing.

Figure 7
Percentage of Earthquake Commission customers satisfied with information provided during a home repair



Source: Graph based on information provided by EQC.

4.13 For customers who reported being dissatisfied or very dissatisfied with the quality of work, the survey includes a question about how well matters of concern raised with the contractor or contract supervisor of a repair hub have been addressed.²² More than half of customers in most weeks felt that their concerns had not been addressed satisfactorily. EQC can then follow up with customers who express dissatisfaction.

²² EQR told us that most of the issues raised with contract supervisors require them to raise the issue in turn with EQC. The extra time this takes can appear to customers as a lack of responsiveness by contract supervisors when this is not necessarily the case.

- 4.14 EQC told us that the reason for the decline in satisfaction for these various “experiential” measures seems to be the length of time that it has taken to resolve the later repairs. EQC has also identified that maintaining customer satisfaction is more challenging because the remaining repairs are more complex than those completed earlier in the programme.
- 4.15 Satisfaction has fallen at the same time as customer commitment rates to repairs and repair time frames. Commitment rates refer to how many and how quickly the remaining customers who have not yet agreed to a managed repair or a time frame for a managed repair are making a commitment to these.
- 4.16 EQC prioritises first-time repairs. This means that any repairs that require further work, such as unanticipated additional work, will be completed later unless for some reason the additional work has been deemed “urgent”.
- 4.17 EQC has not completed repairs for vulnerable people significantly sooner than for other customers. However, it has, on average, issued work orders to begin repair work sooner for those customers. Large numbers of people have been identified as vulnerable, and efforts have been made to work with vulnerable people in the programme.
- 4.18 EQC’s view is that it does not have control over the time the actual repair work takes to start and complete because that is determined by the nature of the earthquake damage. Because of changing circumstances and the availability of information about who is vulnerable, the number of people identified as vulnerable has changed over time.
- 4.19 The programme allows EQC to reach cash settlements with homeowners instead of directly managing the repair. We found no evidence of vulnerable customers having a higher or lower rate of cash settlement in the programme. Cash-settling rates for vulnerable people were comparable with the overall rate for EQC customers.
- 4.20 Since 2014, EQC has used a more case management-like approach to its work with vulnerable people. This involves more personalised interactions with claimants and tailored explanations of their options.
- 4.21 There are still issues with the quality of EQC’s data, including poor quality data about contacts with EQC’s call centre and inconsistent data about vulnerable people from EQR and EQC.

5

Key performance indicators

- 5.1 In this Part, we describe EQC's progress against our 2013 recommendation about key performance indicators.
- 5.2 We recommended that EQC continue to refine key performance indicators for the programme to consistently and meaningfully cover cost, timeliness, quality, and safety, with targets where practicable.
- 5.3 The Appendix provides further information on what we found and recommended in 2013 about EQC's key performance indicators.

Summary

- 5.4 EQC has made improvements to its key performance indicators. The performance reporting is now more consistent and complete in terms of covering cost, timeliness, quality, and safety. This includes having targets for all the key performance indicators. However, many repairs still need to be fully completed.

Repairs still to be completed

- 5.5 The key performance indicators show that the rate of completion of repairs in the programme is slowing and behind target. Figure 8 shows the estimated number of repairs that have been practically completed and that are still to be practically completed as at 30 June 2015. There are three categories of repairs: primary substantive repairs, secondary repair work, and unanticipated additional repairs.²³
- 5.6 Figure 8 shows a higher number of repairs to complete than the information that has been available on EQC's website. The information in Figure 8 includes more detailed categories of repairs than has been available on EQC's website.

Improvements and continued activities

Improvements

- 5.7 EQC's Project Control Group has set new key performance indicators, and there have been improvements to the standing reports that are used to support Project Control Group meetings.

²³ We acknowledge that some of the remaining repairs relate to people who do not want to have their homes repaired (EQC told us that this was about 600 people as at 1 October 2015), who are yet to make a decision about having their home repaired, or who are disputing a scope of works.

Figure 8
Estimated number of repairs completed and still to be completed, as at 30 June 2015

	Type of repair			
	Primary substantive repairs completed and still to complete		Secondary repair work yet to complete	Unanticipated additional repairs
Volume of repairs	Practically completed	66,252	Not reported as at 30 June 2015, but estimated as 2694 as at 1 May 2015.**	2923 still requiring further investigation.
	Started but not yet practically completed	1018		
	Not yet started	1767		
Proportion of total repairs	Practically completed	96.0%***	3.9%	4.2%
	Started but not yet practically completed	1.5%***		
	Not yet started	2.6%***		
Definitions	<p>“Primary substantive repairs” are the main repair work whose elements are considered to be critical to a dwelling being usable for its intended purpose.</p> <p>Primary substantive repairs are considered to be practically completed when dwellings can be used for their intended purpose without material inconvenience, and the repairs are complete except for minor defects and minor omissions that are still to be completed.</p>		<p>“Secondary repair work” is non-critical work anticipated at the time of the primary substantive repair that still needs to be completed.</p> <p>For example, external painting of houses, some drainage work, or repair to a garage that could not be accessed when repairs were made to the rest of the house.</p>	<p>“Unanticipated additional repairs” is work that was not anticipated at the time of the primary substantive repair but may be required for several reasons.</p> <p>The reasons include damage missed in the scope of works for the original repair, additional damage from earthquakes, failure of repair materials or the repair solution, or workmanship below the required standard.</p> <p>Some records are not kept about some additional work performed by contractors at no additional cost, because of workmanship issues before primary substantive repairs are practically completed.*</p>

* EQR told us that, during the programme, contractors have been required to remedy poor workmanship at their own cost. However, the visibility of this work is low because it does not involve an additional or a new works order being issued and so is not recorded.

** This is our best estimate using the information made available to us from multiple EQC systems.

*** These percentages do not add up to 100 because of rounding.

- 5.8 Reporting now includes reports that show claims and flows relevant to the programme.²⁴ These reports include information on additional work and its cause.
- 5.9 EQR has adjusted its operational reports to reflect priorities as the transition to the end of the programme nears. This has involved a greater focus on outstanding repairs and the issues delaying repairs being completed.
- 5.10 The Project Control Group has recognised the importance of accurate claims numbers for budgeting and reporting. Getting certainty on the number of outstanding claims has been challenging.

Continued activities

- 5.11 Key risks continue to be regularly reported to the Project Control Group.
- 5.12 There continues to be extensive monthly reporting to the Project Control Group on health and safety issues. There is also a Health and Safety subcommittee of the EQC Board. EQR representatives attend this subcommittee's meetings.

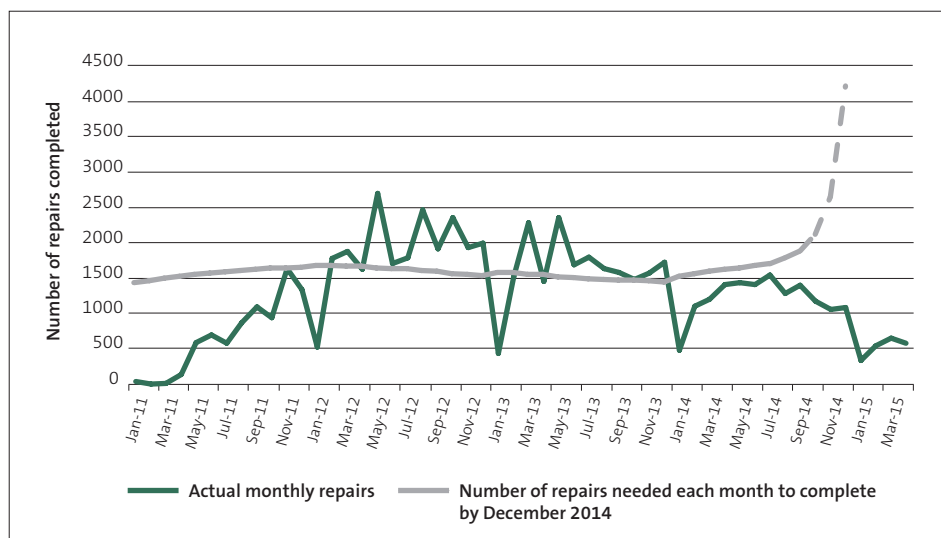
The Earthquake Commission has improved its key performance indicators

EQC's reporting is now more consistent and complete in terms of covering cost, timeliness, quality, and safety. This includes having targets for all the key performance indicators. EQC has used these indicators to inform adjustments to the programme's configuration and to inform the variation to its project management services contract with Fletcher Construction.

- 5.13 EQC and EQR have refined the key performance indicators that are regularly reported to the Project Control Group. Reporting against the key performance indicators shows that EQC has not met its planned repair rate and that the monthly number of repairs being completed in the programme is falling (see Figure 9).
- 5.14 The rate of completion of repairs has been less than planned and less than was needed to meet EQC's targets. However, although the completed repairs more than \$50,000 are trending down, they are increasing as a proportion of total repairs (see Figure 10). EQC told us that the falling repair rates was one of the reasons for including new performance measures in its project management service agreement with Fletcher Construction (the contract variation).

²⁴ The "solar system" and "waterfall" reports show how many claims are at each part of the home-repair process (and other relevant areas such as complaints or unanticipated additional work) and the changes that have happened since our 2013 report.

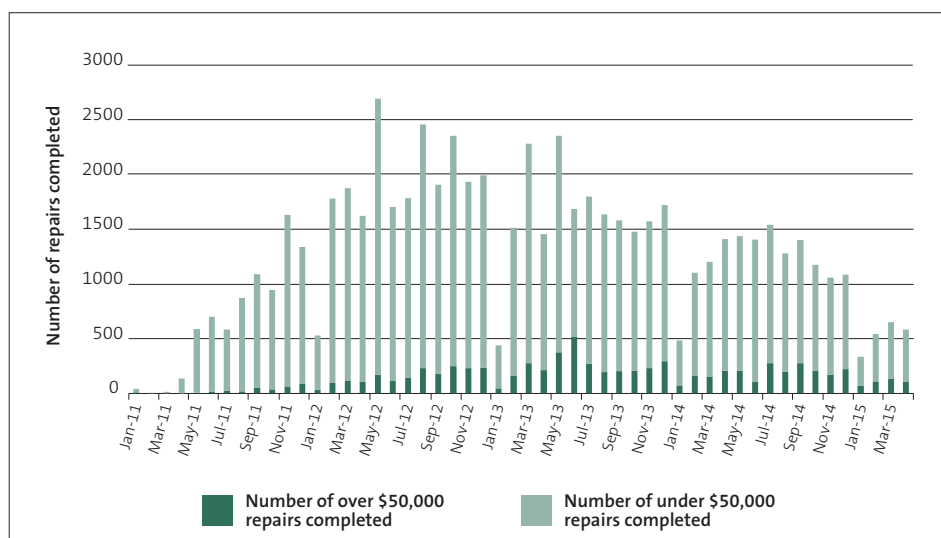
Figure 9
Number of repairs completed each month, January 2011 to April 2015



Note: The dotted portion of the grey line relates to the months after EQC’s announcement that it was no longer aiming for the December 2014 end date.

Source: Graph based on information provided by EQC.

Figure 10
Number of primary substantive repairs completed each month by value, January 2011 to April 2015



Source: Graph based on information provided by EQC.

6

Programme configuration

- 6.1 In this Part, we describe EQC's progress against our 2013 recommendation about programme configuration.
- 6.2 We recommended that EQC continue to review and, if necessary, adjust the configuration of repair and project management services in the programme to deliver the best value and results in the circumstances and treat homeowners fairly and consistently.
- 6.3 The Appendix provides further information on what we found and recommended in 2013 about EQC's management of the programme configuration.

Summary

- 6.4 EQC has reviewed and adjusted the configuration of repair hubs and has signed a contract variation with Fletcher Construction for completing repairs from 1 May 2015.
- 6.5 EQC has continued to manage the cost of actual repairs well, but the project management component of total programme costs has increased.

Improvements and continued activities

Improvements

- 6.6 Since 2013, EQC has:
- reviewed and adjusted the hub configuration of repair and project management services but has not achieved the intended direct cost savings;
 - signed a variation to the project management services contract with Fletcher Construction on 18 May 2015 – the contract variation covers the completion of repairs from 1 May 2015;
 - implemented a new financial information system;
 - proposed strategic work on information management; and
 - started using three definitions of a completed repair:
 - primary substantive repair completed;
 - three-month defects fixed, deferred scope completed, known quality issue or complaints resolved; and
 - EQR repair record closeout completed (repair file complete, costs finalised, contractor paid).

Continued activities

- 6.7 EQC has continued to manage actual repair costs well (excluding programme management costs) using the rates ceiling book and contractor management approaches we described in our 2013 report.
- 6.8 As at 30 June 2014, EQC estimates that the cost of a repair is, on average, 14.2% higher than it was in February 2011. In comparison, the Canterbury inflation rate for purchasing a new house, which will have been affected by similar cost pressures and industry cost structures as home repair work, was 30.9% during roughly the same period. EQC told us that its underlying labour rates for repair work have not increased since April 2014. The Canterbury inflation rate for the cost of a new house increased by 3.96% in 2014/15.
- 6.9 EQC has also continued to take contractor performance into account when allocating repair work.
- 6.10 There is ongoing use of legacy systems and poor practices with the use of technology. As we discussed in paragraph 4.9, EQC decided to continue using legacy systems and not make any fundamental changes to its systems. This was a deliberate business decision to not incur the significant risk of a major change to systems while responding to events in Canterbury. However, EQC is focused on how its systems can be upgraded in the future.
- 6.11 EQC's investigations team has continued to carry out fraud investigations. We described that team and its work in detail in Part 6 of our 2013 report. That team's investigations have focused on both customer and contractor fraud. EQC has told us that the level of fraud has been lower than normal expectations within the insurance industry. The focus on contractor fraud is to support completing repairs to scope and of an appropriate quality.

Repair costs have been generally managed well

EQC has continued to manage the cost of actual repairs well. Although it is not possible to definitively compare EQC's programme management costs with other information, the costs are indicatively at the upper end of the New Zealand indicators that we have and are higher than what EQC was aiming for. Overall, EQC's claims-handling costs are in the middle of a large international reinsurer's cost range. That reinsurer told us that it is difficult to make international cost comparisons because disaster repair costs typically depend on context.

- 6.12 As we said in our 2013 report, there is no directly comparable information available about the market cost of project management services for a home-repair programme. Instead, we have obtained several indicators of project management costs from various sources. These include the sources we used in our 2013 report and some new indicators.

6.13 The New Zealand indicators of project management costs that were the same as those we used in our 2013 report are:

- the professional assessment of the cost of project management services in the two shortlisted bids received by EQC;
- the actual project management costs in the programme compared to those anticipated in the successful bid, noting that assumptions were made at the time of the bid that have proved to be invalid because of multiple earthquakes;
- professional advice to an insurer assessing the market price for project management services (we have agreed to maintain the confidentiality of this information);
- the actual project management costs paid by an insurer involved in the recovery (we have agreed to maintain the confidentiality of this information);
- the actual margins paid by an entity on a range of construction jobs (we have agreed to maintain the confidentiality of this information);
- independent advice provided to EQC on aspects of project management costs for different types of building projects; and
- a reinsurer's report about EQC's claims-handling costs (we have agreed to maintain the confidentiality of this information).

6.14 The new indicators are:

- advice from BRANZ on the cost of project management services based on a survey of time use by builders (we have agreed to maintain the confidentiality of this information);
- publicly available information about Southern Response's project management costs;
- advice from a senior quantity surveyor working in Christchurch (we have agreed to maintain the confidentiality of this information);
- advice from a large international reinsurer about claims-handling costs; and
- Quotable Value's cost builder information.

6.15 We have looked at the most relevant information from each of these indicators and the equivalent aspects of actual project management costs in the programme. The indicators do not provide a definitive view on the appropriateness of the project management costs, but they do provide indicative information. This information shows that project management costs are generally at the upper end of what we consider to be reasonable in the circumstances.

6.16 Figure 11 shows our analysis of the total costs of the programme since it began.

Figure 11
Analysis of total costs of the Canterbury Home Repair Programme

Category	Costs to 30 June 2013, as reported in our 2013 report	Percentage	Costs as at 30 June 2015*	Percentage
Programme management costs – total**	\$180 million	12.01%***	\$340 million	12.72%***
Programme management costs – margin on completed repairs	\$46 million		\$82 million	
Programme management costs – staff, buildings, and equipment†	\$134 million		\$258 million	
Direct EQC administration costs	\$20 million		\$59 million	
Claims-handling expenses	\$200 million	13.17%††	\$399 million	14.60%††
Direct repair costs	\$1.319 billion		\$2.334 billion	
Total costs associated with the programme	\$1.519 billion		\$2.733 billion	

* These costs have been provided by EQC and are largely based on reporting to the Project Control Group. The total programme management cost differs from the \$332 million in EQC's 2014/15 annual report. EQC told us that the main reason for this difference is the way contract works insurance has been treated. It was included in the "other" category in EQC's financial statements – that is, excluded from programme management costs – but was captured in the programme accounts provided above. There may also be small differences between the management information reported to the Project Control Group and the information in the financial statements.

** The costs of project management include the costs of managing completed repairs, claims that involve some stages of the project management process that did not progress to a completed repair, management of the clean heat and emergency works initiatives, the establishment of an in-house technical team that avoided some consultancy costs, and the cost of project-managing repairs when there have been delays or non-commitment by the homeowner. The effect of these factors on costs have to be considered against any cost benefits arising from the scale of the programme.

*** Programme management costs as a percentage of programme management costs plus direct repair costs.

† Staff includes contract supervisors, work managers, quantity surveyors, compliance supervisors, repair hub operation managers, and construction managers within the repair hubs.

†† Claims-handling expenses as a percentage of total costs associated with the programme.

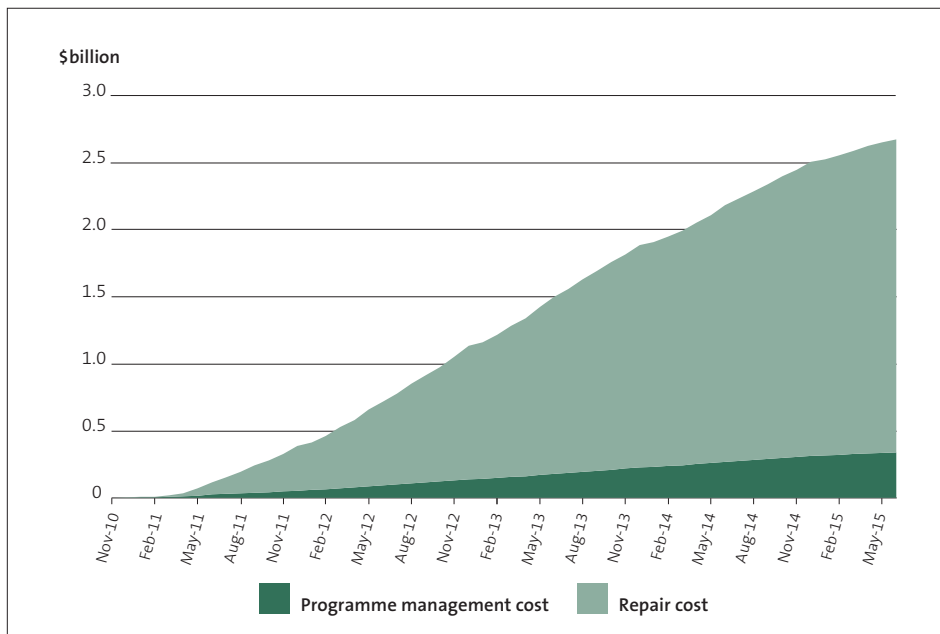
Source: EQC and EQR information.

6.17 In its Statement of Intent 2012-15, EQC set a target for claims-handling expenses to be no greater than 8.5% of total costs in 2014/15. This target was revised to 10% in the Statement of Intent 2013-16. The target was changed in the Statement

of Performance Expectations 2014/15 to EQC being within 10% of the budget approved by EQC's Board.²⁵ EQC has not met these targets. EQC told us that the higher-than-planned claims-handling expenses are because of the change in circumstances after the February 2011 earthquake.

- 6.18 Figure 12 shows the cumulative costs of repairs and programme management in the programme to date. These costs come to more than \$2.7 billion as at 30 June 2015.

Figure 12
Cumulative costs of the programme, November 2010 to June 2015



Source: Graph based on information provided by EQC.

- 6.19 EQC has reviewed and adjusted the hub configuration of repair and project management services to deliver more consistent repair practices while continuing to manage the cost of actual repairs well. However, the project management component of total programme costs has increased slightly from 12.01% at 30 June 2013 to 12.72% at 30 June 2015 (see Figure 11). In total, about \$340 million had been spent in the programme on project management services as at 30 June 2015. Also, EQC has incurred \$59 million of direct costs associated with its own programme staff and programme management. We show average costs of a repair in 2012/13 and 2014/15 in Figure 13.

Figure 13
Average repair and management costs, 2012/13 and 2014/15

	2012/13	2014/15
Average programme management cost for each completed repair	\$4,487	\$5,132
Average direct repair cost for each completed repair	\$32,882	\$35,229
Average overall cost for each completed repair (includes direct repairs costs and project management office costs)	\$37,369	\$40,361

Note: This information represents total programme management costs averaged over the number of completed repairs. Costs that may not be directly related to a completed repair include working on claims that did not result in a completed repair, and clean heat and emergency works. The effect of these factors on costs have to be considered against any cost benefits arising from the scale of the programme.

Source: EQC and EQR information.

- 6.20 The overall cost of the programme’s project management office services has increased both proportionally and absolutely. This is because the total number of expected repairs in the programme has reduced (increasing the proportional cost) and because the programme’s time frame has been extended (increasing the absolute cost).
- 6.21 EQC’s original target for ending the programme was December 2015. It brought this target forward to December 2014. In September 2013, EQC publicly said on its website that “In 2014, EQC will ... repair all remaining houses in the Canterbury Home Repair Programme.” EQC told us that this was a “stretch target”. However, this was not made clear to customers, who might have had different expectations.
- 6.22 In our view, EQC should have been clearer with its communications about this so that customers had better certainty about their repairs and the extent to which they could rely on EQC’s commitments. We also reviewed documents that showed EQC got assurance from EQR that it would meet the December 2014 target.
- 6.23 EQC says that it is “exerting every effort to ensure that the remaining settlements are completed as soon as reasonably practicable”. However, EQC has not set an end date for the programme.
- 6.24 EQC told us that, when it did have an end date for the programme, it also had to deal with additional workloads because of the Cook Strait and Eketahuna earthquakes. The number of claims from those events were some of the largest in EQC’s history, excluding the Canterbury earthquakes.
- 6.25 As well as missing the December 2014 target, EQC has missed some externally stated targets, including the completion of repairs valued at more than \$50,000

and the completion of repairs for vulnerable people. For some customers, including 102 vulnerable people in the second quarter of 2014, EQC has also not delivered on the quarterly time frame it said their repairs would begin in. Also, EQC has not met its internally set monthly repair rate target.

- 6.26 EQC and Fletcher Construction have signed a variation to their project management services contract. The new commercial arrangements in the contract variation:
- extend Fletcher Construction’s involvement to the end of the programme;
 - appear suitable for the stage of the programme and the circumstances EQC is working in;
 - involve a different set of incentives and performance measures from the original agreement – the original contract had no direct financial consequences for failing to meet time, cost, or quality goals, but the contract variation does; and
 - define completion of repairs in two ways – “practical completion with customer sign-off” and “scoped, costed and either start date set with customer or referred for payment” (for repairs yet to be provided by EQC to EQR).
- 6.27 Extending the end date of the programme from December 2014 has increased costs. If the programme had been completed by 30 September 2015, we estimate that the additional administration costs (both project management costs and EQC costs) would have been up to \$55 million. This excludes any additional repair costs resulting from repair cost inflation over a longer time period and the costs of any additional work not recoverable from contractors.
- 6.28 Having good repair records will be critical for effectively managing the Crown’s repair liability after the programme ends. EQR is carrying out work to support the transfer of repair records to EQC when the programme ends.

Complaints

- 7.1 In this Part, we describe the improvements that EQC has made to its management of complaints since our 2013 report.
- 7.2 We did not make a recommendation in our 2013 report about how EQC manages complaints, but we did make some observations.
- 7.3 The Appendix provides further information on what we observed in 2013 about how EQC manages complaints.

Summary

- 7.4 Although EQC has made some improvements to how it manages complaints, EQC:
- cannot separately identify some complaints about the programme;
 - has no formal processes for using complaints information to improve its processes;
 - has had too much focus on closing rather than fully resolving complaints, with too many repeat or multiple complaints; and
 - has not fully integrated complaints systems between EQC and EQR.

Improvements and continued activities

Improvements

- 7.5 EQC has made some improvements to how it resolves complaints about, and disputes in, the programme since our 2013 report.
- 7.6 The improvements include:
- determining the number of claims that could be potentially resolved by the Residential Advisory Service;
 - centralising complaints to one team;
 - “triaging” complaints into three categories;
 - introducing “circuit breaker” meetings;²⁶
 - commissioning an external review of end-to-end customer interactions – the nature of EQC’s customer interactions has been the subject of many complaints; and
 - aligning the EQC and EQR complaints teams.

²⁶ These are meetings to progress claims that have been difficult to progress – the meetings involve crucial decision-makers and specialist staff.

Continued activities

- 7.7 Complaints resolution has continued to be a business priority for EQC.²⁷ It has continued to have face-to-face conversations with customers to resolve disputes.

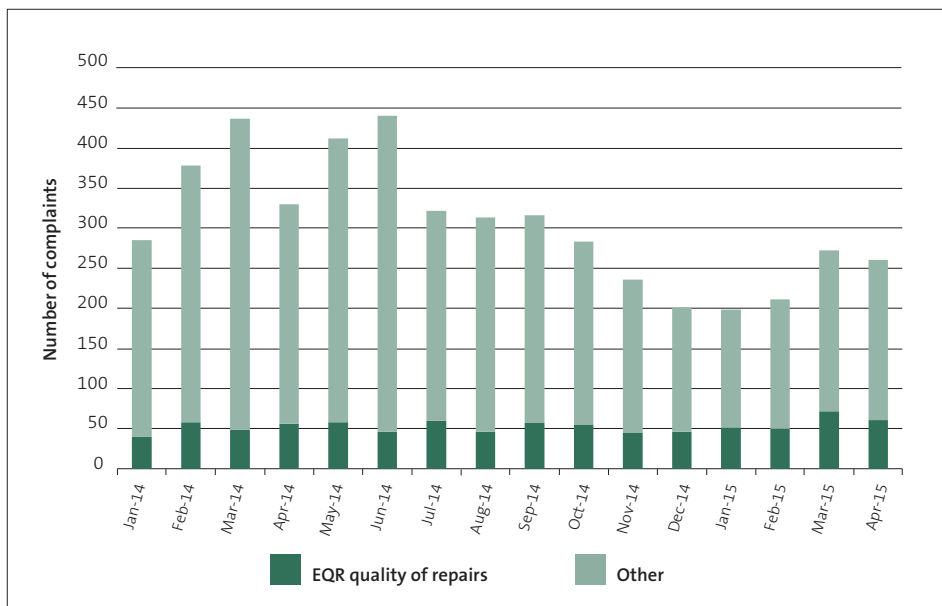
The Earthquake Commission could manage complaints better

Although EQC has made improvements to how it manages complaints since 2013, it cannot easily identify all complaints about the programme, has no formal processes for using complaints information to improve its processes, has not fully integrated complaints systems between EQC and EQR, and could improve its resolution of complaints.

- 7.8 EQC does not have formal processes for using complaints information to improve processes. EQC told us that there are informal arrangements to help it manage individual complaints. This includes regular meetings between Fletcher Construction and EQC's complaints teams.
- 7.9 EQC cannot separate out all complaints about the programme from other complaints. However, it does record the reason for a complaint. This reason can be then used to identify complaints about the quality of repairs and the time frame for repairs within the programme. EQC told us that it receives between 90 and 120 new complaints about the programme each month.
- 7.10 According to EQC, about a quarter of all the complaints it has received each month in 2015 are complaints about the quality of repairs in the programme (see Figure 14). This is a higher proportion than earlier in the programme in 2014.

²⁷ We accept that some complaints cannot be fully resolved to a customer's satisfaction because of expectations outside of EQC's mandate.

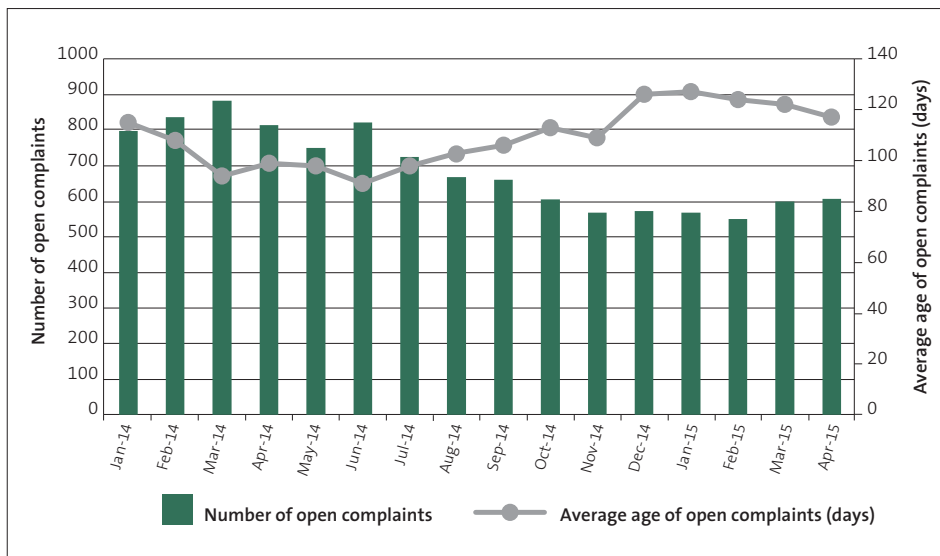
Figure 14
Subject of new complaints to the Earthquake Commission, January 2014 to April 2015



Source: Graph based on information provided by EQC.

- 7.11 Although the overall number of complaints that EQC has received is declining (see Figure 15), it appears that complaints are becoming more complex and/or EQC is taking longer to resolve complaints. EQC told us that complaints involving litigation are an example of complex complaints.

Figure 15
Age of open complaints, January 2014 to April 2015



Source: Graph based on information provided by EQC.

- 7.12 EQC’s and EQR’s complaints processes are not fully integrated. This creates a risk of gaps in responses to complainants, even though there have been improvements in the way the two organisations work together on complaints. EQC and EQR told us that it would not be cost- or time-effective for it to fully integrate their complaints processes.
- 7.13 Customers are not involved in EQC’s “circuit breaker” meetings, but those meetings have been effective in progressing difficult and “stuck” claims.
- 7.14 In our view, EQC has focused too much on closing complaints. There are too many repeat or multiple complaints.

Lessons learned

- 8.1 In this Part, we describe EQC's progress against our 2013 recommendation about lessons learned. We also identify what we consider to be the most important lessons.
- 8.2 We recommended that EQC identify and record the lessons, tools, and information from the programme that could usefully support responses to potential future large-scale natural disasters.
- 8.3 The Appendix provides further information on what we found and recommended in 2013 about lessons learned.

Summary

- 8.4 EQC has addressed our recommendation in part, but we anticipate that the recommendation will be addressed in full with the passage of time. To support this, EQC has started to capture the lessons it has learned from managing the programme and its wider work in Canterbury.
- 8.5 EQC is committed to improving so that it is better able to deal with large-scale events.

Improvements and continued activities

Improvements

- 8.6 Since 2013, EQC has:
- performed an internal audit examining EQC's progress against the recommendations in our 2013 report;
 - developed a plan for capturing lessons from the programme's senior managers;
 - emphasised the need for collaboration and alignment to make the relationship between EQC and EQR work; and
 - identified the challenges to its work posed by the current policy settings and fed these into the Treasury's review of the Earthquake Commission Act 1993.

Continued activities

- 8.7 Internal audit, reinsurer, and commissioned review work, such as the *Linking Strategy to Implementation* report, has continued to examine aspects of EQC's performance.

The Earthquake Commission is committed to learning from the programme

EQC is committed to improving so that it is better able to deal with large-scale events. EQC told us that its response to the 2013 Cook Strait and 2014 Eketahuna earthquakes are examples of this.

- 8.8 EQC has started to capture the operational lessons it has learned from managing the programme. EQC knows that it needed:
- better planning (getting out of crisis mode earlier to review policies and practices);²⁸
 - expertise in dealing with people (and to know where to find this expertise in other government agencies and in community organisations);
 - integrated data and management systems throughout the organisation (and with its partners);
 - a clear understanding of governance and decision-making structures and constraints; and
 - joined-up communications from the partners involved to homeowners.
- 8.9 Importantly, EQC has recognised that a long and complex process to resolve claims has caused distress to homeowners and that this has been compounded by dissatisfaction with the quality of EQC's communications.
- 8.10 We agree that those lessons are important because they capture what we consider to be the main problems with EQC's management of the programme.
- 8.11 We have identified some other lessons:
- As part of better planning, risks need to be anticipated and considered as early as possible. For example, EQC could have anticipated that there would be asbestos in residential buildings (and that this would have implications for repair work). It could have also anticipated the difficulties that vulnerable people would face. EQC acknowledges that it could have worked more closely with other agencies that provide support to vulnerable people.
 - Customer interactions are important. Homeowners need certainty and reliable information about their particular circumstances as quickly as possible.
 - As circumstances change, a programme such as this might also need to adapt and change, to make sure that it can still meet the programme's goals.
 - Setting broad and potentially competing programme goals makes it difficult for the programme operator and the public to be able to reach clear conclusions on the performance of the programme against those goals. This also limits the use of the programme's performance as a benchmark for any future programmes.

Appendix

Findings and recommendations in our 2013 report

In this Appendix, we describe what we found and recommended in our 2013 report. The information is organised around each of the recommendations we made in our 2013 report.

Paragraph number references are to our 2013 report.

Repair quality

<p>What we recommended that EQC should do</p>	<p>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.</p>
<p>Findings in our 2013 report</p>	<p>Positive findings</p> <p>Site monitoring was carried out by contract supervisor staff.</p> <p>Monthly auditing of about a quarter of all completed repairs against repair work standards set for the programme.</p> <p>EQC started a post-repair completion survey in February 2013 that it intended to regularly administer.</p> <p>A quality assurance team was set up in March 2013 to review quality concerns. This team receives referrals from the complaints management process. (Paragraph 3.27.)</p> <p>Negative findings</p> <p>As at December 2012, quality controls were “yet to be fully embedded”.</p> <p>The controls for ensuring compliance with the Building Code were not consistently followed.</p> <p>There were risks with the accreditation process because there was no centralised database containing all of the data relevant to contractors.</p> <p>Some contractors were accredited and inducted before criminal, credit, and conflict of interest checks became a routine part of the accreditation process. (A May 2013 internal audit report described these checks as “only recently” implemented.)</p> <p>The issuing of performance improvement notices (or PINs) to contractors had not been centrally recorded for most of the programme, with only six contractors (out of about 1200) losing their accreditation.</p> <p>There had been instances where the cost of fixing defects evident during the warranty period exceeded the amount of money withheld from the contractor until the end of the warranty period. (Paragraph 3.39.)</p>

Informing homeowners

<p>What we recommended that EQC should do</p>	<p>Continue to improve communication with individual homeowners about their claims, giving homeowners as much certainty as possible as early as possible.</p>
<p>Findings in our 2013 report</p>	<p>Positive findings</p> <p>EQC had prepared a set of criteria, in consultation with other agencies, to identify vulnerable people. (Paragraph 3.88.)</p> <p>From November 2012, EQC had set a monthly target of completing 100 vulnerable people's dwelling repairs and had generally met that target every month up to May 2013. (Paragraph 3.89.)</p> <p>EQC used its website, the media, its community contact centre, social media, an outbound calling programme, and EQC staff attendance at public meetings to communicate with homeowners. (Paragraph 4.21.)</p> <p>EQC knew that it needed to continue to improve communication with homeowners about their claims. EQC has previously acknowledged publicly that it has provided conflicting and inadequate information to claimants. (Paragraph 4.22.)</p> <p>EQC was planning, beginning in February 2013, to send letters to claimants providing information about the status of their claims. EQC's Chief Executive subsequently indicated that the shutting down of EQC's systems after a privacy breach delayed the time frame for informing claimants. Subsequently, EQC completed a 90-day programme for communicating with all claimants about their claims and was intending to continue its communication programme with these claimants. (Paragraph 4.23.)</p> <p>Negative findings</p> <p>Homeowners 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; (Auditor-General's overview.)</p> <p>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 homes would be dissatisfied or very dissatisfied with the repairs. (Auditor-General's overview.)</p> <p>EQC did not know enough about homeowners' experiences of the home-repair programme. (Paragraph 3.69.)</p> <p>In our view, deciding to cash-settle a claim rather than manage repairs needed to include an assessment of the homeowner's capacity to manage the repairs themselves. (Paragraph 3.93.)</p> <p>As at May 2013, EQC was not completing repairs to properties with vulnerable occupants any "faster" than repairs to other properties. (Paragraph 3.94.)</p> <p>It was late in the programme before repair slots were actively allocated to the homes of vulnerable people. In our view, this was too late. (Auditor-General's overview and Paragraph 3.97.)</p> <p>In February 2013, EQC started surveying the satisfaction of homeowners who had just had their repairs completed. In our view, this work started too late. Communication, the availability of information, and the quality of repairs had been issues for homeowners. (Paragraphs 4.7-4.20.)</p> <p>EQC previously acknowledged publicly that it had provided conflicting and inadequate information to claimants. (Paragraph 4.22.)</p>

Key performance indicators

<p>What we recommended that EQC should do</p>	<p>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.</p>
<p>Findings in our 2013 report</p>	<p>Positive findings</p> <p>EQC performed well in managing repair costs and setting the programme up quickly. (Auditor-General's overview.)</p> <p>EQC set targets for finishing all repairs in the programme and for overall claims-handling costs as a percentage of total costs (this measure is wider than the programme). (Paragraph 5.31.)</p> <p>When we were finalising our report, EQC was reviewing the key performance indicators for the programme. We encouraged EQC to also consider the relationship between the key performance indicators and the objectives of the programme. (Paragraph 5.36.)</p> <p>Repair costs had been reasonable to date, but there were risks to that continuing. (Paragraphs 6.14-6.35.)</p> <p>Negative findings</p> <p>Some metrics reported to the Project Control Group were not consistently reported (for example, the results of quality audits of completed repairs), some metrics had no targets in the reported material (for example, the number of houses to be repaired each month), and there was no comparative data reported for some metrics (for example, the number and types of complaints received). (Paragraph 5.30.)</p> <p>"Value for money" metrics were identified in monthly reports to the Project Control Group. These were percentage differences between:</p> <ul style="list-style-type: none"> • the "original budget" (the assessed damage) and the "adjusted budget" (the approved work scope); and • the "adjusted budget" (the approved work scope) and the final invoiced cost. (Paragraph 5.32.) <p>In our view, this measure of the home-repair programme's value for money was of limited use. It did not cover all the main elements of value for money in the circumstances, and EQC adjusted the approved scope of work as more information was made available. This meant that large differences between the approved scope and the final cost were unlikely. (Paragraph 5.35.)</p> <p>Our analysis suggested that project management costs (on average, about 12% of the cost of a repair) had been at the higher end of what we considered reasonable in the circumstances. Achieving reasonable project management costs at the end of the programme depended heavily on EQC completing the programme by December 2014, managing the hub reconfiguration project effectively to deliver the expected benefits, and continuing to control repair-cost inflation. (Paragraphs 6.36-6.54.)</p>

Programme configuration

<p>What we recommended that EQC should do</p>	<p>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.</p>
<p>Findings in our 2013 report</p>	<p>Context</p> <p>Achieving reasonable project management costs at the end of the programme depended heavily on EQC:</p> <ul style="list-style-type: none"> • completing the programme by December 2014; • managing the hub reconfiguration project effectively to deliver the expected benefits; and • continuing to control repair-cost inflation because Fletcher Construction receives a fixed proportion of repair costs as a fee. (Paragraph 6.7.) <p>In our view, follow-up work was necessary, given the need for ongoing improvement in the programme, and because the appropriateness of the final programme costs depended on EQC making changes to the programme. (Paragraph 7.16.)</p> <p>Positive findings</p> <p>Repair costs had been reasonable to date, but there were risks to that continuing. Keeping repair costs at a reasonable level depended on EQC managing essential controls and systems, staying ahead of the private insurance and central city repair and rebuild work, and completing the programme by the December 2014 deadline set by EQC. (Auditor-General's overview.)</p> <p>EQC was committed to improving how it manages the programme and had acted on the findings of various reviews and audit work. (Paragraphs 7.6-7.9)</p> <p>EQC prepared and put in place a sensible internal audit work programme, acted on the findings of our financial audit work, and responded to the findings of various reviews it commissioned on aspects of its operation. (Paragraph 7.6.)</p> <p>The recovery environment in Canterbury was continuing to evolve. EQC needed to continue to assess and amend aspects of the programme to ensure that it was appropriate as the environment changed. (Paragraph 7.7.)</p> <p>When we finalised our report, EQC was in the process of reviewing and/or changing important aspects of the home-repair programme, including governance arrangements, key performance indicators, and repair hub structures and locations. The hub reconfiguration was intended to support greater consistency of practice within the programme. It was important that EQC continued these review and improvement activities. (Paragraph 7.9.)</p> <p>Negative findings</p> <p>Our analysis suggested that project management costs (on average, about 12% of the cost of a repair) were at the higher end of what we considered reasonable in the circumstances. Achieving reasonable project management costs at the end of the programme depended heavily on EQC completing the home-repair programme by December 2014, managing the hub reconfiguration project effectively to deliver the expected benefits, and continuing to control repair-cost inflation. (Paragraphs 6.36-6.54.)</p>

Lessons learned

<p>What we recommended that EQC should do</p>	<p>Identify and record the lessons, tools, and information from the home-repair programme that could usefully support responses to future large-scale natural disasters.</p>
<p>Findings in our 2013 report</p>	<p>Context</p> <p>EQC had no comparable situations to draw direct experience and lessons from given that the scale and complexity of the repair activity was unprecedented in New Zealand. The affected population was a higher proportion of the country's total population, a much higher proportion of damage was covered by insurance, and the effect on the overall economy was proportionally bigger, especially when compared to the effects of large-scale natural disasters in other countries. (Auditor-General's overview.)</p> <p>Progress was 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). (Auditor-General's overview.)</p> <p>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. (Auditor-General's overview.)</p> <p>Public entities need to sensibly prepare for potentially catastrophic but unlikely events. Those events can require public entities to deliver 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. (Auditor-General's overview.)</p> <p>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. (Auditor-General's overview.)</p> <p>EQC's Board and Ministers decided on a home-repair programme because of its potential to contain inflation in the cost of repairs, ensure that funds were used for repairs, and maintain the quality of housing stock in Canterbury. Maintaining the quality of housing stock was considered important in encouraging people to stay in the region. (Paragraph 2.2.)</p> <p>Positive findings</p> <p>EQC subjected itself to scrutiny and review through internal audit and commissioned review work. This scrutiny and ongoing improvement needed to continue. (Paragraph 7.2.)</p> <p>Negative findings</p> <p>The considerable inconsistency in the repair process and in the information recorded was a consequence of EQC concentrating on getting repairs done before supporting systems and controls had been fully prepared and implemented. (Paragraphs 4.49 and 4.50.)</p>

Complaints

<p>What we recommended that EQC should do</p>	<p>We did not make a recommendation relating to EQC’s management of complaints.</p>
<p>Findings in our 2013 report</p>	<p>Positive findings EQC identified two actions to improve complaints management, in response to the findings of the May 2013 internal audit of the programme:</p> <ul style="list-style-type: none"> • a review of EQC’s complaints process based in Wellington, before complaints were transferred to Fletcher Construction; and • a “follow-up” to the process used from November 2012 where claims not resolved within 10 days by Fletcher Construction were referred back to EQC. (Paragraph 4.28.) <p>The internal audit work confirmed that these actions have been carried out. (Paragraph 4.29.)</p> <p>Negative findings Complaints had been made directly to EQC and to other organisations about the programme. EQC needed to better integrate how complaints were managed between it and Fletcher Construction. (Paragraphs 4.24-4.30.)</p> <p>EQC needed to do more to analyse and learn from complaints and better integrate complaints management processes and systems with Fletcher Construction. The number of complaints received was one means by which EQC intended to judge the success of its performance in response to a large-scale natural disaster. (Paragraph 4.24.)</p> <p>EQC and Fletcher Construction began integrating complaints information from late November 2012, but their complaints systems were not technically connected. There were inconsistent complaints processes between repair hubs. (Paragraph 4.27.)</p>

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