

The Treasury

Material Provided to the Public Inquiry into EQC Information Release

August 2021

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- [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
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- [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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Treasury Report: Briefing for Canterbury Earthquake Recovery
Committee, Monday 10 December 2012

| | | | |
|--------------|-----------------|-------------------|------------|
| Date: | 7 December 2012 | Report No: | T2012/3208 |
|--------------|-----------------|-------------------|------------|

Action Sought

| | Action Sought | Deadline |
|--|----------------------------------|-------------------------------------|
| Minister of Finance (Hon Bill English) | Read prior to CER meeting | 6.00 pm, Monday 10 December 2012 |
| Associate Minister of Finance (Hon Steven Joyce) | Read prior to CER meeting | 6.00 pm, Monday 10 December 2012 |
| Associate Minister of Finance (Dr Jonathan Coleman) | Read prior to CER meeting | 6.00 pm, Monday 10 December 2012 |

Contact for Telephone Discussion (if required)

| Name | Position | Telephone | 1st Contact |
|-------------|--------------------------------------|------------------|--------------------|
| Tom Hall | Manager - Earthquake Coordination | [39] | [23] ✓ |

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

None.

Enclosure: No.

Treasury Report: Briefing for Canterbury Earthquake Recovery Committee, Monday 10 December 2012

Executive Summary

We are currently aware of four items on the Canterbury Earthquake Recovery Committee agenda for Monday 10 December 2012. The table below identifies fiscal impacts and provides Treasury's comments on two of these. The remaining papers that we are aware of, for which Treasury has no briefing or comment, are listed below the table with brief comments for completeness.

| Title | Pg | Recommend | Fiscal Implications (\$m GST excl.) | | | | | Treasury Comment |
|---|----|---|-------------------------------------|-------|-------|-------|-----------|--|
| | | | 12/13 | 13/14 | 14/15 | 15/16 | Out years | |
| Residential Building Damage Apportionment and Earthquake events without a claim | 4 | Support | <i>Operating</i> | | | | | The request is for a \$16.6 million appropriation to fund EQC claimants who have had damage apportioned to an event for which they have not made a claim. The appropriation is to be funded from the Between Budget Contingency. |
| | | | 16.600 | - | - | - | - | |
| | | | <i>Capital</i> | | | | | |
| Christchurch Justice and Emergency Services Precinct | 5 | Support Treasury's alternate recommendations | <i>Operating</i> | | | | | We recommend that decisions on the Precinct are taken as part of the Budget so that this initiative can be considered against other priorities. We also recommend that a PPP is the preferred procurement approach should Ministers agree to the Precinct. |
| | | | - | - | - | - | - | |
| | | | <i>Capital</i> | | | | | |
| | | | - | - | - | - | - | |

- **Christchurch Central City Retail Precinct (Canterbury Earthquake Recovery) (No report required)**

Treasury has not seen a final version of this paper. The draft we have reviewed is a noting paper only, describing progress in planning and investor interest in the retail precinct in the City Centre. Good progress on both fronts is reported. A further update will be provided in March 2013.

- **Delegation to Joint Ministers to make Decisions on the Port Hills Zoning Review (Canterbury Earthquake Recovery) (No report required)**

This paper proposes extending to 28 February 2013 the Power to Act, which expired on 31 October 2012, to you, the Minister for Canterbury earthquake Recovery and the associated Minister of Finance (Mr Joyce) to make outstanding decisions on Port Hills Zoning. The need for this arose from delays in the process of reviewing appeals of earlier zoning decisions. Treasury supports the recommendations of the paper.

Recommended Action

We recommend that you read this report prior to the Canterbury Earthquake Recovery Committee meeting at 6.00 p.m. on Monday 10 December 2012.

Tom Hall
Manager - Earthquake Coordination

Hon Bill English
Minister of Finance

RESIDENTIAL BUILDING DAMAGE APPORTIONMENT AND EARTHQUAKE EVENTS WITHOUT A CLAIM

Responsible Person: John Park, Manager, Deposit Guarantee Schemes, ^[39]

First Contact Person: Thomas Quirk, Analyst, Deposit Guarantee Schemes, ^[39]

Purpose

1. The Minister Responsible for the Earthquake Commission is seeking Cabinet approval for a \$16.6 million appropriation (funded from the Between Budget Contingency) to fund and help resolve the issue of the Earthquake Commission's (EQC) inability to pay for damage to insured property where no claim has been made for the specific earthquake event that the EQC apportionment process indicates was a cause of damage.
2. For example, a person who only made damage claims for two events from the Canterbury earthquakes, but where EQC consider that five events actually did damage (via apportionment), will currently not have their damage fully repaired or reinstated.

Comment

3. This paper was drafted by the EQC and the Treasury.
4. On balance we support funding apportioned but unclaimed damage because of the difficult and confused environment after events in Canterbury, potential inequalities, risks around negative public reactions, and risks around derailing EQC's apportionment process.
5. T2012/3079 discusses the arguments supporting this paper's proposal in detail.

Financial Implications

6. An appropriation of \$16.6m will be set up to fund this damage and it will be charged against the Between Budget Contingency. The Between Budget Contingency is already reflected in forecasts. Joint Ministers will be able to increase the appropriation to \$30 million without seeking Cabinet agreement, given the uncertain nature of the cost estimate.

Other Comments – Delaying a decision will likely have a cost

7. We recommend that Cabinet make a decision on this issue promptly. Delaying a decision will likely:
 - extend uncertainty for impacted claimants and the EQC and potentially result in increased complaints, including the possibility of media comment - it will not be until late January until cabinet can consider this decision again, and
 - negatively impact on EQC's operations and the rebuild should insurers seek to re-open consideration of overcap claims because of concerns over the statistical apportionment process.

Treasury Recommendation

8. We recommend that you **support** the recommendations in this paper.

CHRISTCHURCH JUSTICE AND EMERGENCY SERVICES PRECINCT

Responsible Person: Oliver Valins, Manager Justice and Security Team [39]

First Contact Person: Kirsty Hutchison, Team Leader [39]

Purpose

1. The paper reports back on the preferred service delivery option for the rebuilding of Justice and Emergency services in Christchurch.
2. It seeks approval for a single-site precinct (subject to funding being approved in Budget 13) and invites Cabinet to decide whether the precinct should be procured through a design, build, finance, maintain public-private partnership (PPP) or a Crown-led design, build, operate procurement approach (DBO).

Comment

Service delivery option: Precinct

3. The Precinct has the potential to deliver significant benefits including productivity gains from co-locating agencies (estimated at around \$10 million per year); improved economic and social outcomes from more collaborative service delivery; and strong alignment with the Christchurch Central Recovery Plan.
4. Achieving the economic and social benefits in particular will require changes to business processes, technology, people and culture. The extent of the collaborative opportunities and the detailed work on what this means for agency operating models has not been done. This concern was raised by the Gateway Review at the IBC stage (in the context of clarifying project scope) and has now been reiterated by Ernst & Young in the Independent Quality Assurance of the Detailed [Interim] Business Case.
5. While the tight timeframes for completing the DBC have made it harder to complete this work, the IQA also identified that agency executive leadership teams have had limited involvement with the project and that this has weakened the mandate to consider significant changes to operating models. In our view this raises the risk that agencies are not sufficiently committed to a more collaborative service model.
6. The Precinct could be a “nice to do” and potentially could be “a very good thing to do”, but the lack of detailed work on the changes to agency operating models means that we do not know whether it will deliver the social and economic benefits that are necessary to ensure it represents good value for the Crown.
7. As any new funding for the Precinct will be a call on the operating and capital allowances in Budget 13, it is desirable that decisions on it are taken as part of the Budget so that this initiative can be considered against other competing priorities. This view is reflected in the Treasury comment in the paper. Consistent with this we recommend that you note your expectation that public announcements on the Precinct are deferred until Budget Ministers have made final decisions.

Timelines for in-service date and preferred procurement option

8. The Cabinet paper states that a DBO could deliver the Precinct by mid-2017. This depends on getting early site access (around 9 months earlier than CERA has previously indicated is possible) and there are significant risks associated with

achieving early delivery. Timelines are important in the context of the Canterbury Recovery but this should not impede the Government taking good decisions.

9. While *in theory* a DBO could deliver the Precinct more quickly because it allows parallel tracing of design and construction, this approach increases the risks that design changes are made during the construction phase which will increase the time to build and increase the costs. This risk is particularly high for the Precinct given that nine agencies are involved. While the situation is not directly comparable, the Supreme Court building (final costs increased by 400% to \$80 million from the initial cost estimate of \$20 million) is an example of how the costs of a DBO approach can escalate as design requirements change.
10. If Ministers decide to proceed with the Precinct, the Treasury considers that a PPP is a better procurement choice than a DBO because:
 - it provides more price certainty for taxpayers through a more accurate and transparent assessment of whole-of-life asset costs and competitive tension;
 - it provides more time certainty around the delivery of the Precinct building due to the payment stream only beginning on delivery of the building;
 - with a PPP procurement, the Crown is no longer exposed to risks relating to the durability and quality of the building as these risks become the responsibility of the private partner who must fix them at their own cost; and
 - Justice and Emergency Services precinct participants no longer have to worry about maintaining property, which allows them to focus on justice and emergency related activities.
11. The Project Procurement Sub-Committee, including independent commercial advisors, recommended a PPP as the preferred procurement option for the Precinct as long as the timeframes for the project were not accelerated.

Estimated costs and affordability

12. The estimated net present costs (whole-of-life costs over 25 years including one-off and ongoing capital and operating costs discounted to reflect the value in today's dollars) of the precinct are estimated at \$400 million. In comparison, the net present costs for the Base Case option in which the Ministry of Justice would build a new courts complex is estimated at \$260 million. It is important to note that these are cost estimates and they will be subject to significant changes as the business requirements and concept design are refined.
13. Both the Precinct and Base Case require significant new funding as part of Budget 13 (agencies have identified \$72 million capital and \$10 million operating from within baselines). The Base Case does not provide the same degree of collaborative opportunities as the Precinct, but is not a return to pre-earthquake siloed accommodation e.g. some Corrections staff will be based in the new Police building. The "do minimum" option is not described in detail or costed in the Cabinet paper but is still an option for Ministers to consider. This option would not require new Crown funding.
14. We have provided some talking points and alternative recommendations for you to use at the Cabinet Committee meeting.

CHRISTCHURCH JUSTICE AND EMERGENCY SERVICES PRECINCT: TALKING POINTS AND ALTERNATIVE RECOMMENDATIONS

- The Precinct has the potential to deliver significant economic and social benefits from more joined up and streamlined service delivery, but achieving these benefits requires significant changes to business processes, technology, people and culture.
- Note your expectation that agencies make significant progress towards a more collaborative operating model before the government commits to a preferred service delivery option for Christchurch and the associated new funding.
- Note that clarity around the operating model is critical to ensure that the economic and social benefits from this initiative are realised. This may result in some delay to the project timelines (relative to a mid-2017 deadline) but quality outcomes are more important than the early delivery of a Precinct that does not deliver better service outcomes such as reduced repeat visits to the precinct and, if possible, reduced crime and reoffending.
- Ask the Chief Executives of the participating agencies what their views on the Precinct are and how they will support the delivery of more collaborative services as a result of the Precinct.
- Note that timelines are important but should not impede the government taking good decisions.
- Note your expectation that the preferred procurement option is the one that delivers the best value for the Crown over the life of the project. On this basis a design, build, finance, maintain PPP is the preferred procurement option.
- The affordability of the Precinct is a concern. As the new funding required for the Precinct (and the Base Case) will be a call on Budget 13, decisions should be taken as part of the Budget so that this initiative can be considered against other competing priorities. Consistent with this, any public announcements on the Precinct should be coordinated as part of the Budget process.

Treasury Recommendation

15. We recommend that you:

- i) **Do not support** recommendation 3 in the paper to approve the Precinct.
- ii) **Note** that further work is required on how agency operating models will change in order to deliver more collaborative services and maximise the economic and social benefits of this initiative.
- iii) **Note** that decisions on the Precinct should be taken as part of the Budget process so that it can be considered against competing initiatives.
- iv) **Indicate** your preference for a design, build, finance, maintain public private partnership as the preferred procurement approach should the precinct be approved as part of the Budget.