

1 Audit summary

1.1 Introduction

The Port of Melbourne is critical to the economic wellbeing of Victoria. It handles more shipping containers than any other Australian port and is the key entry and departure point for Victorian imports and exports. The port is linked to the open sea by shipping channels running through Port Phillip Bay. These provide a passage for vessels with a draught of up to 11.6 metres at all tides.

The importance of Port Phillip Bay goes beyond its role as a passageway for cargo vessels. Many Victorians, rely on the bay for their livelihoods, either from fishing or commercial tourism. Victorians value the bay environment as a place for leisure and recreation, and for its rich variety of plants and animals. The public interest in safeguarding the bay environment emerged as a key issue during the development of the channel deepening project (CDP).

The Port of Melbourne Corporation (the corporation) was established to promote sustainable trade growth by providing effective port services and managing sea channels for vessels to access these services. The corporation is responsible for the CDP to allow larger ships, with up to a 14-metre draught, to use the port at all tides.

The CDP is a high priority for the corporation because it expects the container trade to more than treble by 2035, with a trend towards using larger, more efficient vessels. The failure to provide additional channel depth is expected to force shipping companies to work around this constraint and increase the costs of shipping cargo through Melbourne.

Government policy is to grow the state's economy while protecting the environment for future generations. The CDP was strongly supported subject to environmental and other requirements being satisfied. To safeguard the environment, the government required the corporation to prepare an Environment Effects Statement under the *Environment Effects Act 1978*.

The corporation started preparing this statement in mid-2002 and secured the required approvals in February 2008. The project started immediately and is planned for completion by the end of December 2009, within a total approved budget of \$969 million.

The audit assessed how effectively the corporation developed and, to date, has implemented, the CDP, by examining:

- the business case used to inform the decision to proceed
- the contracting arrangements used to procure the CDP works
- management of the environmental risks to date
- progress compared to the planned time frame and budget to date.

1.2 Conclusion

1.2.1 Project development

By early 2008, the corporation had developed an effective CDP that included:

- a robust business case, complying with better practice guidelines and providing government with the type and quality of information it needed to endorse the project
- an Environmental Management Plan that addressed the requirements of the environmental assessment process and was endorsed by ministers under the state and Commonwealth environmental legislation
- contracting arrangements, where the corporation followed sound processes in determining how works should be procured and the contractual terms.

It is recommended that the corporation documents the lessons learnt from the channel deepening alliance, improves its contract manual and adds two additional measures to confirm the project's benefits.

While ultimately effective, the development process was not without its challenges and problems. In February 2005 the independent panel appointed to consider the Environment Effects Statement recommended that the CDP should not proceed without revision.

The panel found that the risk analysis, project design, the plan for managing the environmental impacts and communication with the community required substantial revision. In some of these areas the corporation had not been able to complete its work within the deadline for submissions. The panel also found the project needed better cross-departmental support and recommended the formation of a high-level taskforce.

In March 2005 the Minister for Planning agreed with the panel's conclusion and required the corporation to prepare a Supplementary Environment Effects Statement.

Two and a half years later in October 2007, a second independent panel found that the project could now proceed on an environmentally acceptable basis and the Minister for Planning accepted this assessment. The corporation had strengthened its approach to risk management and the government had provided a greater level of practical support through the establishment of a project taskforce.

There are lessons for the management of large, complex and high-risk projects, directly affecting wide sections of the community, to reduce avoidable costs. First, the proponent should complete the work required to be able to assure the government and the community that it has effective plans for managing the project risks. Second, projects of this nature require the coordinated support of government departments and agencies during their development.

On both counts, the project fell short in mid-2005. However, the subsequent assessment process worked to address these shortcomings, albeit at some financial and reputational cost.

1.2.2 Project implementation

Between February 2008 and February 2009, the corporation had been effective in implementing the CDP as planned.

To date, the arrangements for reporting on and responding to environmental incidents have been effective.

The CDP is on track for completion by the end of December 2009 deadline and is within the budget of \$969 million.

1.3 Recommendations

The corporation should:

- improve the contract manual during its planned review of procurement processes (**Recommendation 5.1**)
 - document the lessons learnt from the channel deepening alliance in an executive completion report (**Recommendation 5.2**)
 - complement its proposed measures of success by showing how larger vessels have made use of the additional depth provided by the project and these measures should include:
 - the maximum draught of vessels using the port
 - the actual draught of vessels on entry and when leaving the port (**Recommendation 7.1**).
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