

---

## **EARTHQUAKE RESILIENCE PROGRAMME- UPDATE AND DIRECTION**

---

### **1. Purpose of report**

The Council is taking an active and leading role engaging with building owners, central government, and the banking and finance industry on earthquake resilience.

This report updates the Committee on:

- progress on Council activities since the report in February this year
- progress from the Royal Commission and an update on policy proposals from the Department of Building and Housing/Ministry of Business, Innovation and Employment (DBH/MBIE) led regulatory review.

The report also presents updates and options for:

- responses that might be included in the Council's Earthquake Prone Building Policy
- initiatives to support earthquake strengthening by property owners
- District Plan changes that respond to issues of earthquake strengthening of buildings.

The scope of this report does not include Council's earthquake programme as a building owner or infrastructure provider.

### **2. Executive summary**

Wellington City Council is respected for its record of dealing with earthquake prone (EQP) buildings and ensuring a more resilient city. This situation has enabled the Council to influence national thinking on earthquake resilience and also enlist the support of business sectors in addressing this.

The initial conclusions from the Royal Commission and the economic analysis undertaken by the Council highlight that the impact of a major (or even moderate) earthquake goes well beyond the direct building and infrastructure damage. Both reports highlight the resultant significant social and economic loss. BERL has estimated that approximately 60% of the impact of a major quake in Wellington or \$21.7 billion could be a permanent economic loss for New Zealand and of this, \$10 billion is a direct impact to the city. As a result there is a considerable incentive for the city to be prepared for a major earthquake event and reduce this impact.

Previously the Council has agreed indicative objectives around the earthquake resilience work-plan and this paper reports back on this.

It highlights the need for the Council to take a proactive stance in working with policy makers alongside actively working with building owners on earthquake risk assessments and developing options, which allow them to pursue strengthening of their buildings. These options include:

- ensuring building owners have the right information to make decisions on
- that the wider District Plan provisions support the strengthening of buildings
- assisting where possible with financial and non-financial options
- advocating with central government to ensure that the national risks of a major Wellington earthquake are understood and mitigated through regulation or financial incentives.

### **3. Recommendations**

Officers recommend that the Strategy and Policy Committee:

1. *Receive the information.*
2. *Note the range and scope of the Council's work programme on earthquake resilience is based on decisions taken by this Committee in September 2011 and February 2012.*

#### *Expired Section 124 Notices*

3. *Note that there are 6 buildings that currently have expired Section 124 notices.*
4. *Note that officers are working with building owners to resolve the strengthening or safety of these buildings.*

#### *Incentives for property owners*

5. *Agree that officers continue to work on options included in section 1 of Appendix 5 to support earthquake strengthening by property owners.*
6. *Agree that officers will report back to this committee in February 2013 on these options.*

#### *District Plan Changes*

7. *Agree that the next steps in the District Plan and Heritage work-stream include:*

#### *Heritage List*

- (a) *Completing all of the assessments on the 248 heritage buildings that are earthquake prone or potentially earthquake prone by 30 November 2012 and presenting the findings to Councillors in December 2012*

- (b) Working to review the whole of the Heritage List [refer Appendix 1] and presenting the outcome to Councillors*
- (c) Drafting changes to the heritage provisions to incorporate assessment criteria that allows consideration to be given to building integrity and public safety*
- (d) Providing advice to heritage building owners around new and innovative approaches to strengthening heritage buildings.*

#### *High Risk Features*

- (e) Undertaking further research on methods and new building technologies for addressing high risk features on buildings to inform plan changes and advise owners on options to strengthen high risk features*
- (f) Drafting changes to the District Plan to provide clarity for building owners seeking to take action to make high risk features safe*
- (g) Engaging with owners of buildings with high risk features on methods for making buildings safe*
- (h) Considering the above in light of any Government direction on this issue*
- (i) Note that officers will report back to this committee in February 2013 on the progress of this work.*

#### *Other District Plan Changes*

- 8. Agree that draft plan changes consider the implications of removing or reducing the need for resource consent when earthquake strengthening any non-heritage building within the Central Area or Centres Areas when altering external parts of the building.*
- 9. Agree that draft plan changes consider providing greater guidance to allowing for public safety to be achieved through the removal of an unsafe building (where the site is suitably landscaped or maintained afterwards).*

## **4. Background**

In September last year the Committee agreed to take a broad approach to addressing earthquake prone buildings and city resilience. This meant expanding its regulatory role as required in the Building Act to considering what other activities it would be involved in. An earthquake resilience programme business unit was established in the Council to manage this work and oversee the assessment and strengthening of Council's building portfolio.

A further report was presented to the Committee in February this year which highlighted the cost implications of a Christchurch type scenario for Wellington. Some priority activities were agreed and \$1.45 million allocated in the Long Term Plan for these.

Regulatory and marketplace uncertainty for Council, the business sector and the wider community has remained post Christchurch. It has been anticipated that findings of the Royal Commission and the DBH led regulatory review will largely address such uncertainties. However there are also factors largely beyond Council and regulatory control at present that are influencing market behaviour e.g. the cost and access to insurance, and tenants' increased expectations of building performance.

## **5. Discussion**

### **5.1 Regulation**

There has been two concurrent government processes reviewing the implications of the Christchurch earthquakes. These are the Royal Commission and the DBH regulatory review.

The Council has provided a submission and subsequent information to the Royal Commission. The Council has also been represented on the stakeholder reference group for the regulatory review.

#### **5.1.1 Royal Commission**

The Royal Commission has recently released Volumes 1 – 3 covering:

- Seismicity, Soils and the seismic design of Buildings
- The Performance of Christchurch CBD buildings, and
- Low Damage Building Technologies.

Some key conclusions from these reports are as follows:

*We have concluded that confidence is justified in the current processes by which earthquake risk in New Zealand is assessed and translated into the provisions of the relevant Standards used for the purposes of building design.*

*For reasons addressed in Volume 2, we conclude that the construction costs do not appear to increase significantly with increases in the seismic design factor of the magnitude that has occurred (or may be contemplated) in Christchurch. Further, it would not be sensible, in our opinion, to conclude that the performance of buildings in the February earthquake demonstrates a need for wholesale change*

*We consider that the objective should be incremental improvement, rather than a change of direction, and the necessary improvements can be incorporated within the framework of the present rules.*

*There is no doubt that the economic, social and cultural consequences of the earthquakes have been very severe. There is also no doubt that design approaches to mitigate damage should be adopted where it is economically feasible to do so. It is for that reason that we have dealt with the low-damage technologies discussed in Volume 3.*

*However, once the objective of life-safety is achieved, the question of the extent to which buildings should be designed to avoid damage is a social and economic one, and the answer depends on choices that society as a whole must make.*

We can conclude that the Commission supports the current regulatory environment and building technology for delivering a reasonable standard for life safety. However it also recognises that there is a broader question of the social and economic cost of a significant earthquake that this does not address.

It has not at this point released its Volume 4 report on Unreinforced Masonry Buildings which is planning to be released later this year or potentially early 2013.

#### **5.1.2 DBH (now MBIE) review**

Council officers have been working closely with MBIE officials on the direction of their policy development. This policy is still in development and is being considered in conjunction with the Royal Commission recommendations. The nature and scope of Council's revised Earthquake Prone Building Policy would then follow this in 2013.

Officers consider that the potential changes to the Building Act which will then guide the Council's response, might include the following elements:

- minor if any change to the earthquake prone threshold of 33.3% of New Building Standard (NBS).
- a requirement for councils to have active policies to assess buildings
- a requirement for all buildings regardless of age and within scope to be evaluated
- an ability to prioritise assessment and remediation of buildings with post earthquake recovery functions and those close to critical transport routes
- a requirement to publicly disclose information of the seismic resilience of buildings
- potentially a shorter timeframe than at present to strengthen earthquake prone buildings
- clarification of the relationship between addressing life safety weaknesses and requirements to protect heritage buildings and
- decoupling strengthening from other building compliance issues like fire protection systems and accessibility requirements.

#### **5.2 Economic Impact Assessment**

The Council commissioned BERL and Opus International Consultants to undertake an economic impact assessment to inform the earthquake prone building policy. This report aligns with the conclusions of the Royal Commission and highlights that the wider economic and social impacts of a major earthquake need to be taken into account in developing policy responses to this issue.

This report calculates the economic impact of a major Wellington earthquake<sup>1</sup> as follows:

<b>Total Economic Impact</b> of a major earthquake in Wellington	<b>This is made up of</b>	
	<b>Temporary and Permanent Loss</b>	<b>Wellington City Impact \$20.4 billion</b>
<p>A \$35.5 billion economic loss to the nation.</p> <p><i>“the annualised benefits of strengthening EQP buildings in Wellington to withstand a Moderate Wellington earthquake, with a return period of up to 50 years, are significant. If these buildings are strengthened to 34 percent of the National Building Standard (34%NBS) the benefit:cost ratio is 5.8. If these same buildings are strengthened to 67 percent (67%NBS), this ratio increases further to 8.0.</i></p> <p><i>These BCRs include wider economic benefits that cannot be directly compared with BCRs based on direct impacts only. This means local and central government should consider how to encourage investment that has the potential to generate public good economic and social benefits.”</i></p>	<p><b>Temporary loss</b></p> <p>\$13.8 billion(40%) caused by immediate damage to buildings and infrastructure, disruption of lifelines in Wellington and temporary loss of economic activity in Wellington</p>	<p>\$7.3 billion immediate damage to buildings and infrastructure</p>
		<p>\$3.1 billion temporary loss of economic activity</p>
	<p>\$21.7 billion (60%) is lost as a result of <b>permanent loss</b> of business and people from the country and the loss of attractiveness of the country to overseas businesses, migrants and tourists.</p>	<p>\$10 billion permanent loss of economic activity.</p>
		<p>[\$15.1 billion wider regional and national impact]</p>

A key point to note from the report was the breadth of economic impact beyond the immediate building and infrastructure damage and life safety issues.

The report also considered this from a building owner’s perspective and the following conclusions were made:

- *Building Owners have a shorter time horizon ... and are therefore more interested in the benefits they could potentially receive each year from earthquake strengthening their building to either 34%NBS or 67%NBS.*
- *While the BCR from earthquake strengthening may not be sufficient to justify the investment for an individual building owner, other considerations may strengthen this business case such as the required investment to maintain the profitability of tenanting a building. Banks, insurance companies and other financial businesses may require strengthening to a given level before they will cover such buildings.*

From a heritage building owner perspective:

- *“The strengthening costs of EQP heritage buildings are expected to be between 10 and 40 percent<sup>2</sup> greater than for other EQP buildings.*

<sup>1</sup> A major earthquake event on the Wellington faultline.

- To the extent that heritage status imposes additional costs on the building owner, this can provide a further disincentive for building owners to strengthen buildings.

From a residential homeowner perspective:

- The economic impact is primarily driven by property damage rather than any wider economic impact.
- *“The main finding from these studies is that the average cost of the strengthening work is \$13,000 per home. The annual interest cost to the homeowner with an earthquake prone home would therefore be approximately \$650 per year. A significant portion of this cost could be saved from a reduced insurance premium due to a strengthened house”.*

This report highlights that there is a much broader economic impact resulting from an earthquake beyond life safety and property damage. The implication is that if local or central government want building owners to strengthen their EQP buildings to 67%NBS, they will have to provide an incentive to building owners for them to make this additional investment.

### **5.3 The Council’s programme of activities**

Following on from the report to SPC in February 2012, the Council has been active across a range of areas to address this issue.

Officers have been

- working with Government on the earthquake regulatory review process and on policy options
- reviewing assistance options for building owners
- hosting public meetings with residents and business groups
- developing assessment tools and guidance for residential property owners
- progressing building assessments
- reviewing the response options for heritage buildings
- providing support services to building owners, and
- preparing for potential District Plan changes in dealing with earthquake prone buildings.

A summary and update of current activities, including those agreed in the February SPC report, is attached as Appendix 1.

#### **5.3.1 The District Plan and Heritage**

This section provides more detailed information on the response options for heritage buildings as well as other potential areas in which the District Plan has

---

<sup>2</sup> BERL’s analysis of a research report from Christchurch suggested the cost of strengthening heritage buildings was 20 – 40% above non-heritage buildings (although this cost is building specific and can vary widely). Similar research for possible effects in Wellington has not been carried out.

*Hare, John (2009) Heritage earthquake prone building strengthening cost study. Holmes Consulting Group. Prepared for Christchurch City Council.*

an influence. There have been three key areas of focus under the District Plan response workstream:

- the current and potential role of the District Plan in the drive toward a resilient city
- how the heritage and other provisions of the District Plan, including the Heritage List, work in the context of public safety and a resilient city.
- how the District Plan can address high risk features on buildings.

#### *5.3.1.1 Current Resilience Provisions in the District Plan*

The city resilience and heritage project has highlighted the wider issue of how responsive the current District Plan heritage provisions are in light of the wider thinking required to be a resilient city. It is currently difficult for matters such as public safety, economic costs, wider urban form and character, and testing of the public good benefits to be taken into account in resource consent processes for heritage buildings.

Officers have been considering whether or not changes need to be made to the objectives, policies and assessment criteria within the heritage chapters to balance the issues of managing heritage buildings within a resilient city.

An assessment has been made of the District Plan from a city resilience perspective. The assessment has confirmed that the District Plan:

- is responsive at a high level to managing activities in the context of natural hazards
- contains provisions acknowledging some of the earthquake risks, such as ground rupture along the faultline and ground shaking, and restricts activities accordingly
- needs more work in respect of the scientific information on which the maps and District Plan provisions are based
- does not explicitly enable decision-makers to take account of building integrity and public safety in resource consent processes affecting heritage buildings
- may be over-regulating where earthquake strengthening is proposed within Centres and the Central Area (resource consent required when external parts of non-heritage buildings are affected).

#### *5.3.1.2 Heritage*

Since the February update, the provisions of Plan Change 43 (Heritage) to the Wellington City District Plan have become operative. At least two of the already identified key projects within the earthquake response workstream are likely to require changes to the heritage provisions - a planning response to the issue of high risk features ('dangerous elements') on buildings and a review of the Heritage List.

Over the period since 1994, the concept of Heritage Areas has developed into a key management tool within the District Plan. Heritage Areas have also been an important aspect of recent reviews of the District Plan, particularly Plan Changes 48 (Central Area) and 75 (Suburban Shopping Centre Heritage Areas). The concept of looking at buildings from the collective contribution that they



make is now embedded in the District Plan and provides a useful basis for approaching the earthquake-prone buildings issues facing the city in respect of heritage. This approach to looking at the city's heritage is playing a key role in the review of the Heritage List.

### *Review of the Heritage List*

As part of Council's recommendations in the LTP, \$100,000 was provided in the 2012/2013 year toward the review of our District Plan Heritage List. This work has commenced and has identified 248 heritage buildings that are EQP or potentially EQP.

The detail of the review of the Heritage List is discussed in Appendix 1. The next steps in this workstream are:

- completing all of the assessments on the 248 heritage buildings that are or might be earthquake prone by 30 November 2012 and presenting the findings to Councillors in December 2012
- working to review the whole of the Heritage List [refer Appendix 1] and presenting the outcome to Councillors
- drafting changes to the heritage provisions to incorporate assessment criteria that allows consideration to be given to building integrity and public safety
- providing advice to heritage building owners around new and innovative approaches to strengthening heritage buildings.

### *High Risk Features on Buildings*

High Risk Features (previously known as dangerous elements) on buildings are items that represent falling hazards like chimneys, veneers, gables, parapets, cornices, canopies and ornamentation, water tanks, tower like appendages, fire escapes, lift wells, facades, plaster and other heavy renders. Buildings with such features exist on both vehicle and pedestrian routes around the Central Area, and on a number of buildings in the suburban centres. There are also a large number of chimneys on residential dwellings that represent a potential hazard. Learnings from Christchurch tell us that these features can be attributed to a number of deaths and officers believe we should address these. The Council agreed to address high risk features in February 2012.

Building owners can undertake some strengthening or replacement of high risk features on heritage buildings that constitute 'Repairs and Maintenance' without the need for resource consent. However external works to buildings apart from this requires a restricted discretionary activity resource consent. For residential buildings within pre-1930s areas, a resource consent (restricted discretionary activity) is required to remove a chimney if it is located on a primary elevation.

Options for changes to the District Plan that would reduce the obstacles to building owners taking action to improve the safety of their buildings are:

- refinement of the definition of 'Repair and Maintenance' to be clear what can be permitted in relation to making buildings with high risk features safe.

- specific provisions within the Heritage rules to enable building owners to strengthen or replace high risk features without the need for resource consent.
- changes to the pre-1930s provisions to allow demolition of chimneys without the need for resource consent.

As part of this workstream, officers are seeking technical/engineering advice on the options for replacement of some dangerous elements with acceptable alternatives, such as replica features made from safer materials including the use of new technologies.

The desired outcome of this work is to provide both a regulatory and advocacy response so that building owners are informed about the options for making high risk features safe, and that the District Plan facilitates an environmental outcome that balances heritage values with public safety.

#### *Next Steps*

The next steps in this work-stream are:

- further research on methods and new building technologies for addressing high risk features on buildings to inform plan changes and advise owners on options to strengthen high risk features
- drafting changes to the District Plan to provide clarity for building owners seeking to take action to make high risk features safe
- working with BCLS to engage with owners of buildings with high risk features on methods for making their buildings safe
- considering the above in light of any Government direction on this issue.

#### *5.3.1.3 Other District Plan Changes*

In carrying out the city resilience assessment of the District Plan several other resource consent issues have been identified. These include:

##### *Central Area and Centres Provisions*

Earthquake strengthening any non-heritage building within the Central Area or Centres Area can trigger a resource consent process when it will alter external parts of the building. It is recommended that draft plan changes include investigating the implications of modifying or removing this provision where it is a barrier to earthquake strengthening.

Within the Central Area, resource consent is required where vacant land, open land or parking areas are created through the demolition of a building. Whilst the intention of this rule is to prevent large numbers of vacant sites or ground level car parking areas around the city, there is currently scope to relax the requirement for a new building to be proposed as long as the vacant land is maintained and/or landscaped until redevelopment occurs.

It is recommended that draft plan changes include providing greater guidance to allowing for public safety to be achieved through the removal of an unsafe building (where the site is suitably landscaped or maintained immediately afterwards and maintained as such until redevelopment of the site).

#### *5.3.1.4 District Plan and Heritage Policy Implementation*

It is important to note that several mechanisms currently exist to assist building owners where they are required to go through a resource consent process in relation to a listed or heritage area building:

- the council provides \$329,000 through the Built Heritage Incentive Fund for assistance to owners of buildings listed on the District Plan Heritage Lists or in a heritage area. In the past year the priority for the fund has been to assist with earthquake strengthening work
- there is also a separate fund of \$50,000 for remission of resource consent fees where a resource consent is required because the building is listed on the District Plan and subject to the heritage provisions
- free pre-applications meetings for resource consent applications involving listed or heritage area buildings.

Other ways of achieving good results for a resilient city that retains its character and heritage are also available through advocacy and the public and building owner engagement processes that are underway for the wider earthquake resilience project.

Internal guidance notes that provide clear direction and ensure clarity for interpreting parts of the District Plan is also a measure that can be taken without the need for formal plan changes.

## **6. Buildings with expired Section 124 notices**

Council has a range of regulatory powers under the Building Act (the Act). These are described in full in Appendix 3.

An emerging issue for Council to consider is how to manage buildings that have reached the end of their Section 124 (b) statutory period.

Buildings with notices issued under earlier seismic reviews were rolled over into the current scheme and were given a 2 years to address the outstanding seismic issues.

In the last 6 years most of the buildings with notices have been either strengthened or demolished however there are still a small number of these buildings (6) are still earthquake prone and the notices have either expired or are due to expire in the near future. The small number of “older” EQP buildings whose notices have or will soon expire gives the Council an opportunity to look at achieving the best outcome for both the owners and/or the city.

These buildings are as follows:

<b>Street Name</b>	<b>Street No.</b>	<b>Suburb</b>
Park Road	83	Miramar
Adelaide Road	114-116	Mt Cook
Cuba Street	240	Te Aro
Hutt Road	25	Pipitea
Avon Street (Erskine)	25	Island Bay
Manchester Terrace (Karitane)	21	Melrose

### **6.1 Current Process**

The regulatory powers under the Act provide Council with some tools to resolve the situations with buildings with expired section 124 (b) notices.

The Council has taken a pragmatic approach to work with the owner to resolve the outstanding issue. This has included issuing new notices with revised timeframes to allow time to obtain consents and relaxing some of the planning rules so that buildings may be demolished without a new building having to replace it.

While this has been successful in most cases, there are six remaining buildings where, for a range of reasons, the owners not having addressed the situation. These include not having the finance to strengthen the building through to heritage considerations limiting redevelopment or in some cases demolition.

### **6.2 Implications for Future Expired Notices**

It is expected that due to the larger number of newer notices being issued and the extended period until these notices expire that “demolition by neglect” may become more prevalent. The reasons for “demolition by neglect” may include:

- **affordability:** The owner may not be able to finance strengthening the building, cannot borrow further as the building value has decreased or cannot obtain insurance cover.
- **strengthening costs outweigh the value of building**
- **town planning/ heritage:** planning limitations or heritage requirements limits the ability of an owner to take action to address the EQP notice.
- **general:** owner apathy, or if an EQP notice is not nearing its expiry date and taking the above into account some owners may make a conscious decision not to maintain the building.

The gradual deterioration of individual buildings can result in the perception that the affected streets or precincts are structurally unsafe and poor which can influence peoples willing to live, work or do business there. In response to this decline individual owners will be forced to “meet the market” meaning lower returns and less of a desire to invest.

It can be argued that the longer time frames of 10 -20 years set down in the policy contribute to this demolition by neglect as it extends the time before an owner is “required” to take action.

### **6.3 Recommended steps for the Council**

In relation to buildings with expired section 124 (b) notices, officers will be:

- where possible, working with owners to find a way forward that enables the building to be made safe
- where the owner is unable or unwilling to take steps to make the building safe, working through its regulatory powers to ensure that the property is safe and where possible developed within the provisions of the District Plan

## **7. Implications for the Council**

The outcomes of the Royal Commission, the indicative policy direction from MBIE, although yet to translate into law, and the economic assessment from BERL, set a scene for the Council to respond to as it develops its Earthquake Prone Building Policy. It is expected that many of these provisions will include national requirements that will be mandatory in Councils' earthquake prone building policies.

### **7.1 Active Policy and Regulatory functions**

To address building resilience the current Initial Evaluation Process (IEP) and EPB notification is expected to require a shift from taking a passive to a more active regulatory role, which negotiates earlier decisions with owners and could include the Council making more active use of regulatory powers including demolition options.

The Council will need to clearly understand its regulatory powers in this area before adopting a more active policy. The current regulatory powers are set out in Appendix 4.

### **7.2 Positive Incentives for property owners**

The economic analysis supports local and central government taking an active role to encourage strengthening to avoid the economic loss that would result from a significant earthquake.

The Council needs to consider what incentives it can provide to property owners that will encourage them to take positive action and contribute towards the city resilience objectives it seeks. The range of options for how the Council and/or central government could be involved is discussed in Appendix 5. These options are still under discussion with central government agencies.

Officers have been discussing a voluntary targeted rate scheme (Appendix 4) which could be used to help building owners access finance to strengthen buildings. We recommend that this be continued to be developed.

### **7.3 Priorities and future work programme**

Officers will continue to work on the range of workstreams involved in this project including:

- completing the survey of commercial property owners to inform policy development
- completing the IEP assessment of buildings pre-1976

- developing incentive options for building owners that will facilitate the earthquake strengthening of buildings to meet the Building Act requirements and city resilience objectives including:
  - Guidance for Home Owners and Residential Home Assessments
  - any practical options which ease the consenting processes and which encourage strengthening of buildings
  - working with central government on legislative or financing options for commercial property owners that encourage strengthening of buildings
- continuing to engage with central government on the development of any policy changes and their implications for the Council
- completing the District Plan Heritage List prioritisation and balancing of this list taking account of both the heritage and wider safety and economic resilience objectives
- improving access and quality of information for customers.

## **8. Risk assessment**

There are a wide range of risks for the Council and the city in the policy development and implementation including:

- challenges from building owners should the policy requires higher standards than the national minimum
- under-estimating the resource required to implement policy
- incurring unbudgeted costs for enforcement of “expired section 124” notices
- reputational risk of not doing enough to protect public safety, the city economy and wider city interests
- loss of heritage buildings and precinct character
- older buildings demolished or “demolished by neglect”
- perceptions of high earthquake risk remain an impediment to investment and/or retaining business in the city
- the quality and accuracy of property data and the platform on which it sits.

A risk register and strategy is being developed as part of the programme plan.

### **8.1 Consultation and Engagement**

The content of this report has been guided by on-going engagement with parties including MBIE and other government agencies, the engineering sector, the banking and insurance sectors, the Planning Institute, the Property Council, Building Research Association (BRANZ), GNS, and others and public sessions organised by both the Council and the Inner City Residents Association.

As part of the communication planning, the “Wellington Rocks” community meetings are underway and these have been well supported.

## **8.2 *Financial considerations***

All proposed activity is budgeted for in the Long Term Plan. The implementation of any policy changes that will follow from any proposed regulatory changes would be considered in the Draft Annual Plan process.

## **8.3 *Climate change impacts and considerations***

There are no direct Climate Change considerations. The earthquake resilience project is working with the climate change team where there are opportunities for hazard mitigation, building upgrades to include energy efficiency components and precinct redevelopments.

## **8.4 *Long-term plan considerations***

The planned activity is budgeted for in the Long Term Plan. The implementation of any policy changes that will follow from any proposed regulatory changes would be considered in the Draft Annual Plan process.

Contact Officer: Neville Brown, Manager Earthquake Resilience

## SUPPORTING INFORMATION

### 1) Strategic fit / Strategic outcome

*The policy supports Council's overall vision of Wellington Towards 2040: Smart Capital which seeks to have infrastructure that creates a secure and resilient city.*

### 2) LTP/Annual Plan reference and long term financial impact

*The earthquake resilience project is contained in the Council Long Term Plan*

### 3) Treaty of Waitangi considerations

N/A

### 4) Decision-making

*This paper does not include significant decisions. The report sets out a number of options and reflects the views and recommendations of officers and those with an interest in promoting city resilience in an earthquake event.*

### 5) Consultation

#### a) General consultation

*There has been on-going communications and consultations with wider community interests through the media, workshop discussions, presentations to sector bodies and relationship management with key agencies.*

*Formal consultation will be required as part of the Earthquake Prone Building and Dangerous and Insanitary Buildings Policies review.*

#### b) Consultation with Maori

N/A

### 6) Legal implications

*Potential legal risks for Council have been raised as appropriate.*

### 7) Consistency with existing policy

*This report recommends certain policy positions which are different or additional to the existing Earthquake Prone Building policy. However they are consistent with proposed policy settings being promoted by Government in response to findings from the Christchurch earthquakes.*



## Summary update on Council activities

### 1. Advocacy

#### Central Government

At a political level, there have been meetings with the Prime Minister and with other relevant Ministers to promote the Council's support for the regulatory review, and financial incentive options for buildings owners to incentivise strengthening (e.g. targeted rate, tax deductibility).

Officers have worked extensively with MBIE and other government agencies to inform and advise on future national regulatory and programme responses. The Council was the only city able to provide good property information upon which to undertake analysis on factors such as increasing the earthquake prone threshold.

Our history and experience of dealing with earthquake prone buildings and related issues has been called upon by MBIE in developing the "Proposed Policy Specifications" that will form advice to Cabinet.

#### Local Government

Council officers have continued to meet with counterparts within the region. There is support for a regional approach to EQP buildings which could provide a level of consistency for developers, property and home owners within the region.

### 2. Building assessments

The IEP assessments have continued with urgency and Council has directed officers to undertake a further 200 assessments in 2012/13 and 2013/14. Progress is limited by the increased demand for seismic engineers at present.

The assessment programme has focused on fully assessing the buildings built prior to 1976. We expect to conclude the pre 1976 assessments by the end of 2013. As at 1 September, the following assessments have been completed.

	Built Pre – 1976
No. of buildings	4,648
Total no. assessed	3,395
No. assessed as <33% NBS	470
Total to be assessed	1,253

### 3. Communications and engagement

There has been a conscious effort to provide factual and reasoned communications as a balance to the more sensational stories associated with Christchurch. This has included developing city branding "*Wellington Rocks*" that promotes messages around the relatively low risk and high resilience from earthquake events

Communications and engagement activities have included:

- From August until November a series of 19 community earthquake briefings are being held across the city. The briefings are joint initiative with GNS Science and WREMO (Wellington Region Emergency Management Office) to provide people with information about the earthquake risk in Wellington, the work the Council has already undertaken and has planned to make the city more resilient and the preparations people can make for themselves to ensure they are ready for an emergency. The briefings are being organised in conjunction with local residents associations and schools, who have been helping to promote the sessions. One of the sessions has been recorded and the content also uploaded to Youtube. At the time of writing this report, 436 people had registered to attend a briefing session, with more registrations coming in daily. To date these have been enthusiastically received.
- In addition to the community briefings, 6 stakeholder briefings will also be held with groups such as the Property Council and restaurant and cafe owners. These sessions will provide information on the issues above but also specific detail on issues of concern to particular groups, such as access to insurance and finance.
- Over the coming months we will also continue to promote the recently released guide *Earthquake Strengthen Your House* in partnership with BRANZ for residential homeowners to strengthen their homes and the Master Builders earthquake resilience home assessment service.
- Web content on the earthquake strengthening of buildings has been developed to provide information for residential and commercial property owners, and will continue to be developed as additional resources are made available.
- We also plan to develop an information document for owners of potentially earthquake prone buildings or earthquake prone buildings explaining issues such as the building assessment process and section 124 notices and include information on a range of topics such as access to insurance, heritage issues and heritage grants and case studies of successful strengthening projects.

Future community and stakeholder engagement is planned as part of the Council's review of its Earthquake Prone Buildings Policy. Officers have continued to meet and present at city events and forums – e.g. Inner City Residents Association workshops, Property Council meetings, NZ Planning Institute, and the Safer Buildings Conference.

#### **4. Residential Home Assessments**

In conjunction with the homeowners guide "*Earthquake Strengthen Your House*" we have been engaged in discussions with members of Certified Builders and New Zealand Master Builders to ascertain their interest in carrying out residential home assessments for a fixed fee (\$160 dollars inc. GST). They have agreed to participate in this home assessment project and will provide the assessment service within five (5) working days of the requested assessment by the owner.

Residential home assessments will be offered to those home owners who do not feel confident to undertake the assessment of seven key elements identified in the home owners guide "Earthquake strengthen your house". These include:

- hot water cylinder tie backs
- header tank security
- chimney stability
- placement and security of piles and foundations
- floor bearer fixings to piles and foundations
- bearer to floor joist connections
- fixing ties to clay and the old cement tiles to the tile battens.

This will particularly benefit older style homes although most pre 1990 homes will benefit from this information. The requested home assessment will be carried out by either a member of the Master Builders or a Certified Builder using a set criteria assessment sheet. This will prioritise the work required and provide the owner with indicative costs of having the work done. The completion of the work recommended from the home assessment will increase the earthquake resilience of their home and reduce the risk of earthquake damage.

This product will be launched by the Mayor and partners on 24 September 2012.

## **5. Research and analysis**

The Council commissioned BERL to review the economic impact of earthquakes within the Wellington region to inform the EQP building policy and is commissioning a survey of property owners. The results are summarised in this report.

## **6. A survey of commercial property owners**

The Council is currently undertaking a survey of commercial property owners to assess what actions they have or are currently undertaking to strengthen their buildings, and also what barriers they are facing in the market which might be influencing their choices of what action to take. This survey will help inform Council decisions around policy and any assistance packages.

## **7. Heritage**

### ***Review of the District Plan Heritage List***

Work has been underway since April on reviewing the District Plan Heritage List of buildings, objects and heritage areas. The focus has been on the 248 heritage buildings that have been identified by BCLS as being earthquake prone. These are typically unreinforced masonry buildings (URMs).

The District Plan Heritage List has accumulated over the past 30 years. The list has never been reviewed but has had buildings added to it. The previous criteria used to assess some buildings or objects which are on the District Plan Heritage List do not meet the standard expected today. An assessment of the benefits and costs of listing buildings in the District Plan will need to form part of the review of the Heritage List under section 32 of the Resource Management Act.

This work is being dovetailed into the City's earthquake and resilience response work with the priority being placed on the earthquake risk and earthquake prone heritage buildings. Additional resourcing has been provided and there is now a team of researchers committed to this project. Progress with the Heritage List review is described in the table below:

Total number of confirmed EQP Buildings in Wellington as at 10 August 2012	Number of listed heritage buildings confirmed as EQP	Number of EQP or potentially EQP listed heritage buildings and heritage area buildings	Number of heritage reports completed to date (out of 248)
<b>470</b>	<b>121</b>	<b>248</b>	<b>120</b>

The assessment process behind the heritage reports involves a desk top investigation of each building based on the listings criteria adopted by the Council in 2007.

Given the size of the Heritage List, an approach has been developed to break it down into manageable themes so that buildings on the list can be prioritised. At this stage, the listings criteria provides for categories of buildings based on international, national, regional and local significance. To enable these buildings to be seen within a city-wide context, it is proposed to overlay other information that will assist Councillors in considering an appropriate Heritage List for Wellington. The list will be reproduced to provide this information in one table and include the following:

<b>Category within Heritage Listings Criteria</b>	In Public Ownership?	Within a Heritage Area?	Where in the Thematic Framework <sup>3</sup> ?	Within a Pre-1930s Inner Residential Area?	Earthquake Prone/ Earthquake Strengthened?	Grant or public investment made to restore/strengthen?
---	----------------------	-------------------------	--	--	--	--

By redrafting the Heritage List in this way, it is expected that clearer conclusions can be drawn resulting in confidence about how the Council wishes to proceed with a District Plan change relating to the Heritage List. This will be reported alongside any consequent changes recommended to the objectives, policies and rules which give effect to the way in which buildings on the list are managed and how the list sits within the concept of a resilient city.

<sup>3</sup> A Thematic Review of the the heritage of Wellington was undertaken in 2010. The thematic review provides a framework for analysis of the city's heritage buildings and places and identifies where the gaps are in representative examples of the city's recognised heritage places.

### Summary of Royal Commission Volumes 1 - 3

Three volumes of the Commission's final report were released on the 23 August, covering the hearings into seismicity, soil and ground conditions, building performance and low-damage building technologies.

The volumes contain recommendations with operational rather than regulatory implications. The introduction to volume one presents the following conclusions:

- *Confidence is justified in the current processes by which earthquake risk in New Zealand is assessed and translated into the provisions of the relevant Standards used for the purposes of building design.*
- *Construction costs do not appear to increase significantly with increases in the seismic design factor of the magnitude that has occurred (or may be contemplated) in Christchurch.*
- *The performance of buildings in the February earthquake does not demonstrate the need for wholesale change.*
- *There are aspects of current design practices and standards that can and should be enhanced. The objective should be incremental improvement within the existing framework of rules.*
- *The economic, social and cultural consequences of the earthquakes have been very severe. Best practice concept reflects the existing 'life-safety' objective, and looks towards damage mitigation where economically feasible.*

While 1100 buildings will need to be fully or partially demolished due to the Christchurch earthquakes, in general, Christchurch buildings achieved their 'life-safety' design objective. The extent and costs of the damage demonstrates that protection against collapse and the protection of life, can be at the expense of the building.

#### Volume Contents

Volume one summarises volumes 1 – 3 and presents findings from the hearings on seismicity and soil and ground conditions. The introduction to Volume one provides an overview of the general performance of buildings, the nature of the Canterbury earthquake sequence, and of their impact.

Volume two is focused on the performance of a representative sample of buildings that failed due to the Christchurch earthquakes. Volume three is forward-looking, and considers the costs, benefits and regulatory context for the uptake of low-damage building technologies. Low-damage design aims to provide greater building resilience by minimising damage, reducing repair costs, and reducing 'downtime' for building users following an earthquake.

Volume three also refers to the yet to be released fourth volume covering Unreinforced Masonry (URM) buildings. This volume is expected to have significant implications, since it deals with a significant proportion of the

## APPENDIX 2

existing building stock, and in particular heritage buildings. Also, considerable time was spent discussing changes to the 'new building standard' (NBS) in the URM hearings.

### Council's Regulatory Powers

The Council has the regulatory powers under the following sections of the Building Act 2004 (the Act).

- Section 124: Powers of territorial authorities in respect of dangerous, earthquake-prone, or insanitary buildings
- Section 126: Territorial authority may carry out work
- Section 128: Prohibition on using dangerous, earthquake-prone, or insanitary building

The Council has powers through the Act to force a resolution of an earthquake prone building. Initially the Council can require the building to be closed. The Council can also obtain an order from the Courts requiring the building to be strengthened or demolished.

The Council can apply to the Courts to undertake this strengthening or demolition work itself. While this appears fairly straight forward in all cases it requires the Council to show the Courts it followed a reasonable and consistent process that allowed the owner the opportunity to resolve this issue - namely the strengthening or demolition of the building.

The Council also has the ability to issue an infringement or fine to an owner or a member of the public if they fail to comply with a notice issued under the Act and the relevant sections of the Act.

#### **7.1 Colour coded Section 124 Notices**

In addition to the powers outlined above, the Council has developed colour coded earthquake prone building notices to help identify and manage the small number of buildings which need more direct attention from the larger group of "new" EQP buildings. The Council now has 3 EQP notices; yellow, orange and red notices.

##### **7.1.1 Yellow Notice**

This is a standard Earthquake-prone Building Notice issued in conjunction with S124 (1) (c) of the NZ Building Act. This Notice has a timeframe of 10, 15 or 20 years for strengthening. At this point all buildings identified as earthquake prone under the current process have been issued a "yellow" EQP notice.

##### **7.1.2 Orange Notice**

An Orange 'Final Earthquake-prone Building Notice' is issued where a building owner has failed to comply with the original S124 (1) (c) Notice. The owner has however made contact in reply to a request from Council regarding works if there are any undertaken, **and** has been able to show some solid progress towards a solution.

The intention of this Notice is to act as a 'final' reminder and it is issued in conjunction with S124 (1) (c) of the NZ Building Act.

These notices can be tied to a series of milestone dates agreed between the Council and the owner. As the owner meets the requirements of each milestone date the notice is extended to the next milestone date and so on.

Should the owner fail to meet their requirements they are issued with a Red Notice.

### **7.1.3 Red Notice**

Comprised of two Notices, a Red S124 (1) (b) Notice prohibits anyone from using or occupying the building (in accordance with S128 NZ Building Act) and a further Red S124 (1) (c) Notice which provides an absolute final date by which the owner must have the building strengthened or demolished (at the very least the Council will accept work being underway onsite).

The development of these notices has allowed Council officers to better manage owner expectations as well as allowing building users to more readily identify the “status” of an EQP building.

The introduction of the “colour coded notices” also provides a more clearly defined pathway if the Council decides to use its regulatory powers under the Building Act 2004 to resolve an outstanding notice where the timeframes for that notice have expired.



## A summary of the barriers faced by the Council and building owners in responding to buildings where the EQP notice has expired

<b>What are the barriers faced by Council in resolving a section 124 building</b>	<b>What are the barriers faced by owners of section 124 buildings for upgrading including Council planning rules</b>
<p><b>Lack of funds from owner to fix problem.</b></p> <p>This means the Council is forced into the situation of either allowing the building to remain or obtain an order from the Court allowing the Council to strengthen or demolish the building. This means costs are incurred by the Council. These can be recouped from the owner however it is not clear what happens if the costs incurred are greater than the existing value of the site.</p>	<p><b>Finance &amp; Insurance:</b> Many insurers have withdrawn from the Wellington insurance market and most are reluctant or refuse to insure an EQP building. Premiums have significantly increased.</p> <p>There is anecdotal evidence to show banks are reluctant to lend money for strengthening or purchase of EQP buildings. Owners who want to sell (as they cannot afford to strengthen) are struggling to find buyers.</p>
<p><b>Heritage buildings.</b></p> <p>If the building in question is a heritage building it may not be possible to obtain an order to demolish the building. The demolition may also be opposed by another external party forcing the Council into a situation where it is forced to strengthen the building.</p>	<p><b>Planning rules and heritage considerations.</b></p> <p>Planning limitations or heritage requirements limits the ability of an owner to take action to address the EQP notice. Currently resource consent is required to demolish a building in the inner city. Historically the Council has also required an owner as part of the demolition RC to confirm they will replace the demolished building with a new building. As part of Plan Change 48 the Council also imposed height limits on buildings in heritage areas.</p> <p>Anecdotal evidence suggests some owners see this as an impediment to redevelopment and heritage building owners have found it difficult to strengthen their buildings while having to consider the effect of change on the heritage aspects of the building.</p> <p>Officers are taking a more pragmatic approach - effectively on a case by case basis. This may mean owners may be misinformed around their options for individual buildings. Efforts are being made to ensure that owners communicate with officers early in planning for redevelopment and are given options to consider for proposed work.</p>
<p><b>Inflexible legislation:</b> The Building Act provides mechanisms to fine owners who fail to comply with a notice however it can also inhibit the Council from taking follow-up action if the owner doesn't comply with the original instruction. The RMA can also impact on the ability of the Council to address an EQP notice. Even though the Council can obtain an order through the Court, current legal advice states the Council would still need to comply with any requirements of the RMA or District Plan.</p>	<p><b>The Building Act:</b> The Act requires an owner undertaking work on an existing building to upgrade the requirements for Means of Escape from Fire and Access and Facilities for People with Disabilities.</p> <p>In some cases the cost of these upgrade requirements has been greater than the actual strengthening costs.</p>
<p><b>Time consuming process:</b> If the Council wishes to prosecute an owner for failing to comply with a notice it is time consuming. The evidentiary process can be inflexible and very time consuming. Failing to follow the "correct process" can lead to a prosecution being challenged and in the worst case being overturned or thrown out due to a technicality. This means it can tie up officers while they follow the correct process preventing them from undertaking other duties</p>	<p><b>Tenant demands:</b> As a result of Christchurch a number of owners have found their tenants have moved out of their buildings once they found the building is earthquake prone. In some instances this has also occurred where the buildings structural performance has been assessed as being less than 67%</p>
<p><b>Lack of strong guidance from the Courts:</b> There is not a lot of case law around enforcing notices under the Building Act. Historically councils have chosen a different route to resolving the problem. In the case of EQP buildings there is little current case law around a council taking action to resolve an EQP building. This includes a council successfully obtaining an order for it to undertake action to resolve the matter.</p>	

## APPENDIX 4

<p><b>Cost of taking a prosecution:</b> In some cases where a council has taken a matter to court the outcome while a success has not been a good use of rate payer funds, with the legal costs incurred by the prosecuting council far out stripping the fine imposed by the Courts.</p>	<p>of New Building Standard (earthquake risk). This approach has included government departments.</p> <p>This means 67% has become the new “minimum” for strengthening of a commercial building which in some cases means the strengthening of the existing building becomes uneconomic taking into account the required return (rent) to fund this higher strengthening level.</p>
---	---

## Financing solutions

In light of the economic drivers and the issues involved in managing the risk once notice periods for buildings have expired or become neglected, officers have been working on positive options to encourage building owners to strengthen buildings before it reaches the point where Council has to intervene.

### 1. Financing Solutions & Incentives to Property Owners

Affordable financing solutions are considered to be a significant barrier to property owners strengthening their buildings. The issues have several layers from the cost v benefit of strengthening, cost and ability to insure and the ability to obtain finance that matches the long term benefits of strengthening.

Officers have considered many ways to assist property owners get access to affordable finance. The following are options identified and canvassed to date:

Incentive	Brief Description	Issues
Voluntary targeted rate scheme	Council would act as an agent collecting targeted rates on a property equal to the loan repayments, and pass them to the bank as settlement of a property owners loan.	Requires legislative change (outlined in detail below)
Grants	Council could offer a grant programme to assist property owners with their financing. This would need to be funded either by increasing Council borrowings or by increasing our rates.	The cost of strengthening the city is too significant to be adequately funded through a grant scheme. There would be a perception of Council and ratepayers funding privately held investment properties. This mechanism is best targeted around our regulation and assessment processes.
EQC like earthquake strengthening fund	Council would work with Central Government to establish an earthquake resilience fund that was distributed to property owners for the purpose of strengthening their buildings (rather than cost of repairs which EQC currently provides for). This fund would not be limited to residential property owners.	Funding source of fund would need to be agreed (levy, lotteries) and could take a long time to build up. Policy would need to be developed to determine how funding would be distributed across the country, and the criteria for application to the fund. Unlikely to address the full cost of financing.
Tax deductibility of earthquake strengthening costs	Currently cost incurred to earthquake strengthen buildings is considered a capital item by the IRD and is not deductible for income tax purposes. Council will continue to lobby Central Government for a change in treatment to allow this expenditure to be treated as a revenue item and be deductible for income tax purposes (over a period of say 10 years)	No issues.

The financing solution that has been a key focus of officers in developing is the voluntary targeted rate scheme.

## 2. Voluntary Targeted Rate Scheme

The voluntary targeted rate scheme as currently proposed would see a bank providing lending for earthquake strengthening to a property owner, with the principal and interest repayments being repaid via the Council through a targeted rate on the property for a fixed repayment term. Should the property be sold, either the loan would be repaid as part of the settlement process, or the new owner would continue to pay the outstanding loan on the property through the targeted rate (the sale price would need to reflect this outstanding loan).

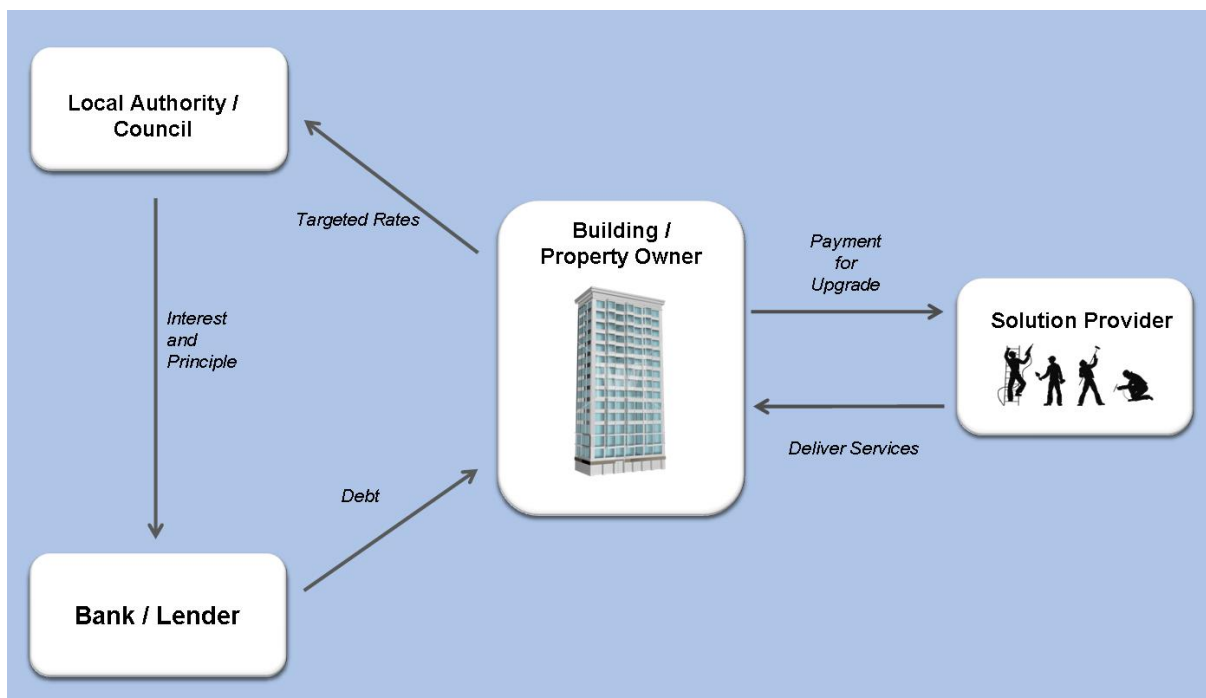


Diagram based on a model provided by the Bank of New Zealand

The key barriers to the scheme are legislative. For the Council to be party to this scheme (without taking on a primary lending role) a change to the Local Government Rating Act 2002 is required for what a targeted rate may be set for. Agreement is also required on how this targeted rate would be treated for both GST and Income Tax purposes under the relevant tax legislation.

Currently rates are subject to GST and are deductible for income tax purposes. Tax advice we have received recommends seeking a zero rated status of this rate for GST purposes, and that deductibility for income tax purposes would be limited to the only the interest component of the targeted rate (in the same way as a normal loan repayment is treated) for some property owners. In essence, the targeted rate would be treated as the substance of the transaction which is a loan repayment (principle + interest).

Consideration of how the scheme would be treated under our current credit and consumer law also needs to be clarified.

A summary of the various legislation requiring either change or treatment clarification is in the following table:

## APPENDIX 5

<b>Legislation</b>	<b>Govt Department</b>	<b>Change required</b>
Local Government Act (LGA)	Dept of Internal Affairs (DIA)	Amend the definition of an 'Activity' to which a targeted rate may be applied in the legislation
Local Government Rating Act (LGRA)	Dept of Internal Affairs (DIA)	Amend the definition of an 'Activity' to which a targeted rate may be applied in the legislation
Goods and Services Tax Act (GST Act)	Inland Revenue (IRD)	Clarification of treatment of targeted rate for GST purposes (zero rated)
Income Tax Act	Inland Revenue (IRD)	Clarification of treatment of targeted rate for Income Tax purposes
Credit Contracts and Consumer Finance Act (CCCFA)	Ministry of Business Innovation and Employment	Exemption to Council from requirements of this Act for this transaction
Financial Services Providers Act	Ministry of Business Innovation and Employment	Exemption to Council from requirements of this Act for this transaction
Consumer Guarantees Act	Ministry of Business Innovation and Employment	Limitation of Council liability to only their normal role as a building regulator in the event of poor workmanship of a tradesman within the transaction.

### 3. Engagement with Government Stakeholders

Officers have met with Revenue Minister Peter Dunne to discuss the voluntary targeted rate scheme and to advocate for the tax deductibility of earthquake strengthening costs either through treatment as repairs and maintenance or reinstatement of the depreciation rules for buildings. This was a positive meeting and the Minister was keen to advance this idea of a voluntary targeted rate and discuss with the Minister of Finance and Cabinet.

Officers have also met with representatives from the IRD, Treasury and Internal Affairs to advance the scheme further in the context of their departments and legislation changes required to enable the scheme.

The IRD and Treasury officials have since met with the Revenue Minister Peter Dunne and the Finance Minister Bill English and agreed to await the outcomes of the Royal Commission of Enquiry into the Canterbury Earthquakes before making any further recommendations for advancement of this scheme.

Progress is considered to have been made on the tax deductibility of strengthening costs as key Government Ministers come to grips with the scale of the problem facing the country. Evidence of Ministers considering financial or tax relief can be found in interviews on ONE NEWS with Revenue Minister Peter Dunne in July and with Building and Housing Minister Hon Maurice Williamson in August and in recent media coverage.

In order to progress the scheme with Government Ministers we need to know more information about the number of potential users of this scheme, how many users this tool would change the decision to strengthen buildings, or

change their business case to strengthen (ie the level to which this tool will be a game changer).

#### 4. Engagement with the Insurance & Bank Sectors

Insurance cover is an important factor in any financing solution as banks are indicating that they will not lend to property owners without suitable insurance cover in place. Officers have met with the Insurance Council (CEO Chris Ryan) who has indicated the following key points regarding insurance:

- 70% of current building code is the current view of the insurance sector in terms of ability to get insurance cover for an earthquake event (other material damage insurance such as fire will not be impacted by the level of building code).
- the competitive market between insurance companies means that different options are also being considered for less than 70% of code such as;
  - earthquake cover may be for a fixed price rather than replacement value (and fixed price would be much less)
  - cover may allow for a % reduction in the value of the property
  - cover may only be up to a certain level

.....but all at a much higher cost than if the building was 70%+ of code.

- insurance cover during a construction phase for strengthening is more likely to be covered under a construction policy rather than a material damage policy
- the insurance sector has a close relationship with the banking sector, but there are examples overseas where the banks lend to property owners in the absence of full insurance cover, and there is a view that maybe the banking sector need to consider this option further in the case of earthquake prone buildings.
- the insurance sector will be assessing policies at the maturity date, and their approach with a policy holder will depend on the level of re-insurance that is available. It is likely that over time the competitive nature of the sector will mean things will change, and earthquake cover may again be provided to buildings with <70% of code, but with appropriate risk assessment overlaying this.

The cost of bringing buildings up to 70% of code will be considerably higher than the cost to bring buildings up to 33% of code. Therefore if insurance and finance for strengthening go hand in hand, then so does the cost of strengthening work, and the affordability of that work becomes more of a challenge.

We have engaged with the banking sector regarding a targeted rate scheme. We have also attempted to engage with the NZ Banking Association to get a representative view from the wider sector on issues. We are also seeking loan value ratio (LVR) customer data from the banks in relation to the earthquake prone properties.

## 5. Risks

The key risks with the targeted rate tool are as follows:

- banks could approve lending under this scheme to a level that is unaffordable to the property owner. Council would then be exercising our powers of recovery under the Rating Act in a significantly higher number of cases (high administrative burden, negative publicity and negative outcomes for property owners).
- by association with the transactions, Council could be exposed to risks around contractor negligence, Credit Contracts & Consumer Finance Act and Consumer Guarantees Act. We would look to avoid these either through legislation or contract.
- the impact on the first mortgagee in the event of default may create a negative view of the product in the banking industry (if it is not open to all banks).
- the demand for the product may not be significant, but will take a lot of work to put in place (legislation changes, administrative processes developed and supported, policy considerations).

## 6. Next Steps

We now need to progress the modelling of the wider earthquake prone buildings issue, and understand better the 'levers' that will be game changers for building owners facing strengthening costs and process.

Specifically for the targeted rate scheme:

- continue communications with central government, particularly upon the completion of the Royal Commission of Enquiry as Ministers are delaying any decisions until this is complete
- conduct research with property owners to better understand the demand for a targeted rating tool to achieve better terms of finance
- conduct research to understand the likely level the market will require buildings to be strengthened to (a combination of tenants, insurers and policy requirements), and the cost to strengthen to that level
- progress modelling of benefits of the scheme to create a compelling case for central government
- continue to lobby for incentives to strengthen (eg tax incentives)
- developing policy considerations for funding (eg criteria to be eligible for various financing solutions)
- developing operating environment/administration considerations.