

2025 Commonwealth Grants Commission Methodology Review

Northern Territory response to Tranche 1 consultation
papers

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| Acronyms | Full form |
|----------|---|
| \$pc | Dollars per capita |
| ABS | Australian Bureau of Statistics |
| ACT | Australian Capital Territory |
| AIHW | Australian Institute of Health and Welfare |
| APC | Actual Per Capita |
| Aust | Australia |
| BITRE | Bureau of Infrastructure and Transport Research |
| CDP | Community Development Program |
| CGC | Commonwealth Grants Commission |
| CH | Community Health |
| COPE | Commonwealth Own-Purpose Expense |
| COVID | COVID-19 |
| CSG | Coal Seam Gas |
| ED | Emergency Department |
| EPC | Equal Per Capita |
| FTE | Full Time Equivalent |
| GPs | General Practitioner |
| GST | Goods and Services Tax |
| HFE | Horizontal Fiscal Equalisation |
| ICSEA | Index of Community Socio-educational Advantage |
| IRSEO | Indigenous Relative Socio-economic Outcomes |
| MADIP | Multi-Agency Data Integration Project |
| MBS | Medicare Benefits Schedule |
| MMM | Modified Monash Model |
| NAPLAN | National Assessment Program - Literacy And Numeracy |
| NHRA | National Health Reform Agreement |
| NISEIFA | Non-Indigenous Socio-economic Index for Areas |
| NSA | National Skills Agreement |
| NSW | New South Wales |
| NT | Northern Territory |
| NWAU | National Weighted Activity Unit |
| PBS | Pharmaceutical Benefits Scheme |
| PHIDU | Public Health Information Development Unit |
| Qld | Queensland |

| | |
|------|-------------------------------|
| RoGS | Report on Government Services |
| SA | South Australia |
| SA1 | Statistical Area level 1 |
| SEA | Socio-educational Advantage |
| SES | Socio-economic Status |
| SRS | Schooling Resource Standard |
| Tas | Tasmania |
| Vic | Victoria |
| WA | Western Australia |

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1. Land tax

1.1. Response to questions

Q1. Do states support the continuation of the land tax assessment in its current form?

The Territory broadly supports the land tax assessment, but proposes an adjustment to the method used to distribute the Territory's taxable land between value bands.

1.2. Supporting considerations

The Territory submits that the current method materially over-assesses the Territory's land tax capacity. The Territory's total assessed land tax capacity in 2021-22 is similar to that of Tasmania and the Australian Capital Territory, despite the Territory only having about half the share of national land values and population of those states (Table 1.1). Further, the current method results in the Territory having the third highest assessed land tax to land value ratio of any jurisdiction, and the third highest tax per capita.

Table 1.1: Land tax assessment

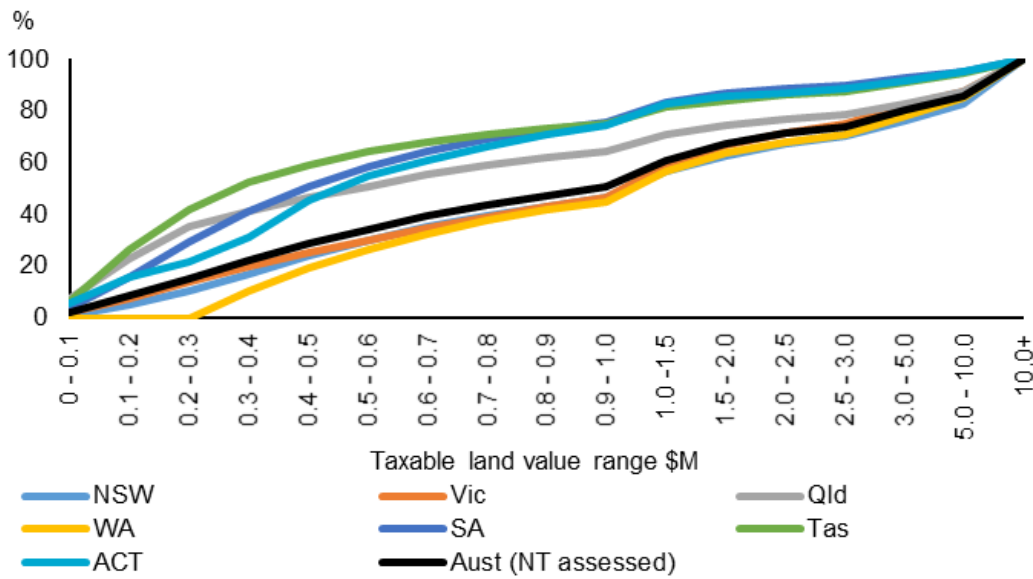
| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT |
|--|-------|-------|-------|-----|-----|-----|-----|-----|
| Share of national land values (%) | 41.9 | 27.7 | 15.7 | 7.2 | 4.2 | 1.3 | 1.3 | 0.7 |
| Assessed land tax capacity 2021-22 (\$M) | 5,509 | 3,643 | 1,277 | 861 | 379 | 93 | 91 | 88 |

Source: Commonwealth Grants Commission

The land tax assessment is comprised of two factors, state share of total land values, and the distribution of these values between value bands. As the Territory does not have a land tax, the method calculates the Territory's share of land values based on ABS data. This is currently 0.7% of national land values over a three-year average. The Territory has reviewed that calculation and considers it remains appropriate and is methodologically sound.

While the Commission's assessment of the Territory's total land value is reasonable, the assessment overestimates the Territory's land tax capacity because it uses the national distribution of taxable land holdings as a proxy for the Territory's distribution. This results in an excessively high share of Territory property values being apportioned to the high-value bands. As high-value properties are subject to higher tax rates, the Territory's land tax capacity is assessed as being higher than it should be.

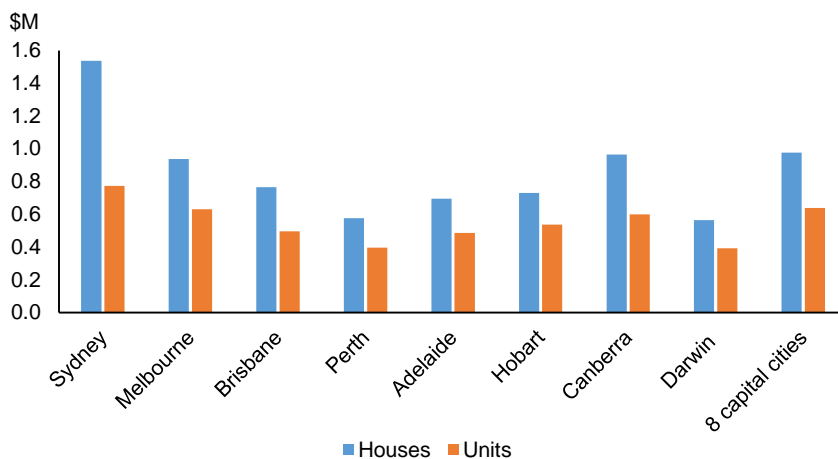
The national average land value distribution (which is applied to the Territory's land values) is dominated by the larger jurisdictions, which have larger shares of land values in the high-value categories, compared to the smaller jurisdictions (Chart 1.1). Western Australia's lack of data for properties under \$0.3 million also skews the Territory's distribution to higher value categories. Assessing the Territory using the national distribution approximately doubles the Territory's land tax capacity compared to an assessment in line with a distribution similar to the three small states.

Chart 1.1 – Commission cumulative assessed proportion of taxable properties – 2021-22

Source: Commonwealth Grants Commission; Northern Territory Department of Treasury and Finance

The Territory submits that this distribution of land values is not reflective of the Territory's actual land values, and gives the Territory a land value profile seen in jurisdictions with major urban centres. Intuitively, this is not reasonable as the Territory does not have a major, high-density, urban centre like Sydney, Melbourne, Brisbane or Perth. The result is also inconsistent with various land value datasets, such as house prices, stamp duty data, and the Territory's Valuer-General data.

Darwin has the lowest median house price of any capital city, which is a reasonable proxy to show that Territory residential properties should not be expected to have a similar distribution to the major metropolitan centres.

Chart 1.2 Capital city median house and unit prices, June quarter 2023

Source: Real Estate Institute of Australia; Northern Territory Department of Treasury and Finance

Similarly, the Territory's assessed stamp duty base, while volatile, is on average the lowest of all jurisdictions (in per capita terms), even though Territory stamp duty revenue is inflated by large pastoral and mining transactions, which would not be taxed under state-average land taxes.

Table 1.2: Average assessed stamp duty (2018-2022; \$pc)

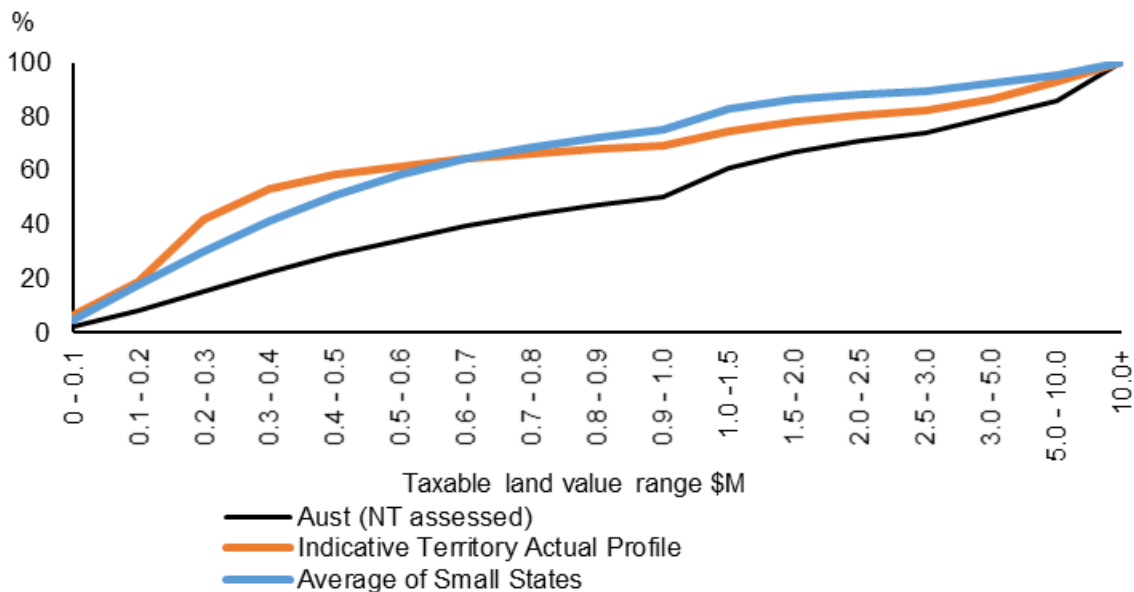
| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT |
|------------------------------------|------|------|-----|-----|-----|-----|-----|-----|
| Average assessed stamp duty (\$pc) | 1193 | 1001 | 798 | 601 | 564 | 551 | 917 | 511 |

Source: Commonwealth Grants Commission

House price and stamp duty data indicate that the Territory is likely to have a lower average distribution of property values than other jurisdictions.

The Territory has also considered its Valuer-General data. As has been previously recognised by the Commission, this data is not directly comparable with interstate data due to a lack of information on commonly exempt properties, particularly principal places of residence. However, initial analysis of Valuer-General data shows the Territory has a value distribution with far fewer high-value properties than the national average and the average of the small states. As shown in Chart 1.3 below, the data indicate the Territory has around 7% of its land values in properties above \$10 million, compared to 14% nationally and 5% in the average of the small states. Similarly, the Territory has around 42% of its land values in properties below \$300 000, compared to 15% nationally and 30% in the small states.

Chart 1.3 – Cumulative proportion of taxable properties – 2021-22



Absent a reliable indicator of assessable Territory property values by band, the Territory submits that the simplest and most pragmatic approach will be to apportion Territory land values in a consistent profile with the comparable smaller jurisdictions, such as the average of the ACT, Tasmania and South Australia, rather than the national average.

2. Stamp duty on conveyances

2.1. Response to questions

Q1. Do states agree that the overall approach to assessing revenue from stamp duty on conveyances remains appropriate?

The Territory supports continuation of the stamp duty on conveyances assessment in its current form.

Q2. Do states agree that revenue from the New South Wales property tax be assessed with land tax for as long as it exists?

The Territory considers it appropriate that the NSW property tax continues to be treated as land tax. The tax is functionally similar to a land tax, and any differential assessment likely to be complex and immaterial.

Q3. Do states support the Commission not adjusting states' value of property transferred for the elasticity effects of recent reforms on materiality grounds?

The Territory supports the Commission's position of not adjusting states' value of property transferred for elasticity effects.

2.2. Supporting considerations

2.2.1. Elasticity adjustment

The Territory does not support an elasticity adjustment. The Territory considers that such impacts are difficult to quantify and estimates are unreliable. There is also potential for elasticity adjustments to be non-policy-neutral if they are more responsive to policies that have large immediate impacts on property markets when compared to gradual reforms such as those undertaken in the Australian Capital Territory.

The Territory notes that it is the only jurisdiction to not impose a land tax. Conceptually, the absence of a land tax has an upward impact on the Territory's stamp duty base. Should an elasticity adjustment be applied to new reforms, the Territory submits that an elasticity adjustment to the Territory's stamp duty base would also be warranted.

More broadly, states often undertake cyclical property stimulus measures (e.g. stamp duty concessions and home building grants) that would theoretically affect the stamp duty and/or land tax base. These policies would be difficult to account for in any elasticity adjustment. Overall, the Territory submits that it is more appropriate to continue the current practice of not making elasticity adjustments.

3. Insurance tax

3.1. Response to questions

Q1. Do states support the continuation of the insurance tax assessment in its current form?

The Territory supports continuation of the insurance tax assessment in its current form.

4. Motor taxes

4.1. Response to questions

Q1. If an assessment of revenue from electric vehicle charges becomes material in future updates, do states support the revenues being assessed as a separate component of the motor taxes category?

The Territory supports the assessment of revenues from electric vehicle charges as a separate component of the motor taxes category when it becomes material.

Q2. Do states agree that the number of registered light vehicles remains an appropriate measure of revenue capacity for revenue raised from emissions-based registration fees?

The Territory agrees that the number of registered light vehicles remains an appropriate measure of revenue capacity for revenue raised from emissions-based registration fees.

4.2. Supporting considerations

4.2.1. Electric vehicles

Unlike other vehicles, there are differences in state circumstances which impact electric vehicle uptake and use rates. These include travel distances and the availability of private infrastructure, which are influenced by a range of factors including geography, remoteness and population density. This makes the usual vehicle base an inappropriate proxy for electric vehicle revenue capacity. The Commission's proposed differential assessment based on electric vehicle numbers and distance travelled will incorporate these differences in state circumstances in an appropriate manner. Accordingly, the Territory supports the use of the proposed assessment when it becomes material.

4.2.2. Emissions-based registration fees

The Territory agrees that the number of registered light vehicles remains an appropriate measure of revenue capacity for emissions-based vehicles. The Territory agrees with the Commission's assessment that the ACT's transition to an emissions-based registration system does not warrant a change in the methodology. As noted by the Commission, the current light vehicle assessment seeks to measure the overall average taxation intensity on vehicles, rather than how that tax burden is distributed between vehicle types. An emissions-based registration system is conceptually no different to a weight-based or engine capacity-based registration system. Given the Commission does not adjust for those differential systems, there is no new rationale to adjust for an emissions-based system.

5. Mining revenue

5.1. Response to questions

Q1. Do states agree the Commission should continue to assess mining revenue capacity using a mineral by mineral approach?

The Territory agrees with the continuation of the current mineral by mineral approach as it is a reliable method that recognises differences in mining revenue capacity between states.

Q2. Do states support the dominant state for a mineral being identified having regard to a state's share of the revenue base, its population share, and the extent to which its GST distribution would be impacted by a change in the royalty rate for that mineral?

The Territory does not support the identification of a dominant state for a mineral in relation to its share of the revenue base, population, and the extent to which its GST distribution would be impacted by a change in the royalty rate for that mineral. To the extent that the Commission proceeds with this change, the Territory submits any adjustment should be time-limited.

Q3. Do states agree that where a dominant state changes its relevant royalty rate, assessing 50% of that state's revenue arising from the royalty rate change equal per capita would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns?

The Territory does not agree that this approach would represent an appropriate balance between assessing relative state fiscal capacities and policy neutrality concerns. Given the relativity floors now in place, the Territory submits that in practice there are no longer any policy neutrality concerns. Accordingly, the Territory submits that full equalisation is most appropriate.

Q4. Do states agree that uranium and coal seam gas royalty revenue should be assessed equal per capita?

The Territory supports the conceptual framework put forward by the Commission. The Commission should consider the application of the framework beyond uranium and coal seam gas to include gas produced through hydraulic fracturing, which may become material over the review period. The Territory considers that the conceptual framework supports an EPC assessment for uranium and gas produced by hydraulic fracturing, but not for coal seam gas. Coal seam gas should continue to be assessed under the current approach.

5.2. Supporting considerations

5.2.1. Dominant states

The Commission's proposed method to identify a dominant state, in practice, is likely to only result in Western Australia and potentially Queensland being classified as such. The Territory submits that there are no longer any policy neutrality impacts on Western Australia from the mining assessment. The introduction of the minimum GST relativity floor in the *Treasury Laws Amendment (Making Sure Every State and Territory Gets Their Fair Share of GST) Act 2018* effectively insulates Western Australia from GST redistribution if it raises its royalty rate so long as its relativity remains below the relativity floor.

The Territory also notes that Queensland has recently announced coal royalty changes, despite coal revenue having a significant impact on that state's GST relativities. This partly demonstrates that GST is not the sole, or necessarily a dominant, consideration in setting state royalty policies.

The Territory's overall view is that the changes are unnecessary to achieve HFE, and that the principle of policy neutrality should not be over-applied, particularly in circumstances where the most-impacted state is already protected by non-method legislative changes.

If the Commission considers that the dominant state definition should be applied as set out in its paper, additional consideration should be given to ensuring any new calculation is simple and clear. While historically policy neutrality has been discussed in the context of royalty increases, it is necessary to also consider the impact of royalty reductions. The proposal suggests that if a dominant state reduces its royalties, it will be assessed as if it had continued to impose royalties at a rate higher than was actually collected. It is unclear how this would function, as it implies equalisation of more revenue than is collected. Complexities also arise if a dominant state both increases and decreases its royalty rate for a mineral over time, which could trigger complex cascading adjustments.

The Territory submits that there are both practical and conceptual difficulties with this approach, and accordingly, does not support the proposal. If the changes are made, the Territory considers that any such adjustments should be time limited for practicality reasons, and to ensure that over time assessments revert to 'what states do'. This would prevent entrenchment of past royalty rates or a quasi-external standard being created.

5.2.2. EPC assessment of restricted activities

The Territory supports the general framework set out in the Commission's paper, which is interpreted as requiring an assessment of mining capacity in states without production if:

1. Economically viable resources are reasonably likely to be present in most or all jurisdictions, and
2. Policies materially restrict the value of production of the resource in these states.

The Territory considers that if this framework is applied, CSG would not meet these criteria, so should not be subject to an EPC treatment. However, other types of unconventional gas extracted through hydraulic fracturing are likely to satisfy these criteria. The Territory accepts that uranium would meet these criteria.

Coal seam gas

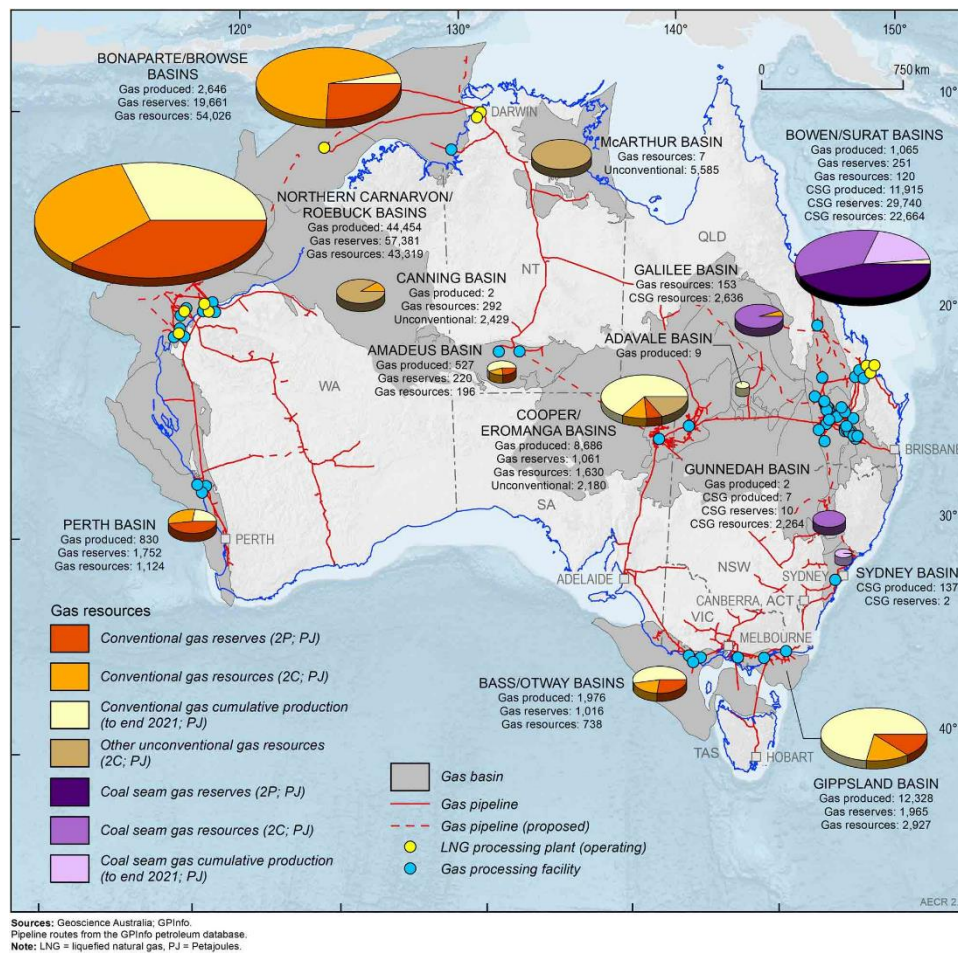
The Territory's position is that the requisite conditions for an alternative assessment of coal seam gas are not satisfied, and that the current assessment approach remains appropriate.

Contrary to the statement in the Mining Revenue Consultation Paper, the Territory submits that there are not economically viable coal seam gas reserves in most states of Australia (Figure 5.1). Coal seam gas reserves are found primarily in Queensland and New South Wales, consistent with where the majority of black coal has been produced throughout Australia's history.

The Territory submits that the lack of production of coal seam gas in other states is not due to the presence of bans or restrictions, but rather the fact that other states do not possess economically viable reserves of coal seam gas. Both states with economically viable reserves have produced coal seam gas to date.

As such, the Territory submits that neither of the framework's conditions have been satisfied – the resource is not present in most states, and the restrictions have not prevented states with economically viable resources from extracting the resource. The Territory submits that production remains a broadly reasonable proxy for revenue capacity in the case of coal seam gas.

Figure 5.1: Australia's remaining gas reserves (2P) and contingent resources (2C) during 2021, and cumulative production to end 2021 (petajoules)



Source: Geoscience Australia

Other unconventional gas

The Territory notes the state restrictions referred to by the Commission apply more specifically to unconventional gas reserves accessed through hydraulic fracturing. Unconventional reserves are broadly defined as reserves that require some form of stimulation for the gas to flow to the surface. This often includes hydraulic fracturing (fracking). In addition to CSG, the other forms of unconventional gas are shale gas and tight gas.

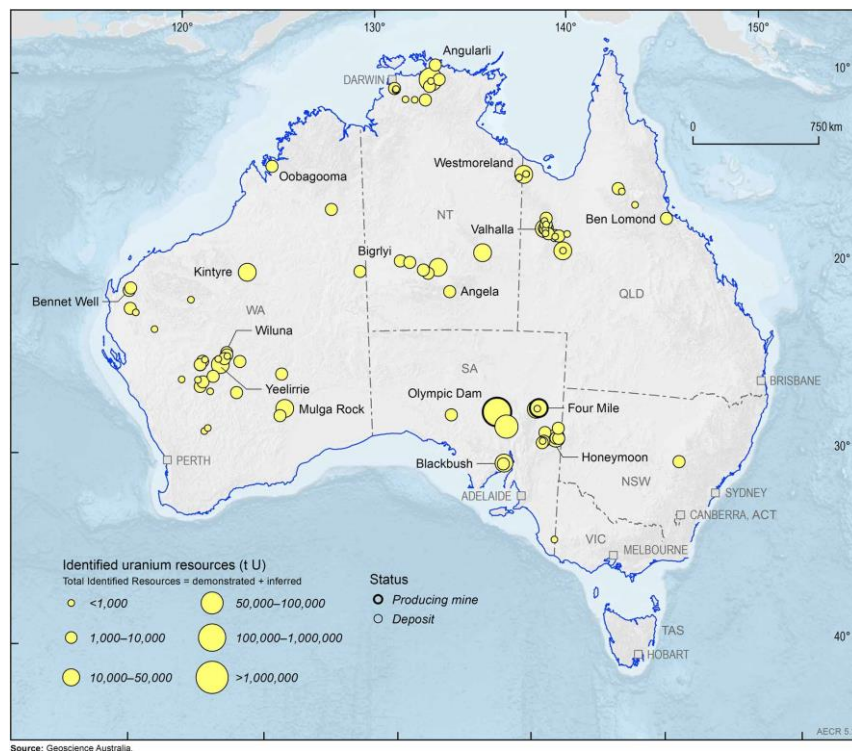
The Territory submits that non-CSG unconventional reserves are found (or reasonably likely to be found) in most jurisdictions. Known basins are geographically large and cross state borders (Figure 5.1). Further, the restrictions noted by the Commission prevent the quantification of the resource in most states. As such, the Territory submits that there is a case, under the Commission's framework, for non-CSG forms of unconventional gas to be assessed as EPC.

Uranium

Uranium is found in at least five jurisdictions (Figure 5.2). In contrast to gas policies, state bans on uranium are far more longstanding and nationally consistent, so are more likely to have prevented the exploration and discovery of economically viable resources in a range of states over time. Actual production is also relatively low compared to potential. As such, the Territory agrees with an EPC treatment for uranium.

While the Territory has historically received grants in lieu of uranium royalties, these are not expected to continue due to the closure of, and cessation of production at, the Ranger uranium mine in 2021.

Figure 5.2: Australia's identified uranium resources by deposit (tonnes), 2021



Source: Geoscience Australia

5.3. Other relevant matters

5.3.1. Changes to the Territory's mineral royalty scheme

The Territory has recently announced the possibility of significant changes to its mineral royalty scheme. The reforms follow a Mineral Development Taskforce report in early 2023 which recommended replacing the Territory's current net value mineral royalty scheme with a value-based scheme.

While this change may be legislatively and practically significant in the Territory, it is not expected to be relevant to the Review's mineral royalty assessment methods, as methods are based on total royalty collections by mineral, rather than how those royalties are imposed. A value-based scheme would also be consistent with the policies in other states. The Territory, while historically having above population-shares of mining production, is also not a dominant mining state for GST purposes.

6. Schools

6.1. Response to questions

Q1. Do states support a differential assessment of primary and secondary school students and, if so, support including in the regression model variables to account for differences in the fixed cost of secondary schools and the additional costs of secondary school students?

The Territory agrees a differential assessment for primary and secondary school students would reflect 'what states do'.

Q2. Do states agree that, if relevant school level data are available and determined fit for purpose, an assessment of needs for educating students with a disability should be included in the schools assessment?

The Territory agrees that an assessment of needs for educating students with a disability is in line with 'what states do'. If the Commission can access disaggregated Commonwealth data on students with a disability, the Territory will be able to support the Commission in determining whether that data is fit-for-purpose.

Q3. Do states agree that the average state funding of schools is not sufficiently based on the Schooling Resource Standard (SRS) funding to be adopted in place of the Commission's funding model?

The Territory disagrees with the Commission's view. The Territory submits that most states have converged to SRS funding levels and the Territory is working towards achieving SRS levels of funding. The Territory considers that SRS shares, as currently determined under the method for assessing National School Reform Agreement funding, are a more appropriate funding model for the 2025 Review as they contain additional drivers of need compared to the Commission's funding model.

6.2. Supporting considerations

6.2.1. Issues with the current assessment method

The Territory submits that the current schools model does not adequately account for the degree of student disadvantage across Australia. The Territory's government school student profile is characterised by a high share of Indigenous, remote and socio-economically disadvantaged students. Specifically:

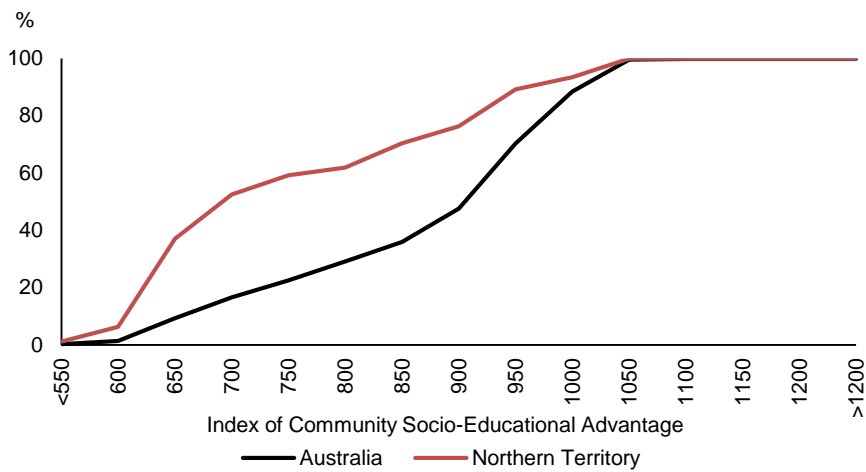
- 16% of Territory students attend schools in the bottom ICSEA percentile and 44% of Territory students attend schools in the bottom ICSEA decile.
- 44% of Territory enrolments are Indigenous, compared with 8% nationally
- 41% of Territory enrolments are remote or very remote students, compared with 2% nationally
- A higher share of Territory Indigenous students speak Indigenous languages and have low English proficiency.

Territory remote and very remote enrolments are concentrated in very low-ICSEA schools, indicating a much greater degree of disadvantage than average remote and very remote schools (Chart 6.1).

However, national measures of disadvantage which drive the current assessment predominantly reflect circumstances in other states, as the Territory is only a small proportion of national cohorts, comprising:

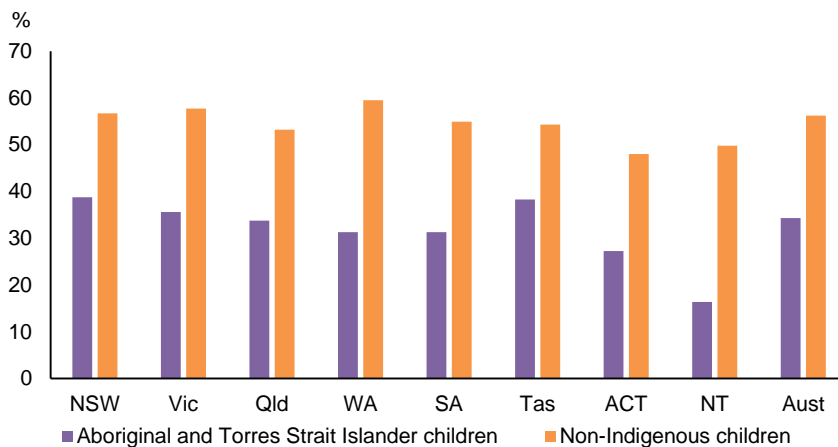
- 2% of bottom quartile SEA enrolments (NSW 31%)

- 6% of national indigenous enrolments (NSW 34%)
- 23% of remote and very remote enrolments (WA 34%).

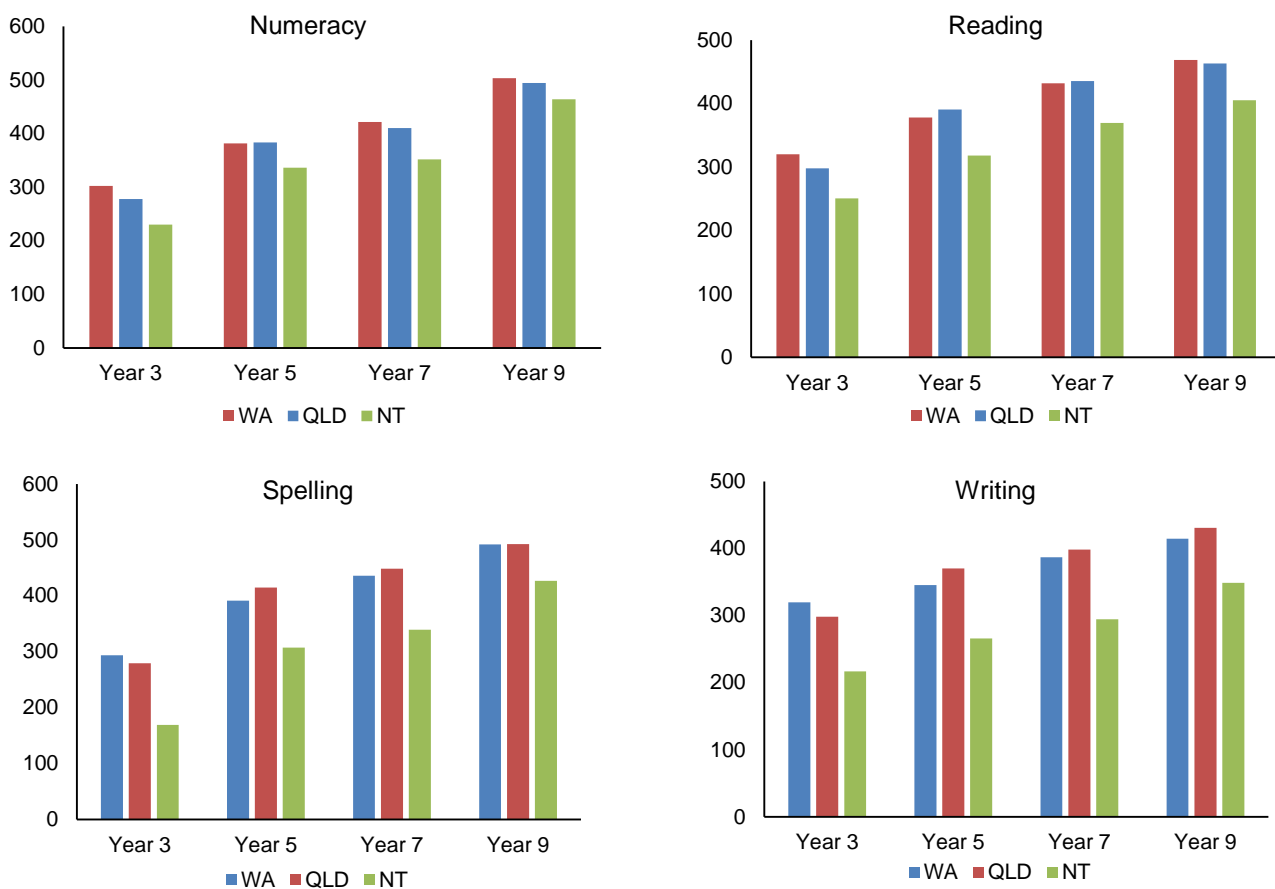
Chart 6.1: Cumulative enrolments by ICSEA (Remote and Very Remote)

Source: Australian Curriculum, Assessment and Reporting Authority; Northern Territory Department of Treasury and Finance

The Territory's remote Indigenous disadvantage is also evident in outcomes indicators. Closing the Gap data show that the Territory has the lowest proportion of children assessed as being developmentally on track in early years, and school NAPLAN outcomes in very remote Territory areas are lower than similar areas in Western Australia and Queensland (Charts 6.2 and 6.3). The Territory submits that the larger disadvantage in very remote areas reflects the compounding impact of disadvantage, which is greater than the loadings captured in the Commissions' regression model.

Chart 6.2: Proportion of children assessed as developmentally on track

Source: Productivity Commission

Chart 6.3: Mean NAPLAN outcomes for Indigenous in very remote areas, select states

Source: Australian Curriculum, Assessment and Reporting Authority

The current regression model only measures disadvantage broadly and fails to adequately account for differing degrees of disadvantage. For example:

- The model assumes there is no interaction between different forms of disadvantage, with each variable having an additive, but not interacting impact.
- Higher-needs schools and students are diluted with lower-need schools – i.e. all students in the bottom quartile of socio-educational advantage are assessed as requiring equal funding, even though needs for the 1st percentile are likely to be greater than the 25th percentile.
- All Indigenous students are assumed to require the same needs, with bi- or multi-lingual Indigenous students (including Indigenous students for whom English is not their first language) having the same needs as Indigenous students who speak English only.

To better address depth of disadvantage, the Territory supports using SRS shares, as currently determined under the method for assessing National School Reform Agreement funding, as a more appropriate funding model for the 2025 Review period.

Alternatively, the Territory supports introducing additional data or variables to the current model to better reflect differing degrees of disadvantage between students.

6.2.2. Using the SRS

The Territory supports using SRS shares, as currently determined under the method for assessing the GST impacts of National School Reform Agreement funding, as a method for assessing state school funding requirements for GST purposes.

In doing so, the Territory recognises the deficiencies in the SRS model, including a lack of recent updates, exclusion of many disadvantaged schools at its inception, including all Territory schools, as outliers, and various other issues including the use of proxy data for Indigenous students.

The Territory notes the Commission's comments regarding the non-convergence of state actuals to the SRS. The overall SRS outcome is reasonably close to most states' actuals as well as the Commission's model in many states. The exception is the Territory where student disadvantage is the greatest (Chart 6.4). The Territory continues to work with the Commonwealth to make progress toward the SRS. As such, the Territory considers the SRS a superior measure of school expenditure needs to the current regression and supports its use at least until the 2030 Review.

Chart 6.4: Difference in assessed funding between the CGC method and the SRS



Source: Commonwealth Grants Commission; Northern Territory Department of Treasury and Finance

6.2.3. Improvements to current regression model

If the Commission does not adopt the SRS as its measure of school expenditure need, the Territory supports the investigation of improvements to the current regression model to better account for the depth of disadvantage in remote areas. The Territory notes that past testing has provided counterintuitive results for many measures of disadvantage. Consistent with the 2020 Review, the Territory does not support using loadings which have counterintuitive outcomes.

For context, the Territory's current funding model contains loadings for a wider range of factors than currently included in the Commission's model. These include:

- Granular and scaling measures of Socio-Educational Advantage
- More remoteness categories
- Indigenous concentration, in addition to Indigenous count

- English as an Additional Language/Dialect
- Students with additional needs, which varies based on need
- Distance education

The Territory has no information on other states' funding models, which are more likely to be drivers of the regression results due to the Territory's low population and funding share, notwithstanding its high needs.

It is also noted that there are multicollinearity issues with estimating the regression on Territory schools due to compound disadvantage – most remote students are also Indigenous and have low SEA. This can mean that regression results should be treated with some caution, as has been previously recognised by the Commission in the 2020 Review.

Potential improvements to the model on currently available data may include using a linear continuous ICSEA score loading in place of the current socio-economic status variable. The Commission may also re-consider including information on students with a disability, subject to the Commission being satisfied that data quality issues have been resolved.

7. Post-secondary education

7.1. Response to questions

Q1. Do states agree that a course mix driver should not be introduced?

The Territory agrees that a course mix driver should not be introduced to the current methodology.

Q2. Do states agree that the variables used in the socio-demographic assessment of needs be retained?

The Territory agrees that the variables used in the socio-demographic assessment of needs should be retained.

7.2. Supporting considerations

7.2.1. Course-mix driver

The Territory has reviewed the current methodology and notes that it broadly aligns with how the Territory funds the post-secondary education sector. The Territory considers that the CGC's method has been broadly stable, and the outcomes are reasonable. The discussed changes would potentially increase the complexity and volatility of the assessment while providing limited overall improvement.

A jurisdiction's course mix is likely to reflect its labour market, which is liable to change from year to year. This is particularly the case for project-driven economies such as the Northern Territory, where major projects can dictate the composition of skills demanded in the labour market. Consequently, the introduction of a course mix driver may impact the consistency of the current method and is likely to lead to increased volatility in the assessment.

The Territory notes that the course mix data cited by the CGC are from a 2011 report which uses 2008-09 data. It appears unlikely this would reflect current labour markets and course mixes.

The Territory's preference is not to complicate the assessment with additional measures when the current method seems broadly reasonable.

7.3. Other relevant matters

7.3.1. National Skills Agreement

A new 5-year National Skills Agreement (NSA) is currently under development and is expected to commence from January 2024. The Territory considers that the current method is appropriate to assess the majority of funding under the new NSA. However, it is expected that the NSA will contain specific funding allocated for Closing the Gap initiatives, which states will be required to match to access.

The Territory submits that the Closing the Gap component of the NSA should be excluded from equalisation, notwithstanding that post-secondary education is an assessed category. As discussed in this submission's section on Commonwealth payments, the intention of Closing the Gap funding is specifically to address entrenched disadvantage which has not been met under state-average policy. The Territory's position is that, rather than being to fund state-average policy, payments of this nature are intended to address entrenched disadvantage, which is not in-scope for HFE purposes.

Relevantly, the Closing the Gap payments in the NSA are not necessarily for contact hours, or even students, but may include measures such as increasing the growth of the Aboriginal community-controlled sector and improving culturally appropriate wrap around supports. This results in a different purpose and effect for this component of the NSA, compared to the usual Indigenous programs and loadings identified through the 2020 Review methods.

Exclusion of the Closing the Gap portion of the NSA will not require any change to the method for determining Indigenous loadings, which precede, and are funded independently of, the NSA. The Territory notes that the specific method for calculating the post-secondary education category fixes Indigenous loadings for the Review period based on state expenditure in the immediately preceding years. As the NSA has yet to commence, the greater dedicated state Indigenous expenditure funded through the NSA will not be captured in the 2025 Review Indigenous post-secondary loading.

7.3.2. Updating cost weights

The Territory agrees with the Commission that annual updates of the post-secondary cost weights are unnecessary. Annual updates would result in additional administrative burden for little improvement. Unlike other categories, such as justice, post-secondary loadings have historically been stable, and are expected to continue to be stable for the Review period.

8.0. Health

8.1. Responses to questions

Q1. Do states agree that in a post-pandemic environment, the hospital and patient transport assessments remain fit for purpose?

The Territory submits that the hospital method should place greater weight on actual activities and the Indigenous grants adjustment should be ceased (treated APC). The patient transport assessment remains broadly fit for purpose.

Q2. Do states agree that the proposed changes to the community and public health assessment in this paper will contribute to making the assessment more responsive to developments affecting this part of the health system?

The Territory does not support the changes to the community health assessment for greater flexibility in response to shocks. The model should be built assuming medium to long-term stability in the health system, rather than to maximise resilience to exceptional shocks.

Q3. Do states consider the experiences with the COVID-19 pandemic have implications for the health assessment?

The Territory considers the impacts of COVID-19 were significant, but do not warrant a long-term departure from methods. The model should be built assuming medium to long-term stability in the health system, rather than to maximise resilience to exceptional shocks.

Q4. Do states agree to:

- **use the Australian Institute of Health and Welfare data on community mental health activity, adjusted to compensate for lack of cost weights, to determine per capita use rates for mental health services?**

The Territory is concerned that there are material limitations and inconsistencies in the community mental health data, making them an inappropriate basis by which to apportion costs. Accordingly, the Territory does not support the use of these data and prefers the current proxy.

If the Commission considers using these data appropriate, the preferred option is to use AIHW mental health patients, with service delivery scale and remoteness weights based on hospital data. Use of the data should be limited to the mental health component of community health. The current emergency department proxy should be retained for the rest of the category.

- **expand the current proxy to include non-admitted patient services, applied to the balance of the component?**

The Territory does not support this alternative option and prefers continuation of the current proxy on the basis that remote persons are less likely to access non-admitted services, and the types of services differ, compared to community health or the emergency department.

- **continue to apply a discount of 12.5% to the community health socio-demographic assessment?**

An equal-per-capita assessment is not evidentially supported by either the current proxy or the alternative data and, accordingly, discounting remains problematic. However, the Territory notes the Commission's reasons remain consistent with its discounting guidelines.

Q5. Do states support the use of Australian Institute of Health and Welfare data to update the non-state services substitutability level for the emergency departments component, while retaining the 2020 Review method for other components?

The Territory recognises the significant degree of discretion required in determining substitutability ratios and submits that the substitutability ratio of 30% should continue for non-admitted patients. The Territory supports the revised emergency department and admitted patient ratios, and would welcome the opportunity to consider the community health ratio once the data are updated.

8.2. Supporting considerations

8.2.1. Community health data

The Territory has concerns with the dataset proposed for community mental health. Specifically, the Territory is concerned with the significant variation in the data between states, and the lack of cost weights and diagnosis information.

Inconsistent activity reporting

There are noticeable differences in the data between states. In particular, data on patients and contacts differ significantly between states, as do the types of activities reported. For example, Western Australia, South Australia, Tasmania and the Northern Territory each have below-average contacts, but above-average patients. As such the proposed model would be sensitive to whether the Commission considers contacts, or patients, as the appropriate measure of cost shares.

The AIHW data exclude significant components of state activities, such as contacts delivered through non-government organisations. This means the AIHW data understate Territory community health costs as the Territory provides substantial funding to the non-government health sector to provide remote community health services. This is particularly relevant for the large Aboriginal Community Controlled Health Organisation sector and is likely to specifically undercount remote areas.

The data do not present nationally consistent cost-weighted contacts. In the absence of those data, it is unclear if higher contacts (and/or patients) reflect proportionately higher costs, or more voluminous but lower-cost activities. The AIHW data quality statement notes that the types of service contacts included in the data may vary between jurisdictions, with some states or territories including written correspondence as a contact and others do not. The quality of principal diagnosis data may also be affected by the variability in collection and coding practices across jurisdictions.

The Territory considers that if contacts are used, the database is likely to undercount remote service costs. This is because remote service provision often requires specialists to travel considerable distances at high cost, which results in service model based on less frequent, but higher-intensity, contacts. A simple count of contacts would likely under-represent both costs and the intensity of services. Patients would be a superior measure, though would still require service delivery scale adjustments and remoteness loadings.

Evaluation of 2020-21 contact diagnosis categories also indicates inconsistencies in how the data are recorded between states. The AIHW data indicate that 42% of contacts are in the three residual categories of 'mental disorder not otherwise specified' (20%), 'other' (4.7%) and 'not reported' (17.4%).¹ The rate of these miscellaneous activities is clustered in New South Wales major cities. New South Wales accounts for

¹ Australian Institute of Health and Welfare (2023), *Community mental health care tables*, Table 16, 2020-2021 (accessed September 2023).

over 1.8 million contacts for 'mental disorder not otherwise specified', more than 18% of national contacts. This compares with around 0.2 million contacts in this category in all other states combined.

In terms of Territory data collection, the underlying source data for community health contact reporting remains relatively new. There are outstanding data quality issues which may specifically impact the measuring of contacts at the clinical level, with patient data likely to be more reliable at this time. The above issues do not arise with the emergency department proxy, which is likely to remain a superior measure for remote, noting the proxy is similar to the AIHW data in non-remote areas.

Inconsistent cost data

The Territory notes that the AIHW activity data do not appear to align with its associated cost estimates. The AIHW reports that New South Wales has 50% more contacts and 80% more patients than Victoria, but has lower recurrent mental health expenditure per capita (\$253 and \$273 respectively), and comparable total community mental health care services expenditure (\$718 and \$706 million respectively).²

The Territory submits that the data quality issues, absence of cost weights, skewed diagnostic information, and unexplained variance between AIHW estimated costs and activities, create doubt that the community mental health data are a reliable and comparable measure to apportion costs between states or regions. The Territory is concerned that this contributes to the remoteness results observed by the Commission.

Accordingly, the Territory prefers continuation of the current proxy. In the alternative, the Territory submits that patients, rather than contacts, is appropriate, and remoteness and scale weightings are necessary. Further, the mental health data should be used to the minimum extent possible, and not applied to the entire community health category, with the current emergency department proxy retained for the remainder.

8.2.2. Expansion of emergency department proxy with non-admitted patient data

The Commission previously found that emergency department triage category 4 and 5 episodes and community health services are similar in nature — they are less severe and less urgent episodes and have limited connection with hospital admissions. The Commission also considered that state community health data indicated that the emergency department data are a reasonable proxy.

The Commission proposes expanding the community health proxy, which is currently based on emergency department data, to also include non-admitted patient data. In essence, this asks whether the non-admitted patient data are reliable, and the services comparable with community health services, relative to the emergency department proxy. The predominant difference between the data sets is the relatively lower use rate of non-admitted services by remote persons.

The Territory considers that hospital patient data are likely to undercount community health services for remote and very remote persons. However, of the discussed proxies, the current emergency department category 4 and 5 data are more representative than the non-admitted patient data. This is predominantly due to service accessibility and cultural/behavioural reasons.

² Australian Institute of Health and Welfare (2023), *Mental health services in Australia: Expenditure on mental health services 2020-21*, Table 1, (accessed September 2023).

Access considerations

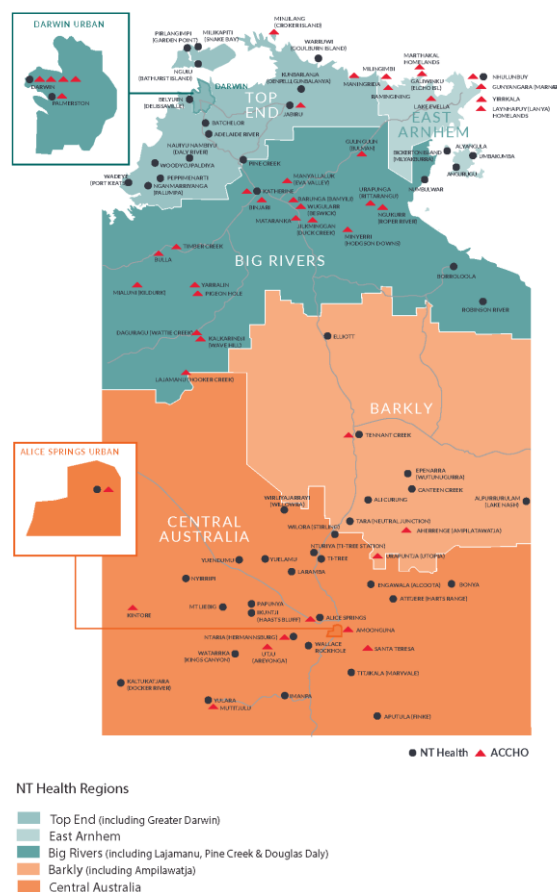
In the Territory, community health services are the most geographically dispersed health service, with 74 clinics across five regions (Figure 8.1). Clinics are therefore the most geographically accessible service for remote persons, compared to hospital services. Remote clinics are also able to be accessed on a 'walk-in' basis without need for prior appointments or referrals.

Hospitals and emergency departments are less accessible for remote and very remote persons due to physical distance. However, there remain high use rates of emergency departments by remote persons when visiting hospital areas. This is shown in the current proxy. Largely, this reflects the ability to walk-in to an emergency department.

In contrast, non-admitted patient services are significantly less accessible for remote persons as they usually require a referral and appointment. For remote persons, who are often transient and may only be visiting a hospital area for a short period, the likelihood of not accessing or attending a non-admitted patient service, compared to a community health clinic or emergency department, becomes significant. These trends would not be expected to exist for urban populations, where distance, mobility and transience are significantly less of a barrier to access in all three categories.

Figure 8.1: NT Health Service Locations map

NT Health Service Locations



The types of non-admitted patient services are also significantly different to community health services. By definition, non-admitted patient services are intended to record services of a type that would ordinarily be

delivered in a hospital setting. They are not intended to be a proxy for the services ordinarily provided by the primary health network. In remote contexts, non-admitted services are typically specialist outreach services. By their nature, these specialist services are required far less frequently, and for reasons that are different to, the often omnibus clinic-style services provided in the remote community health sector. Similarly, remote clinics would not offer comparable services to the non-admitted patient sector, noting that remote clinics are primarily serviced by nurses, rather than specialists. Emergency departments in contrast provide a range of services for category 4 and 5 episodes which are similar to community health services.

Accordingly, use rates for non-admitted services and community health services are likely to be significantly different due to geographic and service accessibility considerations, as well as the types of services provided, and are unlikely to be comparable for remote persons, compared to emergency department data.

8.2.3. Update of substitution rate

As raised in the 2020 Review, the Territory is concerned with the assumption that only bulk-billed services are substitutable with state services. There remains little conceptual case that a service with a nominal out-of-pocket cost ceases to be substitutable with state services.

Since the 2020 Review, there appear to have been significant changes in MBS subsidy rates. The AIHW observes:

During the early stages of the COVID-19 pandemic, a number of factors drove the MBS subsidy rate up to 84.6% in April 2020, particularly an increase in the 'bulk-billing' incentives for GPs, new telehealth items that were bulk-billed, reductions in certain types of activity that tended to have higher out-of-pocket fees (for example, elective surgery) and the roll-out of the COVID-19 vaccines.

In the most recent period, there has been a rapid decline in the MBS subsidy rate, leading to lower levels than those that have previously been seen – with an historic low of 73% in February 2023.

In terms of the Commission's substitutability ratios, the decline appears to predominantly impact the non-admitted patients ratio. The primary non-admitted patient substitutability ratio method, based on state expenditure for each group of non-admitted patient services, is 32%. This is broadly consistent with the 2020 Review's 30% substitutability ratio. However, the alternative method, based on bulk billing data, declined to 17.5%. It is unclear to what extent the decline in the alternative method reflects genuine reductions in substitutability, as opposed to increases in nominal out-of-pocket billing.

The Territory also notes that the non-state sector adjustment is applied to benefits exclusive of non-bulk-billed benefits. Applying a substitutability ratio calculated based on bulk billed benefit rates, to data that excludes non-bulk-billed benefits, effectively double counts the impact.

The Territory submits that the volatility in the MBS data in recent years means less weight should be placed on the alternative method. Overall, continuing to use a non-admitted patient substitutability ratio of 30% appears appropriate.

The Territory also notes the updated community health ratio is yet to be determined as data are not yet available. Should this ratio materially change, the Territory would welcome any opportunity for further comment.

The other substitutability ratios are broadly consistent with the 2020 Review. As the nominal changes are small, and given the high degree of discretion required to construct the rates, the Territory supports the proposed rates for the 2025 Review period.

8.3. Other relevant matters

8.3.1. National Health Reform Agreement review

The National Health Reform Agreement (NHRA) review is currently underway. The Territory's NHRA submission includes that the NHRA has not made sufficient progress towards its objective of increasing the Commonwealth's share of funding and ensuring health system sustainability in the Northern Territory. In 2022-23, the Northern Territory received the lowest Commonwealth contribution under the NHRA, at 32%, compared with the national average of 40.7%.

Reasons for the low contribution rate include:

- NHRA loadings do not sufficiently reflect Territory costs, with the Territory reflecting 1% of the population and only 6 of the 680 public hospitals in calculating the national efficient price.
- Remote Territory patients can have different costs than explained by case-mix complexity in the NHRA model design. Factors that usually differentiate the patient journey in the Territory include:
 - higher instances of comorbidities
 - daily medication delivered at clinics due to lack of safe storage at home
 - delayed referrals due to carers with kinship responsibilities
 - lack of medical facilities nearby when transport is required
 - long physical travel distances, with cases sometimes escalating without earlier intervention
 - requirement to travel with escorts due to cultural and language considerations, or if a carer
 - catch-up care upon admission
 - a lack of housing in community and capacity for post-discharge care.
- Absence of primary health care in remote areas, resulting in NT Health being the provider of last resort.

These factors result in both higher activities and costs. However, because national price averaging does not account for the full suite of costs associated with remote and culturally appropriate care, these activities and costs are not reflected in the Territory's NWAUs. This results in the Territory's cost share being higher than its NWAU share. The Territory is not seeking Commission method changes to correct for NWAU calculation issues, as these are more appropriately considered by health entities. The Territory provides this information for context, and considers NWAUs are a minimum, not an overstatement, of Territory costs. The Territory submits NWAUs are the best available measure of health needs.

8.3.2. NWAU averaging

The Territory considers that a greater reliance should be placed on state actual NWAU shares, with less reliance on cohort-averaged NWAUs. Averaging is intended to alleviate policy neutrality concerns by ensuring no state is able to control its share of NWAUs. However, the design of the NWAU already alleviates policy neutrality concerns through national price averaging and accounting for the complexity of activity. NWAUs reflect the average cost of treatment of genuine underlying health needs.

The result of averaging is that the Territory is assessed as providing too much healthcare. The Territory views this as a perverse result given that the Territory has the highest age-standardised death rates in the country, reflecting a substantially poorer baseline health, particularly for indigenous population cohorts, which drives higher Territory activities.

The Territory contends that the primary driver of NWAU differences between states, beyond the cohorts used by Commission methods, is uncaptured variation in the underlying health of the population within each cohort. To the extent that unexplained drivers exist beyond those explained in the Commission model, averaging means that states with poorer health outcomes within an assessed cohort will be under-funded, and states with higher health outcomes overfunded.

The Territory acknowledges that for some states, there is a conceptual case that lower NWAU shares could be driven by lower levels of service provision, constraining ability to access healthcare, which should be equalised. However, the Territory submits that NWAU averaging is a poor method of measuring under-servicing, as it essentially assumes that all differences in cohort activities between states are due to state policy, rather than underlying health needs as is the case in the Territory. NWAU averaging also limits any funds available for equalisation to the NWAU share of (and states with) that cohort, rather than allowing equalisation to occur over the population more broadly.

The Territory submits that if the intent of NWAU averaging in the health assessment is to recognise differences in state service coverage, a better approach would be to specifically design a method which measures service coverage, and equalise accordingly. This would be a fundamentally different approach than NWAU averaging and may not be feasible in the 2025 Review timeframe. However, such a method may be necessary to ensure that inequities in the current system, which appear to systematically underfund disadvantaged remote indigenous communities, do not persist.

Impact of averaging on Territory assessment

While the Territory has limited interstate data to enable detailed comparisons, the impact of averaging is significant, particularly for the Territory. Table 8.1 illustrates this impact, noting that assessed NWAU shares below include a block-funding adjustment. If this were excluded, Territory assessed shares would be significantly lower.

Table 8.1: Difference between assessed and actual NWAU shares (Admitted patients, 2021-22)

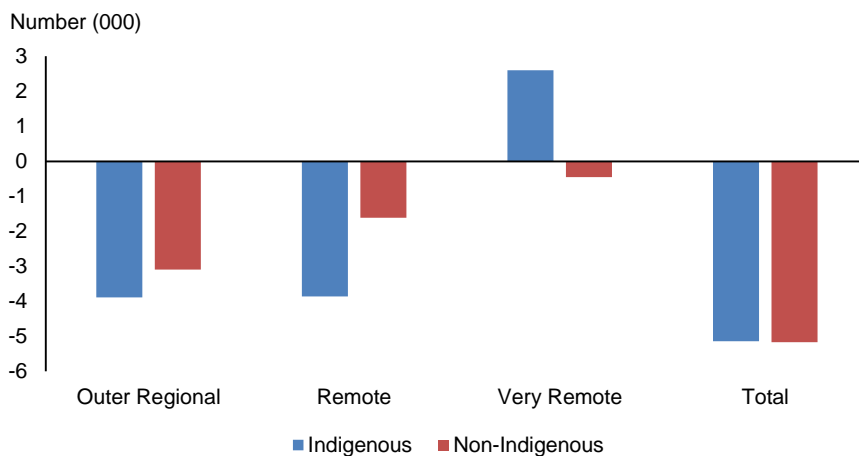
| | NSW | Vic | Qld | WA | SA | Tas | ACT | NT |
|--------------------|------|------|------|------|-----|-----|-----|-----|
| Actual share (%) | 29.5 | 25.1 | 22.6 | 10.1 | 6.8 | 2.0 | 2.0 | 1.9 |
| Assessed share (%) | 31.0 | 23.9 | 21.2 | 10.6 | 7.7 | 2.7 | 1.3 | 1.5 |

Source: Commonwealth Grants Commission; Northern Territory Department of Health; Northern Territory Department of Treasury and Finance

This results in the Territory's assessed NWAUs being around 20% lower than the actual NWAUs provided in the Territory (Chart 8.1). This difference is seen across almost all Territory cohorts, but particularly impacts Indigenous Territorians (Chart 8.2).

Chart 8.1: Impact of NWAU averaging by state and territory

Source: Commonwealth Grants Commission; Northern Territory Department of Health; Northern Territory Department of Treasury and Finance

Chart 8.2: Impact of NWAU averaging on the Northern Territory, by cohort³

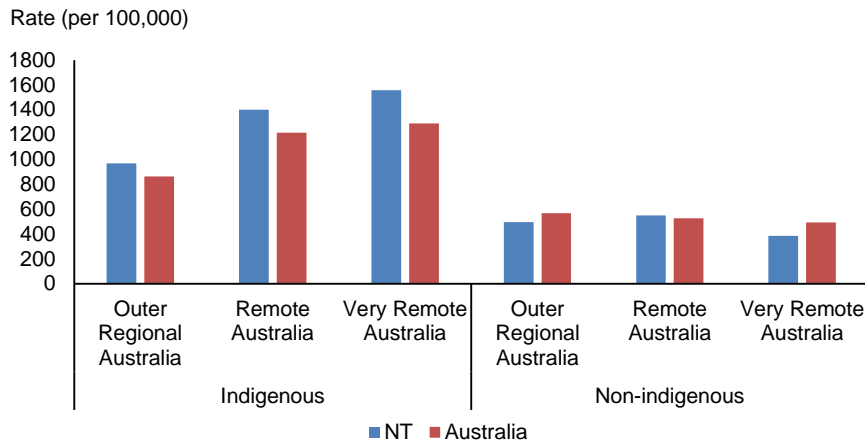
Source: Commonwealth Grants Commission; Northern Territory Department of Health; Northern Territory Department of Treasury and Finance

Drivers of higher NWAUs in the Territory

Underlying health of the population

The Territory submits that the higher level of activity in the Territory is due to substantially poorer baseline health in the Territory than in equivalent remote, Indigenous and aged populations interstate. The Territory has the highest age-standardised indigenous death rates in the country, even when controlling for remoteness (Chart 8.3). This illustrates that the Territory's higher NWAU share is not due to over-servicing, but rather the poorer baseline health of its population, and particularly indigenous, cohorts.

³ Note, the increase in very remote assessed NWAUs is largely attributable to the Commission's block funding adjustments, which is separate to NWAU averaging issues.

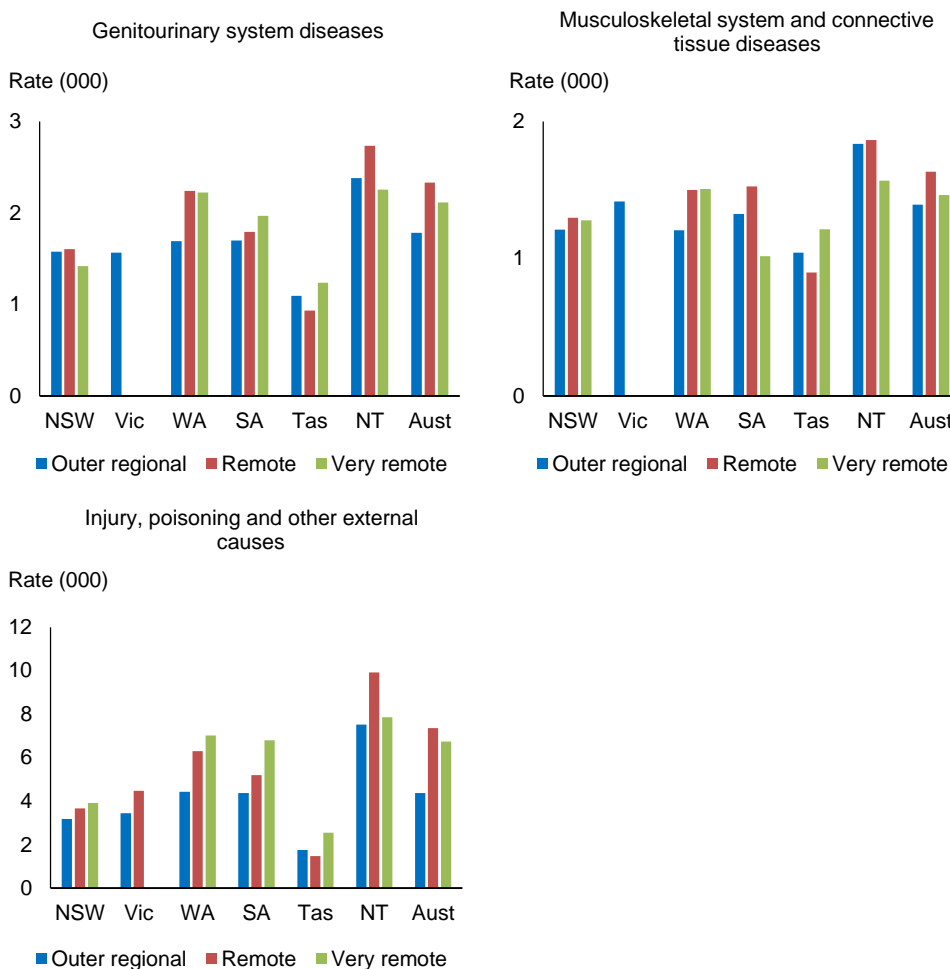
Chart 8.3: Age-standardised death rates by Aboriginal and Torres Strait Islander status and remoteness, 2020-2022

Source: Australian Bureau of Statistics, *Causes of Death*, Australia, 2022 (custom data request)

Similarly, the Territory has the highest age-standardised rates of admission for kidney-related disease, bone, joint and muscular diseases, and injury, poisoning and other external causes (Chart 8.4). These diagnosis categories accounted for 14%, 10% and 3.6% of the Territory's NWAUs respectively.

Under averaging, these cohorts would be assumed to have equal death rates and admission rates. Instead, there is significant variation between states. If NWAU averaging continues to be applied in this context, the Territory will continue to be treated as if it has a healthier population than it actually has, and will not be funded to provide an appropriate level of health services

The implication of the Commission's method is that the Territory's high level of health activities is a policy choice of the Territory's, whereas the data evidences that the activities are the direct result of higher need. Accordingly, the Territory considers that NWAUs remain a valid and reliable measure of health service needs. To the extent that a state requires an adjustment beyond its NWAUs, such as due to lower service availability in a jurisdiction, it is submitted this should be separately assessed, rather than accommodated through averaging which distributes activities away from jurisdictions with poorer baseline health.

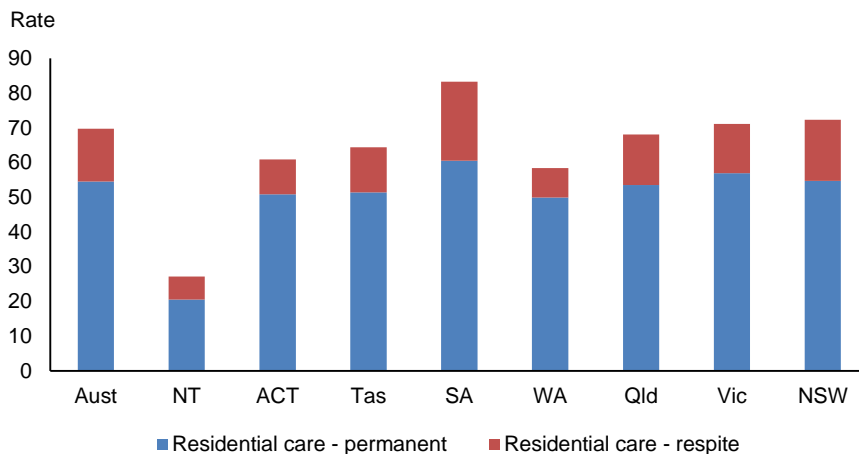
Chart 8.4: Indigenous admissions, age-standardised rate per 100,000 people (2017-18 to 2019-20)

Source: PHIDU – Torrens University. Note: Queensland data unavailable.

Lack of aged care services

Lack of aged care facilities, which is predominantly a Commonwealth function, contributes to higher hospitalisations both directly and indirectly. Directly, aged care deficiencies result in more NWAUs as patients require longer stays in hospital. Indirectly, NWAUs increase because hospital settings tend to have poorer outcomes than aged care facilities. The Territory estimates that around 40% of its sub-acute and non-acute patients are in maintenance care largely because they are waiting for a place in aged care.

RoGS data show that there are significant variations in the availability of aged care between states, and that this translates to hospital activities. In the 2020 Review, the Commission agreed that differences in aged care could result in differing rates of hospital needs, but did not form part of the method as the difference could not be converted into a quantified adjustment.

Chart 8.5: Rate of persons in residential care, per 1,000 target population in cohort, 2020-21

Source: Report on Government Services 2022

Chart 8.6: Rate of hospital patient days by those eligible and waiting for residential aged care, per 1,000 target population, in outer regional areas, 2020-21

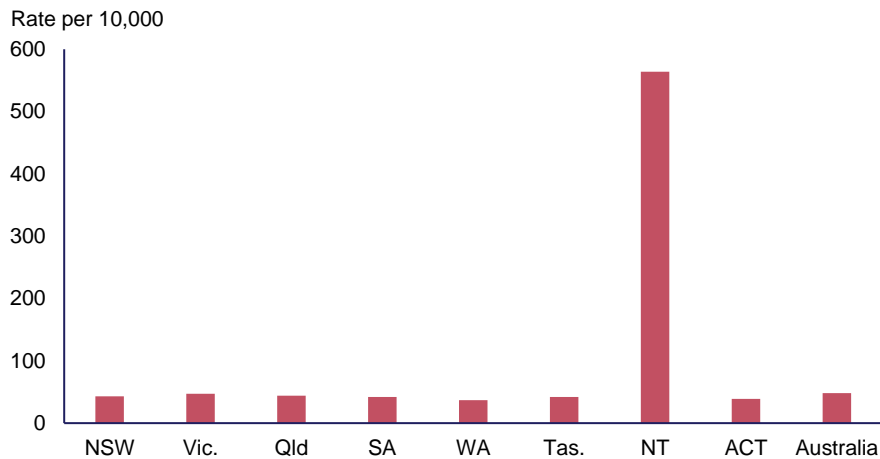
Note: Australian Capital Territory data unavailable.

Source: Report on Government Services 2022; Northern Territory Department of Treasury and Finance

Housing and homelessness

It is well recognised that stable and secure housing is fundamentally important to health and wellbeing.⁴ The Territory's higher health activity shares are partly driven by its poorer health outcomes due to high rates of homelessness, particularly Indigenous overcrowding in remote areas, which are significantly above the national average. (Chart 8.7)

⁴ Australian Institute of Health and Welfare, *Aboriginal and Torres Strait Islander Health Performance Framework, Housing*, citing AIHW 2019, *Aboriginal and Torres Strait Islander people: a focus report on housing and homelessness*, 2019, accessed September 2023.

Chart 8.7: Rates of people experiencing homelessness by state (2021)

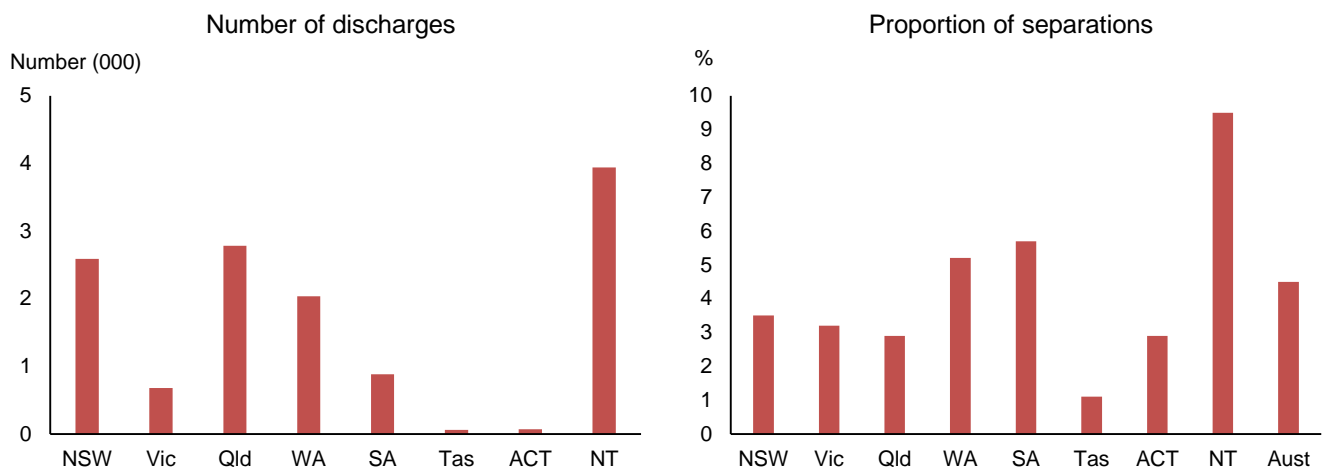
Source: Australian Bureau of Statistics

Geographic considerations

Unlike most remote areas in other states which border an outer regional area, Alice Springs is surrounded by 'very remote' areas. Accordingly, it acts as a service hub. This means that the Alice Springs hospital is both larger, and offers a broader range of services, than many other remote hospitals. It is the only public acute group A hospital in remote Australia. This arises due to clinical need, not policy. The current method averages Alice Springs with smaller remote hospitals interstate, which do not provide the same clinical services, without recognising the different geographic circumstances of the Central Australia region.

Patient behaviour

The Territory has a far higher rate of Indigenous admitted patients who did not wait, left or were discharged against medical advice (Chart 8.8). The higher rates in the Territory result in higher NWAUs, as patients who leave without completing treatment are likely to return later and with higher needs, than someone who completes treatment in their first admission. Averaging assumes these behavioural differences and consequential activity impacts would be equal across states.

Chart 8.8: Indigenous patients who left or discharged against medical advice (admitted patients)

Source: Report on Government Services 2022; Northern Territory Department of Treasury and Finance

Socio-economic status

The way SES is used in outer regional areas also creates a skewed assessment for the Territory. By using SES in outer regional (i.e. Darwin) areas, but not remote or very remote areas, only the Territory's high-SES areas are subject to a socio-economic assessment. Almost all the Territory's low-SES areas, which are concentrated in remote and very-remote areas, are excluded from a socio-economic assessment. This stands in contrast to most other jurisdictions, where the SES distribution is more evenly spread across and within remoteness areas. The result is that the Territory's overall SES profile is somewhat artificially inflated under the current averaging approach.

Summary

Under the current model, variations in activity are assumed to be solely due to the influence of state policies on a homogenous population within each cohort.

The Territory considers that, given health outcomes in the Territory, this is unrealistic. While the impact of averaging may be muted for larger jurisdictions, averaging materially under-assess the Territory as the Territory's remote and very remote populations have significantly higher needs than comparable cohorts in other states.

The Commission should consider the overall reasonableness of its approach given the information above. Under the CGC's assessment the Territory, with the highest demonstrated health need, would need to suppress activity by a fifth to align with its assessed need.

Given the difficulties in obtaining sufficiently disaggregated and/or reliable data to use as alternative drivers, the CGC should recognise the current assessment approach does not capture the baseline health and clinical needs of each jurisdiction and therefore greater weight should be placed on actual data. This would not violate policy neutrality principles given NWAUs are nationally consistent and average-priced measures of health activities, and independently verified. A reasonable weighting would reflect the demand driven nature of health activity and not unduly influence the policy decisions of jurisdictions.

The Territory suggests that national health assessments should be apportioned in line with actual NWAU shares, with consideration given to developing appropriate adjustments to recognise under servicing.

Alternatively, or if adjustments to actual NWAUs are considered necessary but cannot be developed in time for the 2025 Review, the Territory suggests that approaches to mitigate the limitations of the current methodology include:

- Blending average and actual NWAU shares (for example, 50% actual and 50% assessed); or
- Limiting the impact of NWAU averaging (for example, so that NWAU averaging does not redistribute more than a set proportion of actual NWAUs).

8.3.3. Grants to Indigenous community health organisations

The Territory submits that grants to Indigenous community health organisations should be assessed on an actual per capita basis, as:

- The assessment is overly simplistic and unlikely to accurately measure state needs.

- The primary purpose of Indigenous grant payments is to capture differences in the primary health network, which is predominantly a Commonwealth responsibility, and not assessed by the Commission.
- The overall GST distribution impact of the adjustment is small, and there is not sufficient accuracy in the method to suggest that the method should be continued, as opposed to allowing actuals to be treated on a no impact basis.

The funding methodology for grants to Indigenous community health organisations is based on the average Indigenous health employees per person, per cohort. FTEs are distributed between remoteness areas and, except in remote and very remote, SES, with a loading applied to recognise higher costs in remote and very remote. States are assessed if they receive more, or less, funding than their weighted population share.

The Territory submits the model is overly simplistic and does not improve equalisation. Importantly, the quality of the primary health network differs significantly between states. Indigenous grants are partly intended to address these differences by increasing the availability of health services. By assuming each Indigenous person in a remoteness area requires the same FTE, the Commission is implicitly assuming there are no differences in primary health care between states, other than remoteness categories. Research has shown that at an aggregate level, the Territory receives around 30% less Medicare funds than the national average, even when additional Commonwealth funding for Aboriginal medical services is included.⁵

While data on primary health care networks can be difficult to analyse due to different methods of service delivery between jurisdictions, there are significant data to show that there are differences between states, and that the Territory's needs are significantly higher than is explained solely by remoteness and Indigenous population shares. This includes significant differences between states in:

- Commonwealth expenditure on GPs and PBS between states (Charts 8.9 and 8.11)
- The number of GP FTEs per jurisdiction by remoteness category (Chart 8.10)
- The number of persons per pharmacy by remoteness category (Chart 8.12)
- The number of allied health FTEs per persons (other than Indigenous health) (Chart 8.13)

⁵ Zhao Y, Wakerman J, Zhang X, Wright J, VanBruggen M, Nasir R, Duckett S, Burgess P., Remoteness, models of primary care and inequity: Medicare under-expenditure in the Northern Territory, Australian Health Review, 2022.

Chart 8.9: Commonwealth expenditure on GPs per person, 2021-22



Chart 8.10: Rate of GP FTEs per 100,000 people, 2021

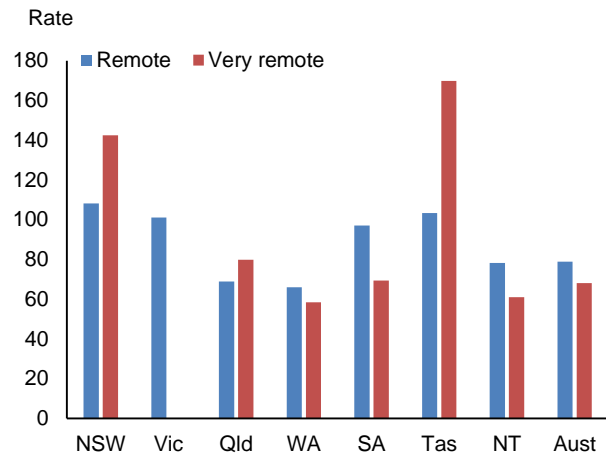
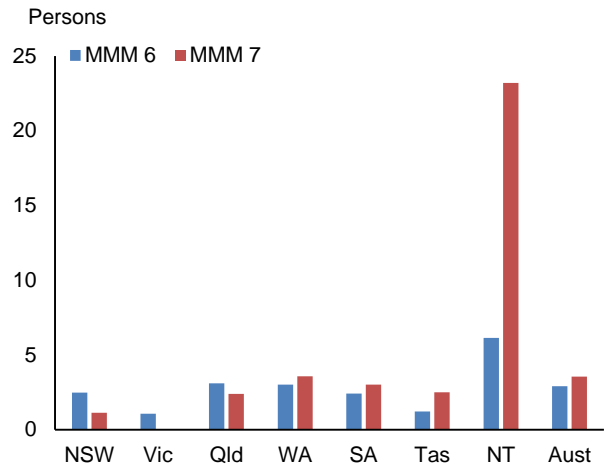


Chart 8.11: Commonwealth expenditure on PBS per person, 2021-22



Chart 8.12: Persons per pharmacy by Modified Monash Model (MMM) area, 30 June 2022



Source: Report on Government Services 2022

Chart 8.13: Rate of Allied Health FTEs per 100,000 people (excluding Indigenous health practitioners) in remote and very remote areas, 2021



Source: Report on Government Services 2022

The Territory submits that the predominant purpose of Commonwealth expenditure in the Territory is to offset the much lower jurisdictional non-government sector expenditure. In addition to the above, Territory analysis of AIHW data indicates, in aggregate, the sum of non-government primary health care in the Territory is per capita around 10% lower than the national average. Territory analysis also indicates that the higher level of Commonwealth expenditure does not fully offset the smaller non-government sector, with the Territory contributing to primary health care at a higher rate than the national average.

While the Commission includes some recognition of the non-state sector primary health network in other assessment categories, particularly bulk billed GP benefit payments, the current method is significantly less than a full equalisation model of the primary health network. In particular, the model does not equalise allied health or pharmaceuticals access.

The impact on states is also disproportionate. In the 2023 Update, the method reduced Territory Indigenous health funding by over 22%. In contrast, New South Wales, which on most metrics has a stronger primary health network, was assessed as requiring an additional 19% in funding. The Territory submits the overall outcome is arbitrary, acts contrary to equalisation, and is due to an oversimplified assessment method.

Although a model of primary health network differences for Indigenous persons could potentially be constructed, this would be complex and likely require more time that is available in the current Review. However, an equal per capita assessment would not be appropriate, given the strong conceptual case for need increasing with remoteness. Given this, and as the method redistributes only around 11% of Indigenous health grants on average, it is more appropriate not to redistribute Indigenous health grants and allow an actual per capita allocation until a new method can be developed. This would be on the basis that the current Commission method is not a superior measure of Indigenous health grant funding need than the Commonwealth's actual payment profile.

9. Services to communities

9.1. Response to questions

Q1. Do states agree that the existing assessment methods for spending on disaster mitigation remain appropriate?

The Territory agrees that the existing assessment methods for spending on disaster mitigation remain appropriate.

Q2. Do the definitions used in the National Partnership on Disaster Risk Reduction provide an appropriate basis for describing the type of spending that could be classified as natural disaster mitigation?

The definition of spending in the National Partnership appears too broad for use in an assessment context. A more refined definition would be required to identify spending, particularly where programs may be in other assessment categories areas, be multi-purpose, or have disaster mitigation components.

Q3. Where is this spending currently classified in the Government Finance Statistics framework?

Specific projects such as flood mitigation capital works are coded to Environmental Protection – 0541 Protection of biodiversity and landscape. General components may be found in other categories.

Q4. Is spending on mitigation measures expected to increase significantly over the next five years?

It is possible for spending on mitigation measures to increase over the next five years. However, the components of spending will be difficult to identify and quantify until definitions are progressed.

9.2. Supporting considerations

9.2.1. Disaster mitigation

The Territory considers that the definition of disaster mitigation works as suggested in the Tranche 1 paper is too broad and will require significantly more detail before it could be reported against.

The Commission proposes to use the definition of disaster risk reduction found in the National Partnership on Disaster Risk Reduction to identify expenses for a potential assessment. However, the definition in that agreement is deliberately broad to allow a wide range of projects to be considered, with projects later prioritised by an assessment framework in the context of the overall fund size. This definition is suitable in a funding context as it creates flexibility, but is less suitable as an accounting definition, as it covers many areas which are assessed in other expenditure categories, or are a component of general expenditure.

Examples of disaster mitigation which might be incorporated into general costs include:

- Road upgrades to improve flood resilience
- Controlled burns to mitigate fire risks
- Town planning costs.

As the Territory does not presently maintain a report of dedicated disaster mitigation projects, a manual exercise would be required. Due to reporting burden, and as expenditure will be spread over many

agencies and possibly local government, this will require precise scoping before the exercise could be undertaken.

The other fundamental consideration would be how drivers are calculated. This would require careful development to ensure they align with usual principles, particularly policy neutrality. Matters such as local planning rules and legacy planning decisions can influence both the propensity of a disaster to impact states, and the costs which arise from those disasters. For example, a state's decision on whether to build in, relocate from, and mitigate risks in (as well as the extent of mitigation) a disaster-prone area can be a mix of circumstance and policy.

Overall, the Territory submits that a change to the assessment for disaster mitigation is not feasible in the time available for the 2025 Review.

9.3. Other relevant matters

9.3.1. Services to communities

The Commission has proposed no broad changes to the services to communities assessment. The Territory agrees with this approach. Submissions regarding most components of the services to communities assessment were made in the 2020 Review and little has changed to warrant re-prosecution of those arguments.

As the Commission is aware, the most substantial factor influencing the services to communities assessment are the geographic definitions employed. These definitions are used to separate EPC components from differentially assessed components, as well as to build loadings.

Recognising that the Commission has proposed no changes to its geography definitions, and as these matters were discussed in the 2020 Review, the Territory does not make substantial submissions on the Commission's definitions.

10. Justice

10.1. Response to questions.

Q1. Do states agree that COVID-19 resulted in a temporary departure from long term patterns of justice service provision, use and costs such that the 2020 Review Justice model remains appropriate if used with fit for purpose data?

The Territory agrees that COVID-19 resulted in a temporary departure from long term patterns of justice provision, use and costs. The Territory agrees the 2020 Review Justice model remains broadly appropriate if used with fit for purpose data.

Q2. Do states agree that data from 2019–20, 2020–21 and 2021–22 include the effects of COVID-19 related public health orders and do not reflect typical justice services and costs?

The Territory agrees that data from 2019-20, 2020-21 and 2021-22 include the effects of COVID-19 related public health orders and do not reflect typical justice services and costs.

Q3. If data from 2019–20 to 2021–22 are not fit for purpose, do states support using data from 2022–23 to update the justice assessment? If so, can states provide an indication of when 2022-23 data could be provided to the Commission?

The Territory supports either an annual update or using data from 2022-23 to update the justice assessment. The Territory can provide 2022-23 data as per the Commission's timeline in the data request.

Q4. If data from 2022–23 are considered fit for purpose but are not available in time for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

The Territory supports updating the assessment in an update following the 2025 Review as required.

Q5. Do states agree that the Commission:

- **apply a cost weight for juvenile detainees in the prisons assessment if material?**
- **not make any changes to the juvenile detainees age groups in the prisons assessment?**

The Territory:

- agrees that the Commission apply a cost weight for juvenile detainees in the prisons assessment if material.
- notes that the principle of policy neutrality may be compromised due to differences in the age of criminal responsibility between states. Nonetheless, given the small number of juvenile detainees nationally aged 10-12 years the impact is likely to be immaterial and therefore agrees that the Commission make no changes to the juvenile detainees age groups in the prisons assessment.

10.2. Supporting considerations

10.2.1. Movement to annual update

The Territory proposes that the Commission move to annual updates of the justice data. The Territory considers that recent justice data have shown that trends in offences and associated services change more frequently than a five-year period. The Commission's method should seek to reflect these changed patterns until they return to a stable trend. The Territory would be able to provide data required for an annual update.

The COVID and post-COVID periods have shown that offence patterns change more frequently than over a five-year period. As the Commission notes, in many states the COVID period resulted in higher levels of offending due to breaches of COVID-related regulations.

The Territory's experience was different to other states in that it did not need to impose lengthy lockdowns due to successful border control measures, dedicated quarantine facilities, and bio-security zones in remote areas. As a result, the Territory issued relatively few COVID-related infringement notices. However, COVID prevention measures did impact behaviour in the Territory, particularly by limiting travel to and from remote communities. This, together with the diversion of police resources for border control activities, and the impact of temporarily increased welfare payments introduced specifically due to the pandemic, altered the offence patterns associated with the justice system.

Other policy changes have also impacted Territory offence patterns. Over the past two years the number of offences in the Territory has increased substantially. In July 2022 the *Stronger Futures in the Northern Territory Act 2012* (Cth) ceased, resulting in the cessation of Commonwealth alcohol restrictions in remote areas. While there were also likely other factors influencing behaviour, this correlated with a substantial increase in Territory offender rates, particularly in Alice Springs and remote communities. After a review in early 2023, Central Australian alcohol restrictions were reintroduced on a temporary basis, subject to further evaluation.

The Territory understands that similar increases in the number of offences have been seen in remote parts of Queensland and WA. The short and medium-term policy landscape, and offender data, remain uncertain. Considering the ongoing changing offence patterns (and resulting changes in policy), the Territory submits that an annual update is most appropriate for the justice assessment.

10.2.2. Use of 2022-23 data

Should the Commission decide not to update the Justice data annually, the Territory agrees (for the reasons stated in support of an annual update) that the data from 2019-20 to 2021-22 are not appropriate as a 5-year benchmark for the 2025 Review. The Territory supports the use of 2022-23 data for the 2025 Review period.

11. Transport

11.1. Response to questions

Q1. Do states agree that the 2020 Review model for assessing urban transport needs remains appropriate?

The Territory considers the 2020 Review model to have significant limitations. However, as the jurisdiction with the smallest urban transport network, the Territory is not well-placed to offer improvements. The Territory is concerned with the level of data adjustments required to maintain the model and considers this significantly decreases model reliability.

Q2. Do states consider the urban transport net expense data from 2019-20 to 2021-22 are likely to be overstated?

The Territory agrees that at face value, the increase in net expense data correlates with a decline in fares due to the COVID-19 pandemic response. Accordingly, the period appears unlikely to be representative of costs for the period of the 2025 Review. The Territory is otherwise not able to comment on the suitability of data at the national level, noting that net expenses predominantly reflect circumstances in other jurisdictions.

Q3. If 2019–20 to 2021–22 data are not fit for purpose, do states support updating the regression with data from 2022–23? Can states provide an indication of when this data could be provided to the Commission?.

The Territory supports the use of 2022-23 data in principle. However, the Territory notes that its 2022-23 data would not be appropriate to use as a major ticketing system upgrade was carried out in 2022-23, which resulted in ticket waivers being provided for several months. As a result, passenger numbers were not recorded for a significant portion of 2022-23, and fare revenues will therefore be unrepresentative. If 2022-23 data are to be used, the Territory is happy to work with the Commission to develop a workaround, noting that Territory passenger numbers represent a very small share of passenger numbers nationally and will have limited impact on assessments.

Q4. If 2022–23 data are considered fit for purpose but are not available for inclusion in the 2025 Review, do states support updating the assessment in an update following the 2025 Review?

The Territory supports using 2022-23 data in principle, but notes that Territory data for 2022-23 will not be representative of actual passenger numbers. The Territory would support an update using 2022-23 data if a workaround can be found for the Territory's passenger numbers.

Q5. Do states support retaining the 2020 Review proxy variable data in the regression model until fit for purpose net expense data are available?

The Territory has in-principle concerns with using historic pre-COVID data as a proxy. However, in the absence of alternative methods being proposed, the Territory supports the use of the proxy.

Q6. Do states agree that the 2021 Census journey to work data were distorted by the COVID-19 lockdowns and are not a fit for purpose measure of current passenger numbers?

The Territory agrees that journey to work data were impacted by COVID-19. However, the degree of distortion varies between jurisdictions, and it is not clear if the impacts are permanent or temporary. Longer-term changes in passenger behaviour since 2016 appear more likely in the larger cities which both experienced longer lockdowns, and have longer commutes, creating more benefits to households to work

from home following the COVID-19 pandemic. However, the Territory agrees that the 2021 Census data are unlikely to reflect more recent passenger numbers and that basing 2025 methods on COVID-19 years is problematic.

Q7. If the 2021 Census journey to work data are not fit for purpose, do states support the continued use of 2016 Census journey to work data in the model?

The Territory has in-principle concerns with using such dated data as a proxy. However, the Territory is not well-placed to offer an alternative.

Q8. Do states agree that 2021 Census distance travelled to work data were not significantly distorted by COVID-19 lockdowns and are a reliable measure of network complexity?

The Territory agrees that this data is less likely to be impacted, as respondents in the 2021 Census were instructed to list ordinary place of work even if they were working from home due to COVID-19.

Q9. Do states agree that, if material, 2016 Census journey to work data should be adjusted using the Bureau of Infrastructure and Transport Research Economics measure of passenger kilometres travelled until the 2026 Census data are available.

The Territory considers this approach reasonable. However, the multiple layers of assumptions required to get a result reduce the Territory's confidence in the assessment method overall.

The Territory notes that it is not clear how BITRE data are sourced. If BITRE data are based on state ticketing systems, Territory passenger numbers are likely to be understated. In the Territory most fare-free passengers do not require a ticket (they are able to show a concession card), and so Territory passenger numbers would be underreported.

Q10. Do states agree that if net expense data are available before the 2026 Census passenger numbers it is appropriate to use Bureau of Infrastructure and Transport Research Economics data to index actual passenger numbers?

The Territory considers that while this approach appears reasonable, the multiple layers of assumptions required reduce confidence in the model, data and assessment method overall.

Q11. Do states support retaining the 2020 Review blending ratio for the urban transport assessment.

The Territory has less confidence in the model following the 2021 Census, particularly if behavioural changes persist and large capital city urban populations continue to use public transport at a lower rate than the historic data and regression predict. The Territory supports retaining the 2020 blending ratio as a minimum, although notes that in the 2020 Review the Commission considered higher blending was not appropriate.

Q12. Do states support replacing the ferry dummy variable in the urban transport model with the proportion of total commuters using ferry services?

The Territory acknowledges that its costs are unlikely to be predicted by the model, which is dominated by larger ferry services interstate. Territory ferries are essentially a fixed cost service provided primarily to allow children in Mandorah to access schools in Darwin. The costs of a fixed cost service appear more likely to be reflected in a binary than a passenger share model.

Q13. Do states agree that using a regression model to recognise the growth in passenger numbers in urban areas is a more suitable method for modelling passenger numbers?

The Territory notes that the urban areas with the greatest population growth are also the jurisdictions with the greatest potential reductions in passenger numbers due to COVID-19 behaviour changes. The proposal to use the model to predict passenger growth should be treated with caution to ensure it does not further entrench or possibly amplify deficiencies in the model or its supporting dataset.

Q14. Do states support the following changes to the non-urban transport assessment:

- **assessing non-urban rail passenger expenses based on shares of non-urban train commuters?**
- **assessing all remaining expenses based on shares of non-urban populations?**

The Territory prefers to retain non-urban population shares for simplicity. Jurisdictions with smaller train networks require higher shares of other forms of transport, such as busses. To the extent that modes of non-urban public transport are substitutable in jurisdictions with multiple services, assessing passenger share for one mode only may over-assess needs for other modes. It is therefore more appropriate to assess the whole category on a non-urban population share basis.

12. Native Title and land rights

12.1. Response to questions

Q1. Do states agree that the APC assessment of Native Title expenditure remains appropriate?

The Territory supports the continued use of the APC assessment of Native Title expenditure. There have not been substantive developments to warrant method changes. Native Title related expenditure continues to be ad hoc and difficult to measure on any method other than an actuals basis. The national approach continues to be broadly policy-consistent, making APC an appropriate assessment mechanism.

There is potential for future changes in the type or scale of Native Title claims as cases continue, and particularly, if current claims relating to mineral rights are successful. Until these matters are resolved, discussions on the nature, quantum or timing of any change remain speculative. While such matters would not change the appropriateness of an APC assessment, these cases may require monitoring to the extent that there is a significant impact on GST outcomes.

Q2. Do states anticipate that treaty processes will affect how they negotiate Native Title and land rights claims?

The Territory submits it is too early to understand the impact of potential treaty or similar processes on Native Title and land right claims, and as such a method change is not necessary at this time. The Territory's view is that treaty discussions are policy-impacted, and should be considered separately to Native Title expenses, as there is not a national framework for treaty matters. To the extent that treaty processes result in compensation packages with broader funding other than Native Title, the costs should not be conflated for GST purposes, and only Native Title treated as APC. To the extent that treaty entities merely facilitate Native Title processes, this may not require an adjustment to current rules, unless a state demonstrably departs from the ordinary national framework principles.

13. Commonwealth payments

13.1. Response to questions

Q1. Do states agree the guideline for deciding the treatment of Commonwealth payments remains appropriate?

The Territory agrees that the guideline for deciding the treatment of Commonwealth payments remains broadly appropriate, but submits that some additional clarifications could be made to the framework. In particular, the Territory suggests that the framework should clarify that Commonwealth payments aimed at addressing structural disadvantage fall into the category of services for which the CGC does not assess need. The framework could also clarify that mixed-purpose agreements with clearly separated funding schedules may attract different GST treatments.

Q2. Do states agree to a default treatment of 'impact' in cases where there is substantial uncertainty about the payment's purpose or whether relative state expenditure needs are assessed? It remains open to states to provide evidence in support of no impact?

The Territory agrees that a default treatment of 'impact' is appropriate in cases where there is substantial uncertainty about a payment's purpose or whether relative state expenditure needs are assessed, but notes its response to Q4.

Q3. Do states agree to discontinue the assessment of Commonwealth own-purpose expense payments?

The Territory agrees that it is appropriate to discontinue the assessment of Commonwealth own-purpose expense payments, noting the lack of reliable and comprehensive data on these payments.

Q4. Do states agree that the guideline for determining the GST treatment of Commonwealth payments should be applied in cases where payments include elements aimed at addressing pre-existing structural disadvantage?

The Territory considers that payments aimed at addressing pre-existing structural disadvantage should be excluded from assessment on the basis that funding for addressing pre-existing structural disadvantage is driven by the achievement of outcomes, rather than the delivery of state average services as appropriate for fiscal equalisation. In practice, measuring need based on desired outcomes is not captured by the Commission's methods.

The Territory submits this principle is a clarification of the existing guidelines for excluding payments for services which needs are not assessed, rather than a new principle or method. The principle should be narrow and specific to types of payments or components of agreements aimed at addressing structural disadvantage, and not extend to mainstream funding or general Indigenous loadings, which continue to be appropriate for assessment.

13.2. Supporting considerations

13.2.1. Dealing with structural disadvantage

As noted in the Territory's submission on fiscal equalisation and supporting principles, GST is distributed under the concept of fiscal equalisation, which seeks to equalise to the average services delivered by jurisdictions. This can lead to significant divergences in outcomes, as fiscal equalisation does not seek to make any judgement on whether the average level of expenditure is sufficient to achieve similar outcomes in each jurisdiction or to all persons. Where a state or category of people has lower outcomes, which are

not reflected in or able to be addressed through state-average levels of expenditure (i.e. has 'pre-existing structural disadvantage'), fiscal equalisation does not seek to provide that state with additional capacity to address that pre-existing structural disadvantage.

The general rule, which remains appropriate, is that Commonwealth payments for a state service reduce the needs of a state, and therefore are appropriately taken into account when determining the fiscal equalisation objective. However, the Territory submits that where pre-existing structural disadvantage exists, a Commonwealth payment intended to provide services that are beyond the state average, so as to overcome past deficits, should not be equalised. This is because the purpose of those payments is to address unmet needs that are not assessed, or adequately assessed, through usual fiscal equalisation. This fact has been acknowledged in numerous reviews including the 2018 Productivity Commission *Inquiry Report into Horizontal Fiscal Equalisation* and 2012 *GST Distribution Review* (Brumby, Carter and Greiner).

The clearest case for this is in Closing the Gap payments. Where the Commonwealth considers that it is appropriate to invest in Indigenous support programs to improve outcomes, the investment is intended to recognise that the status quo has not achieved outcomes, and that more supports are needed in addition to usual state services. Where this occurs, equalising these payments, and reverting states back to an average level of service intensity, can unwind progress against outcomes and inappropriately equalise services that are not within the concept of fiscal equalisation.

In the most extreme case, the current implementation of fiscal equalisation may actively work against states attempting to address their pre-existing structural disadvantage. As an example, Commonwealth funding for Closing the Gap programs may be targeted towards states that have the poorest outcomes, and greatest needs, on meeting the targets. However, as fiscal equalisation does not account for differences in outcomes, the perceived additional revenue can be equalised away, as the 'average state' has lower needs.

Closing the Gap payments have become more important since the 2020 review as funding under Commonwealth Closing the Gap programs has increased in recent years. Closing the Gap-related funding is expected to be increasingly seen in new National Agreements, although most national agreements will not be renegotiated until after the 2025 Review period.

An example is provided in the post-secondary education section of this submission. As set out in that section, the National Skills Agreement is expected to contain a specific Closing the Gap table, which is for different purposes than the mainstream agreement, and is specifically aimed at addressing entrenched disadvantage. If this schedule is not excluded, there is a high likelihood that funding could be unwound through the equalisation process and impacted states will have lower fiscal capacity to address entrenched disadvantage. Other national agreements have the potential to contain similar clauses, although negotiations are ongoing and content is unlikely to be known during the 2025 Review period.

Another example is the *Federation Funding Agreement Schedule – Northern Territory Remote Housing*. While the 2018 National Partnership on Remote Housing Northern Territory was excluded from GST assessment by a Terms of Reference decision, there is longer-term uncertainty on the GST treatment of any successor agreement. The Territory's remote housing stock is significantly lower than the national average, and, to bridge this gap between Territory outcomes and outcomes nationally, the Territory's investment needs are significantly higher than reflected under state-average intensity. To the extent that the Commonwealth provides additional capacity to the Territory to address this structural disadvantage, it is reasonable this should not be equalised, as otherwise poor housing outcomes become entrenched. Similar issues arise for the *Federation Funding Agreement Schedule – Restoring funding for Northern Territory Homelands* and

successor to the *National Partnership on Northern Territory Remote Aboriginal Investment*, which expire and are subject to renegotiation at the same time.

The Territory submits it is reasonable and appropriate that the CGC framework expressly allow such exclusions, rather than requiring Commonwealth Treasurer involvement for each agreement. The Territory views that the exclusion of these payments should not be contentious and are appropriately dealt with within the current framework.

The Territory's submission is limited to specific agreements, or sections of agreements, aimed at addressing pre-existing structural disadvantage. The Territory considers that Indigenous loadings remain appropriate in assessments as they reflect the higher use rate, or costs of, delivery to Indigenous persons. The Territory likewise does not submit that a mere general reference to structural disadvantage as one of many objectives in an agreement would warrant an exclusion treatment. Only those agreements or sections of agreements that clearly identify addressing pre-existing structural disadvantage as a specific, itemised and funded component should be excluded.

13.2.2. Identifying separate funding pools within an agreement

The Territory submits that the current Commonwealth payment guidelines could be clarified to allow parts of agreements, where they can be specifically and readily identified, to attract separate treatment to the main part of an agreement. This is particularly where an agreement has multiple funding tables with separate purposes. The Territory submits that assessing an agreement in whole, as opposed to parts, can at times consider form over substance and may lead to anomalous outcomes.

This submission does not extend to apportioning Commonwealth funding between components where they are not separately identified, for example where an agreement has multiple broad purposes, one of which is structural disadvantage. This would be overly complex and require excessive judgement, but also may not reflect 'what states do', recognising that states usually have discretion on how to spend Commonwealth funding once milestones are achieved.

13.2.3. Commonwealth own-purpose expenditure

The Territory agrees that Commonwealth own-purpose expense (COPE) payments should be excluded for assessment purposes. COPEs are nationally small in value and are generally difficult to identify in-detail. Unlike traditional Commonwealth payments, which are paid from Treasury to Treasury, COPEs are paid directly between agencies, with limited centralised oversight. This means that there is no consolidated list of COPEs and instead requires an agency-by-agency identification.

However, COPEs are, by definition, intended to be for Commonwealth activities, rather than state services. The Territory's higher share of COPEs is largely due to the Territory being a provider of services on behalf of the Commonwealth, particularly in remote Indigenous health contexts, due to the absence of alternative service delivery options in the private or non-government sectors.

Where a COPE is identified as being for a state service, Commonwealth accounting and funding rules should require the agreement to be converted into a traditional Commonwealth funding agreement, most commonly a *Federation Funding Agreement* Schedule under the *Federation Funding Agreement* framework introduced in 2020. The introduction of the Federation Funding Agreement framework, and conversion of payments, may partly explain the decline in COPE funding over time.

14. Socio-economic status

14.1. Response to questions

Q1. Do states agree that an annual MADIP-based measure of socio-economic status for non-Indigenous people has the potential for a more contemporaneous assessment?

The Territory holds concerns that the method proposed by the CGC uses measures that may not be reliable indicators of disadvantage in remote and very remote areas.

14.2. Supporting considerations

14.2.1. Non-Indigenous socio-economic status

The Territory considers that while MADIP data may result in a more current assessment of SES, the metrics mentioned in the Commission's paper are likely to reflect accessibility of service provision and thereby generate results that are biased against remote and very remote areas.

The Territory's view, on the evidence presented by the Commission, is that the new measures do not represent an appreciably better measure of socio-economic status (either individually or in combination) than the NISEIFA measure. As such, it is necessary to show that, relative to the current measure, the changes are not biased against any particular jurisdiction, remoteness category or demographic group. The Territory would welcome an analysis of differences between the NISEIFA scores and the new measures, disaggregated by region and remoteness.

The Territory's view is that there are accessibility issues associated with the proposed income support and pharmaceutical prescription rate measures. The Territory also has some reservations about the proposed income measure.

Income support payments

The Territory notes that differences in employment contexts and program designs across regions have the potential to impact income support data. For example, jobseekers on income support payments are required to meet mutual reporting obligations to maintain their eligibility. While these obligations are nationally consistent, the ability to meet these obligations can differ between regions, including because of the size and quality of the employment market and employment support services in a region, and for remote areas, access to the Community Development Program or other employment initiatives. This can create a differing practical outcome between areas depending on the circumstances in a region.

In addition, the mutual reporting obligations, and supplementary schemes such as the CDP and its predecessors, have been subject to successive reviews and policy changes by the Commonwealth. These changes in Commonwealth policy may directly or indirectly impact the reliability of the measure across regions and across time.

Further, there are practical barriers to accessing other types of income support. Access to disability payments can be difficult for remote residents if there is a lack of medical service providers to allow claimants to obtain a diagnosis.

Measures of income support payments would therefore need to be carefully tested at a disaggregated level, and routinely monitored for changes to Commonwealth policies, to ensure that the data are not biased.

Pharmaceutical prescriptions

Access to primary health care and pharmaceutical services varies significantly between regions and remoteness categories. As noted by the AIHW, remote areas have far smaller primary health networks and a more limited range of services compared to larger cities.⁶ The limitations of physical access in remote areas directly impact the degree of service use, regardless of PBS scheme design.

The AIHW reports the number of full-time equivalent pharmacists in remote and very remote areas per 100,000 population in 2021 was 74 and 50.1 respectively, compared to 86.6 in major cities.⁷ RoGS data also show significant differences in the mix of health services by remoteness and region. For example, the national rate of GPs per person declines from 124.8 in major cities, to 68 in very remote areas. While state and community services fill some of these gaps, the range of services provided differs significantly, particularly in remote Territory clinics which are often staffed by nurses who are not always able to provide the same level of diagnosis as a larger hospital or GP service.

Depending on the service mechanism, not all services provided through Territory channels are eligible for PBS payments. In aggregate terms, it has been estimated that the Territory receives around 30% less per capita in Medicare funds than the national average, even when additional Commonwealth funding for Aboriginal medical services is included. This amounts to a shortfall of \$80 million annually across both the Medicare Benefits Schedule and Pharmaceutical Benefits Scheme.⁸

These access issues can result in undiagnosed needs or lower use rates for remote residents compared to similarly advantaged persons in major cities. As a result, the Territory considers that the Commission's proposed measure is likely to understate health disadvantage in remote and very remote regions.

While much of this data is not separately reported for the Indigenous and non-Indigenous population, there is a clear likelihood that remote pharmaceutical measures may under-assess disadvantage compared to well-served regions. This will require robust testing to ensure any new SES metric is not biased against remote areas.

Income

The Territory notes a number of concerns with the proposed income measure:

1. Given the proposed income measure is simply the share of people earning above a threshold, it may not accurately reflect differing degrees of disadvantage at the lower end of the income distribution.
2. Tax rules treat different forms of income differently in a way that tends to discriminate against persons with labour income, relative to persons with non-labour sources of income. In practice this

⁶ Australian Institute of Health and Welfare (2023), *Rural and remote health*, citing Australian Institute of Health and Welfare, *Health workforce* (2022) (accessed September 2023)

⁷ Australian Institute of Health and Welfare (2023), *Rural and remote health*, Table 8, 2021, (accessed September 2023)

⁸ Zhao Y, Wakerman J, Zhang X, Wright J, VanBruggen M, Nasir R, Duckett S, Burgess P., Remoteness, models of primary care and inequity: Medicare under-expenditure in the Northern Territory, Australian Health Review, 2022.

means that the proposed measure may discriminate against regions with younger working age populations in favour of regions with higher shares of retirees.⁹

3. A focus on income, without considering accumulated wealth, also has the potential to discriminate against regions with younger populations.
4. Taxable income measures may understate advantage due to deductible costs and losses, particularly for negatively geared property investors. This means that while a high share of high incomes indicates advantage, the absence of high incomes does not always indicate disadvantage.
5. Residents of regional and remote areas with large agricultural sectors can experience significant volatility in their incomes from year to year. This could result in areas frequently moving between high and low disadvantage classifications, that may not reflect their underlying socio-economic situation.

In light of these concerns, the Territory would only be supportive of a new measure if it could be shown that, relative to the current measure, it did not bias results against any particular jurisdiction, remoteness category or demographic cohort. The Territory welcomes the Commission's offer to further discuss this matter following ABS feedback after this submission.

14.3. Other relevant matters

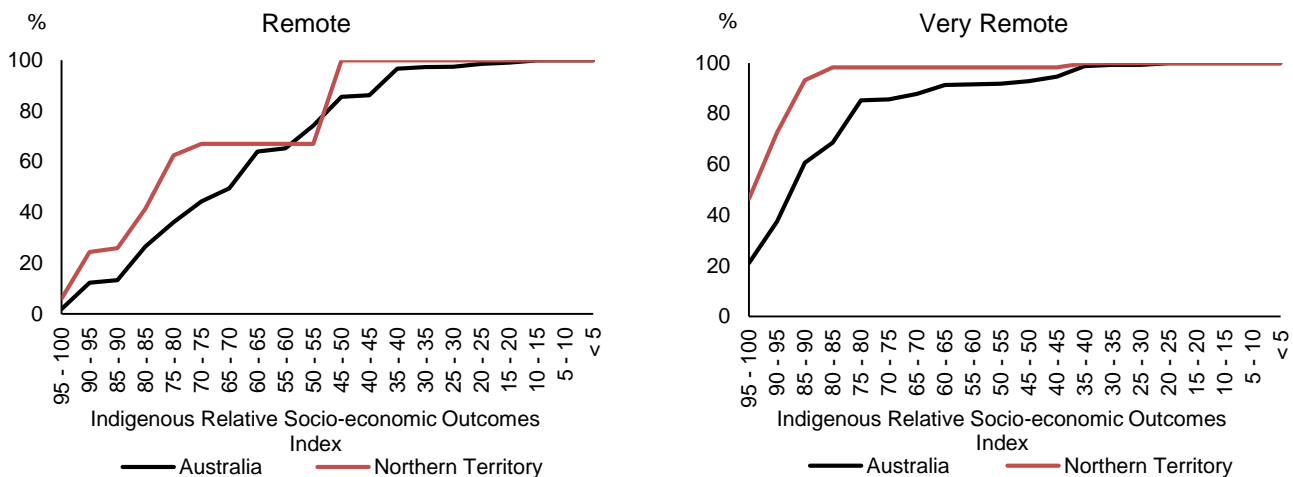
14.3.1. Impact of socio-economic status on Territory assessment

The Commission notes *'The influence of socio-economic status among First Nations people reduces the GST received by the Northern Territory.'* It contends that *'This outcome arises because the influence of socio-economic status among First Nations people measures the difference in GST distribution that is not attributed to either the size or the remoteness of that population.'*

The Territory disputes this characterisation and submits that this result arises because the way socio-economic status is used in the Commission's models does not fully account for the degree of disadvantage experienced in the Northern Territory. For example, the largest negative SES impact on the Territory assessment is the Health category. However, the Health category only applies SES to the Territory's outer regional area, which is the relatively advantaged Darwin area. All other Territory SES scores are disregarded.

The Commission's model commonly use quartiles/quintiles to measure disadvantage. This understates the degree of the Territory's disadvantage, as the Territory's regions are often skewed to the lower end of those ranges (Chart 14.1). 70% of the Territory's Indigenous population live in areas in the bottom quintile of IRSEO scores. Further, over 40% of the Territory's remote Indigenous population are in the bottom quartile of remote Indigenous IRSEO scores nationally, and over 55% of the Territory's very remote Indigenous population are in the bottom quartile of very remote IRSEO scores nationally. These levels of disadvantage are often not being picked up by the Commission's methods.

⁹ Wood, Danielle (2023), 'Creating a better Australia for Generation Next', Giblin Lecture, Hobart, 30 August 2023, available at: <https://grattan.edu.au/news/creating-a-better-australia-for-generation-next/>

Chart 14.1: Cumulative distribution of Indigenous residents across SA1 scores

Source: Commonwealth Grants Commission; Northern Territory Department of Treasury and Finance

14.3.2. Review of index for socio-economic status of Indigenous people

The Territory would support the Commission reviewing the IRSEO to ensure it remains a suitable measure of Indigenous SES. The IRSEO is dated and has not been substantially reviewed since its construction. Over the past decade there has been significant non-demographic growth in the Indigenous population that may have impacted the underlying Indigenous demography and service use characteristics. In light of these changes the Territory submits that a review of the continued appropriateness of the IRSEO is needed.

The Territory notes that this would be an involved process and may not fit within normal CGC process timelines. The Territory would support the Commission considering a review of, or plan to review, the suitability of IRSEO, or any other new index, outside the Review cycle. This will ensure that when the next Review arises, the suitability of the IRSEO, or any new measure, can be assessed by all states and territories.