



Cabinet

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Minute of Decision

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Decisions on Canterbury Earthquake Kaiapoi Orange Zone

Portfolio: Canterbury Earthquake Recovery

On 15 August 2011, Cabinet:

Background

- 1 **noted** that on 23 June 2011, the Prime Minister and the Minister for Canterbury Earthquake Recovery announced four land damage zones for greater Christchurch and an offer of purchase for insured residential properties in the Red Zones;
- 2 **noted** that in these announcements, Kairaki was made a Red Zone and the following areas of Waimakariri District became Orange Zones: parts of Kaiapoi North, Kaiapoi South – Courtney Drive, Kaiapoi West, Pines Beach and a small area in Kaiapoi Lakes;
- 3 **noted** that some areas in Kaiapoi West and Kaiapoi Lakes (and the remaining Christchurch Orange Zones) will be assessed in subsequent papers, and remain Orange in the interim;
- 4 **noted** that land remediation works post the 4 September 2010 earthquake for Kaiapoi North Bank, South and West have been put on hold by Waimakariri District Council pending decisions on the reclassification of the Kaiapoi Orange Zone;

Land Assessment Criteria

- 5 **noted** that the criteria for determining the 23 June Red Zones were [CAB Min (11) 24/15]:
 - 5.1 there is area-wide land damage, thereby implying some sort of area-wide solution; and
 - 5.2 an engineering solution to remediate the land damage would:
 - 5.2.1 be uncertain in terms of the detailed design, its success and its possible commencement, given the ongoing seismic activity;
 - 5.2.2 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;

- 5.2.3 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;
- 5.2.4 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>+</p> <p><i>The betterment cost (i.e. perimeter treatment and/or additional raising of the land)</i></p> <p>+</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>

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

6 **noted** that the Orange Zones require a more detailed assessment than the 23 June 2011 Red Zones because the assessment that the land is not suitable for rebuilding over the short to medium term may not be as clear cut;

7 **rescinded** the previous equation for determining the cost-effectiveness of land remediation referred to in paragraph 5.2.4;

8 **agreed** to a new methodology for determining the cost-effectiveness of land remediation solutions as follows:

8.1 not be cost-effective: the cost of remediation is greater than the value of the land as shown below:

<p><i>Land reinstatement to pre-September condition</i></p> <p>+</p> <p><i>The betterment cost (i.e. perimeter treatment and/or additional raising of the land)</i></p> <p>+</p> <p><i>Infrastructure replacement¹</i></p> <p>-</p> <p><i>Decommissioning costs (infrastructure decommissioning and grassing)</i></p>	
<p><i>If the cost of the above exceeds the improvement in the value of the damaged land², remediation is not cost-effective</i></p>	<p><i>If the cost of the above is less than the improvement in the value of the damaged land, remediation may be cost-effective</i></p>

¹ Includes the infrastructure within the Orange Zones required to service the sub-zone area of interest (and excludes the cost to repair infrastructure required to service surrounding Green Zones)

² Despite the recent earthquake events, properties are likely to have some land value left. We assume there is 10% of the land value remaining in the properties, as indicated by the Valuer General.

Assessment of Kaiapoi Orange Zones

- 9 **noted** that areas of the Kaiapoi Orange Zones were divided into sub-zones to assess possible land remediation engineering solutions (refer to the map attached to this minute as Appendix A);
- 10 **noted** that land in the northern part of Kaiapoi North (refer area A of the map attached at Appendix A) is cost-effective to remediate and can be repaired via the usual individual EQC/insurance process and does not meet the criteria for Red Zoning;
- 11 **agreed** that the northern part of Kaiapoi North (area A) be rezoned Green;
- 12 **noted** that the post-remediation land value, as a proportion of the rateable land value (LV), in place at 3 September 2010 that would be required to make land remediation cost-effective in the sub-zones is:

Area	Map reference (refer Appendix A)	Post-remediation land value required for cost-effectiveness (%LV) ³	Upper estimate assuming 25% increase in costs ⁴	Is remediation cost effective?	Number of residential properties
Southern part of Kaiapoi North	B	120%	145%	No	578
Kaiapoi South - Bowler Street south - river side only	C	325%	405%	No	22
Kaiapoi South - Raven Quay and Charters Street	D	85%	100%	No (although this is less clear-cut, this would require perimeter treatment and there is uncertainty about the costs)	103
Kaiapoi South - Courtenay Drive	E	105%	125%	No	130
Kaiapoi West (F)	F	190%	235%	No	32
Pines Beach	I	140%	170%	No	78
					943

- 13 **noted** it is not considered cost-effective to remediate the land in the areas referred to in the table in paragraph 12;
- 14 **noted** that area-wide land remediation in the above areas B-F and I would also be disruptive and uncertain and therefore meet the criteria for Red zoning;

³ Rounded to the nearest 5%.

⁴ Cost increase in physical works may be expected due to cost inflation and unforeseen design costs.

- 15 **agreed** that areas *B-F* and *I* referred to in the table in paragraph 12 be rezoned Red;
- 16 **noted** that areas *G* and *H* in Kaiapoi West require further analysis and will remain Orange in the interim;

Land remediation works previously agreed for Kaiapoi

- 17 **agreed** that the most significant of the land remediation works previously agreed for Kaiapoi should no longer proceed in light of the decisions above;
- 18 **[Withheld under section 9(2)(f)(iv) of the Official Information Act]**

Crown offer to purchase properties in the Red Zone

- 19 **agreed** to extend the government offer to purchase to insured residential property owners in the new Red Zones in Kaiapoi and Pines Beach agreed to in paragraph 15 (refer to the map attached to this minute as Appendix B);
- 20 **noted** that no decisions have been made on vacant residential lots or part builds, uninsured residential properties, or non-residential properties (including Crown and related land) and consideration to these property owners will be considered over time; but that council-owned residential properties covered by EQC will receive the Crown offer;

Rating Valuation

- 21 **noted** that the most recent valuations for Waimakariri District were made in 2008;
- 22 **agreed** that the 2008 rating valuations will be the basis for the offers in Waimakariri District (including Kairaki Red Zone from 23 June), as these were the valuations that were in force immediately preceding the 4 September 2010 earthquake;

Crown contribution to legal fees

- 23 **noted** that in July 2011, Cabinet agreed to fund 50% of the legal fees to a maximum of \$750 for those insured residential property owners who accept the Crown's Option 1, and a maximum of \$500 for those who accept Option 2 [CAB Min (11) 27/13];
- 24 **agreed** that the offer in paragraph 23 be extended to the new Kaiapoi and Pines Beach Red Zones;

Process for the offers

- 25 **agreed** that property owners have 9 months to make a decision on the government's purchase offer;
- 26 **agreed** that the final settlement date for accepted offers should remain at 30 April 2013;
- 27 **noted** that the Minister for Canterbury Earthquake Recovery will discuss the appropriate phasing of settlement dates with Waimakariri District Council;

Land availability

- 28 **noted** that in light of the possibility of some degree of Red-Zoning, the Waimakariri District Council is actively considering what would be necessary to hasten a number of Kaiapoi catchment development areas at various stages in the planning process;

Financial Decisions

29 **noted** that the gross cost of purchasing properties in the new Kaiapoi and Pines Beach Red Zones is estimated to be \$149.466 million;

30 **noted** that the Crown can recognise insurance receivables relating to the purchased properties;

31 **[Withheld under section 9(2)(g)(i) of the Official Information Act]**

32 **agreed** that the net cost of purchasing insured residential properties in the new Kaiapoi and Pines Beach Red Zones will be a charge against the Canterbury Earthquake Recovery Fund;

33 **agreed** to establish a new Non-Departmental Other Expense appropriation “Acquisition of Canterbury Red Zone properties”;

34 **agreed** that the scope of the new appropriation in recommendation 33 be “This appropriation is limited to the acquisition of Red Zone properties in Canterbury”;

35 **approved** the following changes to appropriations to provide for the purchase of insured residential Red Zone properties in paragraph 15, with a corresponding impact on the operating balance:

Vote Canterbury Earthquake Recovery Minister for Canterbury Earthquake Recovery	\$m – increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16 & Outyears
Non-Departmental Other Expense: Acquisition of Canterbury red zone properties	99.644	49.822	-	-	-

36 **noted** that the cost of providing a contribution towards legal fees to property owners in the new Kaiapoi and Pines Beach Red Zones is estimated to be \$0.707 million;

37 **agreed** to charge the costs of contributions toward legal fees against the Canterbury Earthquake Recovery Fund;

38 **agreed** to the following changes to appropriations to provide for contributions towards legal fees incurred by property owners in the new Kaiapoi and Pines Beach Red Zones, with a corresponding impact on the operating balance:

Vote Canterbury Earthquake Recovery Minister for Canterbury Earthquake Recovery	\$m – increase/(decrease)				
	2011/12	2012/13	2013/14	2014/15	2015/16 & Outyears
Non-Departmental Other Expense: Contributions towards legal fees	0.471	0.236	-	-	-

39 **[Withheld under section 9(2)(f)(iv) of the Official Information Act]**

40 **noted** that land management costs of purchased properties will be addressed in a subsequent paper;

Publicity

- 41 **noted** that the Minister for Canterbury Earthquake Recovery intends to make an announcement on the re-zoning for the Kaiapoi and Pines Beach Orange Zones in the week of 15 August 2011, with LandCheck updated at the same time;
- 42 **agreed** that a letter of advice be sent to all Kaiapoi residential property owners in the areas identified in paragraphs 11, 15 and 16 to inform them of their land status, and formal letters of offer be sent to landowners in the new Kaiapoi and Pines Beach Red Zones progressively from mid September 2011;

Power to Act

- 43 **authorised** the Minister of Finance and the Minister of Canterbury Earthquake Recovery to have Power to Act on minor policy, technical and communications issues in relation to the transaction design and letters of offer to Red Zone residents in Kaiapoi and Pines Beach.