



Case Study: Risk Prevention During a Retrofit

What can go wrong?

By David G. Truscott

A retrofit may involve tearing, replacing, or improving some part of your existing apartment building infrastructure. It often shows as a significant capital expenditure on your balance sheet. Your need for a retrofit project may be due to new legislation, building code compliance, natural wear and tear and obsolescence, or the changing needs of your tenant population.

As a significant financial investment and infrastructural change is often necessary in a retrofitting scenario, it is reasonable to expect that any project will present an increased risk to an organization, in areas such as:

Financial risk - will you actually see value in what you're paying for?

Physical risk - what could physically go wrong as a result of your undertaking, which may directly or indirectly result in injury or damage to persons or property?

Let's work with a hypothetical example to illustrate the risks we may encounter, and how we intend to manage those risks to protect our organization from loss.

Let's say that we own and manage a 120-unit apartment building that was built in 1967, that is now in need of new balcony railings due to deterioration caused by age and weathering.



From our risk management perspective, those shaky railings pose a serious hazard. From a marketing standpoint, a good quality prospective tenant would not be impressed with what our building has to offer, either. We have identified the need for improvement, and the next step is to plan to repair or replace the railings.

THE STARTING POINT

We could retain the services of a consulting engineer to diagnose the extent of our problem, and to develop the specifications for our retrofitting project. Those specifications could then be provided to contractors who are interested in bidding on our project.

Why involve a consulting engineer in the first place? We need a clear set of specifications for our project that we can rely on, specifications that are developed in an objective fashion and are capable of withstanding the scrutiny of government inspection, and the wear and tear of an assortment of tenants.

It turns out that our recruitment of this individual was well worth the price, because we also learned that our balcony railings installed to 1967 standards no longer comply with current building codes. By engaging a consulting engineer, we also engage their professional liability insurance to stand behind them in the event that their valued, professional advice is incomplete or flawed. Most importantly, their engagement allows us to transfer the risk of not having the proper specifications to satisfy any relevant legislation or building codes onto their shoulders, as they

act in a professional capacity to develop the specifications for us (the consulting engineer, in turn, transfers their risk to their professional liability insurer).

When we have the right specifications for our project, we'll need a contractor to perform the work. This can be achieved by tender, (the formal invitation of bids to perform the work as set out in our specifications) or simply by appointing our favourite contractor to handle the job.

Whatever method we employ, it is essential that the contractor that we choose can provide us with the necessary risk management tools to protect us, and our retrofitting project.

For the removal, repair, and replacement of our railings, it appears that we'll incur a bill of \$90,000. It turns out that our contractor with the winning bid can do the specified work for a little under than our budget. It seems a little surprising, because the other two sealed bids came in at closer to \$120,000. After scrutinizing the bids closely, it looks as though the winning bid includes all the necessary work and material as set out by our consulting engineer. What a bargain!

It's not a bargain if our contractor fails to complete his end of the deal. What happens if our contractor mistakenly priced the job at substantially less than the actual cost of completion? These things do happen. To protect our organization from loss caused by the failure of our contractor to perform all work required to complete our project for the stated amount, we insist on our contractor furnishing us with a performance bond.

Performance bonds guarantee the performance of the contracted work. If we're not satisfied with the contractor's work or we feel that the contractor did not perform the level of work that was specified in our contract, we can look to the issuer of the bond for compensation.

Bid bonds ensure that the contractor who is the lowest bidder on our job can and will enter into contract at the tendered price. If the contractor fails to fulfill their obligations under the bid bond, they must compensate us for the difference between their bid and that of the next lowest bidder. With this protection in place we can be sure that our project will be completed as intended.

So far in this article, it was determined that we need to retrofit our building with new balcony railings. We had specifications for the removal and replacement of the railings developed by a qualified consulting engineer, and we moved the possibility of any error in those specs onto the shoulders of our outside expert. We also received bids from contractors based on those specifications as well. The contractor who won our sealed tender has agreed to provide us with a bond to guarantee his performance of the work. Are we ready to start? Not just yet.

While there are other essential components to include in our program for risk management protection, we've covered all we can for this issue. Next time, we'll pick up where we left off in arranging proper protection for the retrofitting project for our 120-unit apartment building. We'll look at the importance of a Liability Insurance Policy, Hold Harmless and Indemnity Agreement and a Certificate of Insurance from our contractor. ■

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