

The Treasury

Budget 2014 Information Release

Release Document

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

Treasury Report: Canterbury Earthquake Fiscal Update May 2014

Date:	26 May 2014	Report No:	T2014/865
		File Number:	DH-50-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note that the total estimated Crown net cost of the Canterbury earthquakes is now \$15.4 billion Refer a copy of this report to the Minister for Canterbury Earthquake Recovery	None
Associate Minister of Finance (Hon Steven Joyce)	Note contents	None
Associate Minister of Finance Hon Dr Jonathan Coleman	Note contents	None

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Louise Lennard	Senior Analyst	[3] (wk)	[3] (mob) ✓
Tom Hall	Manager - Earthquake Coordination	[3] (wk)	[3] (mob)

Actions for the Minister's Office Staff (if required)

If **agreed**, provide a copy of the report to the Minister for Canterbury Earthquake Recovery.

Enclosure: Yes (Canterbury Earthquake Recovery risks May 2014 (Treasury:2702369v9))

Treasury Report: Canterbury Earthquake Fiscal Update May 2014

Purpose of Report

1. In October 2013 [T2013/2578 refers] we under took to report to you with an update in May taking into account Budget policy decisions. This report updates you on the fiscal cost of the Canterbury rebuild and explains movements since the 2013 Half-Year Economic and Fiscal Update (2013 Half Year Update). The numbers in this report are included in the 2014 Budget Economic and Fiscal Update.

Summary

2. The key messages on the cost of the Canterbury earthquake recovery are:
 - The total estimated Crown net cost to the end of the forecast period is **\$15.4 billion**, including all departmental, direct Crown (e.g. land purchases), SOE and Crown entity costs. This is **\$0.5 billion** higher than at the 2013 Half Year Update. Core Crown Canterbury Earthquake Recovery costs (excluding EQC, SOE and other Crown entity costs funded within their balance sheet) increase from \$6.8 billion to \$7.6 billion.
 - The overall increase of \$0.5 billion largely reflects increases in Crown asset and central city rebuild costs offset by lower expected EQC net costs.
 - Cabinet agreed [CAB Min (14) 6/2] that the Budget 2013 tagged contingencies for central city anchor projects will remain until final decisions are taken.
3. The key emerging risks result from the financial position of the Christchurch City Council (the Council). There are fiscal risks in the cost of horizontal infrastructure, anchor projects and dealing with flooding. All of these risks potentially involve additional costs to the Council. If the Council is not in a financial position to cover these costs, then there is an additional risk for the Crown, which we reported to you on 14 May 2014 (T2014/876).

Cost of the Canterbury Earthquakes and Rebuild

4. The figures presented in this report are consistent with the fiscal forecasts presented in Budget 14 and the breakdown of expenses for individual votes.

Total Crown net cost

5. The total estimated Crown net cost of the Canterbury rebuild has increased from \$14.9 billion at the time of the 2013 Half Year Update to **\$15.4 billion** for Budget 2014. This is an increase of **\$0.5 billion** since we last reported to you in December. See the table below for a breakdown of the costs by category.

Year ending 30 June \$millions	2011-13 Actual	2014 Forecast	2015 Forecast	2016 Forecast	2017 Forecast	2018 Forecast	Total Budget Update	Total Half Year Update
Local infrastructure	1,364	101	150	113	50	50	1,828	1,828
Crown assets ¹	40	214	586	420	456	280	1,996	1,475
Land zoning	912	(22)	-	92	52	-	1,034	1,034
Christchurch central city rebuild ²	115	456	294	135	48	(18)	1,030	909
Welfare support	269	19	9	4	3	2	306	292
Southern Response support package	458	67	(72)	(23)	(13)	(2)	415	360
Other costs	508	128	154	120	55	32	997	975
Core Crown Canterbury earthquake recovery costs	3,666	963	1,121	861	651	344	7,606	6,873
EQC (net of reinsurance proceeds)	8,026	(412)	(198)	(125)	-	-	7,291	7,528
Other SOE and Ces	(217)	25	247	283	127	41	506	507
Total Crown	11,475	576	1,170	1,019	778	385	15,403	14,908

Notes: 1. Crown assets includes capital expenditure on Canterbury hospitals, schools, Tertiary Education Institutions, housing and the Justice and Emergency Services Precinct.

2. Central city rebuild costs include land acquisition and are net of expected recoveries.

6. The key changes to the total estimated Crown net costs since 2013 Half Year Update are:

- expenditure on Crown assets (capital) has increased by \$521 million largely as a result of:
 - revised estimates of expenditure on schools (Greater Christchurch Education Renewal Programme) in Canterbury (\$384 million);
 - the new contingency for the Christchurch Housing Accord (\$75 million); and
 - updated estimates for the new Canterbury hospitals (\$51 million).
- an increase of \$121 million for Christchurch central city rebuild costs (operating expenses) reflecting:
 - the increases for specific anchor projects (earthquake memorial, Stadium business case, [7])
 - impairment of buildings purchased with land in the East Frame; and
 - [7]
- an increase in the Southern Response support package of \$55 million following an updated actuarial valuation and revised fiscal forecasts.
- lower EQC impacts of \$237 million following an updated actuarial valuation of its liability as at 31 December 2013.

Core Crown net cost

7. Core Crown Canterbury earthquake recovery costs have increased from \$6.9 billion to \$7.6 billion. This is higher than 2013 Half Year Update due to increases in Crown assets and Christchurch central city rebuild. This is \$2.6 billion more than the \$5.5 billion Canterbury Earthquake Recovery Fund the Government announced in 2011.

Anchor Projects

8. The anchor projects continue to progress through the business-case process. In the last six months you have received reports on the South Frame and East Frame Housing. You have asked for further information on the East Frame to inform your decision making. We are working with CERA to respond to your request. You can expect to receive a report on the convention centre and implementing *An Accessible City* in the next two months, and possibly on the Metro Sports Facility.
9. Full Government funding has been appropriated for the following anchor projects:
 - Avon River Precinct
 - City Frame [7]
 - Phase one of Implementing the Accessible City chapter of the Recovery strategy
 - Bus Interchange
 - Earthquake memorial
10. Partial Government funding has been appropriated for the:
 - Convention Centre;
 - Metro Sports Facility; and
 - Christchurch Stadium.

With the exception of the Christchurch Stadium, the partially appropriated anchor projects have additional tagged contingency funding (based on early cost estimates) set aside for them, pending business cases being fully developed and considered. In February 2014, Cabinet agreed to retain the anchor project contingencies established in Budget 2013 until approval of the final business cases [CAB Min(14) 6/2].

11. If CERA and the Council are unable to secure private sector and community sources for funding the “yet to be determined” in the Cost Sharing Agreement, then the total cost of the anchor projects could rise. The “yet to be determined” project funding includes:
 - \$34 million for the Metro Sports Facility;
 - Unspecified figures for the Performing Arts Precinct; and
 - \$10 million non-commercial (philanthropic) for the Central Library.

Risks

12. The total net cost to the Crown of the Canterbury earthquake recovery (to the end of the forecast period) is currently estimated at \$15.4 billion. There is some variation around this figure, but as better information becomes available, the total cost will become more stable. The potential variation is in the hundreds of millions – excluding the potential impact of responding to flooding in Canterbury.
13. The following specific fiscal risks were disclosed in the Budget:
 - Residential Red Zone;
 - Christchurch Central Recovery Plan
 - Christchurch City Council/Crown Cost Sharing

- Southern Response Earthquake Services Support, and
 - EQC.
14. Emerging fiscal risks are:
- cost of horizontal infrastructure given the independent review due by 1 December 2014;
 - increased flood risk in Christchurch and the potential for the Council to seek Crown assistance; and
 - financial position of the Council as set out in the KordaMentha Report released by the Council in May 2014.
15. See Annex A for more information on the earthquake related risks in Canterbury.

Next Steps

16. We will report to you if there is a significant change in the total cost of the Canterbury earthquakes coming out of the end of year financial accounts. Otherwise, we will report to you after the next baseline update (October Baseline Update).

Recommended Action

17. We recommend that you:
- a **note** that, based on the March baseline update information and budget decision making, the **total** net cost to the Crown of the Canterbury earthquake recovery is estimated to **\$15.4 billion**
 - b **note** that core Crown earthquake recovery costs (excluding EQC, SOE and other Crown entity costs funded from their balance sheet) has increased from \$6.9 billion at 2013 Half Year Update to \$7.6 billion at Budget 2014 which is significantly above the \$5.5 billion Canterbury Earthquake Recovery Fund announced in 2011
 - c **refer** a copy of this report to the Minister for Canterbury Earthquake Recovery.

Refer/not referred.

Tom Hall
Manager - Earthquake Coordination

Hon Bill English
Minister of Finance

ANNEX A: FISCAL RISKS: CANTERBURY EARTHQUAKE RECOVERY

Updated: 21 May 2014

Recovery estimate: \$15.4 billion included in Government fiscal forecasts

New policy risks: Not in the Budget 2014 fiscal forecasts			
Policy Project	Responsible agency	Decision timing	Fiscal Impact
<p><i>Anchor project and policy risks</i></p>			

[7, 11]

[7, 10, 11]

Estimation risks for items included in the Budget 2014 fiscal forecasts				
Project	Responsible agency	Timing	Estimated Crown recoveries (incl in forecasts)	Estimation risk
<i>Anchor project cost estimation risks</i>				
				[7, 10, 11]
<i>Anchor project revenue estimation risks</i>				
				[7, 10, 11]