

# CORRECTED VERSION

## STANDING COMMITTEE ON FINANCE AND PUBLIC ADMINISTRATION

### **Inquiry into Port Phillip Bay: channel deepening**

Melbourne — 5 June 2008

#### Members

Mr G. Barber  
Ms C. Broad  
Mr M. Guy  
Mr P. Hall

Mr P. Kavanagh  
Mr G. Rich-Phillips  
Mr M. Viney

Chair: Mr G. Rich-Phillips  
Deputy Chair: Mr M. Viney

#### Substituted members

Mr B. Tee for Ms C. Broad

#### Staff

Secretary: Mr R. Willis  
Research Assistant: Mr A. Walsh

#### Witness

Mr R. McEncroe.

**The CHAIR** — I welcome Mr Richard McEncroe. All evidence taken at this hearing is protected by parliamentary privilege, as provided by the Constitution Act 1975 and is further subject to the provisions of the Legislative Council standing orders. Any comments made outside the precincts of the hearing are not protected by parliamentary privilege. All evidence is being recorded by Hansard. Witnesses will be provided with a proof version of the transcript in the next couple of days. I now ask you if you would like to make an opening statement or proceed to questions.

**Mr McENCROE** — I have not got a prepared presentation or opening statement. I did not make a submission to this inquiry, which you might want to note, but I was invited to participate here today anyway. I am happy to answer any questions that you have, so maybe we should just start there, Chair.

**The CHAIR** — Mr McEncroe, as a matter of public record, you have had a background with the Department of Treasury and Finance here in Victoria. Did you have an involvement with the preparation of the business case for the channel deepening project?

**Mr McENCROE** — No. I suppose one of my concerns about the project was that no robust business case, I did not think, was produced at all until after a government decision had been made that this project was one that was going to progress.

**The CHAIR** — Can I ask you about that: you foreshadowed a number of concerns ahead of the panel process around this project. The committee's role is effectively to look at the robustness of the business case that was presented by the Port of Melbourne. Can you comment on any concern you have about the scope of the business case, either what has been included or excluded, either cost or benefit; and also the estimations, either overestimated or underestimated, in respect of the matters included in that business case?

**Mr McENCROE** — I would prefer to confine my comments to the former part of that question rather than the second part, primarily because since I have been involved in doing any sort of hard number-crunching on this issue the world economy has changed a lot, and trying to forecast or make an observation about whether forecasts contained in the analysis done in 2004 or 2005 or whenever it was — I do not think it is particularly helpful to be commenting on those particular numbers.

In terms of what was included or excluded from the analysis, a point I would like to make today is that to the extent that I had, shall we say, issues with the project, they stemmed primarily from a point of view of process, in that it was fairly apparent to those involved within my area of Treasury at the time — and this is my own judgement, I guess, and I am speaking today just as a citizen, not representing any group or department or any other organisation; I should just make that clear — but it seemed to me that given the timing of the arrangements with Boskalis to enter into an alliance contract with them and to essentially make the decision — and it was referred to by the previous minister, the statement, which I think was called *Leading the Way*, which was the government's infrastructure statement of about 2004, of which the channel deepening project was the key feature, I guess, and from memory adorned the front page of the statement — those decisions were made prior to any rigorous cost-benefit analysis being prepared or any environmental assessments being made.

So I guess I had a fundamental problem early on with statements like 'The benefits of this project will outweigh the costs', when nobody knew the value of either, and in reality I think we still do not. Yet there are still strong statements around that the benefits outweigh the costs, when one side of that equation has always been very much guesswork to some extent. The reason I say that is because of some of the things that were excluded from the cost side of the business cost equation. They are things that have been documented in various submissions and in various places over the last few years. They include things like the compensation that may or may not be payable, the environmental damage, and an assessment of the bay's value as an environmental asset to the state. Those sorts of considerations did not weigh on the cost side of the equation, and it was my view, and still is my view, that any assessment of whether or not there was a net benefit or a net cost from doing this work needed to include all the real costs. And I do not think they have been included.

**The CHAIR** — You referred to the *Leading the Way* statement 2004 — —

**Mr McENCROE** — I think that is what it was called, yes.

**The CHAIR** — Promoting the project before there was a cost benefit — —

**Mr McENCROE** — We were still doing SEESs in 2007, and that was in 2004. It seemed to me a little odd that a proponent, in this case the port, can propose a project which will cost anywhere up to — you know, anyone's comments are as valued as anyone else's because it is a little bit of guesswork because it is still ongoing — let us say a billion dollars, or three-quarters of a billion, or one-and-a-half billion, or whichever it might end up being, and that I suppose the nub of that decision that this was a worthwhile thing to be doing was based on information provided by the port about shipping forecasts and what the proponent of the project thought might be required. Those figures were taken on face value, and to my knowledge there was no other shipping analysis to assess whether or not the Port of Melbourne's shipping analysis was right. It was forecasted to 2035, which struck me as odd, given that even the World Bank will not forecast in the current climate to anything beyond about five years, given the volatility of the world economy. It went into these fairly detailed forecasts about what the nature of the Victorian economy might look like, what the make-up of the export-import set-up will be in Victoria in 2035, to the point where it even estimated what our share of the national grain harvest is going to be in 2035. It is a brave person who can predict that. I just thought, 'This is not very robust and let us really have a look at exactly what the costs of doing this project are'. That is where I was coming from.

**The CHAIR** — At that point though, had not Meyrick and Associates and PWC undertaken their work?

**Mr McENCROE** — Yes, based on the data provided by the port — at least the PWC work was — and I guess my basic position was, 'That is all right. That is based on information provided by the project proponent'. In any other situation, if a proponent comes along and says, 'I want to build a shopping centre out here and I want to build it because I reckon that in 2030 we are going to have X number of people living in that area and this is what their requirements are going to be', the government is not just going to say, 'Okay'. It is going to say, 'Well, we might do our own analysis of whether that is right and work out what the broader community concerns might be about that, and do our own independent analysis of whether the forecasts as provided by the proponent are in fact rigorous'. So I saw that as a failing in the process — that that analysis was not scrutinised and has not been scrutinised.

I guess I found the other elements of the process in terms of the timing a little bit unsavoury, in that the government was taking the position quite early on that it was in favour of the project; I do not think that the then Treasurer made any secret of the fact that he was a supporter of the project, and it seemed to me that the subsequent environmental assessments and cost-benefit analyses — all of those processes that have been going on for the last few years at great cost in money and time to everybody — were structured in such a way as to, I suppose, manage the environmental outcomes of a project that was going ahead, as opposed to considering whether or not the project should go ahead. I think there was a difference there that needed to be clearly understood by the public, because I thought that was what the decision should be. My experience in government was that you have a range of projects on offer that the government may or may not consider doing, and you say, 'Let us assess them all on their merits, do the analysis and then decide which ones we support or do not support', as opposed to deciding to support one and then looking to retrofit analysis to make that outcome what you want.

**The CHAIR** — Thank you.

**Mr VINEY** — What was your involvement in the analysis of this when you were in Treasury and Finance?

**Mr McENCROE** — Very little. I was only involved in it for a short time. I was in the budget group in Treasury, and the group I was working in was involved in an interdepartmental committee arrangement considering the project itself. In terms of the analysis, no, I was not involved in the analysis, primarily because there was none.

**Mr VINEY** — When did you leave the public service?

**Mr McENCROE** — In 2004.

**Mr VINEY** — When in 2004?

**Mr McENCROE** — I am not exactly sure; late 2004. I could not remember the date.

**Mr VINEY** — Is it fair to say that you would not be aware of any work that took place in government after your departure from the department?

**Mr McENCROE** — That would be fair.

**Mr VINEY** — So any of the analytical work about the business case that had been put to the government that you would normally expect would be done in the department did not come across your desk when you were there and certainly after you left it was not for you?

**Mr McENCROE** — No. I mean, it was not present at the time, and subsequent to leaving the Treasury I have only had the benefit of being able to review material that is in the public domain, namely — —

**Mr VINEY** — Review materials — I am sorry?

**Mr McENCROE** — Materials in the public domain — for example, the PWC analysis, the Meyrick stuff, and other submissions to inquiries and so on.

**Mr VINEY** — But from that review of the materials in the public domain you have been able to apparently come to the conclusion, I think you suggested, that the government did not scrutinise the analysis?

**Mr McENCROE** — No, I said that at the time there was no analysis to scrutinise, really, in 2004.

**Mr VINEY** — Up to 2004?

**Mr McENCROE** — Yes. My point was that — —

**Mr VINEY** — So your comments really precede 2004; you do not have comment beyond that in terms of the government scrutiny of any analysis? Your evidence then is restricted to what you knew up to when you left in 2004 in relation to the government's scrutiny of any analysis of the channel deepening project?

**Mr McENCROE** — Yes, subject to what I have been able to glean from the public debate since then and any other material — there has been no other material put in the public domain. The government has not come out and said, 'We have done a whole lot of internal analysis that means that any criticisms of PWC are not valid anymore', so I suppose I am not sure what I could have been privy to had I stayed.

**Mr VINEY** — So really your views about any scrutiny that might have taken place for the project's business case, post your departure in 2004, are really your opinion?

**Mr McENCROE** — Correct.

**Mr VINEY** — So is not based on any evidence that has been put before you. You are assuming that analysis did not take place because you have not seen any analysis that took place?

**Mr McENCROE** — I would have thought that if there was a great government document around that made the business case compelling for the project, it would have been in the public domain, and it is not there.

**Mr VINEY** — And you do not think that the PricewaterhouseCoopers analysis — —

**Mr McENCROE** — Is compelling, no.

**Mr VINEY** — Why is it not compelling?

**Mr McENCROE** — For the reasons I began to outline a minute ago, in terms of what is not contained in the cost side of that equation, and — —

**Mr VINEY** — Have you looked at and heard the evidence that has already been given to the committee by both VECCI — —

**Mr McENCROE** — I have not been privy to that this morning, no.

**Mr VINEY** — And the people just a short while ago about the costs of not doing the project?

**Mr McENCROE** — I heard a little of the last witness.

**Mr VINEY** — Did you make any considerations of the cost of not doing the project in any of your newspaper commentary?

**Mr McENCROE** — I suppose I took one aspect of PWC's work at face value, which said that actually there will not be one more container through the port if we deepen than if we do not. That is an appendix to their work; I am not sure if you have noticed that. But it seemed to me that the costs of not doing it cannot be that big if there is not even going to be one container missing out here.

**Mr VINEY** — It seems to you, but you have not done the analysis, like the previous witness, Dr Noakes, who has done analysis for the World Bank and other international agencies—

**Mr McENCROE** — No, I do not work for the World Bank. I have not done analysis for the World Bank.

**Mr VINEY** — So you have not done any of that analysis, right. So you have not done an MPV on the project and established the cost to the Victorian economy if the project does not proceed?

**Mr McENCROE** — No.

**Mr VINEY** — Okay.

**Mr McENCROE** — On the other hand though, it might be worth considering some of the benefits to the economy if it does not proceed. Did the previous witness comment on those? I am not sure, I was not privy to it, but I suppose if you are going to look at the cost of not doing it you also have to look at the benefits of not doing it, and they may accrue to some substantial amount also, particularly if you asked some of the recreational users of the bay or the diving industry —

**Mr VINEY** — Have you done that analysis?

**Mr McENCROE** — Have I?

**Mr VINEY** — Yes.

**Mr McENCROE** — No.

**Mr VINEY** — Have you done an MPV analysis on that basis?

**Mr McENCROE** — No. I had no cause to do that.

**Mr VINEY** — So really you have not actually done any economic analysis of the project —

**Mr McENCROE** — I have done analysis of the extent to which the cost-benefit analyses that have been done were thorough in terms of what they considered. I was never proposing to put an alternative piece of economic analysis.

**Mr VINEY** — With respect, I have actually read your articles, and I do not see — there is a commentary but there is not an analysis. I mean none of that is an economic analysis.

**Mr McENCROE** — No, I did not say I did that for the purpose of the articles.

**Mr VINEY** — Okay. You did not make a submission to the committee?

**Mr McENCROE** — No.

**Mr VINEY** — And you did not have an oral submission that you wanted to deliver, so I am just trying to understand why you are here. What actually happened to bring you here?

**Mr McENCROE** — I was invited.

**The CHAIR** — Mr McEncroe was invited by the committee.

**Mr VINEY** — I understand. We know, as a committee, how that occurred, but I am interested in how that occurred, from your perspective?

**Mr McENCROE** — I really do not know.

**Mr VINEY** — Were you asked, ‘Would you like to come and present to the committee?’ by — —

**Mr McENCROE** — Yes. I was asked if I wanted to come here as a witness by the secretary or — —

**Mr VINEY** — And was there a prior discussion to that, with any of the groups, that suggested it might be a good idea?

**Mr McENCROE** — No.

**Mr VINEY** — Thanks.

**Mr HALL** — First of all, thanks, Richard, for coming in and talking to us. I have been listening to your comments today and I suppose I am concluding that this is your view in respect to channel deepening: that the government made a decision first to proceed, and then to structure a business case to fit that decision. Is that essentially what you are saying to us today?

**Mr McENCROE** — I think that is a fair analysis of what I am saying.

**Mr HALL** — Okay. And in your experience, having worked in Treasury and Finance, do you have knowledge of any other process that has been employed for major projects developments in Victoria that actually has a better model to lead us through to that process in decision-making in the end?

**Mr McENCROE** — I am aware of some of those types of processes, the gateway process, for example, on public-private partnerships, but I am not well enough versed on exactly which projects go through that gateway process and what the thresholds are for putting them through and so on. There may even be a different model for a project assessment since I was involved. I do not really know enough about that to comment, except to say, I suppose, to get down to the nub of where I was coming from, on the one hand it was being championed by the government as the biggest project in Victoria: it had to happen, it involved digging up great swathes of arguably Melbourne’s most valuable natural asset, and it surprised me it appeared that it was subject to less scrutiny in terms of the costs and benefits — this was back in 2004 — than perhaps other projects which were much smaller in scale and much less significant in terms of their potential environmental and social impacts. Faced with that scenario I had to draw the conclusion that the analysis was a kind of a *fait accompli* situation. Hence my comments.

**The CHAIR** — Do you have any examples of the projects you were referring to?

**Mr McENCROE** — No, but I think just about any project that was a significant project that the Treasury or the department was overseeing would require a significant cost-benefit and robust cost-benefit analysis to be done. I think the analysis that has been done on the channel deepening is — picking up Mr Viney’s point before, notwithstanding the fact that there may have been some other analysis done that I am not aware of, and of course that is always a possibility — however, it appeared very light given the magnitude of the project, and it surprised me. To be honest, it was the key reason that I ended up leaving the Treasury because I thought this is not a genuine process.

**Mr BARBER** — Maybe it did not look as if it was so big a project at the time when they first committed themselves to it. The budget at that stage was a few hundred million dollars.

**Mr McENCROE** — Yes, but even a few hundred million dollars — that is still a pretty significant project. You would think it would be subject to some genuine rigour around some alternatives. You think, ‘All right, here we have this problem, or a perceived problem; here is one way. The proponents are telling us we have a problem with ships not being able to get in and out fully loaded — that is the problem — there may be some alternatives to that, some ways of addressing that problem, be they through other ports, other rail links, other freight means’. Those alternatives were not documented and analysed in any depth: it was that channel deepening is the way to fix it and this is how we are going to do it.

**Mr BARBER** — When we are here discussing the business case there are a number of bits of information in the public domain. There is Drewry from 2001, there is Meyrick from 2003 and another document from 2004. Then there is Meyrick from 2007 and then there is PricewaterhouseCoopers. You said right at the beginning you do not want to comment on shipping forecasts, particularly out to 30 years, but in all those documents that have been published they all rely on 5, 6 per cent compound growth in container movements out through the years.

**Mr McENCROE** — It is rear casting; that is what they do. I know with the PWC one they said, 'Here is the basic trend over the last 20 years since about the 1980s in terms of growth, and here is some sort of notional growth forecast over here; let us just extrapolate that to the next 30'. That is what I term rear casting. That is just saying it is going to be more of the same. I do not think it is likely to be same type of economy in 2020 as it was in 1980, so I do not know how valid those assumptions are.

**Mr BARBER** — But the simple financial effect of doing that, of relying on compound growth at a fairly high percentage rate out to 30 years, is that most of the benefits have to be in the second half of that, don't they?

**McENCROE** — Yes, where it gets pretty murky.

**Mr BARBER** — Yes. I think you sort of alluded to the World Bank only doing a 10-year thing. Are you saying that when you sat down to do a cost-benefit analysis of the project, you kind of ignore anything outside 10 years for a financial analysis purpose?

**McENCROE** — Not necessarily, but I suppose I prefer to invoke the World Bank's process than mine and that is what they consider. My concern was more what was included and excluded from the analysis. I just think if it was a genuine attempt to list and quantify all what were genuine costs of this project — potential, real, all of them — and what the benefits are, we would have had some analysis to talk about. It is possible, I guess, having done that, the benefits do outweigh the costs. That is possible. The fact is we did not know, we still do not know, because it is not all inclusive of what should be in it.

**Mr BARBER** — What are the main benefits that Meyrick uses when it creates the benefit side of the equation? Are they mainly lower shipping costs?

**McENCROE** — Yes, that is one element which is interesting and leads me to the other point I wanted to make about this. It is all so surprising; we still do not really know who is going to foot the bill for this project. We do not know how much of it is going to be recouped via the proposed levy. We do not know whether the feds are going to tip in money. VECCI is calling — or at least last I read — on the state government to make a contribution of X number of hundred million dollars. We are in a situation where we are halfway through a project that is environmentally very sensitive and we do not even know who is paying for it.

**Mr BARBER** — But in these various public documents that we have here, is there much analysis of the disbenefits potential? Or is it all on the shipping costs multiplied by the volume we expect of extra container traffic?

**McENCROE** — The disbenefits are notionally addressed at best.

**Mr BARBER** — Are the costs largely the project costs?

**McENCROE** — The direct costs of the project.

**Mr BARBER** — We have been using the words 'business case', but is not really the business case from where the port sits the direct project costs and the direct revenues they expect to get as a result of them doing the project?

**McENCROE** — Yes, I guess.

**Mr BARBER** — The port as proponent.

**McENCROE** — Yes, that is why it is important to understand where the port stops and the government begins. The port is a proponent; perhaps you could argue that it is not necessary their job to be assessing the other social impacts of this and so on. The government is not the proponent, the government is the government, and it is their job to consider what those other costs and benefits are and make a decision rather than just saying, 'Here are

the project costs that the proponent reckons it is going to incur and here are the benefits that we think might accrue if this assumption happens and that assumption happens and the world economy stays as it is and we continue to get imports at this rate and exports at that rate'. Those other considerations are not in the picture.

**Mr BARBER** — If the port was a business it would just do that as a matter of course?

**McENCROE** — Possibly.

**Mr BARBER** — If, as far as we know, the project costs are all going to end up with the port and the port has to recoup those from charges, where does that leave the port if their assumptions turn out to be wrong about the rate of growth and what they can therefore levy?

**Mr McENCROE** — I guess they will be levying more or recouping their costs via another means. I do not know. Or the government will step in and bail them out. I do not know. You have to ask the port what their contingency is.

**Mr TEE** — I just want to return to the evidence you gave. As I understand it, what you are saying is that in 2004 the government made a decision, publicly announced the decision, then almost retrofitted and then went through the process of doing the environmental and economic analysis.

**Mr McENCROE** — I am trying to make a subtle distinction between the rhetoric and the reality of the situation. The rhetoric and the public commentary from government was around, 'Yes, we approve this subject to all of these environmental hoops being jumped through and everyone being satisfied'. I think the reality of that was something different and is something different where the line between proponent and government became hard to distinguish, and that I think is one of the key issues here that people need to understand.

**Mr TEE** — The reality — and we have had some evidence of it here today — is that in fact considerable amount of work had been done prior to the announcement in 2004. I am just trying to get your sense of why is it that you say there was not that rigorous work when we have had evidence from the freight group already that they had been advocating for this since 2001. We had since 2001 — for 12 months the Victorian Channel Authority had done a considerable amount of work on the economic and environmental statements. By 2004 we had a well-thought-through proposal essentially.

**Mr McENCROE** — I do not know that I agree that it was a well-thought-through proposal. Perhaps it was a well-thought-through proposal in terms of a very limited analysis of shipping traffic in and out. Going back to my earlier point, that is an analysis for the proponent to make because that is all they are interested in and all they are obliged to be interested in. The broader analysis that I am referring to is, 'Is this a good idea; what about the other indirect costs of the project, the environmental costs. and so on?', which I do not think were given enough weight in that early analysis. When I say the analysis that had been done to date was not rigorous, sure, the numbers on the shipping traffic we can argue about those that Meyrick and PWC and others had looked at, but if you do not look at the other broader issues associated with the project, is it a considered decision or not?. That was my question.

**Mr TEE** — In terms of the broader issues, certainly the federal opposition has been very critical of the green tape, as it calls it.

**Mr McENCROE** — Green tape, yes.

**Mr TEE** — There has been criticism of us from The Nationals federally at least, although some other parts of The Nationals have other views and the Liberal Party certainly has a number of views going both ways —

**The CHAIR** — Your question, Mr Tee?

**Mr TEE** — My question, going to the broader processes, is you have a concern then, I think, that goes to the PricewaterhouseCoopers report, which you say is not compelling; yet, again, the evidence today has been that it is conservative. From the Victorian Freight and Logistics Council the cost for not proceeding is \$8.5 billion; VECCI says the indirect benefits which have not been included are \$15 billion. I am wondering about your criticism of PricewaterhouseCoopers and how that fits in with the evidence that we have today which says it is very conservative.

**Mr McENCROE** — In a sense it is not inconsistent in that they are making the same point as me, just from a different perspective. They are also saying that the assumptions in the cost-benefit analysis were not right because they have got the benefits side wrong. Equally conservative were the cost estimates. Are they trying to argue that they had it wrong on the benefit side but we have got it absolutely right on the cost side?

**Mr TEE** — To be fair to them, they are saying PricewaterhouseCoopers used very conservative estimates so they were not taking any risks with their analysis and said they were too conservative and that if you are not that conservative what you get is this multiple \$15 billion benefit of proceeding or \$8 billion cost of not proceeding and a cost of 25 000 jobs.

**Mr McENCROE** — That is their view and if an independent third party came along and properly assessed the costs and the benefits and came out with a net position that was considerably in favour of benefits to the point where the government thought it was a good idea, then great. The point is that the flaws on the benefits side could be equal to, less than or greater than the flaws that might exist on the costs side. Until we get them both down on the page and say, 'All right, let us have a review of these benefits', as the previous witness was saying, 'But let us at the same time have a review of the costs' and then look at the net situation.

**Mr TEE** — I saw an article somewhere in which you talked about the benefit, which I think is 2.7 per cent, and you suggested in your article that that was not a sufficiently high benefit to proceed.

**Mr McENCROE** — Yes, the difference in the gap between the costs and the benefits. There are lots of folks who work in project assessment.

**Mr TEE** — These are the BCR benefits.

**Mr McENCROE** — You get an argument about whether a three to one ratio is good enough, whether it should be four to one in terms of costs and benefits. I do not know that there are any real hard and fast rules around that, but I suppose if it is at the margin, at around 2.7.

**Mr TEE** — Yes, 2.7.

**Mr McENCROE** — Around there. I suppose my concern was that given the inadequate nature — what I consider to be the inadequate nature — of the cost side of that equation, if the costs were calculated in a thorough way as I would propose they should be and that ratio came down as a result of that to something else — 1.5 — is it then still viable? It is more posing the question: where is that cut-off where the government says it is not viable any more? What if that got down to 0.5? And given that we do not know that.

**Mr TEE** — The evidence VECCI gave is that most infrastructure projects require a BCR of 1 to proceed and here we have 2.7. Are you aware of any infrastructure projects with a higher BCR than 2.7 that should have been proceeded with?

**Mr McENCROE** — And that will not?

**Mr TEE** — Yes.

**Mr McENCROE** — No, I cannot think of a specific example. I cannot give you an example of that, I am sorry.

**The CHAIR** — I would like to pick up on the same point, the quote Mr Tee gave, of VECCI essentially saying that anything better than 1 is something you would proceed with. Do you have a comment on that?

**Mr McENCROE** — On what basis do they say that, do you know? Generally speaking that seems a reasonable position because the benefits outweigh the costs. My argument is not so much that 2.7 is right or wrong; it is that 2.7 is the figure that comes out of a cost-benefit analysis that is not thorough. My argument is if you actually calculate the real costs, that is probably getting down closer to 1, and maybe even under 1, and if it gets under 1 you have really got to ask the question whether it is worthwhile doing.

**The CHAIR** — Are you familiar with the *Handbook of Cost-Benefit Analysis*, that is published by the commonwealth?

**Mr McENCROE** — Yes.

**The CHAIR** — It is prepared by the commonwealth as a template, as a guide to good practice for commonwealth agencies in preparing cost-benefit analyses. Is there a similar model used by Treasury, or indeed is that model used by Treasury here in Victoria?

**Mr McENCROE** — I really could not say at the moment. You would have to ask a current executive person from Treasury that question. I am not familiar enough; I have not done any work in Victoria for a while, so the handbooks and other things that are being used by Victoria I do not know.

**The CHAIR** — When you were in Treasury was there a model or — —

**Mr McENCROE** — When I was there, there was a range of guidance material. I just am a bit reluctant to say that what was being used in 2003 or 2004 is similar to that because I just am not exactly sure what is in that and what is in the current one. But there was guidance material around, if that helps with the question, about what should be included and excluded.

**The CHAIR** — And in your view is the approach of the analysis of the dredging project that was contained in the supplement EES, in the appendix — of those public documents — consistent with your experience of the guidance material at DTF when you were there?

**Mr McENCROE** — I think I would rather comment on whether it was consistent with what is in that document, because I am reasonably familiar with that because I have referenced it quite recently. I would say probably no. Some of those indirect costs which that document refers to obviously were not considered adequately.

**The CHAIR** — And on the benefit side does it depart from that guideline?

**Mr McENCROE** — I could not say that I have probably ever been as focused on that.

**The CHAIR** — In your notes that you put up for the panel hearing you noted:

The basic shortcoming of the process for reviewing the costs and benefits of the CDP is that it is based on assumptions about how the economy of Victoria will be structured and its size and nature in the coming 30 years.

Is that not inevitable?

**Mr McENCROE** — Sort of standard, yes, what else could you do?

**The CHAIR** — What else can you do? You will have to have assumptions for the life of the entity.

**Mr McENCROE** — Yes, I guess so. If you are talking about a project that is going to be costed over 30 years, you have to make some assumptions like that. My concern about it was that those assumptions were being made and the inherent unreliability of such assumptions was not made transparent, and it was not very clear in the discussions from the government and the port about that. I think that is a fair point. I do not know what else you do — break it up into five-year chunks? It is pretty hard.

**The CHAIR** — On that question, what would you see as a more reasonable time frame? You mentioned the World Bank's 10 years. If it is the inherent nature of any given project that the benefits will be longer term, longer than a 10-year time frame, surely you still need to assess them and account for them in a benefit-cost analysis?

**Mr McENCROE** — I do not know. I would be just sort of guessing there, I think, so I would rather just not answer that. I do not have a really good answer for that question.

**Mr BARBER** — So the PricewaterhouseCoopers analysis uses as its jumping off point the outputs of the Meyrick report; is that your testimony?

**Mr McENCROE** — Yes.

**Mr BARBER** — And the Meyrick report used as its base, and did not question the assumptions, the data given to it by the port.

**Mr McENCROE** — Exactly.

**Mr BARBER** — Is that your testimony?

**Mr McENCROE** — Exactly.

**Mr BARBER** — At the time when the PricewaterhouseCoopers report was written — I think it was published in March 2007 — do you know what the estimate of the cost of the project was at that time in project costs, and, if you know, do you know what estimate they were using?

**Mr McENCROE** — I cannot actually remember the figure; it is in there, I guess. Was it 650?

**Mr BARBER** — I think that might have been the published figure at the time. I am just wondering if subsequently it turned out that they were using a different number.

**Mr McENCROE** — No, I think they were using 650 for that, but I need to double-check that.

**Mr BARBER** — Thanks very much.

**The CHAIR** — Mr McEncroe, the committee appreciates your making yourself available this morning for the hearing. We will have a draft transcript to you in the next couple of days for any corrections you wish to make.

**Witness withdrew.**