

The Treasury

Material Provided to the Public Inquiry into EQC Information Release

August 2021

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Key to sections of the Act under which information has been withheld:

- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [25] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [31] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting collective and individual ministerial responsibility
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Date: 10 March 2011

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To: Minister of Finance
Minister for Canterbury Recovery

AIDE-MEMOIRE: EQC LAND REMEDIATION

EQC has provided (or will shortly provide) an update to Ministers on indicative property damage figures from the February earthquake, and highly indicative estimates of the costs to the Crown of “clearing” suburbs in Christchurch that have been most affected by land damage. This note identifies when further work will be completed.

Ministers will need to decide **how soon to make a decision** on the future of the affected suburbs in Christchurch.

- a. **A full geotech assessment of the affected suburbs will take months to complete.** If Government waits this long, it will have higher certainty about costs. But a longer delay means greater uncertainty and economic disruption. Ministers will face pressure to decide before either fiscal or economic costs are known with certainty. This requires a judgement about the level of information Ministers feel they need to have to justify their decisions.
- b. **EQC’s reinsurers will expect a thorough assessment process.** This will take some time. If decisions are made quickly and EQC cannot fulfil its contractual obligations regarding assessment of damaged property, reinsurance will not be forthcoming. This will greatly increase the direct costs to the Crown.
- c. **Temporary housing can offer a breathing space.** Establishing a decent standard of temporary housing for affected landowners will defuse some of the pressure to make a rapid decision on the extent of land remediation.
- d. **Land remediation decisions will largely prejudge the outcomes of the Recovery Plan process.** Investment in infrastructure and public services will largely depend on the extent to which the eastern suburbs are rebuilt or abandoned.

Further to a request by the Minister for Canterbury Recovery on indicative costs in heavily damaged suburbs, Treasury:

- is pulling together a consolidated picture of infrastructure damage across all sectors. This relies on the provision of damage estimate information from third parties such as the Department of Internal Affairs and Christchurch City Council. We hope to have an early picture by the start of next week which we can overlay on the land damage assessment undertaken by Tonkin and Taylor. Depending on the information we receive, we will provide this in narrative form or as additional marks up on the T&T map;
- is developing a framework to assess the macro and fiscal impact of the earthquake. This will provide an initial high level summary of the impact of the earthquake, based on feedback from vote teams, departments and agencies. While we will be able to provide the assumptions underpinning our estimates we

expect confidence levels to remain extremely low given the uncertainty of information.

- subject to the provision of the above information, will report back to you by Wednesday 16 March 2011 on the above products;
- we have also started thinking about a decision making tree to map the choices and steps regarding remediation of land in liquefaction affected areas of the city;

Cost estimates

'Clearing' the affected suburbs

EQC's note to Ministers stated that in order to 'clear' and payout on all of the properties in Zone C, the cost to the Crown, including EQC's portion of the house value, would be approximately \$2.6 billion.

This figure includes \$1.1 billion as an estimate of EQC's payouts for damaged houses in Zone C. EQC will need to make these payments regardless of what happens to the affected suburbs – therefore they are not an additional cost if the Government were to choose to 'clear' the suburbs (unless EQC's reinsurers declined to cover these costs, e.g. because EQC's assessments of the affected properties could not be completed to the reinsurers satisfaction).

This leaves \$1.5 billion, which is EQC's estimate of what the Crown would need to pay out to buy the affected land. This figure is calculated as approximately 10,000 properties times the estimated land value of around \$150,000. As EQC state, there is a significant margin for error around this estimate.

EQC's note states that this does not include other costs that would be borne by the Crown, such as for infrastructure repair, replacement or removal. We currently don't have any estimates for these costs, but as noted above are working on producing them.

Remediation

An alternative to 'clearing' affected suburbs is remediating the land to a higher standard. The Government has already allocated \$140 million to remediate land in Christchurch that was damaged in the September earthquake.

EQC's very indicative, high level estimates suggest that between 6 and 12 times as many properties have been significantly affected by liquefaction in the February earthquake:

	September 2010	February 2011	Ratio February to September
Properties in Zones B and C with damage > \$100k	2,970	12,000 to 25,000	4 to 8 times
Properties that require rebuilding	1,010	6,000 to 12,500	6 to 12.5 times

Using a crude scaling-up of the \$140 million figure from the September quake suggests that to remediate all the land damaged in the February quake might cost between \$400 million and \$1.7 billion. However this obviously does not make any allowance for the feasibility (or otherwise) of performing the remediation for the much wider area of land affected by February's earthquake.

Comment

EQC's figure of \$1.5 billion is for 'clearing' all affected suburbs (although it does exclude some potentially significant costs). In reality decisions will need to be made on a suburb by suburb basis. For some suburbs the better option may be to go ahead with the land remediation to a higher standard, if this (plus the costs of replacing damaged infrastructure) would cost significantly less than purchasing all of the affected land (plus the costs of building new infrastructure in the replacement suburbs).

This suburb-by-suburb assessment won't be possible until the detailed geotech assessments and the assessments of infrastructure damage are available, some months from now.

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