

## CANTERBURY EARTHQUAKE RECOVERY PLAN: POLICY DETAILS

### SUMMARY

Labour will intervene with innovative and necessary measures to give Cantabrians affordable choices as they rebuild their homes, businesses and lives after the devastating earthquakes. These measures will improve the quality and speed of the recovery.

#### *Canterbury Earthquake Recovery Plan*

- Intervene to Give Homeowners Choice
  - Labour will purchase land sufficient for an initial tranche of 1,500 affordable properties to be made available for on-selling, at cost, to red zone homeowners.
  - Labour will ring-fence a maximum of \$100 million from the Canterbury Recovery Fund as compensation for home improvements, made after the valuation date, not currently covered by the Government's offer. Compensation will be set at a maximum of \$50,000 with a minimum of \$5,000 and require proof of the amount spent on the improvement.
  - Labour will immediately release all of the available geotechnical information together with a plain English explanation for individual properties in the green and red zones. Further information will be released progressively as the land analysis and colour zoning is completed.
- Resolve the Insurance Gridlock
  - Labour will work with the private insurance sector to explore all options to kick-start the industry and resolve the existing gridlock.
  - As a last resort, Labour is prepared to intervene in the insurance market as a short term measure to give the confidence required to get the market functioning properly again.
- Make Community Engagement a Priority
  - Labour will ensure that international best practice principles of recovery strategy are central to the plan.
  - Labour will also take a bi-partisan approach to the recovery by offering the Opposition a role in the rebuilding process
  - Labour will establish an independent board between CERA and the Minister to de-politicise the approach to the recovery and strengthen the performance of CERA.

- Labour will audit the heritage stock of Canterbury to identify what remains and what is most important to save. We will work with building owners and the Councils to retain and strengthen viable heritage buildings where feasible.
- Use Youth Unemployment to Fill the Skills Gap
  - Labour will use youth unemployment to fill the critical shortage of skilled workers in Canterbury, including investing \$87 million towards getting 9000 young New Zealanders off the dole and into apprenticeships.
- Establish an Independent Insurance Commissioner
  - Labour will establish an independent Insurance Commissioner with statutory authority to put in place a disputes resolution mechanism, consistent with existing mechanisms, to give Canterbury residents (and in the longer term, all New Zealanders) an affordable avenue to resolve disputes.
  - The Insurance Commissioner would also review the operations of the private insurance industry in light of the experience of Canterbury residents; and
  - Design a plain English household insurance “template” which provides the minimum provisions that a household policy should include that can be varied on the agreement of both parties.
- Labour will Fund Test Cases
  - Labour will commit \$2 million to fund test cases, where Canterbury residents appear to have been unfairly treated by their insurer, to establish precedent and certainty on major issues.
- Education in Canterbury
  - Labour will work with the education sector to address the issues they face and speed the recovery so that students and their families can have confidence in the future of education services in Canterbury.
- Ensuring the Return of Activity to Christchurch CBD
  - Labour will encourage government departments which have moved outside the Christchurch CBD to relocate back there as soon as possible, where it is appropriate and economically feasible.
- Review of the Earthquake Commission
  - Labour will review the structure and operation of EQC to ensure the lessons of the Canterbury earthquakes are used to secure the long-term reliability of EQC. Further details of the review will be announced in the near future.

## ***Fiscal Implications***

- The Government set aside \$3.2 billion of the \$5.5 billion Canterbury Recovery Fund as contingency funding. This recognises the difficulty of predicting just how much will be needed to rebuild Canterbury. Labour's plan is realistic and necessary. It recognises that Cantabrians cannot afford to wait any longer to rebuild their lives. The issues they face are immediate and real. Labour's plan has been put together in this context and has three fiscally relevant components:
  - Acquiring and developing 1,500 sections: The overall final cost to the Crown will be low. While we estimate the up-front cost to the Crown to be approximately \$230 million, this cost will be recovered through selling the properties at cost to residents. This will leave the Crown to meet a small financing cost.
  - Home Improvements Compensation: This compensation will cost a maximum \$100 million.
  - Resolving the Insurance Gridlock: Any specific option pursued will be subject to the priority of careful management of the fiscal risks to the Crown.

## ***Impact on Business***

- This plan will lead to a better environment that will allow businesses to get re-established and grow. These measures are designed to improve the quality and speed of the recovery. Most importantly, this plan also delivers the transparency and accountability that is needed. The business community has told us that giving residents certainty and confidence will create a better environment for business. This plan will ensure residents can access affordable land, get insurance cover for new houses and business, and resolve insurance disputes efficiently and fairly.

## POLICY DETAILS

### Intervene to Give Homeowners Choice

- *Labour will purchase land sufficient for an initial tranche of 1,500 affordable properties to be made available for on-selling, at cost, to red zone homeowners.*

Access to affordable land is critical if Cantabrians from the red zone are to rebuild their lives. National's RV deal only addresses one side of the problem. They have put an extra 6,000 new home buyers into the market but done nothing to ensure there are affordable options available. The resulting increases in property prices are leaving many homeowners unable to afford to re-purchase property. In effect, the Government's offer has left many people with no place to go.

#### **Case Study – Cass Street Residents Out of Pocket**

A couple who have lived in their now-red zoned Cass Street home for 15 years have said the Government's deal will leave them significantly out of pocket.

They pointed out that most sections in Cass Street are around the \$140,000 mark, while the cheapest they could find was worth \$169,000.

The couple, who want to stay in Kaiapoi and are willing to pay more than they expect to receive from the Government offer, aren't able to find affordable sections. Their \$270,000 2008 valuation, less the EQC pay-out they have already received, will leave them out of pocket in trying to find a new section and build a new home.

*Source: Kaiapoi Advocate, 2 September 2011*

Labour will make an initial purchase of land sufficient for a first tranche of 1,500 properties. The Crown will then develop the land to make it ready for sale. These properties will then be on-sold, at cost, to affected residents. Homeowners from the red zone will have the first right of refusal. If there is excess demand, Labour will look to ballot the available land parcels.

There is no obligation on the current 6,000 red zone residents to take up this offer. However, the offer will benefit all residents by taking excessive developers' margins out of the equation and directly moderating property prices across the market.

This deal may still leave some homeowners out of pocket, but not to the extent that they would be if purchasing privately where developers are charging their own profit margins.

If there is evidence of price gouging by developers as the Government attempts to acquire land the Labour will consider, as a last resort, using the land acquisition provisions in the Canterbury Earthquake Recovery Act to ensure a fair price is sought and paid. Labour will also undertake an immediate audit of Crown-owned land in the area to determine how much could be suitable and made available for development.

The overall final cost to the Crown will be low. While we estimate the up-front cost to the Crown to be approximately \$230 million, this cost will be recovered through selling the properties at cost to



residents. This will leave the Crown to meet a small financing cost. The up-front estimate of \$230 million is based on an average land value across Waimakariri, Christchurch and Selwyn of \$155,000.<sup>1</sup> This is a conservative estimate as it is based on most recent developed land prices.

## Case Study - Grantham: Government Acts Quickly to Give Homeowners Options

The small town of Grantham in Queensland was devastated by January's floods. Rather than sit back and leave residents to face the arduous task of rebuilding by themselves, the Queensland Reconstruction Authority intervened to declare the Grantham township a 'reconstruction area' on 24 March 2011.

This enabled a 'master planning process' to be fast-tracked and completed in just four months. This process included the purchase of a 935-acre land parcel in order to carry out an unprecedented land swap programme, where participants receive a 'like-for-like' land parcel outside the flood zones.

As a result of this swift action, it's expected Grantham residents will begin moving into their new houses by Christmas – less than a year after the devastating floods. This illustrates that governments willing to intervene can expedite the recovery process, helping residents rebuild their lives as soon as possible.

- *Labour will ring-fence a maximum of \$100 million from the Canterbury Recovery Fund as compensation for home improvements, made after the valuation date, not currently covered by the Government's offer. Compensation will be set at a maximum of \$50,000 with a minimum of \$5,000 and require proof of the amount spent on the improvement.*

Labour will honour the existing buyout package for homeowners with affected properties in the "red zones" based on the rateable value (RV). This includes compensation for consented changes that increase the foot-print of the home.

In addition to this, Labour will also compensate homeowners in the red zone for home improvements (e.g. a new kitchen or bathroom) above \$5,000, up to a maximum of \$50,000 which are not currently covered by the Government's offer. Compensation will only apply to improvements made since the established date of rateable value. Also, applicants for compensation will be required to provide proof of the amount spent on the improvement.

These improvements add to the value of the property and would have been taken into account in subsequent valuations if it were not for the earthquake. Officials have noted that 63 per cent of properties sold in Kaiapoi, for instance, in the 12 months before the first earthquake were sold above the 2008 rating valuation, indicating that these improvements make a material difference to the resale value.

Labour has capped the amount of compensation available at \$50,000 to ensure this is not an open ended commitment. While some residents may have made improvements above this cap, the

<sup>1</sup> Quotable Value New Zealand, *Urban Property Sales Statistics Half Year Ended December 2010*. Table 13 & Table 15

taxpayer cannot afford to meet every cost. Under this plan these residents would not be left totally out of pocket. Providing a minimum level of \$5,000 will also ensure the process is not overloaded with a large number of small claims and also distinguish between general maintenance and home improvements which add the value of the house.

We will ring-fence a maximum \$100 million from the Canterbury Recovery Fund as compensation for home improvements, made after the valuation date, not currently covered by the Government's offer. This figure is based on an average of \$10,000 per household.<sup>2</sup> Although, we do not expect every red-zone house to fall into this category.

- *Labour will immediately release all of the available geotechnical information together with a plain English explanation for individual properties in the green and red zones. Further information will be released progressively as the land analysis and colour zoning is completed.*

The Government is currently withholding all of the geological and geotechnical information on individual properties that decisions on land zoning are being based upon. They have said they will only release the information once the entire affected region is colour-zoned.

Releasing geotechnical information as the analysis is completed gives residents access to vital information they need to be able to make the right decisions for their future.

## **Resolve the Insurance Gridlock**

- *Labour will work with the private insurance sector to explore all options to kick-start the industry and resolve the existing gridlock.*
- *As a last resort, Labour reserves the right to intervene in the insurance market as a short term measure where there is market failure to give the confidence required to get the market functioning properly again.*

Private insurers are remaining highly cautious and conservative. The reluctance of large insurance providers to issue new policies is delaying the ability of Cantabrians to rebuild and businesses to reinvest and grow. Without new insurance residents are unable to access the finance they need to build a new home or start a business. This uncertainty is stifling the recovery. Labour will explore all options with the industry to break this deadlock and provide certainty to residents.

As a last resort Labour reserves the right to intervene in the insurance market as a short term measure. The Canterbury earthquakes are without precedent and force us to consider all options. Labour is committed to ensuring that any specific option pursued will be subject to the priority of careful management of the fiscal risks to the Crown.

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<sup>2</sup> Source: Statistics New Zealand, Household Economic Survey, June 2010. Note: In 2010, households spent an average \$5,000 a year on home improvements and property maintenance (including materials and services). Over 3 years this adds up to \$15,000. Once the \$5,000 minimum is factored in – this equates to an average of \$10,000.

## Make Community Engagement a Priority

- *Labour will ensure that international best practice principles of recovery strategy are central to the plan.*

Labour will make community engagement a priority to progress the recovery of Canterbury. Community engagement, integrated planning and timely access to information are crucial in disaster response and recovery. The fundamental principles that underpin our approach are accountability and transparency.

Drawing on international best practice, Labour will ensure the recovery process:

- Puts trust and faith in local people who know their communities and ensures there is open communication with them
- Involves local communities in joint learning and public decision-making
- Capitalises on local culture and knowledge
- Mobilises local capacity to rebuild
- Enables local communities to make choices that build safer, more sustainable communities
- Secures the things that are good for the community, and discard the things that hold them back

We've listened to the Canterbury community who've told us this approach has been lacking in the Government's response. There have been confused messages, a lack of plain language explanations of complex insurance and technical information, a refusal of agencies to collaborate on information provision, a failure to tackle rumours, a failure to disclose changes in policies, and setting of unrealistic expectations.

- *Labour will also take a bi-partisan approach to the recovery by offering the Opposition a role in the rebuilding process.*

Labour believes that offering the Opposition a more substantive role in the rebuild process is a more effective commitment to a bi-partisan approach that will ensure continuity for residents and business than the current nominal role offered under National through the "cross-party forum".

- *We will establish an independent board between CERA and the Minister to de-politicise the approach to the recovery and strengthen the performance of CERA.*

There has been criticism of the bureaucracy set up in response to the Canterbury earthquakes, with lines of accountability unclear, and CERA and the Government's handling of the process being cited as inadequate. There is a lack of co-ordination between central, local and regional government which must be addressed. CERA needs to be the single-entry point so people can access clear pathways to recovery.



To strengthen the performance of CERA, we will insert a board between the CERA Chief Executive and the Minister to improve governance and reduce political interference. This change will allow CERA to effectively lead the recovery. It will require a minor legislative amendment to the *Canterbury Earthquake Recovery Act*.

- *Labour will audit the heritage stock of Canterbury to identify what remains and what is most important to save. We will work with building owners and the Councils to retain and strengthen viable heritage buildings where feasible.*

Heritage is important to Canterbury's tourism industry and to the city's proud connection to its past. Since the February quake, there has been little government-led effort to help coordinate the retention and strengthening of heritage buildings and facades. International experts and many Canterbury people despair at this lack of leadership, while demolition of potentially viable heritage stock continues unabated. Preserving heritage does not simply mean holding up the recovery.

## **Use Youth Unemployment to Fill the Skills Gap**

- *Labour will use youth unemployment to fill the critical shortage of skilled workers in Canterbury, including investing \$87 million towards getting 9000 young New Zealanders off the dole and into apprenticeships.*

The building and construction industry has warned there is a critical shortage of skilled workers in Canterbury. It's also concerned that the training process is too slow and may delay the rebuild even further. This is the perfect opportunity to address the crippling problem of youth unemployment in this country. There are about 58,000 Kiwis aged under-25 who are not learning or earning. This is a ticking time-bomb and must be fixed.

Under National, the number of building and construction industry trainees in Canterbury has almost halved – down 45% since December 2008. However, we know 30,000 extra tradesmen will be needed for the rebuild. Continued inaction is not an option. That's why Labour released a comprehensive plan to get more young people into trades training.

- Labour will put \$87 million towards getting 9000 young New Zealanders off the dole and into apprenticeships.
- We'll provide \$80 million to create more 5000 fee-free training places for 16 and 17 year olds.
- An extra \$13 million will go towards 1000 new Group and Shared Apprenticeship places.
- We've also been told that the process of training apprentices is too slow, so we'll work with the industry and training providers to ensure regulations and funding decisions are made to speed that up.

In each of these areas, Canterbury will be the top priority in terms of allocating training positions. Labour's plan is an upfront investment in skills to ensure we have the workforce we need to get the rebuild going.



## Establish an Independent Insurance Commissioner

- *Labour will establish an independent Insurance Commissioner with statutory authority to put in place a disputes resolution mechanism, consistent with existing mechanisms, to give Canterbury residents (and in the longer term, all New Zealanders) an affordable avenue to resolve disputes.*

The experience in Canterbury has revealed that consumer protection for private insurance has not been successful when it comes to natural disasters. While the Reserve Bank provides prudential regulation of the insurance sector, there is insufficient consumer protection.

Labour will establish an independent Insurance Commissioner, with statutory authority, tasked with protecting consumers of insurance and the public interest by ensuring that the industry behaves responsibly, while also ensuring that there is a competitive insurance environment.

The first job of the Commissioner would be to immediately put in place a consumer protection and disputes resolution mechanism. In doing so, it will draw upon existing agencies and mechanisms currently available to resolve disputes. The Commissioner would be funded through a levy on insurance companies.

- *The Insurance Commissioner would review the operations of the private insurance industry in light of the experience of Canterbury residents.*

Once a consumer protection mechanism is established, the Commissioners would then review the performance of the insurance industry in light of the Canterbury Earthquakes, and provide any associated recommendations to the government coming out of the review.

- *Design a plain English household insurance “template” which provides the minimum provisions that a household policy should include that can be varied on the agreement of both parties.*

In addition to an Insurance Commissioner, Labour will work to establish a plain English insurance “template” with minimum provisions required in a policy. The template will clarify the definition of the terms used in the document. The minimum provisions may be added to, or adjusted downwards, but only with the explicit agreement of the purchaser. This means that people can be protected as they can trust that the template is the minimum that they should be able to expect from an insurance policy. The drafting of the template will also be done in a way that ensures that insurers cannot “re-litigate” coverage due to the omissions of certain provisions, or the subtle inclusion of “get out” clauses.

This measure was recently endorsed by NZI Chief Executive, Karl Armstrong, “*I believe the time has come for us to look at creating consistent [contract] wordings across the industry. It’s not acceptable for us to ask our own legal departments or our customers to decipher what our wordings mean, it’s up to us to ensure we know this*”.<sup>3</sup>

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<sup>3</sup> CN Cover Note Magazine, *Propel 2011 Special Feature: CEO Panel Discussion*, September to November 2011, p 29

## **Labour will Fund Test Cases**

- *Labour will commit \$2 million to fund test cases, where Canterbury residents appear to have been unfairly treated by their insurer, to establish precedent and certainty on major issues.*

We also consider that insurance companies need to be held to account for particular instances of unfair treatment of residents in response to Canterbury. There are cases where homeowners feel that insurance companies have misled them or in some way dishonoured their policies. In these situations it might be appropriate for the Crown to fund test cases, up to \$2 million. This will involve taking selected cases through the court system to establish precedent in law, which will speed up the recovery by delivering certainty on major issues. Crown Law will be asked to advise which test cases merit consideration.

## **Education in Canterbury**

- *Labour will work with the education sector to address the issues they face and speed the recovery so that students and their families can have confidence in the future of education services in Canterbury.*

Educational institutions are vital in bringing together communities under immense pressure. Schools, ECE services and tertiary institutions are facing falling rolls as a result of families relocating and in other cases due to property damage. These institutions have lost government funding and schools, ECE services, as well as Canterbury University, have been forced to cut staff as a result. This issue needs the attention of government in order to place education in Canterbury on a sustainable footing.

Many costly school property repairs are not covered by the Ministry of Education's insurance policy. Repairing earthquake damage could run into the tens of thousands of dollars to replace things like boiler rooms, pathways, courts, and storm water systems. Schools will have to find money within their own budgets and decide what they can afford to fix. Currently, some schools are barely fit for use. Canterbury's children need a habitable learning environment.

Labour will work with tertiary institutions, schools and ECE services to address the issues they face to give Cantabrians confidence in the future of education services in Canterbury.

## **Ensuring the Return of Activity to Christchurch CBD**

- *Labour will encourage government departments which have moved outside the Christchurch CBD to relocate back there as soon as possible, where it is appropriate and economically feasible.*

Christchurch City faces economic loss as a result of business relocation and capital flight. Some of those departing enterprises include government departments which have taken lengthy leases outside the CBD. Christchurch needs a city-centre heart which is alive with workers and residents.

## Review of the Earthquake Commission

- *Labour will review the structure and operation of EQC to ensure the lessons of the Canterbury earthquake are used to secure the long-term reliability of EQC.*

The Canterbury earthquakes have exposed a number of issues and problems with the operation and structure of EQC. The review will be comprehensive and include an assessment of the adequacy of the EQC cap on claims, the scope of EQC coverage, the collection of EQC levies and recapitalisation of the EQC Natural Disaster Fund.

Further details relating to Labour's policy to strengthen New Zealand's response to natural disasters will be released in the near future.