



Cabinet

CAB Min (11) 24/15

Copy No:

Minute of Decision

This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.

Land Damage from the Canterbury Earthquakes

Portfolio: Canterbury Earthquake Recovery

On 27 June 2011, Cabinet:

Background

1 **noted** that on 20 June 2011, Cabinet:

- 1.1 noted the advice of the Minister for Canterbury Earthquake Recovery on the progress in considering Canterbury earthquake land damage and remediation issues, the situation following the aftershocks on 13 June 2011, and the proposed next steps;
- 1.2 authorised a group of Ministers, comprising the Prime Minister, Hon Bill English, Hon Gerry Brownlee, Hon Simon Power, Hon Nick Smith, Hon Anne Tolley, Hon Steven Joyce, and Hon Maurice Williamson have Power to Act to take decisions on matters relating to Canterbury earthquake land damage and remediation issues;
- 1.3 invited Minister for Canterbury Earthquake Recovery to report back to Cabinet on any decisions taken by the group of Ministers under this Power to Act;

[CAB Min (11) 23/19]

Decisions taken by group of Ministers

2 **noted** that on 22 June 2011, the ad hoc group of Ministers referred to in paragraph 1.2 above:

- 2.1 noted the varied nature of land damage across the low-lying areas in the eastern suburbs of Christchurch City and some parts of Waimakariri District, which are characterised by a combination of current land damage and future risk as result of the earthquakes;
- 2.2 noted the issues in the CBD are being progressed separately, as part of the Central City Plan;
- 2.3 noted the issues on the Port Hills are of a different nature to the low-lying areas and will be addressed in a separate paper;

- 2.4 noted that the earthquakes of 4 September 2010 and 22 February 2011 represent an incomparable natural disaster in New Zealand, and that the chances of an earthquake of magnitude between 6 and 6.9 in the region over the coming year is around 34 per cent (reducing to around 17 per cent if no aftershocks or triggering events occur in the next month);

Recovery and rebuilding objectives

- 2.5 affirmed that the government is committed to a speedy recovery for people and businesses in Christchurch;
- 2.6 noted that residents are finding the continuing earthquakes and resulting damage very difficult - especially those in the worst-affected suburbs;
- 2.7 agreed that there is a need to make urgent decisions and announcements about how the government will support the recovery process in the worst-affected suburbs;
- 2.8 agreed to the following objectives for determining where rebuilding can occur or is unlikely to be possible in the short-to-medium term:
- 2.8.1 certainty of outcome for home-owners as soon as possible;
 - 2.8.2 create confidence for people to be able to move forward with their lives;
 - 2.8.3 creating confidence in decision making processes (for home-owners, business-owners, insurers and investors);
 - 2.8.4 using the best available information on which to base decisions;
 - 2.8.5 having a simple process in order to provide clarity and support for land-owners, residents, and businesses in those areas.

Worst affected suburbs

- 2.9 noted that the worst-affected suburbs are located in the east of Christchurch City (along the Avon and in related areas, usually associated with waterways or former waterways), in the north-east of Christchurch (e.g. Brooklands) and in the beach areas of Waimakariri District (i.e. Pines and Kairaki Beach), and in Kaiapoi (both north and south of the river);
- 2.10 noted that these areas have been particularly hard hit by the continued earthquakes since 4 September 2010;

Land damage

- 2.11 noted that in some areas, land has been so badly damaged that rebuilding is unlikely to be practicable there over the short to medium term;
- 2.12 noted that a combination of increased seismic activity and the characteristics of the land mean that some parts of the worst-affected suburbs will continue to see high levels of liquefaction and flooding, and damage to essential services;
- 2.13 noted that the uncertainty this creates for people is unacceptable and is an impediment to the wider Canterbury recovery;

Key factors of land damage

2.14 noted there are two critical land-damage factors that affect the timeliness of rebuilding in the short-to-medium term (note this discussion excludes areas affected by rockfall risk, which are not addressed in the paper attached to CAB (11) 370. These factors are:

2.14.1 **Thin crust**, which:

2.14.1.1 reduces the load-bearing capacity of the land (resulting in buildings sinking);

2.14.1.2 increases the severity of liquefaction;

2.14.1.3 is both a cause and result of falls in land levels;

2.14.2 **Lateral spread** (usually occurring around waterways or over former waterways, where the land splits and slides towards the weakest point – away from built or buildable areas);

Criteria for determining where rebuilding can begin

2.15 noted that while there are many areas of Christchurch that have suffered “shaking” damage or liquefaction, it is likely that much of the land in these areas can be restored to its pre-earthquake standard;

2.16 noted that if the two key factors of land damage exist then residents in those areas are likely to face many obstacles to the **resumption** of normal residential activity and enjoyment in the short to medium term;

2.17 agreed to the following criteria for determining the areas where rebuilding is unlikely to be practicable over the short to medium term, noting boundaries of such areas need to be drawn on a sensible basis:

2.17.1 there is area-wide land damage, thereby implying some sort of area-wide solution; and

2.17.2 an engineering solution to remediate the land damage would:

2.17.2.1 **be uncertain** in terms of the detailed design, its success and its possible commencement, given the ongoing seismic activity;

2.17.2.2 **be disruptive** for landowners, as the commencement date is uncertain (both in terms of confidence in the land settling sufficiently to begin remediation and the need to sequence the many areas where remediation would be required), and the length of time they would need to be out of their homes to allow remediation to occur and new homes built;

2.17.2.3 **not be timely**: for example there is also substantial replacement of infrastructure required and/or the land level needs to be significantly lifted effectively requiring work equivalent to the development of a new subdivision, and would probably lead to significant social dislocation for those communities in the short-to-medium term;

2.17.2.4 **not be cost-effective:** on a per section basis the cost of remediation is greater than the value of the land as shown below:

| | |
|--|---|
| <p><i>The EQC contribution to the land remediation</i></p> <p style="font-size: 2em;">+</p> <p><i>The betterment cost (i.e. perimeter treatment and/or additional raising of the land)</i></p> <p style="font-size: 2em;">+</p> <p><i>Infrastructure removal and replacement costs</i></p> | |
| <p><i>If the cost of the above exceeds the value of the relevant land the area is reclassified as a Red Zone</i></p> | <p><i>If the cost of the above is less than the value of the relevant land then the area is reclassified as a Green Zone, but may require some land repair work</i></p> |

2.17.3 **the health or well-being of residents** is at risk from remaining in the area for prolonged periods;

2.18 noted that other factors such as the pre-existing risk of damage from flooding and tsunami are not included in the above criteria because these risks were known prior to the earthquakes and remain risks for all of New Zealand;

Where can rebuilding begin in the short-to-medium term?

2.19 noted the four zones of land damage mapped in Appendix A [of the paper under CAB (11) 370], based on the severity and extent of land damage, the cost-effectiveness and social impacts of land remediation;

2.20 noted that in the Green Zone there are no significant land damage issues that prevent rebuilding in these areas in the short to medium term, and that rebuilding can begin with reference to the following:

2.20.1 land damage may be present but this can be repaired on an individual basis as part of the normal insurance process;

2.20.2 insurers can continue claim settlements on repairs and rebuilds on individual properties;

2.20.3 the Department of Building and Housing (DBH) is preparing engineering guidelines for repair/rebuild of houses in these areas;

2.20.4 some properties may require specific engineering design to comply with the DBH guidelines;

2.20.5 decisions on when to commence rebuild/repairs should take account of increased seismicity and potential for significant aftershocks;

- 2.21 noted that in the Red Zone rebuilding is not likely to occur in the short to medium term due to the obstacles posed by the significant land and infrastructure damage, and the high risk of further damage to land and buildings from low-levels of shaking (e.g. aftershocks), flooding or spring tides;
- 2.22 noted that in the Orange Zone, further work is required to determine if rebuilding is likely to be possible in the short to medium term;
- 2.23 noted that the White Zone is the Port Hills and that, as the earthquakes on 13 June 2011 caused further extensive damage, mapping and assessment is underway;
- 2.24 noted that there are 5,176 Red Zone properties (with a total rating capital valuation of \$1.732 billion) and 9,770 Orange Zone properties (with a total rating capital valuation of (\$3.762 billion)¹;

Crown offer to purchase properties in the Red Zones

- 2.25 agreed that the status quo does not meet the government objectives referred to in paragraph 2.8 above;
- 2.26 agreed that the Crown make an offer to purchase insured residential Red Zone properties in order to provide the certainty, confidence and simplicity that these landowners require in the Red Zones;

Insured residential properties

- 2.27 agreed that insured residential property owners will have the choice of two offered packages:

Either

Option A

- 2.27.1 the Crown will offer to purchase the entire property at the 2007 capital value rating valuation as at 3 September 2010 (less any land and dwelling insurance payments already made). The Crown will also take an assignment of all earthquake related insurance claims. There will be a process through which any property owners who consider that there is a material discrepancy between the 2007 rating valuation and the market value of their property (e.g. because of subsequent improvements) can raise their concerns.

or

Option B

- 2.27.2 the Crown will offer to purchase the land only at the greater of the following (less any EQC land payments already made):

2.27.2.1 2007 land value rating valuation as at 3 September 2010; or

2.27.2.2 EQC valuation for the minimum lot size applicable.

¹ Figures also include non-residential properties.

- 2.27.3 the Crown will also take an assignment of the EQC land claim, and landowners will be free to pursue their private insurance company for any other insurance claims they have;
- 2.28 agreed that landowners will be able to defer acceptance of the offer up to 9 months from the date they receive the offer, with the opportunity to defer settlement up to 30 April 2013.
- 2.29 agreed that insured residential landowners will be free, if they choose, to continue negotiations with insurers in order to negotiate as high a settlement as they can;
- 2.30 agreed that insured residential landowners will be expected to maintain their insurance policies until settlement. The government will discuss with relevant local councils their approach to rates for the properties in the Red Zones;
- 2.31 noted that the infrastructure and services in these areas are unlikely to receive any more than temporary repairs;
- 2.32 agreed that the relevant councils will be asked to discuss with the Canterbury Earthquake Recovery Authority (CERA) any proposed maintenance and repair plans, for the infrastructure in these areas, or any proposed regulatory interventions for the areas;
- 2.33 noted that the following matters will need to be addressed in subsequent Cabinet decisions:
- 2.33.1 the treatment of commercial properties in the Red Zones;
- 2.33.2 a dispute resolution process that will be required to assess any market valuations, and disputes with insurers as to whether a property is a rebuild or repair;
- 2.33.3 the mechanics of a process to support people in settling their insurance claims, and rebuilding elsewhere;
- 2.33.4 the detailed transaction design, including the final date available for settlement, options to streamline conveyancing options and continuing the discussions currently underway with banks on the support they might provide for residents in the Red Zones;
- 2.33.5 a system for processing, approving and monitoring these offers by CERA and other related aspects of the transaction, and also for the disclosure of information between parties reasonably necessary for the operation of the transactions;
- 2.33.6 whether there is a need to provide additional temporary financial assistance for families in the Red Zones who need to move into rental accommodation in the short term;
- 2.34 noted that analysis is also being undertaken on likely new housing – when it will be available, its pricing, together with any barriers to bringing forward any further housing developments;

- 2.35 noted that the assessments of these zone boundaries is made on the basis of current knowledge about seismicity in the region, and may need to be revisited if the seismic factor is increased in the near future;

Financial implications

- 2.36 noted that the Crown has incurred an obligation in 2010/11 to purchase all insured residential properties in the Red Zones at a gross cost of up to \$1.7 billion;
- 2.37 noted that the assets to be purchased currently have a minimal value and that it is prudent to expense the gross cost of purchasing them;
- 2.38 noted that the Crown can recognise in 2010/11 insurance receivables relating to the purchased properties, as long as a supportable estimate of the receivables can be made;
- 2.39 noted that officials estimate the net costs of purchase in 2010/11 may range from \$485-\$635 million in 2010/11, which will decrease the core Crown operating balance;
- 2.40 agreed that the net cost of purchasing insured residential properties in the Red Zones will be a charge against the Canterbury Earthquake Recovery Fund;
- 2.41 noted that there is no further opportunity to obtain Parliamentary appropriations in 2010/11 and that the gross cost of purchase will need to be validated in the Appropriation (2010/11 Financial Review) Bill, but there is sufficient Imprest Supply remaining for 2010/11 to meet these expenses in the interim;
- 2.42 agreed that the gross costs of purchasing all insured residential properties in the Red Zones be met from Imprest Supply in 2010/11;

Announcements

- 2.43 agreed to release the four-colour maps as attached as Appendix A [to the paper under CAB (11) 370];
- 2.44 agreed to announce the offer of purchase for properties in the Red Zones;
- 2.45 agreed to the following timeframe for announcement for details of the purchase offer, and social/business support options in place:

| | |
|----------|--|
| Thursday | <ul style="list-style-type: none"> 2.45.1 the Prime Minister and Minister for Canterbury Earthquake Recovery to announce Red, Orange, Green and White Zones, and options to purchase Red Zone residential properties; 2.45.2 the government will commence outbound calls to Christchurch Red Zone homeowners to check they have heard the messages, understand the criteria applied, book them into the scheduled community meetings and discuss the support services available; |
|----------|--|

| | |
|------------------------------------|--|
| | <p>2.45.3 community meetings held in the Red Zones over the next few weeks;</p> <p>2.45.4 there will be an inbound call centre for queries;</p> <p>2.45.5 aligning messages across government, councils, EQC and private insurers call centres;</p> <p>2.45.6 website supplied by TradeMe - to enable people to look up their own properties;</p> |
| Friday onwards | <p>2.45.7 community meetings commence;</p> <p>2.45.8 pastoral care for the vulnerable from after the weekend;</p> <p>2.45.9 Temporary Housing Service to assist people to source temporary housing options;</p> <p>2.45.10 Earthquake Support Service Coordinators will work with the most vulnerable households supporting them to navigate their way through multiple agencies and coordinate services required to ensure progress towards recovery occurs;</p> <p>2.45.11 there will be meetings specifically for business owners and commercial property owners;</p> <p>2.45.12 Business Recovery Coordinators will be available and a business support line at 0800 50 50 96;</p> |
| After transaction design confirmed | <p>2.45.13 personalised letter to all Red Zone property owners outlining the package offer to purchase their land;</p> <p>2.45.14 Recovery Hubs (with insurers, EQC, sub-dividers, geotechnical experts etc) operating in the Red Zone areas;</p> <p>2.45.15 Building Expo (with property developers, building firms, banking representatives) to enable people to consider their future options and commence planning;</p> <p>2.45.16 continued conversations with each of the Red Zone communities to ensure that lines of communication remain effective, people understand the decisions being made and are able to take responsibility and plan for their future;</p> |

2.46 agreed to publicly release the paper [under CAB (11) 370] following the announcements referred to in paragraphs 2.44 and 2.45 above;

Next steps

- 2.47 noted the mechanics of how the above decisions will be implemented and the details of offers to landowners needs to be determined;
- 2.48 noted that subsequent decisions will be required on the treatment of commercial properties, and uninsured properties (including vacant lots) in the Red Zone;
- 2.49 agreed that these, and further related decisions, are not subject to the usual Cabinet processes for capital investment proposals, and that CERA and Treasury will work together to ensure appropriate risk management processes are in place;
- 2.50 invited the Minister for Canterbury Earthquake Recovery to provide a report to Cabinet detailing next steps referred to in paragraphs 2.47 and 2.48 above.