

# Chief Executive's Leadership Group

Paper no:	X.X Advisor to insert
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Business Group:	Urban Development and Delivery
Title:	CONFIDENTIAL - Auckland LSPs Infrastructure Update

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## Purpose

1. This paper outlines the decision to transition away from using the LEAD Alliance in the Auckland Large-Scale Projects. It is being brought to the Chief Executive's Leadership Group for noting before being presented to Kāinga Ora Investment and Delivery Committee (IDC) for endorsement.

## Recommendations

2. It is recommended that The Chief Executive's Leadership Group (CELG):
  - a) **note** that LEAD Alliance was initially procured and set up in 2018 to deliver a programme of works in the Auckland Large-Scale Projects (LSPs) that was planned, but not fully funded;
  - b) **note** that the brief for the alliance in 2018 was 'scale and pace' and this worked well for a fast start and a very high volume of work to follow, delivering more than \$600m of works and enabling 4,000 homes between 2018 – 2022;
  - c) **note** that the alliance model has provided flexibility as the scope and definition of the multi-year LSP programme evolved, including managing the Covid-19 disruption very well and ensuring resourcing availability during a constrained market;
  - d) **note** that as the alliance matured, the programme cost and performance was not in alignment with Kāinga Ora expectations, and in 2023 Kāinga Ora managed a significant reset process to increase the alliance's productivity and value proposition, with a focus on programme, cost performance and quality. Following this reset the alliance contract was extended for a period of five years;
  - e) **note** that, while the reset was successful and the alliance is stable and performing well with consistent and predictable costs to complete, Kāinga Ora Urban Development and Delivery (UDD) has determined that LEAD Alliance does not deliver the value we require given the high programme nature, and therefore the alliance model no longer suits our current needs;
  - f) **note** that the Alliance Agreement and contract extension does not commit Kāinga Ora to using the alliance for work in our Auckland and Porirua LSPs as sole Owner-Participant of the alliance, Kāinga Ora UDD has the authority to wind down the alliance at any time;
  - g) **note** that the process of transitioning away from using LEAD Alliance is expected to take up to 6 months with committed projects completed for design and construction;



- h) **note** that UDD is currently assessing options for civils delivery and may engage with the civil construction industry in order to inform a procurement plan; and
- i) **note** that the next steps are for UDD management to inform the Programme Alliance Board (PAB), whose members represent the participant companies of the alliance. Following this, a paper will be prepared for the Kāinga Ora Investment and Delivery Committee for noting, and the office of the Minister of Housing will also be informed of the decision. UDD will report back to CELG on the transition and procurement plan by March 2025.

## Background

- 3. The LEAD Alliance (formerly Piritahi Alliance) was established in 2018 to help with the coordination of the consent, design and delivery of the civil infrastructure required to enable additional housing for the Auckland LSPs, at the time known as the Auckland Housing Programme.
- 4. LEAD Alliance consists of one owner-participant, Kāinga Ora, and five non-owner participants: civil designers Tonkin + Taylor, Harrison Grierson and Woods, and civil constructors Hick Bros and Dempsey Wood.
- 5. It was contracted by HLC (the urban development subsidiary of Housing New Zealand) through an Auckland Civils Alliance Programme Agreement (ACAPA) for an initial term of five years, from December 2018-2023.
- 6. The use of alliancing in programme delivery (rather than project-specific delivery) was an innovation for land development. Furthermore, none of the companies had been involved in an alliance programme of the scale that was on the table. By focusing on construction and design companies that occupy the industry's 'second-tier', HLC sought to grow the overall sector capability and capacity.
- 7. The alliance also worked well for a fast start and a very high volume of work, which totalled more than \$600m and enabled 4,000 homes between 2018 – 2022. It was instrumental in retaining community support throughout the long development timelines, despite the very high work volumes and disruption.
- 8. The alliance had delivered a significant amount of infrastructure, but had not been focused enough on the basics of project delivery, including efficient processes and systems. As the contract term was closing, Kāinga Ora was to consider whether or not to extend the contract for a further five years.



9. At the time, the projection for LEAD Alliance's deliverables over the five years of the contract extension period (December 2023 – December 2028), being land for 6,000 homes and up to \$1b of works, was based on the Cabinet-approved Programme Business Cases for Mangere, Roskill and Tāmaki Large-Scale Projects (LSPs), and the remaining work in Northcote and Oranga.
10. Kāinga Ora UDD entered into contract renewal negotiations with LEAD Alliance in November 2022, with Kāinga Ora managing a rigorous review and reset process of the Alliance. This approach was supported by the Kāinga Ora Board and the Construction Programme Assurance Panel (CPAP). The reset focused on cost management and programme performance, as well as alliance systems and processes. It included a complete overhaul of senior leadership and directors, new KRA and KPI frameworks, a strategic review and significant training and upskilling, both for alliance personnel and Kāinga Ora staff. This work resulted in a five-year extension to the alliance contract, signed in December 2023.
11. It is worth noting that UDD has previously undertaken to wind down the Te Aranga Alliance in the Porirua LSP because the remaining works programme for Eastern Porirua no longer justified an alliance delivery model, due to the low complexity and reduced programme scale. UDD has successfully managed a transition process for this in 2023.

## Discussion

12. During a period of a very constrained labour market (particularly during Covid-19), one of the efficiencies of LEAD Alliance was in keeping the labour of both civil designers and constructors together. As these constraints have softened and industry growth builds, this efficiency within the alliance model is no longer demonstrable.
13. The Alliance was set up on the basis of a volume of work expected to be more than \$200m per year. This programme of work has been reduced and neighbourhoods / stages have been pushed out due to funding decisions made to the original approved funding envelope.
14. The remaining design and construction work within the funded LSP programme yet to be delivered is approximately \$950m. We are currently on budget and broadly on programme, although this is starting to fall behind as our approvals for future neighbourhoods are delayed.
15. Due to the programme of work reducing, and project delivery moving out, this has resulted in a higher overhead cost to project delivery. UDD management has identified that it will be more cost-effective to deliver the remaining programme under other delivery models.
16. We anticipate savings of \$18m per year for the alliance, with expected savings over the remaining funded programme of \$90m - \$100m.



17. The ACAPA reserves the right for Kāinga Ora to not put all work in the LSP programme through the alliance, and reserves the right to terminate the contract at any stage.
18. UDD estimates that the process of transitioning away from an alliance model will take up to 6 months, with a further two years to close out Project Quality assurance. This can be managed by the UDD team with limited support from the current partners in the LEAD Alliance. We also have internal resource and expertise to manage procurement and delivery within UDD.
19. Alongside the agreed projects allocated to LEAD Alliance, Kāinga Ora UDD has continued exploring and implementing alternative best-for-project decisions in its Auckland LSPs and greenfield projects, and in some instances has used a conventional 3910 construction contract (the most commonly used contract for building and civil engineering construction) where appropriate.
20. As new design and construction projects emerge during this transition period, UDD will take a tailored approach to the delivery of these civils. Kāinga Ora already has panels for civil partners, and UDD will use these panels (and add to the panels) as needed. UDD will also engage with the civil construction industry to inform a procurement plan.
21. Kāinga Ora, as the client and owner-participant, owns the project-specific intellectual property and will continue to use lessons learned from the alliance to inform future decisions around the design and delivery of civil infrastructure.
22. A transition team will be put in place to manage the transition of work away from the alliance. s 9(2)(a) Director Infrastructure and Civil Construction, will lead this team and focus on the most cost-effective and efficient plan to close out the remaining work in the Alliance. We will report back to IDC with an update by March 2025.

## Risks and their Treatments

Type	Risk/Issue	Causes (s)	Consequence (s)	Controlled Risk Rating	Risk Treatment	Risk Owner
Risk	Costs incurred for lease of alliance office after it ceases	Breaking lease term	Up to \$1m payable per year for lease	Medium (6-15)	The transition team will work with the landlord on an exit option, and look for other government projects that may require a project office	s 9(2)(a)



Issue	Issue of alliance closure closely following publicised contract extension and reset process	Poor messaging and communications	Aggrieved alliance partners, media coverage	Low (1-5)	Comms plan with key messages that note that the contract extension was based on funded programmes that have since been reduced.	s 9(2)(a)
Risk	Delivery Transformation investment	Assumption that investment in LEAD participating in pilot programme is wasteful spending	OIA requests, media coverage	Low (1-5)	Comms plan which notes that the pilot work will be used by UDD to inform how to improve management and deliver civils work outside of the alliance. We note that UDD has undertaken a similar plan for the closure of the Te Aranga Alliance in Porirua.	

## Next Steps

23. The next steps are to inform the LEAD Alliance Programme Alliance Board (PAB) members of the decision, and then a noting paper will be prepared for the Kāinga Ora Investment and Delivery Committee. The office of the Minister of Housing will also be informed of the decision.
24. Kāinga Ora UDD will develop and implement a plan to communicate the announcement. The expectation is that all stakeholders are informed by Monday 9 December 2024.
25. UDD will report back to IDC with a transition plan by March 2025.

