

Kāinga Ora - Investment and Delivery Committee

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Meeting date:	16 December 2024
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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 and replace it with an alternative commercial model and delivery methodology. UDD is seeking endorsement from the Kāinga Ora Investment and Delivery Committee for this decision.

Recommendations

2. It is recommended that Kāinga Ora Investment and Delivery Committee (IDC):
 - a) **note** that LEAD Alliance (formally Piritahi) 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 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 and ensuring design and construction resource availability during a constrained market;
 - d) **note** that as the alliance matured, the programme and cost outcomes were not in alignment with Kāinga Ora expectations, and in 2023 Kainga Ora’s Urban Development and Delivery group (UDD) managed a significant reset process to improve performance with a focus on programme and cost. Following this reset the alliance contract was extended for a period of five years;
 - e) **note** that the alliance is delivering well since the reset, however the overhead and an increasing risk aversion is preventing value for money, particularly with reductions in forward work born from funding changes and government approval delays;
 - f) **note** that since the extension of the alliance contract, \$450m has been removed from the funded programme, three Neighbourhood Business Cases completed in late 2023 have not yet been approved and there is potential for further reductions;
 - g) **note** that the Alliance Agreement and contract extension does not commit Kāinga Ora to using the alliance for work in our Auckland LSPs and the agreement contains a ‘termination for convenience’ clause in Kāinga Ora’s favour as Owner-Participant;
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- h) **endorse** UDD to give notice to LEAD Alliance that Kainga Ora will terminate as permitted under the contract and begin a transition to a replace it with a low overhead, cost and value-focused delivery model(s);
- i) **note** that Kāinga Ora Construction Programme Assurance Panel (CPAP), our independent alliance consultants BRS, and the Programme Alliance Board (PAB) independent chair Graham Darlow have all inputted to the change in plan and support the direction we are taking;
- j) **note** that the transition process is expected to take up to six months for core overhead and management structures, and that already committed infrastructure projects will be completed using alliance principles;
- k) **note** that UDD is assessing options for procurement and civils delivery and will engage with the civil construction industry to seek input on the best model(s) to deliver on Kāinga Ora objectives, and a subsequent procurement plan; and
- l) **note** that the next steps are for UDD management to inform the PAB, whose board members represent the participant companies of the alliance. The office of the Minister of Housing will also be informed of the decision. UDD will report back to ELT on the transition and procurement plan by March 2025.

Background

3. LEAD Alliance (formerly Piritahi Alliance) was procured in 2018 to help with the coordination of the consent, design and delivery of the infrastructure required to enable additional housing for the Auckland Large Scale Projects (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: designers Tonkin + Taylor, Harrison Grierson and Woods, and contractors Hick Bros and Dempsey Wood.
 5. It was contracted by HLC (the urban development subsidiary of Housing New Zealand) for an initial term of five years, from December 2018 to 2023.
 6. The use of alliancing in programme delivery (rather than project-specific delivery) was an innovation for land development. Furthermore, the majority of the companies had not been involved in an alliance. 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 worked well for a fast start and a very high volume of work, which totalled more than \$600m and delivered infrastructure that enabled land for 4,000 homes between 2018 to 2022. Community rejection of the activity was also a high risk and had the potential to stall the programme.
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The alliance delivery methodology included detailed community liaison that was instrumental in retaining support throughout the long development timelines, despite the very high work volumes and disruption.

8. Between 2018 to 2022 the alliance delivered a significant amount of infrastructure, but needed to be refocused on programme, cost and efficient processes and systems. As the contract term was closing, Kāinga Ora was to consider whether to extend the contract for a further five years.
9. At the time, the projection for the alliance's deliverables over the five years of the contract extension period (December 2023 – December 2028), was infrastructure to enable land for 6,000 homes and up to \$1.3b of works. This was based on the Cabinet-approved Programme Business Cases for Mangere, Roskill and Tāmaki LSPs, and the remaining work in Northcote and Oranga.
10. Kāinga Ora UDD entered contract renewal negotiations with the alliance in November 2022, with Kāinga Ora leading a rigorous review and reset 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 and a new name: Land Enablement and Delivery Alliance (LEAD).
11. It is worth noting that UDD has previously exited the Te Aranga Alliance for the Porirua LSP with a change to the procurement and delivery model. The remaining works programme no longer justified an alliance delivery model due to programme work, dependencies and complexity. UDD successfully managed this transition process in 2023, delivering overhead savings of \$10m per annum and realised competitive tendering for future works under budget.

Discussion

The market and our programme has changed since we procured the alliance

12. LEAD Alliance currently costs \$18m annually to manage the LSP programme, in addition to each design and construction project delivered under the programme.
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13. During a period of a very constrained labour market (particularly during Covid-19), one of the efficiencies of LEAD Alliance was in ensuring dedicated and committed resourcing for designers and contractors. As these constraints have softened and industry growth builds, this value from the alliance model is no longer demonstrable.
14. The Alliance was set up on the basis of a volume of work expected between \$150m to \$200m per year. This programme of work has been reduced and moved with neighbourhoods / stages being pushed out due to decisions made to the original approved funding envelope and programme. Following the December 2023 contract extension for the alliance, \$450m has been removed from the programme in April 2024, and three Neighbourhood Business Cases for Mangere totalling \$450m of design and construction work have not yet been approved.
15. 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 will be impacted as approvals for future neighbourhoods are delayed. The currently-funded LSP infrastructure programme runs to the 2030s.
16. The reduced programme of work and project delivery timelines moving out has resulted in a high overhead cost against project delivery. UDD management has identified that it will be more cost-effective to deliver the remaining programme under other delivery models.
17. We anticipate savings of \$18m per year for the alliance when realised, with expected savings over the remaining funded programme of \$90m.

We are set up to maintain delivery momentum despite the change

18. The Alliance agreement 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.
 19. UDD estimates that the process of transitioning away from an alliance model will take up to six months, with a further two years to close out Project Quality assurance and documentation. This can be managed by the UDD team.
 20. UDD's Infrastructure, Commercial Management and Development teams have the internal resource and expertise to manage procurement and delivery within UDD (with support from the procurement team in the Housing Delivery Group).
 21. Alongside the projects delivered by LEAD Alliance, Kāinga Ora UDD has continued implementing alternative best-for-project decisions in its Auckland LSPs and greenfield projects, including traditional 3910 construction contracts (the most-used contract for building and civil engineering construction) where appropriate.
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22. UDD will assess and review different procurement and delivery models that will achieve cost efficiency, flexibility, competition from the market and the right expertise utilised for each project. We expect to utilise a number of procurement models to maximise flexibility of delivery and future changes in project scope.
23. During the the procurement assessment UDD will enage with the design and construction market, this is an opportunity to both raise interest and seek input on the best models to deliver the objectives of Kainga Ora and hear of the innovation and outcomes the market can bring. The engagement will also signal UDD’s intent to respond and adapt to government direction.
24. The current participants within the alliance will have the opportunity to be part of the new procurement and delivery model. Indeed we would expect that they are part of the new solution, allowing retention of experience gained in the delivery to date.
25. Kāinga Ora, as the alliance client and owner-participant, shares the ownership of project-specific intellectual property and will use lessons learned from the alliance to inform future decisions around design and delivery of the LSP Programme.
26. A transition team will be put in place to manage the transition of work away from the alliance to the new procurement and delivery approach. s 9(2)(a)
[REDACTED] 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, with support from the procurement team in the new Housing Delivery Group. We will report back to ELT with an update by March 2025.

Operating Principles

27. The decision to wind down LEAD Alliance reflects considerable efforts across the Kāinga Ora business to take a disciplined approach to cost management. It represents a more sustainable and commercially efficient approach, and aligns with several of the activity areas of focus as identified in our Interim Strategic Direction – namely:
 - a) Delivering our funded urban development
 - b) Optimising our operating model to deliver savings
 - c) Delivering to budget.
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Risks and Mitigation

28. UDD has identified the following risks and mitigations related to this decision:

a) **Costs incurred for breaking lease term on LEAD Alliance office on Quay St, Auckland Central**

We have identified that this could be up to \$1m payable per year of lease remaining. The lease runs until 31 December 2028. The transition team will work with the landlord on an exit or sublease option.

b) **Delivery Transformation – LEAD is involved in pilot programme**

There is a risk surrounding LEAD's ongoing participation in the UDD Delivery Transformation pilot project, which has just started. We believe it is likely the designer and contractors from within LEAD will continue to support the pilot under a new commercial agreement. The communications plan will note that the pilot work will be used by UDD to inform and improve management, regardless of the commercial or delivery model.

Consultation

29. Due to the sensitive nature of the decision and the requirement to manage communications carefully and appropriately, UDD has kept consultation limited. We have presented this decision to the Executive Leadership Team (ELT) and to the Construction Programme Assurance Panel (CPAP). We have also sought input from PAB independent chair Graham Darlow, and independent alliance consultants BRS who agree with our assessment of the alliance performance now and the opportunity to change it. All who have been consulted support the decision and direction we are taking.

Implications

Legal Implications

30. The alliance agreement reserves the right for Kāinga Ora to not put all work in the LSP programme through the alliance, and contains a 'termination for convenience' clause that reserves the right to terminate the contract at any stage.

Financial Implications

31. Financial implications are noted in the Risk and Mitigation section – namely the breaking of the lease of the LEAD Alliance office. However, we anticipate significant savings of \$18m per year, with expected savings over the remaining funded programme of \$90m.

People and Resource Implication

32. There are two UDD staff members whose roles specifically interface with the Alliance: the Owner Interface Manager and Advisor, Owner Interface. UDD estimates that the process of transitioning away from an alliance model (expected to take up to 6 months, with a further two years to close out Project Quality assurance) can be managed by the existing UDD team.

Communication and Engagement

33. An initial communications plan to announce the decision to close down the Alliance has been prepared by UDD. It focuses on informing alliance members, Kāinga Ora groups who work with the alliance, particularly Housing Delivery Group, Place Based teams, Delivery Transformation Group and National Services, and key external partners and stakeholders like Auckland Council Group and Tāmaki Regeneration Company.
34. Kāinga Ora Director of Communications will be informed to manage any potential media enquiries resulting from the announcement, and the Minister of Housing will also be informed of the decision.
35. Following this initial announcement, UDD will engage the Kāinga Ora external communications team to develop a comprehensive communications plan to support the transition period and any other communications requirements, including media enquiries, community engagement within our LSPs, and updating websites and other materials.

Climate Change

36. There are no sustainability, climate mitigation and climate related risks and opportunities associated with this paper.

Treaty of Waitangi and Māori Outcomes Obligations

37. UDD notes that the decision to close down the alliance may result in future procurement opportunities for Māori involvement in our LSPs, particularly with respect to civil construction activity and civil panels. These outcomes will be explored as an assessment of other delivery models continues.
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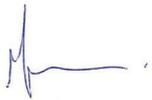
Delegations

38. UDD management holds the delegation to make the decision to close the alliance, as outlined in the Alliance agreement. However, we are seeking IDC endorsement to ensure that our decision is supported by the Kāinga Ora business.

Next Steps

39. Following IDC endorsement, UDD management will inform the Programme Alliance Board (PAB), whose members represent the participant companies of the alliance.
40. UDD will then deliver the communications plan to support the announcement, with all stakeholders (including the Minister of Housing) expected to be informed by 20 December 2024.
41. UDD will report back to the ELT on the transition and procurement plan by March 2025.

Signature



Mark Fraser
GM, Urban Development and Delivery

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