

Christmas Island Immigration Detention Centre Project Update

Introduction

- 1.1 In 2001 the Australian Government established temporary facilities on Christmas Island to detain people who had attempted to enter Australia by boat without immigration authorisation. The facilities soon proved inadequate to appropriately accommodate the growing number of boat arrivals at the time.
- 1.2 In 2002 the Government announced its intention to develop a purpose designed 'Immigration Reception and Processing Centre' (IRPC) to accommodate up to 1200 people. Given the large number of unauthorised boat arrivals and the need to develop the facilities prior to the onset of the wet season, the project had the tight timeframe of nine months for completion.
- 1.3 Under the *Public Works Committee Act 1969* (the Act), a public work over a threshold value cannot be commenced unless it is referred to the Public Works Committee (PWC), the Committee has reported on it and the Parliament has agreed to the work being carried out.¹ There are some exceptions to this.²

1 The current threshold value of public works to be referred to the Committee is \$15m. The *PWC Manual of Procedures for Departments and Agencies* also requires that the Committee is notified of proposals valued between \$2 - 15m. Once notified, the Committee may then seek a referral for a formal inquiry into such proposals.

2 Referrals may be exempt from public scrutiny if they are declared urgent, for security sensitive defence purposes, repetitive or from certain agencies. See Section 18, *Public Works Committee Act 1969*.

- 1.4 On 21 March 2002 the House of Representatives resolved, in accordance with section 18 (8) (c) of the Act, that by reason of the urgent nature of the work, it was expedient that the IRPC works be carried out without having been referred to the Committee. The likely cost of the project was not known at the time of the resolution.³
- 1.5 Following a reduction in the number of boat arrivals the project was respecified to provide for an accommodation capacity of 800 people in both purpose designed and basic contingency housing. In contrast to the urgency of the original works, the new proposal was to be developed in accordance with traditional construction and contracting approaches with an extended timeframe of almost three years.
- 1.6 On 19 June 2003, the Parliamentary Secretary to the Minister for Finance and Administration referred the proposal for the Construction of a Respecified IRPC on Christmas Island to the PWC. The Act requires that in undertaking inquiries, the Committee has regard to:
- the purpose, need and use of the work;
 - the revenue that could be derived from the work (if any) and
 - the public value of the work.⁴
- 1.7 The Public Works Committee of the 40th Parliament conducted an inquiry into the proposal and tabled its report on 2 December 2003 recommending that the project proceed.⁵ The total estimated cost of the proposed respecified IRPC was \$276.2 million comprising of:
- \$197.7 million from the then Department of Finance and Administration (Finance) to bring the project to completion;
 - \$20.5 million from the then Department of Immigration and Multicultural and Indigenous Affairs for management of the original project; and
 - \$58 million from the then Department of Transport and Regional Services for related infrastructure works.
- 1.8 On 10 January 2008, Finance wrote to the PWC to request its concurrence for a cost increase of \$120 million, bringing the total cost of the project to

3 House of Representatives, *Parliamentary Debates*, 12 March 2002, p. 1951.

4 Section 17 (3), *Public Works Committee Act 1969*.

5 PWC Report, *Proposed Respecified Christmas Island Immigration Reception and Processing Centre*, December 2003.

\$396 million.⁶ The Committee accepted the Department's offer for a briefing on the matter.

- 1.9 The public briefing from Finance on what is now known as the Christmas Island Immigration Detention Centre (IDC) was held at Parliament House on 26 June 2008. The main focus of the briefing was the reasons for the dramatic cost increase for the project. The transcript of the briefing is the main source of evidence for this report.⁷

The 2003 proposal

- 1.10 According to the 2003 proposal for the respecified IRPC, the three main forms of accommodation to be developed at the Centre were:

- General Accommodation (including Contingency);
- Management Unit; and
- Medical.

- 1.11 Other facilities that were to be provided at the Centre included:

- main reception;
- administration;
- medical;
- kitchen facility, including storage;
- dining areas;
- visiting area;
- interview/conference;
- education services and facilities;
- industrial laundry; and
- multiple storage areas of varying sizes and function.⁸

6 A copy of the Department of Finance and Deregulation letter to the PWC is located at Attachment A.

7 The transcript of the briefing is located on the Committee's website:
<http://www.aph.gov.au/pwc>

8 Department of Finance and Administration, *Submission No. 1, Construction of a Respecified Immigration Reception and Processing Centre on Christmas Island*, pp. 7-8.

- 1.12 In its report on the 2003 proposal, the Committee raised a number of issues in relation to the works including:
- The use of the funds that had already been spent on the project;
 - The expertise of the then Department of Finance and Administration to manage a project of such complexity;
 - Impact on the local community; and
 - Operational issues.⁹
- 1.13 Each proposal before the PWC is also scrutinised in terms of the rigour of its cost plan at a closed door hearing. These hearings are not open to the public in order to protect the integrity of the tendering process and assist the Commonwealth in maximising its value for money in funding the project.
- 1.14 In the 2003 in-camera hearing on the confidential cost estimates for the project, the Committee expressed some concerns in relation to the following matters:
- the lack of disclosure, even on a confidential basis, of certain information in relation to the settlement of claims with a former contractor;
 - the lack of transparency of the cost information provided to the Committee;
 - the lack of differentiation between the cost information provided in relation to the work that had already been carried out and the work that had yet to commence.¹⁰

The 2008 PWC briefing

- 1.15 At the briefing on 26 June 2008 Finance advised the Committee that the budget for the Christmas Island IDC had increased on two occasions. The first increase to the project, valued at \$59.3 million, was approved by the Government on 30 December 2004. That increase raised the contribution from the Department of Finance from \$197 million to \$257 million, or just over 25%.

⁹ PWC Report, *Proposed Respecified Christmas Island Immigration Reception and Processing Centre*, December 2003.

¹⁰ Confidential Transcript of Evidence, 31 October 2003.

- 1.16 The main reason cited for this increase was the initial underestimation of the costs of the works. The higher than expected bids from tenderers were attributed to the logistical challenges in building in such a remote location, the escalation of prices in an already booming construction industry, and the generally high cost of mining industry contractors.
- 1.17 In light of the higher than anticipated tenders, Finance conducted value management workshops in order to identify particular areas where the cost could be lowered and options were developed to reduce the costs and/or scope of the work. However, the Government agreed to maintain the scope and proceed with the work at the increased cost. In January 2005 Boulderstone Hornibrook was engaged as the main works contractor for the project.
- 1.18 In justifying the original estimate to the Committee, Finance explained:
- It is at best an estimate at the time. At the time the budget was brought to this committee in its first form, the project had not been fully defined. It had not been fully scoped. We had our best estimate of what was required and the risks that were attendant in delivering that.¹¹
- 1.19 Finance then pointed out that the initial estimate did not go through a detailed or rigorous review prior to its presentation to the Committee:
- When the project was brought to this committee in its first stage, we did not have a concept design for the project. We just had a very broadbrush view of what we were seeking to deliver.¹²
- 1.20 The second increase to the project, valued at \$60 million, was approved by the Government on 4 August 2006 and increased the Department's commitment from \$257 million to \$317 million.
- 1.21 Two main reasons were cited for the second budget increase:
- the delay in the project design documentation by the main works contractor; and
 - the breakdown of the port crane on Christmas Island which was out of operation for six months.
- 1.22 In relation to the additional cost caused by the delay in the project design documentation, Finance advised that the preparation of the documents was a particularly demanding task:

11 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 3.

12 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 7

There are more than 50 buildings, as well as all the associated infrastructure, and the design team had to produce something in excess of 5,000 drawings. It was a challenge of doing that when the industry was under significant resource stress.¹³

- 1.23 Finance, told the Committee that the impact of the crane failure proved to be dramatic:

... during that period of crane outage, we commissioned barges to travel from Indonesia to Christmas Island to transfer the out-of-gauge material and package it in such a way that it could be lifted by a 100-tonne crawler crane that we had on the site. We had to move that 100-tonne crawler crane from the site to the wharf on ... three occasions ... Each time, that required a major dismantling of the crane, trucking it to the portside and reassembling it under the direction of a specialist engineer who was flown in from Singapore.¹⁴

- 1.24 Environmental factors also became a significant challenge to the project, as Finance explained:

The logistical difficulties associated with working in a remote location and within a pristine natural environment really cannot be fully understood without a trip to that location. By way of example, in the course of the delivery of the project, we have experienced two cyclones, a tsunami and an earthquake at a significant level on the Richter scale only 150 kilometres from the island. The swell season can delay shipping by as much as four months.¹⁵

Contractual settlements

- 1.25 The Department's contract for the works contained provisions to compensate the main works contractor in the event of uncontrollable delays. The eventual project delays gave rise to a number of dispute notices, on which Finance and the main works contractor reached a negotiated settlement.

- 1.26 Finance advised that they were not involved with disputes with subcontractors that may have complained that they were not being compensated for the delays. Rather, that was a matter between the main contractor and the subcontractors:
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13 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 3.

14 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 3.

15 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 3.

The head contactor is required to provide a statutory declaration with progress claims stating it has paid all monies owing under relevant sub-contacts.¹⁶

- 1.27 The terms of the settlement between the main works contractor and Finance have not been released to the public and cannot be scrutinised due to a confidentiality agreement between the two parties. According to Finance:

[The confidentiality agreement] is to protect the main works contractor from what they might not wish to have known by their competitors as to what they accepted. Similarly, with the Commonwealth we took legal advice as to any exposure that the Commonwealth may be open to if the details of that settlement were on the public record. On the basis of that advice, we agreed that we should enter into a confidentiality agreement.¹⁷

View of the Committee

- 1.28 The Committee was not satisfied by the justifications offered by Department of Finance and Deregulation for the cost overruns associated with the planning and construction of the Christmas Island Immigration Detention Centre. The key factors cited such as the isolation of the location, the high transport costs, competition with the booming mining sector and project design documentation expenses, should have been foreseen.
- 1.29 In relation to the breakdown of the port crane, the Committee considers that such a piece of critical infrastructure should have been identified as a key project risk. The Committee notes that the Department of Finance asserts that the project did include adequate planning for risks associated with the crane. The Committee is unable to accept that assertion in the absence of clearer evidence of an appropriate risk assessment process having been followed in that respect. That situation demonstrates the need for the Committee to be provided with rigorous risk assessment documentation as part of the inquiry process.
- 1.30 The Committee was also concerned with other cost overruns such as the budget for 'sundry fees and costs' rising from \$500,000 in 2003 to

16 Correspondence between the Department of Finance and the PWC in relation to correcting the Proof Transcript of Evidence, 26 June 2008, p. 9.

17 Mr Scott-Murphy, Proof Transcript of Evidence, 26 June 2008, p. 10.

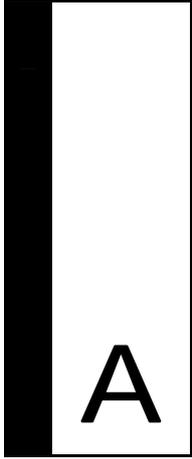
\$5 million in 2006. Similarly, the budgets for 'design' rose from \$8.8 million to \$15.5 million and for 'project management' from \$2.8 million to \$6.5 million over the same period.

- 1.31 Finally, the Committee is not satisfied that the compensation settlement between the Department and the main works contractor is now beyond public scrutiny as the two parties have deemed the terms commercial in confidence.
- 1.32 The Committee notes that some positive lessons for project planners have emerged as a result of the cost overruns. The current two stage approval process for public works provides greater cost certainty for project proposals.
- 1.33 The Committee will continue to monitor relevant reports such as the current Joint Standing Committee on Migration inquiry into immigration detention, in view of future detention centre upgrade works that may be referred to it.
- 1.34 The Committee also notes that the Government approved the final project cost increase in August 2006, yet it was not until January 2008, some eighteen months later, that Finance wrote to the Committee to seek its concurrence for the cost increase.
- 1.35 The PWC of the 40th Parliament was presented with a project in 2003 that was poorly costed in the first place and then inadequately managed. That Committee examined the evidence presented before it in good faith.
- 1.36 The Committee has expressed its concerns about the project to the Auditor-General, whose agency, the Australian National Audit Office, is currently undertaking an audit of the project in terms of its compliance with the *Public Works Committee Act 1969*.

Senator the Hon Judith Troeth

Acting Chair

September 2008



Appendix A: Department of Finance and
Deregulation letter to the Public Works
Committee