2025 Commonwealth Grants Commission Methodology Review

Northern Territory Department of Treasury and Finance response to the Draft Report

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1. Department of Treasury and Finance Response to Draft Report

The Northern Territory Department of Treasury and Finance broadly supports the Commission's positions in the Draft Report. The Department's view is that the Draft Report provides a comprehensive position which has appropriately balanced the matters raised in consultation with states, against the 2025 Review's Terms of Reference, supporting principles and guidelines, and available data. The Department specifically supports the Draft Report changes to the housing, homelessness and land tax assessments as being a significant improvement to 2020 Review methods.

The Department's support is to the Draft Report as a whole, rather than to each individual Commission position in isolation. While the Department may continue to oppose some method changes in future Reviews, there is merit in settling as much of the 2025 Review as possible in the Draft Report to provide certainty. This position recognises that many decisions are interrelated, such as discounting decisions being made in the context of data availability and the methods used in the primary assessment, making it preferable to broadly settle categories if the outcomes as a whole are agreeable. The corollary is that the Department's support is conditional on there not being major changes to the Draft Report that are detrimental to the Territory's assessment.

Notwithstanding the above, the Department remains concerned with the overall outcome in the health category assessment. The proposed approach, to work with impacted states following the 2025 Review, is a pragmatic position given the level of complexity involved in further method changes. The Department therefore supports the Draft Report given its proposal to review health methods in future, though emphasises the importance of this work commencing immediately to enable sufficient lead time to inform the 2030 Review.

This submission predominantly discusses the Health category due to the magnitude of changes and its large impact on state assessments. The Department recognises that issues have predominantly been discussed in Tranche 1 submissions, and the Commission's response is comprehensive. As such, this submission focusses on a new substantive adjustment for the indigenous health non-state sector adjustment component, with a proposed change that is smaller in scope and for different reasons than contemplated in the Territory's Tranche 1 consultation submission.

The Department notes the Commission has listed numerous matters for either later updates or the 2030 Review. The Department supports this approach and the forward works program. The Department particularly supports further review of the health assessment for people in similar socio-demographic groups, and review of the Indigenous Relative Socioeconomic Outcomes index, as these concepts are fundamental to measuring service delivery drivers and the equalisation task.

2. Review of Health assessment methods

The Department acknowledges the analysis provided by the Commission in response to varied state submissions in the health category. The Department's overall view on health methods remains broadly in line with its Tranche 1 submission, that the dominant issue in the Territory is whether health methods have sufficiently identified all drivers of service delivery need, particularly for admitted patients given the category's size, and community health given the large difference between assessed and actual expenditure in the Territory and other states.

It is acknowledged that submissions on admitted patient drivers and community health data have already largely been articulated in the Northern Territory's Tranche 1 consultation. Similarly, the Department considers the Draft Report to adequately acknowledge, and has where possible responded to, state concerns on community health data coverage in the context of the Commission's preference to use actual

data where possible, noting data availability remains a key barrier to improving the overall health assessment method.

The Department observes that the Territory's assessed to actual community health assessment has declined from 0.58-0.86 (0.71 on average) in the 2024 Update to 0.31-0.57 (0.44 on average) in the Draft Report methods, due to lower remoteness gradients in the new data and expanded activity proxy. Community health assessments in other states are skewed by COVID-19 expenses, however there remains a significant divergence between assessed and actuals in most states, which suggests fundamental difficulties with the method as a whole. The size of the community health method also dramatically increased, by around double in 2022-23 from 2021-22, which highlights the importance of accurate assessments in this component and addressing substantial data issues.

The Department supports the Draft Report's approach to further consider health methods after the 2025 Review. This should include admitted patients, as set out in the Territory's Tranche 1 submission, but also community health, given the increasing size of this assessment and volatility in state assessments arising from method and data changes. Given the complex nature of such a review, its materiality and likely need to develop new data sources, it is important that it commence immediately to be able to contribute to the 2030 Review.

Without limiting or pre-empting possible topics for future review, issues relevant to the Territory include whether the admitted patient health assessment could have additional drivers, particularly in remote areas due to the current relatively simplistic model based on age and indigeneity, and whether there is better data on the residual state-sector community health other than mental health services, such as on costs associated with the state-funded Aboriginal Community Controlled Health Organisation sector.

For completeness, the Department acknowledges the discussions in the Draft Report on the various non-state sector and COVID-19 adjustments. Other than the indigenous non-state sector discussed below, the Department makes no comment on these matters, though notes that further submissions on the non-state sector may arise in future reviews.

3. Commonwealth Grants to Indigenous Non-State Health Sector

The Northern Territory Department of Treasury and Finance's main submission to the Draft Report is the indigenous health non-state sector (IHNSS) assessment. The Department submits that the IHNSS adjustment should be amended to include socio-economic status in remote areas. The Department acknowledges the Commission's view in both the 2020 Review and the 2025 Draft Report that it considers IHNSS services to be substitutable for state services and does not further pursue the issue of substitutability in this submission.

For ease of reading, this submission refers to "remote" as including remote and very remote populations, and does not discuss the IHNSS assessment in non-remote areas unless otherwise indicated.

3.1. Magnitude and impact of the IHNSS adjustment

In the 2024 Update, the IHNSS adjustment reduced the Territory's health assessment by -$83 million in 2022-23, a significantly larger impact than earlier years. This adjustment compares to a total Territory community health socio-demographic component assessment of $361 million (2025 Draft Report method) or $456 million (2024 Update method). That is, the IHNSS adjustment reduced the Territory's assessed community health expenses by 23%. This also compares against a community health assessment which is already significantly below the Territory's actual community health expenses, of around $560 million (2025 Draft Report). In per capita terms, the IHNSS adjustment is around -$330 in the Territory in

2022-23. While the data is volatile annually, it appears that the IHNSS adjustment may not be material in other states, and is predominantly driven by Territory circumstances.

IHNSS adjustment impact 2022-23

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
$m	49	-19	54	0	-11	11	-1	-83
$pc	6	-3	10	0	-6	19	-3	-331

Source: 2025 Draft Report

While the Department acknowledges the above average per capita direct Commonwealth funding into IHNSS entities in the Territory, the large impact of the IHNSS adjustment in one jurisdiction warrants close attention to ensure the assessment is operating reasonably in that jurisdiction.

For the reasons set out below, it is likely that the IHNSS method is being influenced by the Territory's higher rates of remote indigenous socio-economic disadvantage. The Department does not consider that its remote indigenous populations are over-serviced, as is implied by the Commission's combined state and non-state assessments.

3.2. Drivers of IHNSS assessment

The Department has reviewed the Commonwealth Indigenous Australians' Health Programme funding formula to determine why the Commonwealth and Commission funding rates vary so significantly in the Territory.

While there are many differences between the Commonwealth and Commission approaches, and some variance is expected, a key difference is the treatment of remote socio-economic disadvantage.

The Commission does not include socio-economic disadvantage when assessing remote indigenous health service expenses. That is, the Commission's method assumes that that all remote indigenous persons have homogenous health needs, for both the state and non-state sectors, such that health services are solely driven by the size of the population.

In contrast, the Commonwealth funding model for the Indigenous Australians' Health Programme includes a socio-economic adjustment in addition to remoteness. Commonwealth technical papers explain that this loading recognises the higher burden of disease in lower socio-economic areas, and was developed from empirical analysis on the proportionate increase in average indigenous years of potential life lost as socio-economic status decreases. The Commonwealth, like the Commission, measures socio-economic disadvantage based on Indigenous Relative Socioeconomic Outcomes Index (IRSEO) scores.

Commonwealth Indigenous Australians' Health Programme socio-economic disadvantage loadings

IRSEO groups	Years of potential life lost (per 1000 people)	Need multiplier
5 (least disadvantaged)	39.37	1.00
4	46.21	1.17
3	69.56	1.77
2	98.77	2.51
1 (most disadvantaged)	126.38	3.21

Source: Indigenous Australians' Health Programme Primary Health Care Funding Model Technical Factsheet – Health Care Need

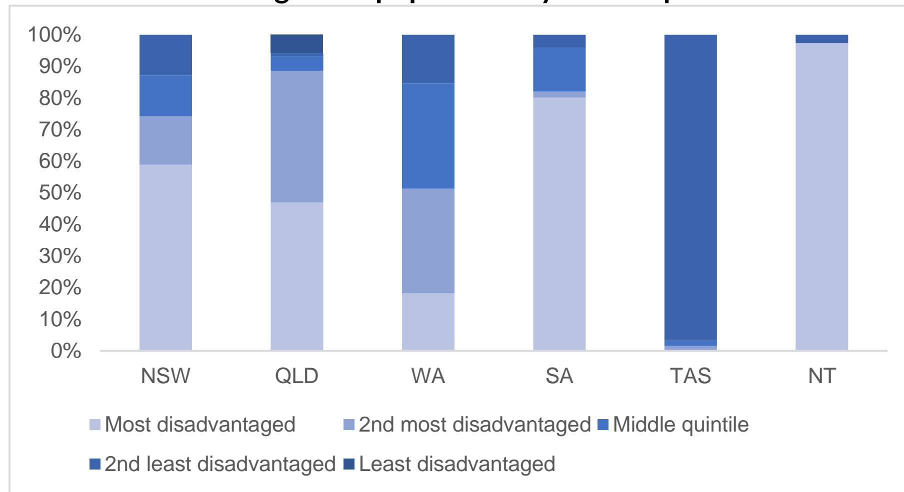
Commonwealth Indigenous Australians' Health Programme remoteness and socio-economic loadings

	5 (least disadvantaged)	4	3	2	1 (most disadvantaged)
Major City	1	1.18	1.77	2.52	3.22
Inner Regional	1.11	1.3	1.96	2.78	3.56
Outer Regional	1.26	1.48	2.23	3.17	4.06
Remote	1.73	2.03	3.05	4.34	5.55
Very Remote	1.75	2.05	3.09	4.38	5.61

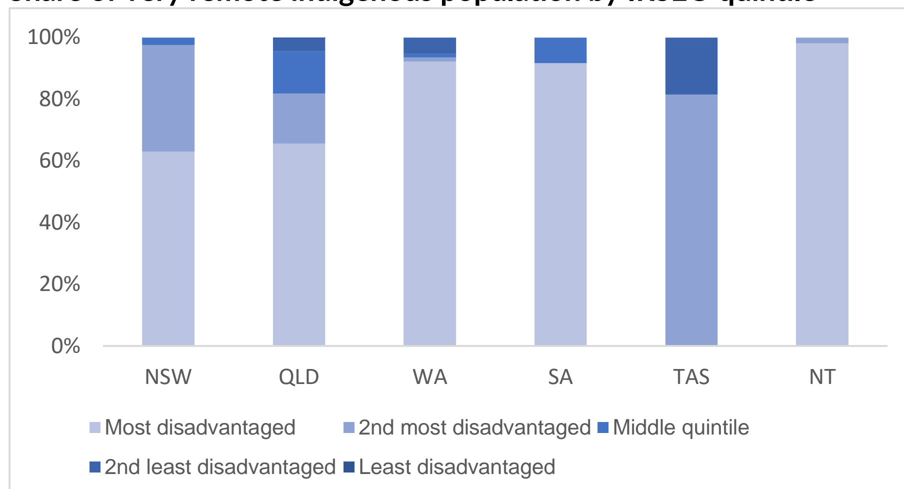
Source: Indigenous Australians' Health Programme Primary Health Care Funding Model Technical Factsheet – Overview & Calculation Steps

All else being equal, as the Commission does not apply a socio-economic loading for remote areas while the Commonwealth does, the Commission's method will result in a smaller IHNSS assessment in states with higher disadvantage. In this context, it is unsurprising that the IHNSS has a negative impact in the Territory, as the Territory has the highest rates of remote indigenous socio-economic disadvantage.

Share of remote indigenous population by IRSEO quintile



Share of very remote indigenous population by IRSEO quintile



Note: Victoria and the Australian Capital Territory excluded due to having small or no remote populations. Tasmania should be interpreted with care due to small populations.

The Department estimates that introducing remote socio-economic status into the Commission's IHNSS assessment would reduce the size of the IHNSS redistribution in the Territory by up to $33 million, or $130 per capita, around a third of the total distribution. This high degree of sensitivity is prima facie evidence that the IHNSS assessment is influenced by unexplained drivers.

Change in IHNSS assessment from introducing 3-band socio-economic status ($m)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2021-22	-1	0	-9	-15	1	-1	0	24
2022-23	-1	0	-13	-18	2	-2	0	33

Compared to 2025 Draft Report

Change in IHNSS assessment from introducing 3-band socio-economic status ($pc)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
2021-22	0	0	-2	-5	1	-2	0	98
2022-23	0	0	-2	-6	1	-3	0	130

Compared to 2025 Draft Report

The Department's view is that including socio-economic state into the remote IHNSS is conceptually reasonable, given the evidence in the Commonwealth's model, and as Commonwealth loadings are consistent between states.

The inclusion of this driver appears appropriate even if remote socio-economic status is not a driver of state expenses in the main community health assessment. The Department considers there are no difficulties with having different drivers in the IHNSS and community health assessments, as it is possible for state and non-state sectors to service different cohorts. Inclusion also appears to only cause a negligible increase in assessment complexity, and the requisite data is already collected by the Commission.

If a remote socio-economic status driver is not included, it is likely that the IHNSS assessment will be overstated due to potential double-counting and overestimation of state substitution, as:

- The transition to use actual Australian Institute of Health and Welfare (AIHW) community health data may cause partial double-counting of the IHNSS' impact on state services because the AIHW data is understood to not include IHNSS activity. This means that AIHW use rates will not recognise (and therefore, states will not be funded through the community health method to perform) activities predominantly performed by the IHNSS. For example, it is possible that the reason state activities in the AIHW data do not increase in remote areas with greater indigenous socio-economic disadvantage is because the IHNSS is larger for those cohorts.

  If this is the case, then deducting IHNSS funding from state activities may double-count the sector's impact because state use rates are already netted. Adding socio-economic status as a driver to the IHNSS adjustment reduces the risk of double counting by allowing IHNSS use rates to vary with cohorts separately from state data.

- Unless the IHNSS assessment is adjusted to account for Commonwealth loadings, the degree of activities performed by the IHNSS and level of substitution with the state sector is likely to be overstated in jurisdictions with greater socio-economic disadvantage.

  Conceptually, the IHNSS method is intended to measure the average amount of activity expected to be performed by the IHNSS in a state, against actual IHNSS activity in that state. Employee shares are used to estimate cohort-average IHNSS size, while IHNSS funding is used as a proxy for

actual activity. However, funding is a poor measure of activity as shares are influenced by Commonwealth loadings.

As set out above, the IHNSS is funded at 3.2 times the unit rate for activities in the lowest socio-economic quintile areas compared to the highest within a given remoteness region. However, this is only a nominal funding adjustment, with the number of activities delivered through the IHNSS remaining at one unit, not 3.2. Accordingly, the amount of benefit received by states through activity substitution with the IHNSS is much smaller than implied by Commonwealth funding shares in states with higher remote socio-economic disadvantage.

Given this, it is appropriate for the IHNSS to be adjusted for Commonwealth loadings, with the simplest approach for the 2025 Review being to include socio-economic status as a remote driver.