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Dear Anthony

**KAEO BUSINESS CASE - ADDENDUM**

Thank you for meeting with us on 13 April 2011 to discuss the Kaeo Business Case in support of the governments' conditional offer of funding support for the Kaeo Flood Risk Reduction Strategy.

We appreciated the opportunity for the open discussion of this matter, and the invitation to submit further clarification in support of the Business Case.


Please find enclosed an addendum to the Business Case, setting out clarification around the key matters discussed at our meeting. We trust this information will be of assistance in enabling a speedy and successful submission to cabinet in consideration of provision of funding support.

We strongly hold the position that the funding, for flood relief for the worst affected homes, could only be granted after a thorough scientific analysis of the flood risk.

Throughout the process we have kept central government fully informed and acted in good faith. We have been actively encouraged by central government officials to determine the best possible use of the fund. At no time was central governments contribution to this much needed project at risk based on a strict and ill informed interpretation of the wording of the cabinet paper.

Once again, thank you for your continued support in this matter.

Yours sincerely



Ken Paterson  
Chief Executive Officer

## **Kaeo Business Case – Addendum**

### **Background**

1. On 13 April 2011 staff from the Department Of Internal Affairs (DIA) and Ministry Of Civil Defence and Emergency Management (MCDEM) met with the Northland Regional Council (NRC) to discuss the Kaeo Business Case that was submitted to DIA on 21 July 2010.
2. The Business Case details the basis for the Kaeo Flood Risk Reduction Strategy and was submitted to the DIA in support of enabling a case to be provided to cabinet to consider release of the government's \$0.5M funding contribution towards assisting the most vulnerable flood risk properties in Kaeo.
3. At the 13 April 2011 meeting the NRC offered to provide further clarification to enable DIA to present a case to cabinet in support of the Business Case recommending that the governments full \$0.5M funding contribution be provided towards assisting the most vulnerable flood risk properties in Kaeo. This addendum provides the further information required to enable DIA to submit a speedy and successful submission to cabinet in support of the provision of the full \$0.5M contribution.

### **Introduction**

4. At the 13 April 2011 meeting, much discussion focused around the wording of the funding offer and the inappropriate strict interpretation of this in relation to the raising or relocating of houses and the quarter share cost allocation.
5. We note that the funding offer made after the 2007 floods, without the benefit of an understanding of the science and risk, included the specific solutions of relocating or raising vulnerable houses. The science and risk work that was subsequently undertaken by the NRC in preparation of optimising the flood risk reduction outcomes and potential benefit of the funding offer for Kaeo and stakeholders fundamentally changed the context of the funding offer.
6. The NRC acknowledged that the lack of understanding of the science and risk was a critical issue from the outset and commenced a programme of works to engage the community through the establishment of a liaison committee, development of the science, risk assessment and optioneering. The NRC pursued this work in the understanding that the development of a long term strategy was the most critical element for the success of the project, and for enabling government to commit its offer of funding support without a predetermination of the result based on the raising or relocating houses.
7. From the outset of this work, the NRC had to manage a number of emotive and inappropriate predetermined 'solutions' that were raised by the local community and other stakeholders. These 'solutions' included removal of oyster farms from the harbour, dredging the river and large scale dams amongst others. Solutions that were subsequently discounted through application of science and optioneering. Had the NRC followed the DIA interpretation of the funding offer (that is the interpretation discussed at our 13 April 2011 meeting), without undertaking this work, then it is likely that the funding would have been applied ad hoc to a range of houses without arriving at an optimum outcome.

8. The work undertaken by the NRC initially identified 45 vulnerable properties. The long term strategy has identified measures to enable the risk to be reduced for the majority of these properties without requiring relocation of raising of buildings. The application of science and risk assessment, and development of the long term strategy, has enabled the NRC to accurately reduce the number of properties that require assistance from 45 to 13. We submit that this work has resulted in a sound long term strategy, which combined with the NRC and FNDC funding contributions, meets the conditions of the offer of funding support.
9. Had this approach not been taken, we submit that the funding assistance would have been applied to many properties, without achieving an optimum reduction in flood risk. The NRC has applied significant funding towards developing the long term strategy, on the understanding that government would support the long term strategy and funding commitment made towards this as an integral component of the project.
10. We consider that the approach undertaken by the NRC in this situation is analogous to the approach being undertaken to determine the appropriate recovery response for Christchurch. That is the application of science, engineering and consultation to provide an informed response to recovery rather than adhering to emotive and predetermined outcomes as exemplified in the original cabinet paper.
11. We submit that from the outset, our interpretation of the funding offer was that the Council was required to develop a flood risk reduction strategy that provided the optimum long-term flood risk reduction outcomes for Kaeo. In our interpretation, we set about devising a strategy that ensured the very best possible outcome for Kaeo could be achieved.

#### **Specific Points of Further Clarification**

12. Key points where we feel it is relevant to provide further clarification include:
  - The context in which the offer of funding assistance was made – the government offer of 2008 was made conditional on an opportunity to have an informed understanding of the science and risk associated with the flooding and the funding being applied in the most effective way possible.
  - The commitment to funding assistance – the outcomes from the science and risk assessment has changed the landscape of the original offer of assistance and has now provided a sound basis for government to commit its funding contribution on the basis that the flood risk reduction strategy will achieve the optimum reduction in risk within the overall constraints of the offer of assistance.
  - Arriving at an optimal solution – the offer of funding assistance has required the application of a thorough assessment of science and risk beyond that which would typically be applied to a situation of this nature.
  - Maintaining the one-quarter share funding basis – the strategy as proposed, and the funding associated with its implementation, meets the one-quarter share funding requirement, and conforms with key elements of governments recovery policies, notably special policy.
13. Each of these are points are elaborated on in the following sections.

### **The Context Of The Offer Of Funding Assistance**

14. In developing the Kaeo Flood Risk Reduction Strategy, particular consideration was given to the context of the offer of funding support from MCDEM dated 12 November 2008, noting that the funding support was offered prior to a thorough understanding of the science and flood risk or the form that the flood risk reduction strategy would take in the circumstances that existed. In our opinion, this is a critical point to note in the interpretation of the governments 2008 offer, and the subsequent risk assessment and strategy development that was required to be undertaken by the NRC.
15. The NRC and Far North District Council (FNDC) have gone to considerable effort and cost to derive the information from which to develop the strategy. The NRC and FNDC have spent a combined \$570k in the development of the strategy as well as undertaking extensive consultation with the community during the strategy development.
16. Since 2008, the NRC has been undertaking the Priority Rivers Flood Risk Reduction project, developing flood risk reduction plans for 27 catchments throughout Northland. The cost of the development of the flood risk reduction plans for settlements with a similar risk profile to Kaeo is generally an order of magnitude less than the cost in preparing the flood risk reduction strategy for Kaeo. Indeed, the effort and resources that have been applied to Kaeo, as a result of preparing a strategy to support the offer of funding assistance, has been above what we would consider business as usual for a catchment with a risk profile similar to Kaeo.

### **The Commitment To Funding Assistance**

17. The outcomes from the science and risk assessment have shifted the landscape of the original offer of funding assistance.
18. To explain this, we refer to the following points taken from the offer of assistance, notably:
  - Provision of 'funding support for the most vulnerable flood affected properties in Kaeo, within the context of a strategy being developed by the Northland Regional Council for long term flood mitigation'
  - 'The cost of relocating or raising vulnerable houses should be split four ways'
19. To determine what are the most vulnerable flood affected properties, and then develop a strategy that delivers long term flood mitigation, has required significant effort and cost, as discussed previously. This has required the implementation of a comprehensive hydrometric network to determine baseline hydraulic and hydrometric conditions, the development of a detailed hydraulic model, a thorough hazard assessment and risk assessment and extensive community consultation. As elaborated to previously, we consider that this has gone beyond business as usual for a situation such as Kaeo.
20. This assessment led to the identification of a total of 45 commercial, residential or community (i.e. Church, Schools) properties being identified within the high flood hazard zone for the modelled 100 Year ARI climate change flood. That is 45 properties were identified as vulnerable.

21. From this assessment it became clear that the proposed offer of funding assistance, and the conditions pertaining to the offer, would be ineffective if the offer of funding assistance were applied to the full 45 properties. This is due to:
- The limited funding available (which would equate to approximately \$44,400 per property assuming a full quarter share funding contribution from each party) to lift these properties.
  - The fact that many properties cannot be raised or relocated due to the properties construction.
  - The hazard assessment undertaken has confirmed that it is not safe, in the majority of locations, to raise properties on site, as the risk remains too high given the depth and/or velocity of flood water.
  - The significant impact that raising or relocating 45 properties would have on the composition of the Kaeo community.
22. The information provided through the assessment of science and risk, has shown that the primary focus of the strategy should not be *relocating or raising vulnerable houses*, but a combination of this and modifying the flood risk through a combination of other works and initiatives as detailed in the Business Case (refer sections 18 – 28 of the Kaeo Business Case).
23. The strategy has been designed in a way that modifies flood risk for the most vulnerable properties, whilst enabling the application of the offer of funding assistance to be committed to the 13 most vulnerable properties where the risk is considered the highest. It is noted that the \$0.5M funding contribution sought from government, will only be applied to reducing the risk associated with these most vulnerable properties, and not to the other initiatives detailed in the strategy. That is the full \$0.5M government contribution will go solely towards relocating, raising, defending or retiring the 13 most vulnerable properties. Other funding associated with the development and implementation of the risk reduction strategy has, and or will be, met by the NRC or FNDC.
24. The rescue of 12 people from homes on Dip Road during Ex Tropical Cyclone Wilma on 29 January 2011 reinforces the findings of the science and risk assessment. The potential for loss of life is very high in the current situation; indeed, the rescue of the 12 people from the Kaeo flood plain at night using a rigid inflatable boat highlights the continued risk. This degree of risk is, in our opinion, unacceptable, although likely to continue unless these most vulnerable properties can be relocated or retired from this area of floodplain.

### **Arriving At An Optimal Solution**

25. From the outset, the NRC considered it critical that the strategy be developed in such a way that enabled the highest level of risk reduction to be achieved within the circumstances that exist, consistent with NZS9401:2008 (Managing Flood Risk – A Process Standard). This includes utilising the government funding assistance to remove the critical elements of risk that cannot be addressed through other components of the strategy. Relocating or raising homes is not business as usual for Councils, and we consider that this aspect of the strategy comes directly in line with governments' special policy assistance.

26. To achieve an optimal result, the NRC undertook an approach that utilised a thorough examination of the science and risk associated with the flooding. Our understanding from the outset was that this information would be required to enable cabinet to be in a position where an informed decision could be made in the confidence that the optimal result was to be achieved. We note that we worked with government throughout this process to keep government informed of the approach that was being undertaken.
27. To achieve this, the NRC and FNDC have gone to considerable effort above that which would be typically applied to a situation such as Kaeo. The additional effort has been undertaken as a result of the offer of funding support and the potential that this offer of assistance enables to achieve an optimal outcome.

### **Maintaining The One-Quarter Share Funding Basis**

28. Our understanding from the outset was that the government funding offer of \$0.5M would be applied towards the implementation of the strategy, pending equal contributions from the other funding partners. We submit that we have met the equal share funding contributions of the offer as detailed in the Business Case.
29. As discussed throughout this addendum, we consider that the work undertaken in developing the strategy and elements of the strategy implementation go beyond what could be considered business as usual for a Council. This includes the cost and effort applied in developing the strategy and the proposed raising, protecting or relocating of houses.
30. Considering these elements, and the costs associated with the strategy (refer sections 41-49 of the Kaeo Business Case), we submit that the Councils and the home owners are maintaining a contribution that meets the one-quarter share per funding partner condition. Based on the justification provided throughout this addendum, we consider that the government is able to provide its full one-quarter funding contribution of \$0.5M without setting a precedent for other situations similar to this. Particularly in this situation, where a conditional offer of assistance was made without an opportunity to have an informed understanding of the science or risk associated with the flooding or the likely outcomes of the long term flood risk reduction strategy.
31. Furthermore, we submit that the funding contributions as detailed in the business case (refer sections 41-49 of the Kaeo Business Case) conform to the key elements of governments recovery policies, notably special policy.

## **Summary**

32. In conclusion we reiterate the following points:
33. The flood risk reduction strategy as detailed in the business case has been developed within the context of, and in accordance with, the offer of funding assistance.
34. The offer of funding assistance was made with conditions that applied prior to the understanding of the science and risk associated with the flooding.
35. To develop a long-term mitigation strategy, that delivers an optimal outcome, extensive efforts have been committed by the NRC and FNDC beyond that which would normally be applied to a project of this nature.
36. The outcomes from the investigation of the science and risk have effectively shifted the landscape of the original offer of funding assistance, requiring a multifaceted approach to reducing flood risk to the most vulnerable properties in Kaeo.
37. The \$0.5M funding assistance sought from government, will be applied solely to those most vulnerable properties where the risk profile is unacceptable and not able to be mitigated by other elements of the strategy.
38. Our understanding from the outset was that the government funding offer of \$0.5M would be applied towards the implementation of the strategy, pending equal contributions from the other funding partners. We submit that we have developed a strategy that maintains the equal share funding contributions of the offer, noting that we worked with government throughout the development of the strategy to keep government informed of the approach that was being undertaken.
39. We consider that the work undertaken in developing the strategy and elements of the strategy implementation go beyond what could be considered business as usual for a Council. This includes the cost and effort applied in developing the strategy and the proposed raising or relocating of houses
40. We submit that the government is able to provide its full one-quarter funding contribution of \$0.5M without setting a precedent for other situations similar to this, particularly in this situation where a conditional offer of assistance was made without an opportunity to have an informed understanding of the science or risk associated with the flooding or the likely outcomes of the long term flood risk reduction strategy.