Earthquake-prone building advice flawed… again

New strengthening regime fails two crucial tests

Kathy Spencer

10 years ago, our elected representatives decided New Zealand would make a very bad investment. In 2016, every member of Parliament, with the notable exception of David Seymour, voted to strengthen earthquake-prone buildings to 34% of the New Building Standard.

A former principal advisor at the Treasury, Dieter Katz, said that the regime had the worst public policy pay-off he had ever seen.

The consultants who did the cost-benefit analysis back then, Martin Jenkins, estimated that strengthening costs were $1.72 billion compared with only $37 million in benefits from avoiding deaths, injuries, and property damage. They explained this result as follows -

"In all cases, even with extreme sensitivity scenarios, costs substantially exceed benefits. This is mainly because large earthquakes that cause significant damage are very rare, and smaller more common earthquakes don't cause very much damage."

Building owners and council administrators have been struggling with the system ever since. Some owners have incurred very high and disproportionate costs strengthening their buildings, while others have sustained large losses by selling buildings at heavily discounted prices. Some are stuck in limbo, unable to afford to do either.

Many New Zealanders will be aware of buildings that have been left vacant for extended periods including, for example, the Town Hall, the Central Library, and the Gordon Wilson Flats in Wellington.

Where earthquake-prone buildings are owned by central or local government, the very high costs of strengthening are met by taxpayers and ratepayers respectively, so at least the costs are shared. However, for privately-owned buildings, the owners have to fund the required strengthening themselves – alternatively, they can wait for the local council to send in the demolition crew and then be sent the bill.

Following a review last year, MBIE acknowledged the futility of the current regime -

"In practice, however, the retrofit costs under the current Earthquake-Prone Building system are often prohibitively high, meaning many building owners are unable to carry out remediation work. As a result, the intended life safety benefits are not being realised in most cases."

MBIE also advised Cabinet that rules for heritage buildings posed an additional barrier to remediation, noting that a targeted or full retrofit would cost twice as much as for a non-heritage building.

The new regime

The new strengthening regime currently being considered by a Select Committee aims to address these problems. It significantly reduces the amount of strengthening required by: removing Auckland, Northland and the Chathams from its scope altogether; narrowing the types of buildings needing to be strengthened; and reducing the amount of strengthening required for many of the buildings remaining within scope. As a result, the new regime is expected to cost $2.7 billion instead of $10.9 billion (the updated cost estimate for the existing regime).

These changes are clearly significant and I have no doubt that the new regime is an improvement. However, the critical question that needs to be asked is: do the changes go far enough to transform an abysmal investment into a good investment? In my opinion, this has not been established.

The regulatory impact statement attempts to draw this out when it asks, *"Will the benefits of the Minister's preferred option outweigh the costs?"* The answer Cabinet should be looking for here is "Yes", together with some figures showing by how much, but Cabinet doesn't get that.

Instead, MBIE says that the new regime "*presents higher benefit-cost ratios than the status quo across most New Zealand regions.*" That answer is far from adequate because being better than the existing regime is an extremely low bar.

Digging into those benefit-cost ratios a little bit, they really don't make sense. The ratio for Wellington, for example, implies that the new regime costs over $5.4 billion for Wellington alone. How can that be correct when the regime costs $2.7 billion for the whole country?

It gets worse when MBIE puts the complex cost-benefit analysis to one side and uses a simplistic points system to compare six different potential regimes.

Relative to the existing regime, the new regime scores -3 because it saves fewer lives, but scores +3 for being easier to administer. These scores aren't weighted for relative importance but simply added together, so cancel each other out. Since saving lives is the primary objective, this is surprising, to say the least.

In another example, the points system assigns +2 points for a $5 billion cost saving for owners, and the same +2 points for lower administration costs, despite the obvious difference in order of magnitude.

MBIE's points system adds apples to oranges and gets nonsense.

The second critical test for the new regime is whether the strengthening required will actually be achieved. With the amount of strengthening being cut back considerably, this should be a much easier task.

MBIE has acknowledged that private owners were often unable to remediate their buildings due to prohibitive costs. It has also acknowledged that apartment owners face additional barriers because their complex ownership structures make coordination and financing more difficult.

But, despite recognising that the government's approach had failed before, and was contrary to international best practice, MBIE's advice didn't even seriously consider providing financial assistance or buying-out privately-owned buildings that were uneconomic to strengthen.

The new regime therefore fails the second test as well.

More scrutiny is needed

Given the fraught history of this issue, and the complexity of the analysis involved, another layer of scrutiny is badly needed. Providing that scrutiny is part of the role of the new Ministry for Regulation. However, in another surprising twist, MBIE advised that the policy did not meet the threshold for independent review by Seymour's Ministry.

10 years ago, as the sole representative of ACT in Parliament, all Seymour could do was make an excellent speech pointing out that the policy was deeply flawed, and vote against it. He is now the Deputy PM and, as Minister for Regulation, he directs a whole ministry focused on improving the quality of NZ regulation.

Seymour is in the ideal position to ask his Ministry for Regulation officials the two hard questions that have yet to receive satisfactory answers: do the changes being made to the strengthening regime go far enough to make this a good investment, and what measures are needed to ensure that the required strengthening will actually happen?

Kathy Spencer worked in public policy for over 30 years, including as a Deputy Director-General in the Ministry of Health, a General Manager in ACC, and a Manager in the Treasury. She has no financial interest in any earthquake-prone building.