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# Victorian submission to CGC 2025 Review

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Significant changes since the Draft Report

The Secretary  
Department of Treasury and Finance  
1 Treasury Place  
Melbourne Victoria 3002  
Australia  
Telephone: +61 3 9651 5111  
dtf.vic.gov.au

Authorised by the Victorian Government  
1 Treasury Place, Melbourne, 3002

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# 1. Introduction

In November 2024, the Commonwealth Grants Commission (CGC) provided states a paper (the paper) on significant changes since the draft report of its 2025 methodology review. Victoria thanks the CGC and its staff for the opportunity to comment on the paper.

Victoria's detailed views on the relevant assessment categories are included in the response below. The response includes comment on topics not raised in the paper where Victoria considers further development is required. Victoria's views on any topics not noted in this response remain the same as those previously provided in response to the draft report and the addenda on transport and mining.

# 2. Summary of Victoria's recommendations

## Horizontal Fiscal Equalisation and the supporting principles

<b>Discounting</b>	<ul style="list-style-type: none"><li>Victoria requests the CGC provide further information about the review of the use of discounting in its final report for the 2025 Review. Victoria recommends future reviews provide states the opportunity to comment on a review of discounting.</li></ul>
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## The forward work program

- Victoria requests the final review report include a process for establishing the forward work program, including when each topic will be considered and the process for consultation and decision making. This may include the CGC consulting on an additional paper, with more detail on the future work program, before the end of the 2024-25 financial year.

## Revenue and Expenses

<b>Motor tax</b>	<ul style="list-style-type: none"><li>Victoria supports the CGC's decision to reintroduce a differential assessment of stamp duty on motor vehicle transfers.</li></ul>
<b>Schools</b>	<ul style="list-style-type: none"><li>Victoria does not support reverting to the 2020 review definition of socio-educational disadvantage. The analysis in the draft report remains valid and no additional evidence has been provided to overturn the conclusions in the draft report, which were based on a consistent application of the CGC's model selection principles.</li></ul>
<b>Health</b>	<ul style="list-style-type: none"><li>Victoria does not support the change to revert the admitted patient non-state sector substitutability indicator to separations, from expenses paid by private health insurance funds.</li><li>Victoria supports the CGC's decisions to not include socioeconomic status as a driver in remote and very remote areas, and to use the actual distribution of Commonwealth grants to First Nations community-controlled health services to estimate non-state sector expenses.</li><li>Victoria supports the CGC's decision to not round non-state sector substitutability levels.</li></ul>

## Revenue and Expenses

	<ul style="list-style-type: none"><li>• Victoria supports the CGC's position that the review will allow for changes in future updates to incorporate the non-hospital patient transport assessment into the admitted patient assessment.</li><li>• Victoria requests the CGC provide further rationale for its proposed conditions to remove the Non-hospital patient transport assessment in the final report.</li><li>• Victoria supports the CGC's proposal to remove spending on COVID-19 clinics from the community and public health assessment until the separate assessment of COVID-19 health expenses ceases.</li><li>• Victoria recommends the CGC assess the remainder of public and community health services EPC. If the CGC does use the proposed hospital-based proxy, Victoria recommends it increases the discount from 12.5 per cent to 25 per cent.</li><li>• Victoria does not support the discounting of the non-state sector substitutability assessments, given they are largely unchanged or improved from the 2020 Review methods when they were not discounted.</li></ul>
<b>Housing</b>	<ul style="list-style-type: none"><li>• Victoria supports the decision to retain a household-based assessment, rather than an individual-based assessment.</li><li>• Victoria does not support the decision to use average household sizes to calculate household numbers.</li></ul>
<b>Welfare</b>	<ul style="list-style-type: none"><li>• Victoria does not support the new homelessness assessment proposed in the draft report. However, should the assessment proceed, Victoria supports the approach to allocating homelessness expenses proposed in the paper.</li></ul>
<b>Roads</b>	<ul style="list-style-type: none"><li>• Victoria recommends the CGC maintain its draft report position and exclude roads to mines, gas wells, ports and national parks from the rural road network.</li><li>• Victoria recommends the CGC not apply a regional cost weighting to the roads assessment.</li></ul>
<b>Transport</b>	<ul style="list-style-type: none"><li>• Victoria recommends the CGC maintain the SA1 method of calculating population-weighted density.</li><li>• Victoria recommends the CGC blend the urban transport investment component with 35 per cent to population-squared and 65 per cent using the econometric model.</li></ul>

## Other

<b>Geography</b>	<ul style="list-style-type: none"><li>• Victoria supports the CGC's decision to exclude the regional cost gradient for water and electricity subsidies from the calculation of the general cost gradient.</li></ul>
<b>Investment</b>	<ul style="list-style-type: none"><li>• Victoria supports the CGC's decision to not include COVID-19 related expenses in its calculation of the health investment stock factor.</li></ul>

## 3. Horizontal Fiscal Equalisation and the supporting principles

### 3.1 Discounting

In its submission in response to the CGC's consultation paper on fiscal equalisation, supporting principles and assessment guidelines, Victoria requested more transparency on the use of discounts.

In its submission in response to the CGC's draft report, Victoria sought further explanation of how the CGC decides the level of discount to apply in each case.

In the paper, the CGC stated that it has reviewed its use of discounting across assessments and was satisfied that its application of discounts and their levels are consistent with its framework. The CGC stated that more detail on individual discounts, and consideration of state proposals regarding discounts, will be provided in the review's final report.

This means that states and territories will not have the opportunity to comment on the important details underlying the use of discounts. Victoria considers that this approach does not provide adequate consultation on an important issue that it has raised concerns about on multiple occasions. For example, all but one of the discounts in the assessment are 'low', 12.5 per cent discounts, despite arguably having greatly differing degrees of uncertainty.

Victoria requests the CGC provide further information about the review of the use of discounting in its final report for the 2025 Review. For future reviews, the CGC should include a review of discounting in its initial work plan and share full details of its findings and its process with states in an earlier draft, so states can provide comment. Victoria makes specific comments on the introduction of discounting for the health non-state sector substitutability assessments in section 6.2.6 below.

#### Victoria's recommendations

- Victoria requests the CGC provide further information about the review of the use of discounting in its final report for the 2025 Review. Victoria recommends future reviews provide states the opportunity to comment on a review of discounting.

## 4. The forward work program

Victoria noted in its response to the draft report its support for the CGC's forward work program in principle, as well as suggestions on the topics to be included. Victoria also raised concerns with the practicability of the forward work program. The CGC has not revised the forward work program in the paper, and Victoria reiterates its previously raised concerns.

Victoria supports the forward work program as a practical means to address the timing and resources limitations on the current review. However, as currently constructed, it risks also not being able to fully consider the listed topics.

There are pressures on states' capacity to engage with the forward work program the CGC has not noted in the draft report or the paper. States may be unable to fully engage with an extensive forward work program as they will taper off from review resourcing after the review is completed. A number of states publicly advertised for additional positions with fixed terms to respond to the review.

States' GST experts will also be heavily engaged in the Productivity Commission's inquiry into the 2018 changes to the GST system, legislated to be completed by the end of 2026. This work would likely reduce states' capacity to engage with the expected 2030 methodology review, let alone the significant forward work program continuing from the 2025 review.

In addition, the justice assessment has not been fully reviewed as part of the 2025 process, postponed to 2026. This is a significant assessment category, that will likely require all states' post-review resources to consider. This will further delay the consideration of a forward work program.

The forward work program presented in the draft report did not include a process or timeline for considering these topics. If states are to allocate additional resources to the forward work program, they must know specifically when peaks in workload will take place to manage internal prioritisation. Victoria recommends the final report include a process for developing a concrete work program, with timelines and milestones. This work program should be established by the end of the financial year 2024-25. It should also include whether external consultation is required, including the use of paid consultants.

Noting the issues with the workload suggested by the forward work program, Victoria considers there are a number of material issues that were not resolved through the review and have not been included in the forward work program, noted below. It appears these are unlikely to be practically added to the forward work program. Victoria recommends these are noted as priority topics to investigate for the next methodology review. These include:

- A complete re-examination of the service delivery scale assessment, not just new calculation of old methods – Victoria would prefer to refocus on a narrower definition of unavoidable costs
- Consideration of a broader congestion disability following the Chan and Petchey (2024) paper referenced in the draft report<sup>1</sup>
- Assessment of spending under treaties with First Peoples
- A housing stress or private market affordability driver for the housing and homelessness assessments
- Recognising the additional infrastructure costs in dense areas or brownfields and the impact of higher land prices in major cities.

### **Victoria's recommendations**

- Victoria requests the final review report include a process for establishing the forward work program, including when each topic will be considered and the process for consultation and decision making. This may include the CGC consulting on an additional paper with more detail on the future work program before the end of the 2024-25 financial year.

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<sup>1</sup> F. Chan and J. Petchey, *The Cost of Congestion for State and Local General Government Services in Australia*, *The Australian Economic Review*, 2024, vol. 00, no. 00, pp. 1–21, DOI: [10.1111/1467-8462.12543](https://doi.org/10.1111/1467-8462.12543).



## 5. Revenue

### 5.1 Motor tax

#### Victoria's recommendations

- Victoria supports the CGC's decision to reintroduce a differential assessment of stamp duty on motor vehicle transfers.

## 6. Expenses

### 6.1 Schools

Victoria notes the CGC's decision to revert to the 2020 Review definition of socio-educational disadvantage as the lowest quartile of students, rather than the lowest decile of students as proposed in the draft report.

While there is a conceptual case that both moderate and severe socio-educational disadvantage generate additional costs, the conclusions in the draft report remain valid. In particular, the CGC noted in the draft report that the regression results suggest that "in the government sector, only the most disadvantaged students appear to drive state spending. However, in the non-government sector the bottom half of socio-educational disadvantage appears to drive spending. This likely reflects that, in the government sector, it is the educational need of the most disadvantaged that is most important, while in the non-government sector, the capacity of parents to contribute to the cost of education is also important."

Based on the explanation in the paper, the change since the draft report has not been driven by any additional data or analysis, only that "the Commission considers that the preferable approach is to use the variable that has the larger effect at the state level, namely the most disadvantaged 25% of students." Given that the regression results in the draft report support a conceptual case that the most disadvantaged students are most important in the government sector, Victoria considers that a larger redistributive effect is an insufficient cause to overturn the conclusions in the draft report.

Notwithstanding materiality assessments, the size of the redistribution is not one of the CGC's model selection principles, and Victoria believes it is inappropriate to establish a precedent for bias towards a larger redistribution effect when selecting variables.

#### Victoria's recommendations

- Victoria does not support reverting to the 2020 review definition of socio-educational disadvantage, as it considers the analysis in the draft report remains valid and that no additional evidence has been provided to overturn the conclusions in the Draft Report, which were based on a consistent application of the CGC's model selection principles.

## 6.2 Health

### 6.2.1 Non-state sector activity measure for Admitted Patient services

Victoria does not support the change to revert the admitted patient non-state sector substitutability indicator to separations, from expenses paid by private health insurance funds. Victoria supported the proposal in the draft report to use expenses paid by private health insurance, as a more granular indicator of the need than the number of separations.

The rationale the paper states for the change, that states had varied shares of higher or lower benefits paid, was already evident in the information provided in the draft report. Table 7 of the draft report (Private hospital benefits paid per separation by state: ratio to national average, 2022–23) showed Western Australia had a greater share of higher benefits paid compared to the Australian average, whereas benefits were lower in South Australia for example. The draft report also showed that the majority of this variation was within bands the CGC considered acceptable, within 20 per cent of the Australian average.

The additional information from Western Australia only provides a potential rationale in its case for why private payments may generally be higher in Western Australia, due for example to the structure of its private hospital sector. Victoria considers this evidence should not change the CGC's conclusions, as it does not change the findings in the draft report that most states have relatively consistent benefits per separation, and the CGC has not indicated a change in its judgement or tolerance for this consistency.

#### Victoria's recommendations

- Victoria does not support the change to revert the admitted patient non-state sector substitutability indicator to separations, from expenses paid by private health insurance funds.

### 6.2.2 Re-testing socio-demographic groups

#### Victoria's recommendations

- Victoria supports the CGC's decisions to not include socioeconomic status as a driver in remote and very remote areas, and to use the actual distribution of Commonwealth grants to First Nations community-controlled health services to estimate non-state sector expenses.

### 6.2.3 Rounding non-state sector substitutability levels

#### Victoria's recommendations

- Victoria supports the CGC's decision to not round non-state sector substitutability levels.

### 6.2.4 Non-hospital patient transport

Victoria supports the paper's position that the review will allow for changes in future updates to incorporate the non-hospital patient transport assessment into the admitted patient assessment, when it is clear state aeromedical and Patient Assistance Transport Scheme expenses are included in the

Independent Health and Aged Care Pricing Authority (IHACPA) data. Victoria suggests the CGC test whether this is the case as part of its annual data collection processes both with states and IHACPA.

However, Victoria questions the specific conditions the paper notes for making this change: confirmation all states are reporting the relevant data to IHACPA and that they are available for all three assessment years.

It is unclear for example why, if data are available for one assessment year, the method cannot be changed for the assessment of that year? To compare, similarly in testing the materiality to make a method change for new minerals, such as nickel, the CGC considers the overall materiality for the application year, not in each individual assessment year.

### **Victoria's recommendations**

- Victoria supports the CGC's position that the review will allow for changes in future updates to incorporate the non-hospital patient transport assessment into the admitted patient assessment.
- Victoria requests the CGC provide further rationale for its proposed conditions to remove the Non-hospital patient transport assessment in the final report.

## **6.2.5 Proxy indicator for public and community health**

Victoria supports the paper's proposal to remove spending on COVID-19 clinics from the community and public health assessment until the separate assessment of COVID-19 health expenses ceases.

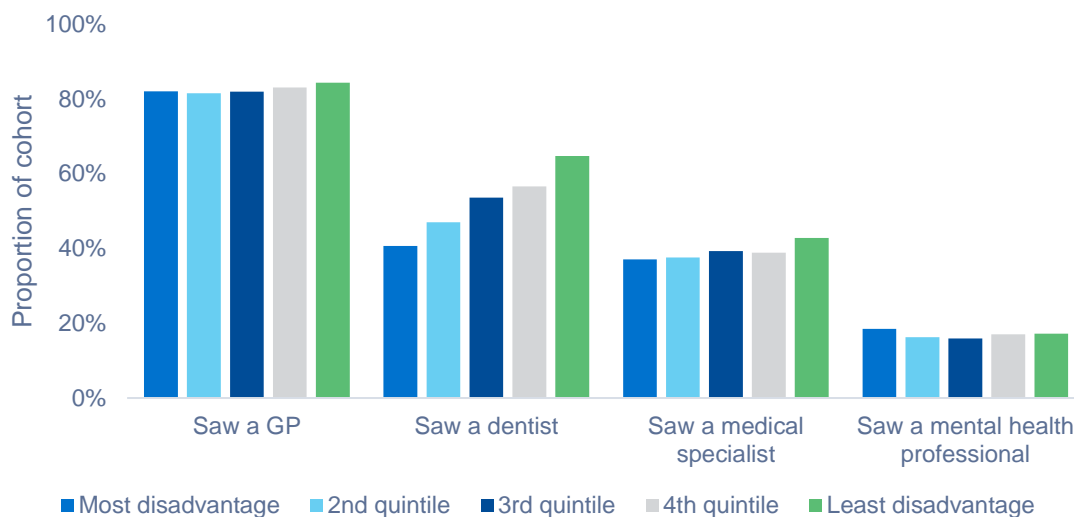
However, Victoria is disappointed the paper does not propose any other changes to the community and public health assessment, as discussed by Victoria in its response to the draft report. Victoria supports the new assessment of community mental health services, however questions the treatment of the remainder of community and public health. While supportive of broadening the proxy from only emergency department (ED) triage categories to include some non-admitted patient (NAP) allied health services, there has been little to no evidence presented that the sociodemographic composition of community and public health use mirrors hospital use.

Victoria noted in its response to the draft report that:

- The use and targeting of programs presented by the CGC was mixed among socio-demographic groups and did not align with the drivers of hospital activity
- For the Victorian public health services where data are available, patterns of use follow the opposite trends to IHACPA national weighted activity units (NWAU) data on hospital services, weighted more towards cities and higher socioeconomic status.

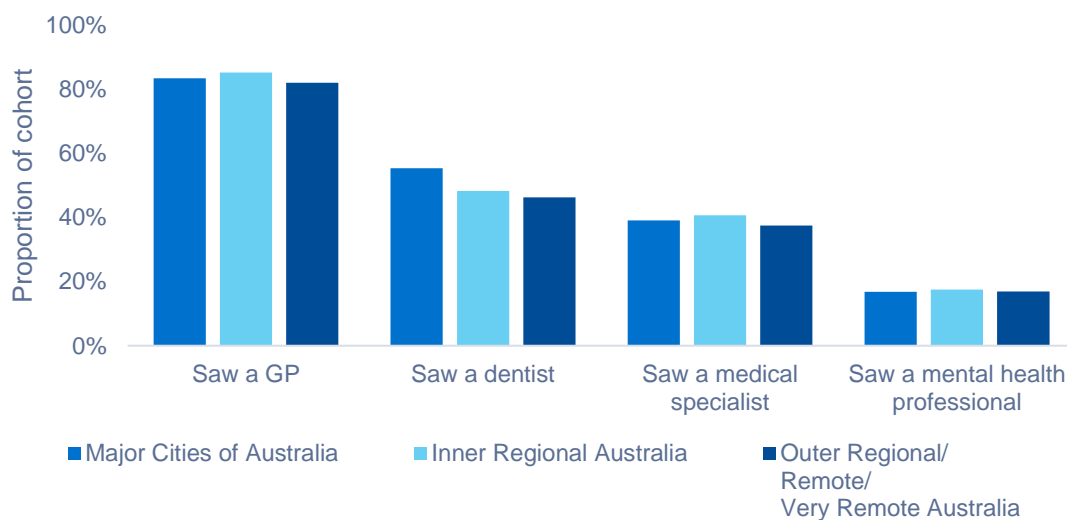
ABS data on patient experiences in the figures below support this conclusion, with no clear pattern of service use across a range of medical services including general practitioners, dental specialists, medical specialists or mental health specialists. While Victoria acknowledges these services are not an exact representation of community and public health services, they do highlight the diversity in usage patterns of services that are similar (patients accessing care outside hospital settings). In addition, visits to these health services likely include community services as they capture respondents who attended public services, for example community dental under whether respondents "saw a dentist".

**Figure 1: Proportion of respondents who used different health services in the previous 12 months, by socio-economic status 2023-24**



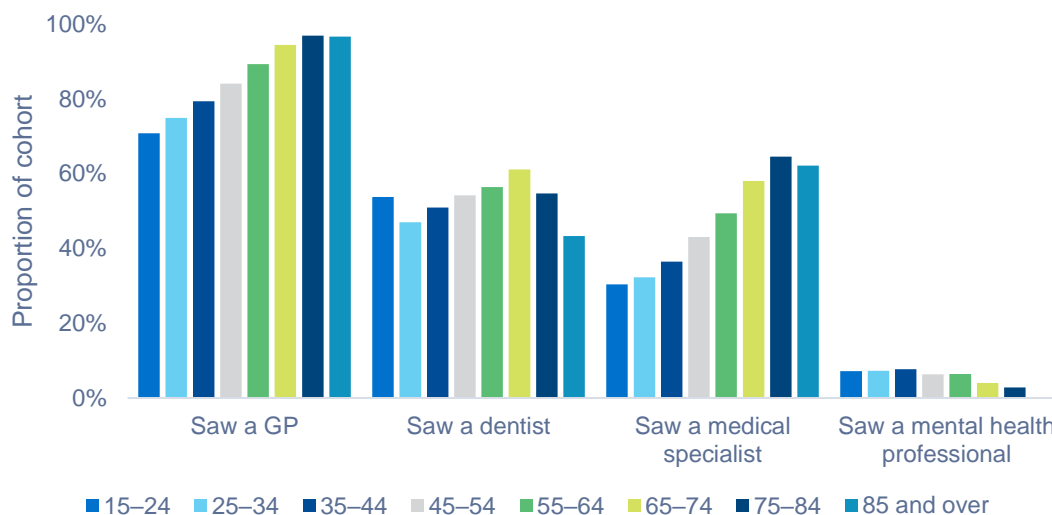
Source: ABS Patient Experiences, 2023-24

**Figure 2: Proportion of respondents who used different health services in the previous 12 months, by remoteness, 2023-24**



Source: ABS Patient Experiences, 2023-24

**Figure 3: Proportion of respondents who used different health services in the previous 12 months, by age, 2023-24**



Source: ABS Patient Experiences, 2023-24

Victoria again recommends the CGC assess these services on an equal per capita basis, given the patterns of use by sociodemographic groups are unclear. If the CGC does use the proposed hospital-based proxy, Victoria recommends it increases the discount from 12.5 per cent to 25 per cent.

### Victoria's recommendations

- Victoria supports the CGC's proposal to remove spending on COVID-19 clinics from the community and public health assessment until the separate assessment of COVID-19 health expenses ceases.
- Victoria recommends the CGC assess the remainder of public and community health services EPC. If the CGC does use the proposed hospital-based proxy, Victoria recommends it increases the discount from 12.5 per cent to 25 per cent.

### 6.2.6 Discounting the non-state sector substitutability assessments

Victoria notes the CGC's decision to discount the non-state sector substitutability (NSS) assessments. As noted in section 3.1 above on discounting, Victoria considers there has not been enough information provided to make an informed response to this decision. The paper notes the CGC has undertaken a process to review discounts across the assessments, however, has not provided sufficient detail or evidence supporting this.

With the information available, Victoria questions the decision to discount the NSS assessments given they were not discounted in the 2020 review methods. The NSS assessments are largely consistent with the 2020 review methods with minor changes, and the approach to discounting has also not substantially changed. Given this, it is unclear why the CGC has decided to change the discounting of these assessments, at this late stage in the review, without prior indication it may be discounted. Victoria requests additional information is provided to states.

In its submission responding to tranche 1 consultation and the draft report, Victoria raised a concern with the CGC's application of discretionary judgement to the admitted patients (AP) substitutability rate. Instead, Victoria recommended the standard 12.5 per cent discount.

In contrast to the proposal in the paper, Victoria's previous recommendations were:

- to only discount the AP NSS assessment where discretionary judgement was applied due to the CGC's concerns around data not reflecting all relevant factors, rather than all NSS assessments
- intended to replace the use of discretionary adjustments to substitutability levels, rather than implemented in addition.

Victoria considers that if the CGC discounts the NSS assessments, it should remove this discretionary adjustment to the rate of AP substitutability. The proposed discount to all NSS assessments provides the necessary adjustment for uncertainty around the extent to which the AP data capture the various effects the CGC is concerned with. For example, whether there are other factors, like the potential for out-of-pocket fees, that mean the share of patients with private health insurance overstates potential substitutability.

### **Victoria's recommendations**

- Victoria does not support the discounting of the non-state sector substitutability assessments, given they are largely unchanged or improved from the 2020 Review methods when they were not discounted.
- If the CGC discounts the non-state sector substitutability assessments, Victoria recommends that it revise the discretionary judgement applied to the AP substitutability rate, given the overall discounting will account for the uncertainty in the data.

## **6.3 Housing**

Victoria supports the CGC's decision to return to a household-based assessment, rather than an individual-based assessment. Victoria refers to its extensive evidence provided in response to the draft report critiquing the proposal for an individual based assessment, including that service delivery is at a household level not an individual level.

However, Victoria does not support the use of national average household sizes to calculate the number of households by socio-demographic group. Victoria considers the 2020 method to determine dwelling numbers to be the most appropriate.

In the paper, the CGC claimed the method "represents a pragmatic approach, which better reflects what states do while balancing the need to address the most significant problems with the 2020 Review method regarding differences in severe overcrowding between states". The CGC noted that the 2020 Review method does not adequately take account of overcrowding in remote First Nations communities and that there is a conceptual case that overcrowding increases the cost of social housing.

Victoria does not consider the household-based method of the 2020 Review to have significant problems. It is not the CGC's role to address structural overcrowding issues in the Northern Territory. The CGC has provided a range of evidence relating to household sizes and overcrowding but has not related that to social housing expenditure needs. However, it is the expenditure needs that are being assessed.

The CGC's 2025 Review position paper on fiscal equalisation, supporting principles and assessment guidelines requires a sound conceptual basis and sufficient empirical evidence to include a driver. It's not clear what policy neutral driver of difference in states housing expenditure needs the change in method is attempting to capture. If it is that overcrowding is policy neutral and leads to material differences in expenditure needs, then evidence should be provided to demonstrate that. Even if that case could be made and evidence could be provided, Victoria does not consider average household size to be a good proxy for overcrowding. There are many other reasons for differences in household sizes. Victoria does not consider that the CGC has met its own requirements to modify the assessment.

Victoria accepts that, under a household-based assessment, states with above average social housing household sizes are assessed to require less expenditure per capita than average. However, a per capita comparison is not appropriate as social housing costs are not incurred on a per capita basis. The 2020 review methodology best reflects how costs are incurred - at a dwelling level.

The CGC has presented data showing that the Northern Territory is a clear outlier, with much higher rates of overcrowding in remote First Nations households than other states such as Queensland and Western Australia. On this matter, Victoria agrees with a number of relevant points made by South Australia in its response to the Draft Report<sup>2</sup>, in particular:

- Addressing structural housing shortages in the Northern Territory is beyond the scope of Horizontal Fiscal Equalisation (HFE)
- The existing indigenous cost-weighting is intended to capture additional maintenance costs from overcrowding in remote indigenous social housing.

Victoria does not dispute that the Northern Territory faces structural disadvantages, or unique difficulties that require Commonwealth Government support. However, within the CGC's assessment framework, the Northern Territory's social housing overcrowding is best represented as a policy divergence.

The proposal to use average household sizes to artificially adjust the number of dwellings adds unnecessary complications to the assessment and takes it further away from the CGC's 'What states do' supporting principle and from HFE.

### **Victoria's recommendations**

- Victoria supports the decision to retain a household-based assessment, rather than an individual-based assessment.
- Victoria does not support the decision to use average household sizes to calculate household numbers.

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<sup>2</sup> <https://www.cgc.gov.au/sites/default/files/2024-10/CGC%202025%20Review%20-%20SA%20response%20to%20Draft%20Report%20-%20FINAL.pdf> <https://www.cgc.gov.au/sites/default/files/2024-10/CGC%202025%20Review%20-%20SA%20response%20to%20Draft%20Report%20-%20FINAL.pdf>



## 6.4 Welfare

Victoria does not support the CGC's decision to retain the new homelessness assessment, due to the data limitations outlined in Victoria's response to the draft report.

The proposed methodology for imputing state homelessness expenditure data by using the average allocation of other states by COFOG category further highlights the data limitations that are prevalent in the proposed homelessness assessment. In the draft report, the CGC noted Victoria, Queensland Western Australia and the ACT expressed concerns about their ability to identify and provide reliable data on homelessness services expenditure, meaning that roughly half of the expenditure in this category would be allocated using this approach.

Victoria considers that while superior to an arbitrary 50:50 split, the proposed approach does not address the difficulty in consistently classifying homelessness expenditure across jurisdictions, which can be decentralised and interdependent across departments.

In its response to the draft report, Victoria noted the absence of drivers with a strong conceptual case for inclusion due to a lack of data, such as social housing waitlists, housing affordability, the number of homelessness services clients, and rates of family and domestic violence. Victoria considers that combined with the inability to reliably classify expenditure data across all states, these factors constitute significant data shortcomings and warrant the application of a 25 per cent discount to the assessment. Alternatively, as there is insufficient data on expenditure or drivers to support a differential assessment, retaining the approach from the 2020 Review and assessing spending within the broader welfare category would be more consistent with the CGC's supporting principle of simplicity.

### Victoria's recommendations

- Victoria does not support the new homelessness assessment proposed in the draft report and recommends the CGC retain the 2020 Review methods for assessing homelessness. However, should the proposed new assessment proceed, Victoria proposes it be discounted by 25 per cent to account for the significant data shortcomings.

## 6.5 Roads

### 6.5.1 Rural roads

In the paper, the CGC has reversed its decision to exclude roads to mines, gas wells, ports and national parks from the synthetic rural road network. The stated reasons for this change were:

1. More than half of those roads are sealed (52 per cent compared to 83 per cent of rural roads between towns)
2. There may be reasons outside a state's control to have such roads
3. The CGC does not have information on private funding of roads to mines.

In the draft report, the CGC made the following points:

*"...the inclusion of routes to mines, gas wells, ports and national parks may overcomplicate the model, and imply an unrealistic degree of precision. The Commission also recognises that some mining roads are owned and maintained by the private sector and that some roads to national parks are maintained at a lower standard compared to the average stage government-managed road, which would reduce costs."*



The only apparent new information since the draft report appears to be the quantification of the percentage of roads that are sealed. This supports the CGC's draft report position, rather than weakening it, as the proportion of these roads that are sealed is significantly less than that of the rest of the synthetic rural road network.

As such, Victoria considers that the CGC should maintain its draft report position and exclude roads to mines, gas wells, ports and national parks from the rural road network because the points outlined in the draft report still hold.

### 6.5.2 Regional costs

Victoria is disappointed that the CGC did not respond in either the paper or the draft report to Victoria's concerns with the application of a regional cost gradient to the roads assessment. Victoria considers that neither the conceptual case nor the quantification methods are valid. Victoria recommends the CGC not apply a regional cost weighting to the roads assessment.

#### Victoria's recommendations

- Victoria recommends the CGC maintain its draft report position and exclude roads to mines, gas wells, ports and national parks from the rural road network.
- Victoria recommends the CGC not apply a regional cost weighting to the roads assessment.

## 6.6 Transport

### 6.6.1 Population-weighted density calculation

Victoria is disappointed the CGC has not revised its proposal to calculate population-weighted density using the one kilometre square grid approach.

In its response to the draft report transport addendum paper, Victoria noted several problems with the proposed approach, including the poorer econometric results. The change redistributes a large amount of GST revenue, compared to the previous approach, does not have broad support from states, and so is unjustified in Victoria's view.

### 6.6.2 Blending of urban transport assessments

Victoria is disappointed the CGC has not reconsidered its approach to the blending of the urban transport assessment between the econometric model and the population-based approach. In its response to the draft report transport addendum, Victoria did not support the CGC's decision to increase the population share of blending for recurrent expenses, but not investment.

Victoria noted the rationale to decrease the share of the econometric model in favour of population was stronger in investment than for recurrent expenses. While Victoria supports the econometric model for assessment of urban transport recurrent expenditures, it questions its application to investment needs. These are related but separate issues, and benefit from separate assessment methods. The urban transport model was developed for recurrent expenditures and does not fully capture investment needs.

In addition, increasing the population share for recurrent expenditures and not for investment is not internally consistent. The same rationale applies to both, as the non-population share for both is the same econometric model that has the same issues with COVID-19 influenced data. The fact that investment spending may be more stable than recurrent expenses (which Victoria questions) is not

relevant to change in the blending share, which is motivated by COVID-19 influenced data in the econometric model.

Victoria continues to recommend that the CGC blend the urban transport investment component with 35 per cent to population-squared and 65 per cent using the econometric model.

### Victoria's recommendations

- Victoria recommends the CGC maintain the SA1 method of calculating population-weighted density.
- Victoria recommends the CGC blend the urban transport investment component with 35 per cent to population-squared and 65 per cent using the econometric model.

## 6.6.3 Non-urban transport

### Victoria's recommendations

- Victoria supports the CGC's decision to re-allocate intra-urban V/Line travel expenditure from non-urban to urban transport.

## 7. Other

### 7.1 Geography

#### Victoria's recommendations

- Victoria supports the CGC's decision to exclude the regional cost gradients for water and electricity subsidies from the calculation of the general cost gradient.

### 7.2 Investment

#### 7.2.1 Treatment of COVID-19 health responses

Victoria continues to strongly support the proposed changes to the health assessment methods for treating COVID-19 related recurrent expenditures.

Victoria supports the confirmation in the paper that COVID-19 related expenses will not be included in the health investment stock factor, following evidence provided in its supplementary submission.<sup>3</sup> In summary, Victoria's view is that the draft report's proposed assessment to include COVID-19 related health spending in the investment stock factor:

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<sup>3</sup> <https://www.cgc.gov.au/sites/default/files/2024-10/Victorian%20supplementary%20submission%20to%20CGC%202025%20Review%20-%20COVID-19%20health%20investment.pdf>

- was not appropriate as it would only have captured the downwards trend in investment as the pandemic unwound, missing Victoria's high assessed investment in 2020-21
- did not reflect responses to the pandemic, which were less capital intensive than the draft report's assessment assumed
- was inconsistent with the CGC's views on COVID-19 related investment in the services to industry and transport assessments.

### **Victoria's recommendations**

- Victoria supports the CGC's decision to not include COVID-19 related expenses in its calculation of the health investment stock factor.



