

Construction of Projects Two and Three of the Christmas Island New Housing Program

- 2.1 The Department of Regional Australia, Local Government, Arts and Sport (the Department) states that Christmas Island (CI) is facing a critical housing shortage which impacts on the provision of public services.¹ Accordingly, the Department is seeking approval from the Committee to proceed with Projects Two and Three of the Christmas Island (CI) New Housing Program.
- 2.2 The CI New Housing Program consists of three separate projects. On 17 December 2010, the Department notified the Committee of a medium works project, being Project One of the CI housing program, at an anticipated cost of approximately \$8.9 million.² The Committee determined that it had no objections to Project One proceeding as a medium work. However, the Committee took the view that the three projects were stages of one larger housing project and advised the Department that Projects Two and Three should be referred.³
- 2.3 Notwithstanding that Project One is not the subject of this inquiry, the Committee has reviewed the progress of this Project as it relates to Projects Two and Three, and the New Housing Program as a whole.
- 2.4 Project One commenced in September 2011 and comprises the construction of 16 dwellings and associated infrastructure. The current contract value for the medium work is estimated to be \$11.4 million.⁴

1 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 1.

2 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 1.

3 See section 18, *Public Works Committee Act 1969 (Cth)*.

4 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 1.

- 2.5 Project Two comprises the construction of a further 14 dwellings to accommodate the increase in personnel required for policing, health, administration and education services. The increase in the number of dwellings corresponds with the growth in the island's population, due to an escalation in immigration activity on CI.⁵
- 2.6 Project Three proposes the construction of a further two dwellings, should funding allow following the finalisation of costings for Project Two.⁶
- 2.7 Projects Two and Three were referred to the Committee on 3 November 2011.

Conduct of the inquiry

- 2.8 Following this referral, the inquiry was advertised nationally and submissions sought from those with direct interest in the proposed project.
- 2.9 The Committee received one submission and three supplementary confidential submissions from the Department. A list of submissions can be found at Appendix A.
- 2.10 The Committee conducted a public hearing on the project and an in-camera hearing on the project costings on 2 March 2012 at Parliament House in Canberra.
- 2.11 A transcript of the public hearing and a copy of the Department's public submission to the inquiry are available on the Committee's website.⁷
- 2.12 The Committee visited CI between 7 and 10 June 2011, to inspect approved public works on the island and receive briefings regarding projects which would be referred to the Committee in the near future. During this visit, the Committee inspected various sites for the CI New Housing Program and received a briefing from representatives of the Department regarding the housing program.⁸

Need for the works

- 2.13 The Department submitted that the new housing project was needed to reduce the number of houses leased on the private rental market to

5 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 1.

6 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 1.

7 <www.aph.gov.au/pwc>

8 Report, Parliamentary Standing Committee on Public Works, *Public Works on Christmas Island*, October 2011, p. 1.

accommodate Commonwealth employees, which would in turn reduce housing demand and rental costs for the local community.⁹

- 2.14 The Department told the Committee that the main driver of the project was to meet the need for housing on CI:

A significant driver for this project was that the sheer demand for housing on the island could not be met and that the private sector, for reasons best explained by the private sector, was not responding in building additional housing to meet the demand. That was putting a lot of pressure on rentals. By observation, it is not atypical of what happens in smaller or remote mining towns as well where you get sudden demand and rents go up significantly. Our expectation is that one of the outcomes of the project will be that we will release a number of leased houses back on to the private market which should increase supply and, in theory, should then take pressure off prices. You certainly cannot give a guarantee that it will reduce prices, because we do not control that, but it should increase the supply of houses in the private market which should, in turn, take some pressure off.¹⁰

- 2.15 The Department considered purchasing existing dwellings on CI, however determined that this option would not reduce pressure on the local housing market.¹¹ The Department submitted further that many existing dwellings were not fit for purpose:

We have bought where it is appropriate to do so. A lot of the housing stock on the island is old and is not what meets the expectations of modern families in terms of amenities. A lot of the houses need substantial continuing maintenance – they are probably beyond their useful life. There is significant asbestos in privately owned houses which, if we acquired them, we would have to remediate, and for many of them it would be cheaper to build a new house. There is also the important aspect of the longer term development of the island.¹²

- 2.16 The dwellings would primarily house professionals who have not been able to be recruited locally to deliver state types of services and meet the
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⁹ Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 2.

¹⁰ Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 2.

¹¹ Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 3.

¹² Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, pp. 5-6.

demand driven by the increased activity on the island. The Department submitted:

Primarily the people will be either departmental staff, through our Indian Ocean territories administered arrangement where we employ people such as nurses and other medical professionals, or Australian Federal Police officers or teachers employed by the WA department of education delivering education services and the like.¹³

- 2.17 The base population on the island is approximately 1,300 people and according to the Department, there is a continuing requirement for doctors, nurses, police, teachers and other professionals to service the community's needs. The housing project aimed to attract the best possible personnel to the island and entice them to live on the island for a significant period building strong relationships within the community. This option was preferred to employing a largely fly-in fly-out workforce:

Our experience with short-term health staff, with locums, is that it is significantly more expensive than employing people for the long term. You have to pay a premium to get them there; paying for accommodation in hotels and the like is extremely expensive compared to doing it through ownership; and, as I said, there is the harder to tangibly quantify cost of not having the strong relationships [with the community].¹⁴

- 2.18 In addition to meeting the current need for housing on CI, the project also factored in future economic growth on the island and a resulting increase in population:

A lot of the work that was done recently with the major investments the Commonwealth has made that you have been involved with, particularly around the utilities, the waste water and power, has the long-term benefit in that it meets the current driver, which is clearly around immigration based activity, but it sets the island up for further growth outside of that, well beyond its current residential population. Most of the utilities infrastructure is designed around a population of 5,000.¹⁵

13 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 5.

14 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 5.

15 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 6.

2.19 The New Housing Program was designed to improve the overall amenity of the island as a whole and attract longer-term investment on the island:

We are obviously very conscious that the [phosphate] mine has a finite life and that we need to do work now to set the environment so that tourism and other activities can become attractive. This project is one small part of that, in that it will provide a modern, high quality environment that has visual amenity. Some parts of the island are, frankly, pretty tired at the moment and need to be updated. The Commonwealth cannot do it all; the private sector and the community have a significant role there. But this is one area where the Commonwealth can make a long-term investment that will be paying dividends in 15 to 20 years as well as meeting immediate needs.¹⁶

2.20 Six site options were considered for the construction of new housing on CI. Drumsite Village and Guano Village were chosen as preferred sites for Projects Two and Three, due to a number of factors, including that the sites were immediately available, were located in well-established areas and had access to existing residential facilities and services.¹⁷

2.21 The Committee is satisfied that there is a need for the works.

Scope of the works

2.22 The Department summarised the scope of the proposed CI New Housing Program as follows:

Project 1 will deliver 16 houses on the Drumsite site. Project 2 will deliver 14 houses, also at Drumsite, and there will be a further two houses in Silver City that will be constructed on current vacant lots. In addition to this we purchased two houses through the program's funds which do not form part of the construction program. These two houses are ones that we had on leases and were considered to be suitable for long-term acquisition, and there is a long-term cost saving to the Commonwealth for taking ownership of them.¹⁸

16 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, pp. 5-6.

17 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 3.

18 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 2.

2.23 The Department noted that work upgrading the existing service connections to the site and internal road works form part of the scope of Project One. Project Three was dependent on available funds following the completion of Projects One and Two.¹⁹

2.24 Feedback was obtained from stakeholders to ascertain the demand for accommodation on CI and the mix of housing options required:

The significant demand for 2 and 3 bedroom dwellings is clear and will be particularly met by Project 1 which will provides 10 two bedroom units and 6 three bedroom townhouses. The provision of additional 2 or 3 bedroom units should still be considered as part of Project 2 and 3 to allow existing tenants, who have been allocated larger houses than they require, to be relocated to more appropriate dwellings. However, the demand for larger 4 bedroom dwellings is recognised and needs to be addressed in Projects 2 & 3.²⁰

2.25 The Committee queried whether there was a demonstrated need to proceed with Project Three, if this project would only proceed if funding allowed. The Department responded:

They are less essential than Projects 1 and 2, but they do fill a gap for those relatively small numbers of cases where you may have a doctor or a nurse who has a large family, and this does occur, so we want to have some greater flexibility in the housing stock that we have, to suit alternative family circumstances, so that the lack of accommodation does not mean that you have to say to someone, 'Gee, it's going to be really hard to find a house for you.' So we want to make it as attractive as possible to get the best possible people to go to the islands.²¹

2.26 The proposed housing designs responded to the climatic and physical needs of the proposed sites and were designed to blend in with the local vernacular architecture, using a limited palette of materials to enhance the contemporary tropical aesthetic and be resilient to the harsh maritime tropical climate.²²

19 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 6.

20 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, Attachment 5, p. 4.

21 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 7.

22 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 7.

2.27 The type of construction proposed for Projects Two and Three was summarised as follows:

The type of construction we are proposing for Projects 2 and 3 is modular and lightweight. The housing components, walls, roofs, roof trusses and so on are manufactured in a factory in Brisbane and then assembled on-site. This has the effect of reducing the amount of labour required on Christmas Island.²³

2.28 The housing proposed was intended for long term residents and was designed to encourage a sense of place and community. A number of the homes constructed would be 'adaptable' with a view to meeting future housing needs of the Christmas Island community that may arise because of age, disability or changing circumstances.²⁴

2.29 It is anticipated that construction on Project One would be complete in June 2012. Subject to Parliamentary approval, Projects Two and Three were anticipated to be complete by June 2013.²⁵

2.30 The Committee finds that the proposed scope of works is suitable to meet the need.

Cost of the works

2.31 The Department noted that the total budget for the CI New Housing Program was \$26.6 million over three years.²⁶ Noting that Project One was not specifically the subject of this inquiry, the Department confirmed that the anticipated cost for Projects Two and Three of the housing program was \$11.1 million.²⁷

2.32 The Department informed the Committee that the anticipated total cost of Project One had increased since the notification of medium works in December 2010. The change in scope of Project One is discussed further below.

23 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 2.

24 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 7.

25 Mr L. Mihov-Nicotodis, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 3.

26 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 14.

27 Mr L. Mihov-Nicotodis, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 3. Note this figure does not include associated costs which fell within the program budget, such as legal fees and project fees associated with the whole project.

- 2.33 The Committee is satisfied that the costings of the project provided to it have been adequately assessed by the proponent agency.

Project issues

Changes to Project One

- 2.34 The Department advised the Committee of the progress of Project One during the public hearing, including changes to the scope, cost and schedule. Initial site works were underway on the project, however the Department stated that there were delays in the delivery of some of the prefabricated modules resulting from the *MV Tycoon* incident on CI in early January 2012.²⁸
- 2.35 Additional elements had been included into the scope for Project One which had increased the anticipated cost of the project from approximately \$8.9 million to \$11.4 million. These elements included a construction camp on Phosphate Hill to accommodate approximately 20 construction workers, the construction of 16 instead of 15 dwellings and some infrastructure site works for the whole of the Drumsite location.²⁹

Committee comment

- 2.36 The Committee is satisfied from the evidence provided by the Department that the increase in scope to Project One is necessary, fit for purpose and value for money for the Commonwealth. The Committee notes the increase in costs for Project One will have some consequences for the progress of Projects Two and Three, whereby Project Three may not proceed.

Rock-fall studies

- 2.37 A geotechnical investigation conducted for Project One identified evidence of a rock-fall hazard from the cliff to the south of the proposed site, with several boulders visible at the base of the slope below the cliff indicating potential ongoing instability of the cliff.

28 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 2.

29 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 3.

- 2.38 The Report on Geotechnical Investigation attached to the Department's submission noted:

It is recommended that a further assessment of the cliff is made utilising rope access techniques to better assess the rock fall hazard. The assessment should be designed so that the cliff will be inspected to identify the nature of the potential hazards and that rockfall modelling be undertaken to assess the impact on the proposed development. Recommendations can then be made on appropriate solutions to mitigate the risk from rock falls on the residential development.³⁰

- 2.39 The Department undertook to conduct further detailed engineering work to establish and manage the rock-fall risk for Project Two and would report back to the Committee regarding the outcome of this work.³¹

Committee comment

- 2.40 The Committee had no objection to the further work regarding rock-fall risk proceeding immediately, notwithstanding that Projects Two and Three had not yet been approved to proceed. The Committee was satisfied that it was necessary to undertake this work in order to ascertain any risks to Projects Two and Three. The Committee looks forward to receiving a further report from the Department regarding the outcome of this engineering work.

Zoning issues

- 2.41 According to the Department, the Drumsite Village site for Projects One and Two is a vacant Commonwealth-owned site of approximately 9,200 square metres, with flexible housing options.³²
- 2.42 The Committee was interested in the planning scheme for the new housing program and whether the land could subsequently be strata titled before being sold.
- 2.43 In a supplementary submission to the inquiry, the Department advised that strata titling was permissible pursuant to Western Australian

30 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, Attachment 8, p. 12.

31 Mr J. Yates, Department of Regional Australia, Local Government, Arts and Sport, *transcript of evidence*, 2 March 2012, p. 2.

32 Department of Regional Australia, Local Government, Arts and Sport, Submission 1, p. 6.

planning policy. The Principals Project Requirements (PPR) required the design and construction contractor to ensure that these future planning requirements were addressed and met in their designs for the New Housing Program. This included undertaking works during these projects to facilitate a future change to strata title, through appropriate road design, adequate street lighting, sewer lines and other infrastructure works.³³

Committee comment

- 2.44 On the evidence provided in the supplementary submission from the Department, the Committee is satisfied that it would be open to the Commonwealth to strata title the Drumsite Village site in the future, to maximise value for money for the Commonwealth, in the event the site is no longer required and subsequently sold.

Final Committee comment

- 2.45 The Committee is satisfied that Projects Two and Three of the CI New Housing Program are necessary, fit for purpose and signify value for money for the Commonwealth. The Committee notes the challenges the Department faces in ensuring that all three projects fit within budget and meet the projected scope and schedule, having regard to issues such as weather and logistics on CI.
- 2.46 The Committee trusts that the Department will keep the Committee updated, should there be any further changes to scope or cost, as the projects progress.

Recommendation 1

The Committee recommends that the House of Representatives resolve, pursuant to Section 18(7) of the *Public Works Committee Act 1969*, that it is expedient to carry out the following proposed work: Construction of Projects Two and Three of the Christmas Island New Housing Program.

33 Department of Regional Australia, Local Government, Arts and Sport, Submission 1.4, p. 1.