

# **GREATER CHRISTCHURCH RECOVERY**

**BRIEFING TO INCOMING MINISTERS**

**2014**

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## The greater Christchurch recovery sector

Central government's involvement and interest in the recovery of greater Christchurch from the earthquakes of 2010 and 2011 goes well beyond the work of the Canterbury Earthquake Recovery Authority (CERA).

This briefing contains joint advice from the chief executives of CERA, Department of the Prime Minister and Cabinet, Treasury, State Services Commission, Ministry of Business, Innovation and Employment and Ministry for the Environment. This briefing is written from a cross-agency perspective, in anticipation of recovery functions beginning to transition in this term of Parliament from CERA to a broader range of central and local government agencies (and others outside the public sector). It covers the issues we consider to be of the most strategic importance and which require the strongest whole-of-government focus, and also identifies some areas where we recommend a change in approach to reflect that the nature of the recovery effort has now changed.

Individual agencies will also provide incoming Ministers with separate advice on their current work programmes and upcoming issues and priorities with regard to recovery, which will give a much more detailed picture of the initiatives currently in place to support the recovery effort. CERA's post-election briefing also has information on the broader recovery sector beyond central government.

## The recovery to date

The nature of the greater Christchurch recovery task has changed since the Canterbury Earthquake Recovery Authority (CERA), the Canterbury Earthquake Recovery Act 2011 (CER Act), and the Recovery Strategy and Recovery Plans were put in place. These were all implemented soon after the earthquakes and have enabled a largely well-coordinated, efficient and effective work programme for recovery. The process is now shifting from short-term disaster response to a longer term set of challenges and opportunities.

Right now, greater Christchurch (Christchurch city, Selwyn district, Waimakariri district and the adjoining coastal marine area) has in place the major planks required for a successful recovery. The recovery process creates opportunities to not only repair the damage from the earthquakes, but also to address some of the pre-existing issues facing greater Christchurch's long-term prosperity.

Christchurch city has experienced a small reduction in population since the earthquakes as people moved to the surrounding districts. The Canterbury population as a whole, however, continues to grow: 4,245 people have moved to greater Christchurch permanently from overseas in the six months to May 2014, many to participate in the construction sector. Strong employment growth is being experienced across most major sectors including construction. Canterbury's unemployment rate is at 2.8 per cent, its lowest since 2008 and roughly half the national rate, while Christchurch city's unemployment rate is 3.2 per cent.

Those on fixed and low incomes are affected by rising housing-related costs: rents in greater Christchurch rose 35 per cent between January 2011 and May 2014, and there has been a sharp decrease in rental properties costing less than \$400 per week. This reflects the

ongoing pressures on housing caused by loss of housing stock and an influx of new workers. Electricity connection data suggests there are still roughly 3000 fewer occupied houses in greater Christchurch than there were before the earthquakes. In the residential rebuild, over 13,000 new residential dwelling consents have been issued since March 2011, which – if all those consented properties are built – would more than compensate for the approximately 12,000 houses lost due to the earthquakes (although much of the early rebuild has been in Waimakariri and Selwyn districts rather than in Christchurch city). Services are in place to support residents who are experiencing difficulties dealing with their insurance and housing issues.

Estimating the earthquake recovery costs has been difficult. Initial predictions from Treasury estimated damage from the Canterbury earthquakes at \$15 billion early in 2011. The total cost of recovery has been estimated at about \$40 billion, of which about \$30 billion is construction costs; CERA estimates that about 25 per cent by value of this construction has been completed. The current combined value of the public sector rebuild (both central and local government) is approximately \$6.4 billion of capital investment into social infrastructure, learning facilities, housing and other major infrastructure projects. While this rebuild process will last until approximately 2024, the value of projects already under construction (\$2.1 billion) is slightly ahead of forecast. The shared government-council horizontal infrastructure repair programme is 50 per cent complete.

Infrastructure delivery and growth is being supported by efficiencies in land use planning and consenting. More non-residential building consents were issued in the first quarter of 2014 than at any other time since 2010. The Land Use Recovery Plan has streamlined and simplified land use planning; enabling lower regulatory compliance cost and faster new builds, rebuilds, and repairs of commercial and residential development.

The Justice and Emergency Services Precinct, due for completion in late 2016, is the largest multi-agency government co-location project in New Zealand's history. The new precinct will house 900 employees from central and local government agencies and NGOs. The relocation of an additional 1700 public servants across 17 agencies in the central city from 2017 through the Christchurch Integrated Government Accommodation project has catalysed private sector investment in four buildings in the central city retail precinct. The co-location of agencies lays the platform for improvements to the way public services are delivered. Broader collaboration across central and local government, iwi, non-governmental organisations, businesses and the community will continue to be a key focus as opportunities arise across the rebuild.

As well as the significant milestones achieved, there is still a collection of recovery issues which are both difficult to resolve and have the potential to impede the wider recovery effort in the future.

### **Some unresolved recovery issues remain**

The CERA Wellbeing Survey released in June 2014 indicates that a significant minority of greater Christchurch residents are still experiencing major frustrations due to the on-going disruption to their daily lives. While the proportion of respondents reporting a high quality of life has increased to 75 per cent compared with 73 per cent in September 2013, the proportion of those reporting high levels of stress remains stable at 22 per cent (higher than the 18 per cent reporting high stress levels in 2012 in other New Zealand cities). The Survey

indicates that the greatest stressors are living in a damaged environment and/or being surrounded by construction work, dealing with transport-related pressure and dealing with the Earthquake Commission and insurance claims.

Those more likely to be experiencing stress or lower emotional wellbeing include those with a physical health condition or disability, those living in temporary accommodation, those on low incomes, and those waiting to have an insurance assessment or who have had an assessment but no offer. As at 30 June 2014, 27,070 EQC residential dwelling claims (18 per cent) and 11,310 private insurer residential dwelling claims (50 per cent) were yet to be finally settled (i.e. repairs complete or cash settlement paid out). Of the outstanding private insurer claims, 2,350 claims (28 per cent of unsettled claims) were in the “undecided” category meaning owners and insurers were yet to reach agreement on the claim.

The initial recovery phase will not be fully complete until these remaining stressors, which are disproportionately affecting a significant number of people (many of whom are vulnerable because of other life circumstances), are lifted.

## Time to change focus

In any process of recovery from a major disaster, there is a period of immediate emergency response (which, given the aftershocks, continued until early 2012), phasing into a longer period of restoring services and preparing for reconstruction. That phase is now also beginning to tail off, with permanent reconstruction and achievement of the longer-term vision for greater Christchurch taking greater prominence. This period will continue for at least a decade, and possibly longer: the public sector rebuild is not expected to be completed until 2024, and will catalyse a longer period of private investment.

Now is the time, therefore, to shift the focus from dealing primarily with immediate safety and short-term needs to building long-term resilience and ensuring the long-term sustainability of greater Christchurch. Above all, the defining characteristic of the recovery effort should be maintaining and increasing confidence in the recovery process and those that deliver elements of the recovery, to encourage private investment and support community psychosocial wellbeing. Confidence will be built through the development and articulation of a robust long-term vision, fostering of closer local relationships, good community engagement, and more visibility of decision-making processes, and the provision of more information and better reporting on progress.

The initial phases of response and recovery from a national-scale disaster are characterised by the need for strong central government leadership to make a rapid succession of decisions and to prioritise speed and momentum. There is now scope to take a more deliberative and collaborative approach to recovery decisions and objectives that minimises some of the trade-offs that are necessary when speed is of the essence, without losing the sense of momentum.

We consider there are three overarching issues that are critical for maintaining confidence and delivering long-term recovery success, and which require the attention of more than one portfolio Minister or department with interests in the recovery. These are:

1. Achieving strong and effective governance that assists with transition of ownership of the recovery process to local institutions

2. Enabling long-term socio-economic performance and sustainability
3. Addressing unresolved initial recovery issues

For some matters, we consider there are areas where Ministers can give immediate direction to officials across the relevant portfolios. In other areas, we are signalling matters which will continue to inform our monitoring and the advice we give to you over the next three years, and which we think should remain in your minds as you set recovery priorities for this term of Government.

## Strong and effective governance

Now that the focus is turning more to enduring recovery outcomes, an effective recovery will depend much less on central government (particularly CERA), and more on the people and institutions of greater Christchurch owning those outcomes and driving participation and leadership in decisions. Moving to this longer-term focus will be facilitated by development of a shared vision that meets the needs of both current and future generations.

Tough decisions will still need to be made for some time yet: delivering resilient and enduring recovery outcomes from a disaster of this magnitude is a decades-long process. Achieving the vision and leveraging greater prosperity from the post-earthquake environment will require bold decision-making from local institutions. The recovery process is a task of an unprecedented size and complexity for New Zealand local authorities, and one that demands a level of partnership and continued engagement with the Crown into the foreseeable future.

There have been recent positive developments in the relationship between central government and local government in greater Christchurch (especially with the Christchurch City Council), particularly the development of more collegial and trusting relationships, which provide a good platform for this next phase of recovery.

## Developing and delivering the transition plan

The most pressing governance issue is to **develop a plan for the transition of CERA's powers, functions and work programmes** to their long-term hosts (both centrally and locally), to ensure that the momentum of the recovery process is maintained. The expiry of the Canterbury Earthquake Recovery Act 2011 in April 2016 is one factor in this transition, but the broader transition process should begin well before that time, and will extend beyond it. A critical part of the transition plan will be to identify not only the natural home for recovery activities, but also the capability and capacity required to deliver those, and hence the pre-conditions for successful transfer of specific functions or activities. The plan will also include **consideration of the future of the provisions of the CER Act**.

Consistent with the Government's Better Public Services programme, we suggest central agency oversight and strong alignment across central government is critical to a smooth handover process. The **positioning of CERA as a Departmental Agency within DPMC** will support this and ensure that recovery activities continue to be prioritised across central government; the capacity across central government (at both head office and regional level)

to pick up CERA's work and deliver recovery outcomes in a well-coordinated way should not be taken for granted at this stage.

As the transition of recovery functions commences, some of these functions will become more widely spread across agencies within central government, and it will become increasingly important that agencies remain aligned and committed to priority recovery initiatives in the face of competing pressures. This will require a greater discipline across government in order to **maintain effective Ministerial leadership and oversight of an increasingly dispersed work programme**. Oversight would be strengthened by taking a more results-based approach, which would enable better monitoring of whether the recovery effort is on track through **development of, and reporting progress against, a revised set of recovery goals, targets and timeframes**.

Central government cannot develop an effective transition plan by itself if the plan is to achieve local ownership of the recovery process. **Early involvement of the strategic partners and other key local stakeholders in the development of a transition plan** is necessary for an effective handover process. We also consider that the development of the transition plan provides a good opportunity to **refresh the framework for engagement between the Crown and strategic partners** to enable the right strategic discussions to occur in an efficient way between both elected leaders and senior officials.

The transition plan will also need to be aligned with other initiatives underway to maintain and build effective local governance in Canterbury, particularly the review of the governance arrangements for Environment Canterbury (which must also be completed in 2015). Likewise, Environment Canterbury's role as one of the strategic partners in the recovery effort will need to be one of the factors considered in that review.

## **Better collaboration between central government and Christchurch City Council**

A collaboratively developed transition plan, enabled by changes within the machinery of central government, is necessary to maintain long-term momentum. In order for that plan to be effective, an immediate priority should be to **refresh the governance and leadership arrangements between central government and Christchurch City Council**, as the strategic partner likely to receive the greatest number of leadership functions transitioning from central government.

A more shared approach to leadership will result in a more visible and agreed view of what needs to be achieved and by whom, both during the transition period and into the long term. A stronger and more collaborative relationship between central government and Christchurch City Council would make it more likely that decisions are well aligned to a 'best for recovery' perspective, with no surprises or unintended consequences.

In applying a more structured and efficient approach to the relationship between central government and Christchurch City Council, priorities for a successful handover and recovery are to:

- share information effectively and efficiently, and to test and endorse the assumptions being made by all parties, in order to support **effective, timely and well-informed decision-making by elected leaders**

- ensure that **funding needs for recovery** are well-understood, any conflicting points of view on funding accountabilities are managed, and that the Christchurch City Council is supported to make the difficult decisions it faces on how to address its emerging financial shortfall
- enable the Christchurch City Council to identify and address its **capacity and capability requirements to deliver recovery functions and activities** identified in the transition plan, and identify what central government can do to foster that capacity and capability building, and
- ensure (in conjunction with the other strategic partners) that there is a **shared view on recovery goals, targets and timeframes**.

## Delivery vehicles

The period of reconstruction will last well beyond 2016. The Crown has significant direct interests in the reconstruction phase (particularly in the anchor projects, infrastructure and future use of the red zones) and in the protection and leveraging of its investments in the longer term. The Crown also has an interest in managing the procurement of its own rebuild projects and other capital investments in a way that does not crowd out private investment and unduly create supply constraints on the wider reconstruction effort.

Both central government and the council have a strong incentive to foster private sector confidence and to catalyse private sector investment in the rebuild to minimise the public sector investment risk. To that end, the Mayor of Christchurch has spoken about the potential for central government and the council to jointly establish the tools to encourage local and foreign investment in the rebuild, to create a focal point for joint ventures, and to proactively enable development projects with wide-ranging outcomes.

To that effect, the **establishment of a commercial delivery vehicle and/or other arrangements** (potentially including joint arrangements with the Council on some aspects) should be an early priority when developing the transition plan in 2015. There is some work yet to do on the potential form and scope of any such arrangements: there is a range of possibilities from a narrowly-focused commercial vehicle to improve delivery of Crown capital projects such as the anchor projects, or a joint investment brokerage, through to a fully-featured urban development agency encompassing both the central city and the red zones.

## Long-term socio-economic performance and sustainability

The recovery process is now driving very high growth in regional gross domestic product (some sources estimate growth in Christchurch city at 6.1 per cent in the year ending March 2014), as is to be expected as reconstruction spending increases. This in itself is creating issues such as labour shortages in specialised trades, construction cost inflation, risk of government/council rebuild activity out-competing the private sector for construction capacity, and pressures on housing driven by a large temporary workforce. These issues are being closely monitored both for their broader effects on the recovery and the more specific effects on the public sector rebuild.



Officials' forecasts predict a sustained and unprecedented two-year peak in construction activity over 2015 and 2016 period (rising from \$3.6 billion per annum at present to \$5 billion per annum at peak, compared to approximately \$1.6 billion per annum in the two years preceding the earthquakes). Greater Christchurch growth rates are expected to fall from 2017 as the peak of recovery construction eases. Canterbury construction is expected to return to 'business-as-usual' levels around 2022. Economic growth at the national level is positive, however, and a decline in construction activity in greater Christchurch is unlikely to have a major national impact. Depending on the pace at which growth slows, there may be some more localised risks that require attention in the future.

Another critical factor in greater Christchurch's long-term performance is a healthy central city, for social and cultural as well as economic reasons; this is one area where there is a particular opportunity for the recovery process to deliver not only repairs to the city's built environment but also to address some issues that existed before the earthquakes (such as the slow decline in the viability of the central city retail area).

### Recovery of Christchurch's central city

The private sector will ultimately lead the recovery of Christchurch's central city over the next ten to twenty years, but is unlikely to invest unless there is a general sense of confidence, good procurement process are applied, and market conditions are considered stable and attractive. Good planning, substantial early public investment in public space, amenities and infrastructure (including the anchor projects and other central city elements of the public sector rebuild) and sustained engagement with public and private sector stakeholders are known drivers of these market conditions. These drivers have been incorporated into the recovery approach in the Christchurch Central Recovery Plan and CERA's investment strategy.

The **creation of a Crown and/or joint commercial delivery vehicle** would also be a means of continuing to foster good market conditions for investment in the central city.

Our current analysis suggests that current redevelopment activity in the central city is of a type and level that could be expected in the context of the Christchurch Central Recovery Plan and experience from overseas, and that private sector investment is beginning to ramp up. Overall commercial insurance settlement rates outstrip those for the residential sector, the consenting rate has accelerated rapidly in recent quarters, and investment continues to grow. This is complemented by the catalytic effect of central and local government activity: one anchor project is complete (Hagley Cricket Oval), five of the 17 anchor projects in the Christchurch Central Recovery Plan have begun or will begin construction in 2014, and a further five are scheduled to commence in 2015.

The pace of central city recovery will, however, need close monitoring, especially for those outcomes which are expected to be achieved later in the recovery process emerge (such as residential numbers) and should unfavourable market conditions (such as greater than expected construction cost inflation or significant exchange rate fluctuations). The proposal above to **set and monitor against revised set of recovery goals, targets and timeframes will include a central city element**, and will be used as a basis for identifying whether any changes to current policy and operational settings are required if the pace of central city recovery slows.

## Unresolved recovery issues

There remain a number of complex and often discrete unresolved initial recovery issues, primarily relating to the residential repair and rebuild. These include:

- Resolving the most challenging insurance claims
- Assisting vulnerable owners who may have difficulty making decisions on their claims and relocating from their dwellings
- Progressing to the repair phase for shared properties which have complicated insurance issues and ownership arrangements
- Availability of temporary housing during the rebuild phase, and housing supply in the social, affordable and rental submarkets
- Legacy issues in relation to:
  - property of owners who were uninsured or underinsured
  - potential non-repair or sub-standard repair of earthquake damage

Many of these issues are likely to resolve themselves – over time – without further intervention by central government beyond the current insurance, housing, psychosocial and health support programmes. These challenges are, however, having a major effect on the wellbeing and health of many greater Christchurch residents, and may also delay the overall rebuild and repair of damaged property.

Some gains in the nexus of insurance, housing, and supporting the vulnerable will be achievable by continuing to **facilitate closer coordination across government agencies and with local government, NGOs and insurers** through the transition period.

### Insurance

Significant inroads have been made by the Earthquake Commission and to a lesser degree by private insurers (including Southern Response) to settling dwelling claims, although progress has been slower than anticipated. Insurer results for the second quarter of 2014 indicate that private insurers are now increasing the pace of their repairs and rebuilds.

As at 30 June 2014, approximately 38,000 claims were yet to be settled. Some of these outstanding claims are complex in nature, involving shared property requiring owner agreement, increased flood or liquefaction vulnerability land claims, flood damage and retaining walls. In addition, there is a subset of homeowners who may need additional assistance with insurance-related decision-making because of their vulnerability (for example those who have been forced to shift dwellings, are living in inadequate housing, have terminal or serious illnesses, are elderly, are receiving mental health treatment, or are on low incomes).

The government has limited levers to speed up the overall rate of progress through regulatory means without adopting measures that would have a high risk of perverse incentives or outcomes for the operation of the broader insurance market, are highly interventionist towards either insurers or homeowners, or could put rebuild quality at risk. A more effective route for central government intervention is to maintain close oversight of

progress and to **use government's influence and facilitation to ensure insurers achieve and maintain the fastest possible pace**, while also monitoring for emerging barriers and opportunities to facilitate faster resolution of claims (especially those classes of claims for which progress is slowest, such as shared property).

Alongside the close monitoring of insurer progress, government can also continue its support for the Residential Advisory Service (available to all) and target specific groups of owners for direct support and assistance over and above that offered to the general population: for example, **working alongside social and health agencies and insurers to provide additional support for vulnerable owners**. CERA and the Ministry of Social Development are currently investigating a more client-centric model of service to support the most vulnerable owners in decision-making, relocation and temporary accommodation.

## Housing

In the longer term, once insurance issues are resolved, the housing rebuild appears on track, although supply is not expected to fully meet demand in the housing market until about 2017-2018. There is a sufficient supply of land for residential development. Implementation of the Land Use Recovery Plan and the current review of the Christchurch district plans are expected to create an enabling planning environment that supports the repair and rebuilding of housing and greater choice in new houses, including social and affordable housing. A range of new supply will improve affordability in the Canterbury housing market and take pressure off particular sub-markets including temporary accommodation, low cost and rental housing.

In the near future, however, there are still some shortfalls in housing supply that disproportionately affect those left most vulnerable by the earthquakes and/or their own personal circumstances. Housing New Zealand and Christchurch City Council social housing stock was significantly reduced and is still only in the early stages of rebuilding. Housing demand has increased with displaced residents seeking temporary accommodation during repairs and with the arrival of the migrant work force, and steep and sustained rent and house purchase price increases have followed. While prices are beginning to stabilise, ongoing pressure is expected from displaced residents and workers in the residential and central city rebuild.

The **maintenance of an adequate temporary housing stock** therefore remains important to both the wellbeing of the most vulnerable and the timely completion of the most complex insurance repairs and rebuilds (as these require people to vacate their homes for a time). The recent establishment of emergency housing initiatives by the Ministry of Social Development and the Ministry of Business, Innovation and Employment will provide a short-term solution for a small number of the most vulnerable, but will not be adequate to meet the wider demand. It is expected that without continuing intervention people on low incomes will continue to face an adverse housing environment in the medium term.

We will also continue to **monitor the longer-term risks that may emerge as the residential rebuild progresses**:

- Non-repair or sub-standard repair of earthquake damage (including as a result of the use of insurance cash settlement money for other purposes) may bring short-term economic benefit for the owners, but has the potential to impede repairs, affect the

overall quality Canterbury's future housing stock, insurability of dwellings or land, and occupants' health and safety.

- The potential for over-supply of housing, or development of housing stock that does not match the demand for smaller and more affordable dwellings in greater Christchurch.

## Conclusion

To maintain confidence and improve the odds of a recovery process that maximises the benefits for both greater Christchurch and New Zealand more widely, we propose the government considers the following as immediate priorities:

- Develop (in close conjunction with the strategic partners) a plan for the transition of CERA's powers, functions and work programmes which allows for the maintenance of central government oversight while building up local leadership and ownership of the recovery process
- Develop and report progress against a revised set of recovery goals, targets and timeframes, to support better governance and greater transparency
- Refresh engagement with strategic partners and build a closer governance and leadership relationship with the Christchurch City Council (which could include joint approaches to investment and/or ongoing redevelopment)
- Work with the Christchurch City Council to support it to build up its capacity and capability to deliver recovery-related functions as well as business as usual
- Support the resolution of the remaining insurance and temporary housing issues affecting residents, especially the most vulnerable.