

The Treasury

Budget 2017 Information Release

Release Document July 2017

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[1]	to prevent prejudice to the security or defence of New Zealand or the international relations of the government	6(a)
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[38]	to enable the Crown to negotiate without disadvantage or prejudice	9(2)(j)
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[40]	Not in scope	

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.



THE TREASURY

Kaitohutohu Kaupapa Rawa

Reference: T2017/946

CM-1-3-112

Date: 10 April 2017

To: Minister of Finance
(Hon Steven Joyce)

Minister supporting Greater Christchurch Regeneration
(Hon Gerry Brownlee)

Deadline: 10:30am Wednesday 12 April
(if any)

Aide Memoire: Talking Points for Cabinet - Capital requirements for Southern Response

This Aide Memoire provides you with talking points for the joint paper (Technical Initiative - Capital requirement for Southern Response) that you are taking to EGI on Wednesday 12 April. The paper is a technical bid in Budget 2017. Note that it was taken out of the Technical Package which was considered at Cabinet on Monday 10 April.

Main points

- This is a technical bid for \$250 million so that Southern Response will have access to sufficient Crown funding to settle the remaining claims of AMI policyholders in Christchurch.

[25], [37]

- The key factors lifting the valuation since the company's capital requirements were last assessed (in March 2016) are:
 - increases in the ultimate number of overcap properties coming from EQC,
 - increases in repair costs because of evolving technical requirements, including foundations (i.e. increasing complexity of remaining claims), and
 - inclusion of professional fees and contingencies in cash settlements post the Avonside Supreme Court case in 2015.

- To address the first factor, Southern Response and EQC are working together to clarify how many claims are going to go over the EQC cap and therefore transfer to Southern Response in the future. This joint project should be finished by the end of the current financial year.
- Based on the company's December forecasts, Southern Response will use up the funding currently available to it from the Crown in March 2018.
- We need to provide more money to Southern Response now as Southern Response's directors have a duty under the Companies Act to not operate the company while it is insolvent. In continuing to operate Southern Response is relying on public statements by the former Prime Minister (in 2016) and the former Minister of Finance (in May 2015) that the Crown will stand behind the company.

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Questions you might be asked

What will happen if we don't approve this bid?

[25], [37], [38]

[25], [37], [38]

Why is this a technical bid?

This is a technical bid because the Government has already made the policy decision to provide support for Southern Response to settle all the claims of AMI policyholders in Christchurch.

How many claims have they settled?

Southern Response has settled 6,648 claims as of December 2016 (see table on page 2 of the Cabinet paper). In the 9 months to 31 March 2017 Southern Response has settled 48% of the overcap claims that remained unsettled on its books at 1 July 2016.

How much have we spent on Southern Response in total?

The Crown has provided total support of \$1.25 billion including money the company hasn't used yet. These appropriations will increase that sum to \$1.5 billion.

Why are there so many more claims coming from EQC?

It has taken a long time for EQC to assess whether claims are over or under the EQC cap. This is due to the complexities of rebuilding and repairing houses in Christchurch, as well as the pure volume of claims. Therefore, it has been difficult for EQC and Southern Response (and private insurers) to accurately forecast how many claims will go overcap. To address this issue EQC has formed joint review teams with Southern Response and private insurers to gain clarity over which claims can be expected to go overcap. The arrangements between EQC and Southern Response are more advanced than with other insurers but more work is required to determine likely final overcap numbers.

EQC and Southern Response are also working hard to lift the pace of settlements. An MOU based on the Kaikōura MOU is being prepared which will enable Southern Response to pick up earlier responsibility for claims and for both Southern Response and EQC to manage claims for each other where most appropriate.

Why are the remaining claims more expensive?

In general, more straightforward claims have been settled already. That leaves the more costly and complex claims. These claims are more costly and complex because of the following mix of issues (which are also faced by private insurers):

- geotechnical issues with construction and demolition in the hills and on poorer quality land,
- construction compliance costs,
- professional and contingency fees included post a Supreme Court case in 2015,
- disputes with policyholders,
- policyholders who are not as capable of dealing with the demands of organising settlement

What happens if they don't need all the money to settle the remaining claims?

If Southern Response doesn't spend all of the money appropriated it will stay with the Crown and can be applied to other purposes once it is clear it is no longer needed by Southern Response.

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