Discussion Paper - New issues in the 2026 Update

Northern Territory submission

NORTHERN TERRITORY GOVERNMENT

Contents

1. Schools – changes in state funding

The Territory supports the Commonwealth Grants Commission ('Commission') position of no changes to schools data or methods. The issues discussed and reasons provided are normal data update matters which should be allowed to flow through. The case for intervention in an update year is not made out.

2. Health – community health activity proxy

The Territory does not support the inclusion of the three data streams. For the violence, abuse and neglect services and genetic counselling this is different to the Commission's position on data quality grounds, for long covid this is a supportive position.

Australian Institute of Health and Welfare (AIHW) data on non-admitted patient service events for the "violence, abuse and neglect" category indicate 98% of 2023-24 events were in New South Wales. This suggests the data is not fit-for-purpose for Commission use, or that the services are not state-average policy. Genetic counselling appears more suitable, but the Australian Capital Territory has an outsized ratio, at nearly 10% of events. The data working group may be a suitable vehicle to monitor data quality.

Long covid is agreed to be separately assessed so is not suitable for the community health method.

Table 1: AIHW Total non-admitted patient service events for Tier 2 allied health and/or clinical nurse specialist intervention clinic categories, states and territories, 2023-24.

Tier 2 outpatient clinic type	NSW	Vic	Qld	WA	SA	Tas	ACT	NT
Violence, abuse and neglect services	108,539	0	0	1,656	761	0	0	0
Genetic counselling	5,428	3,235	7,890	5	1,137	0	2,041	0
Long COVID	16	246	0	73	856	42	0	0

3. Health – coverage of the emergency department triage 4 and 5 data.

The Territory does not support ceasing the rescaling of the emergency department (ED) data, as there is no substantive case to do so and is potentially biased against remote and regional demographics.

The observed reduction in the size of the rescaling is not, in-principle, a sound reason to cease the adjustment. Indeed, a smaller rescaling means that any associated issues from rescaling become less significant and reduce, rather than increase, the case to cease the adjustment. For example, the noted 'bias' between ED and non-admitted patients (NAP) data becomes smaller.

If the Commission remains of the view that the scaling of ED relative to NAP requires intervention, this should be approached in a demographically-neutral way, rather than potentially biased against remote areas. While demographically-neutral rescaling methods are conceivable, they would add significant and disproportionate complexity, which is not considered consistent with simplicity or practicality principles.

As such, the Territory prefers no change to the current rescaling approach.

4. Transport – regression re-estimation

The Territory suggests considering additional discounting to the urban transport regression but otherwise supports the Commission's approach.

The Territory agrees that regression outcomes which are inconsistent with the conceptual case should not be used, such as the negative journey to work coefficient. This is the approach for other categories.

However, freezing the regression is a highly unsatisfactory result, particularly as the method already relies on significant data adjustments due to issues in the 2020 Census.

While the Territory is unable to comment on data quality in other states, prima facie the updated regression is evidence of a lower cost-gradient from network complexity than in the 2025 Review regression. That is, toward a per-capita method. This suggests higher discounting may be appropriate.

It is noted the urban transport method is subject to review in the forward work program and updated data post the 2026 Census, however this does not adress the immediate issues for the 2026 Update.

5. Schools – Better and Fairer Schools Agreement

The Territory has no preference on an exclusion or actual per capita approach and defers to the Commission's preference. Either is consistent with the terms of reference requirement.

The Territory considers it would be simplest if the same (exclusion or actual per capita) method were applied to all assessment years to minimise complexity, noting any transition is temporary and the net per capita impact of Commonwealth government schools funding is not material in most other jurisdictions. The Territory strongly agrees there is no case to split the 2024-25 year into 6-month periods.

6. Other Commonwealth payments (by exception)

6.1. Primary Health Care Services in remote Northern Territory

The Territory seeks a no impact treatment of the *Primary Health Care Services in remote Northern Territory* Federation Funding Agreement Schedule ('the FFA').

The FFA funds the Territory to deliver primary health care in very remote Indigenous communities on behalf of the Commonwealth. The services are operated through the Territory as provider of last resort due to non-availability of a non-government operator. This is reflected throughout the agreement, including the specific list of communities, and in Commonwealth Budget Paper 3, which confirms the FFA is to service areas where there is not an Aboriginal Community Controlled Health Organisation.

The Territory is effectively stepping into the role of the non-government primary health sector that would be directly funded by the Commonwealth in any other state.

While the Territory has some discretion in the services it provides under the FFA within the nominated service areas, this merely allows efficient service delivery and reflects the need to respond to individual communities' demands and expectations, rather than the Territory electing to substitute its own services.

The FFA replaces a prior Commonwealth Own-Purpose Expense for the same purpose.

It is submitted that the above is sufficient to treat the FFA as no impact, being for Commonwealth functions that other states do not provide in areas of market failure, and for which needs are not assessed.

In the alternative, if the Commission considers the above is not sufficient for a no-impact treatment, the below highlights a range of technical issues which further illustrate that a no-impact treatment is reasonable in this specific, complex, case. This includes because:

- Territory community health proxy activity data is not intended to include activities under the FFA.
- At most, the FFA may indirectly substitute state services in a similar way to the non-state-sector method, but this would be 62% rather than 100% under a full 'impact' assessment. However, it is not practical to convert the payment to a Medicare-equivalent due to scaling differences between the state and non-state sectors, leaving no impact the appropriate treatment.

The community health assessment uses proxy activities from ED and community ambulatory mental health data. Neither of these have any overlap with the FFA. The proxy also uses NAP activity, which conceptually has some similarity to the FFA. However, the FFA is intended to not overlap with the activity-based funding framework under the National Health Reform Agreement, meaning the FFA's activities should also not be included in the proxy NAP data.

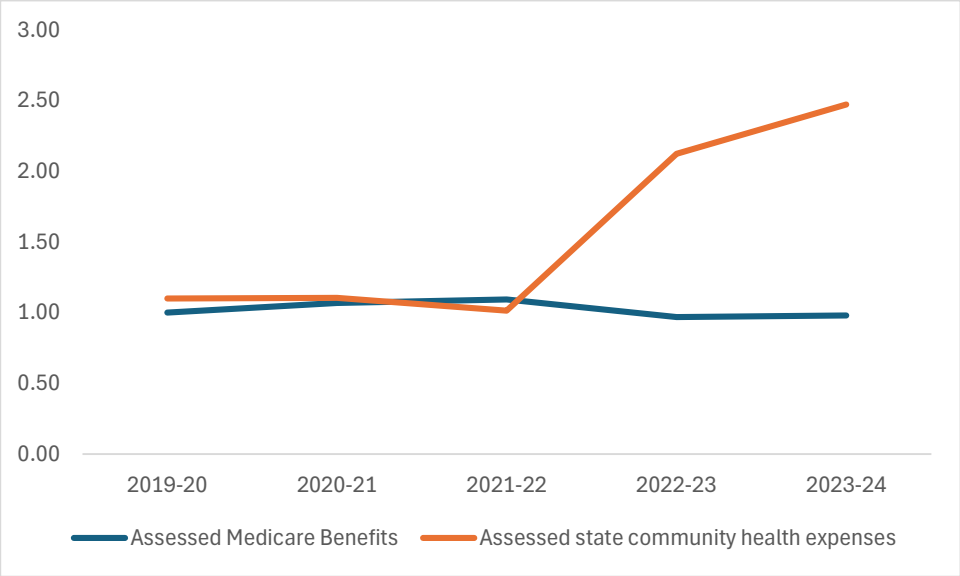
This means the Territory's proxy activity data is intended to be exclusive or net of activities under the FFA. As such, the community health method does not assess the Territory for the corresponding activities funded under the FFA. That is, the additional $46 million in activities performed in the Territory does not impact, and is not captured through, the proxy. Indeed, to the extent the FFA prevents later hospital presentations (particularly ED), the proxy is already reduced by the FFA. This means deducting the cost of these activities from proxy use rates will double count the result. This makes 'no impact' appropriate.

The Territory however conceptually recognises that there could be a substitution effect with assessed community health expenses (including the proxy) to the extent that the FFA funds primary care, which avoids the need for a state service. However, this would be less than a 100% offset, as only some services under the FFA are substitutable. This is similar to the non-state sector assessment method which recognises that on average 62% of primary care services are substitutable with state services. This would be more conceptually reasonable than assuming the FFA exclusively (100%) crowds-out or prevents state activities.

Conceptually, adding the FFA to Territory non-state sector Medicare benefits might be contemplated, however this is difficult in practice as the non-state sector assessment is subject to significant rescaling. Rescaling means each dollar a state receives in Medicare benefits (above/below its cohort-average) does not have a 1:1 impact on community health expenses, but rather the ratio changes over time because Medicare benefits are scaled to match the size of the community health expenses.

If Medicare benefits and community health expenses are broadly comparable, as was the case prior to 2022-23, rescaling has limited effect. However, community health expenses more than doubled in 2022-23 while Medicare payments declined, per Chart 1 below.

Chart 1: Non-state community health assessment: change in relevant Medicare benefits and state expenses over time (2025 Review, indexed to 2019-20 Medicare benefits)



The divergence means that from 2022-23, while the conceptual case is a dollar in relevant Medicare benefits (above the average) should only substitute 62% of equivalent state expenses, the actual result rapidly increased and is now close to 100% due to rescaling.

This means that if the FFA were treated similarly to a relevant Medicare benefit, its value approximately doubles despite there being no conceptual case for this outcome.

To illustrate the issue, the Territory estimates that if the FFA ($46.3 million) had been paid as a non-state sector bulk-billed general practice Medicare benefit to Territory very remote Indigenous persons with the same average age ratio as 2025 Review benefits, with no other changes, the Territory's non-state sector community health assessment over 2019-20 to 2023-24 would vary as follows.

Table 2 Illustrative Territory non-state sector adjustment for $46.3 million Medicare benefits ($M)

Year	NT net effect without rescaling	NT net effect with rescaling
2019-20	-19	-21
2020-21	-18	-19
2021-22	-18	-17
2022-23	-16	-35
2023-24	-16	-40

The non-rescaled result is broadly conceptually reasonable. It is less than the full $46.3 million FFA payment, reflecting the Territory's share of the target very remote Indigenous population, substitution and discounting. The amount changes over time with cohort-average payment and population shares.

However, the rescaled result has extremely volatile GST impacts. This implies a constant level of FFA payment has an increasingly large offsets to state expenses. This is not reasonable and means there is not an appropriate method even if there may be some similarities with the non-state sector method.

One potential option would be to discount the FFA to 62% (plus the further 12.5%) in line with the non-state sector method, but this is not contemplated on normal Commission methods or guidelines.

Absent a reasonable way to treat the FFA, the most appropriate course is to treat as no impact, on the basis that this is for a Commonwealth payment, and/or needs are not assessed.

It is lastly noted that while the FFA is material in the Territory, it is immaterial for all other jurisdictions.

6.2. National Access to Justice Partnership

The National Access to Justice Partnership (NAJP) does not require immediate resolution as payments commence in 2025-26 and will be considered in the 2027 Update.

However, the Territory flags in advance that the NAJP has a range of complexities due to the transferral of services previously funded by the Commonwealth to some states, essentially for on-passing to the non-government sector.

This is specifically the Family Violence Prevention Legal Services line, which was previously directly funded by the Commonwealth to the non-government sector and remains a Commonwealth responsibility, so is appropriately assessed as no impact. Family and domestic violence needs were also considered in the 2025 Review but not differentially assessed due to data quality issues.

The Territory notes that excluding part of an agreement is administratively complex so raises this issue in advance and is available to work with the Commission prior to the 2027 Update.