Australian Government
Commonwealth Grants Commission

Occasional Paper

No.7: Natural disaster relief and the GST distribution

September 2022

Attribution

The recommended attribution for this document is Commonwealth Grants Commission, Occasional Paper No. 7: Natural disaster relief and the GST distribution.

Contact us

Inquiries regarding the use of this document should be directed to secretary@cgc.gov.au.

Internet

A copy of this paper is available on the Commission's website (http://www.cgc.gov.au).

Summary

- Costs for providing natural disaster relief vary among states and territories (states). Expenses are driven by the scale, severity, frequency and type of natural disaster. Flooding causes the highest level of damage to public assets and results in the highest disaster relief expenses. Queensland has spent more on disaster relief over the past 10 years than other states, reflecting its high number of cyclones and floods that impact urban areas.
- The Commission assesses that states should receive GST revenue equivalent to the amount that they spend on natural disasters in excess of the amount reimbursed by the Commonwealth. This is based on the view that the spending is not influenced by state-specific policies and that the damage from natural disasters is largely outside state control.
- The Commonwealth-state *Disaster Recovery Funding Arrangements* defines the scope of eligible recovery spending by the states.
- The Commission's approach means that states experiencing natural disasters receive a higher share of the GST pool, and as a result, the cost of responding to natural disasters is generally shared between the states. This helps ensure that a state's capacity to provide services is not compromised as a result of experiencing more frequent or costly natural disasters.

Introduction

The Commission provides independent advice to the Commonwealth government on how Goods and Services Tax (GST) revenue should be distributed to ensure each state has a similar fiscal capacity to provide services.

In determining fiscal capacity, the Commission assesses the capacity of states to raise revenue from different sources, and the costs of providing state services. States with a lower capacity to raise revenue or higher expenditure require a greater share of GST revenue, while states with a high revenue raising capacity or low expenditure require less GST revenue.

This paper provides an overview of the Commission's assessment of natural disaster relief spending, and how the amount of spending affects the distribution of GST revenue to the states.

The Commission's assessment of natural disaster relief expenses

Australia has a long history of significant natural disasters, particularly bushfires, floods, cyclones, and hailstorms.

Following a natural disaster, Commonwealth, state and local governments provide assistance to affected communities and to repair damage to government assets, such as roads and bridges. While natural disaster relief is a spending responsibility of all states, the

Commonwealth government helps fund some of these expenses. State governments in turn help fund some of the expenses for which local governments are responsible.

The Commission needs to assess whether spending needs (per person) vary across states. This, combined with an assessment of states' revenue raising capacities determines the share of the GST pool states require, so that they have a similar capacity to provide all services for which states are responsible.

For many services provided by states, the Commission's general approach to assessing a state's spending needs is based on an assessment of its cost of providing services relative to the average cost of all states. The cost of providing services varies across states depending on differences in economic, social, and demographic characteristics, along with differences in wage pressures and population growth. The Commission takes these factors into account when determining state spending needs. States with above-average assessed service costs receive a higher share of GST. The Commission's assessment controls for the impact of policy choices, which can cause a state's assessed spending needs to differ from its actual spending on service delivery.

For state spending on natural disaster relief, the Commission's approach is that each state should receive GST revenue equivalent to the *actual* amount it spends on natural disaster relief, net of reimbursements from the Commonwealth and insurance payments. This approach is referred to as an *actual per capita*[1] assessment.

The Commission's view is that an *actual per capita* assessment is appropriate when state spending is not influenced by state specific policy decisions and is therefore policy neutral. This is the key criterion for an *actual per capita* assessment.

For natural disaster relief this criterion is fulfilled because:

- states have limited ability to control the impact of natural disasters and associated relief expenses; and
- a Commonwealth-state funding agreement (the *Disaster Recover Funding Arrangements*) prescribes allowable types of expenses in response to natural disasters.

The use of an actual per capita assessment method for natural disaster relief effectively means that states experiencing natural disasters receive a higher share of GST revenue and as a result the costs of responding to natural disasters are generally shared between the states. This helps to ensure that a state's capacity to provide services is not compromised as a result of experiencing more frequent or costly natural disasters.

State spending on natural disaster relief

The costs states incur each year due to natural disasters depend on the type, scale, severity, and frequency of disasters[2].

Floods, and disasters that cause flooding, such as cyclones and storms, result in the largest spending on natural disaster relief, especially if they impact an urban area. This is because flooding causes the greatest damage to public assets, particularly roads.

1 In the 'Other expenses' assessment category the Commission also applies an actual per capita assessment to native title and land rights expenses.
2 States also undertake spending related to natural disasters that is not covered by the Disaster Recovery Funding Arrangements. This includes drought assistance and mitigation activities to reduce damage from future disasters. These expenses are excluded from the Commission's natural disaster relief assessment and are included in assessments of spending on services to communities and services to industry.

Natural disaster relief spending can fluctuate significantly between years, as shown in Figure 1. Spikes in spending over this period are related to ongoing relief following particularly severe natural disasters. These include the Black Saturday bushfires in Victoria, Cyclone Yasi and Brisbane flooding in Queensland and hailstorms and widespread flooding in Queensland and New South Wales.

The Disaster Recovery Funding Arrangements

The framework for funding national disaster relief in Australia is provided by the *Disaster Recovery Funding Arrangements 2018*.

Under the Disaster Recovery Funding Arrangements, states can be reimbursed by the Commonwealth. The amount will depend on the type of spending undertaken by states and whether spending thresholds have been exceeded. The reimbursement rate for different types of spending and method used to determine annual thresholds are outlined in the arrangements.

For state expenses to be eligible for reimbursement, they must have been incurred in response to an eligible disaster.

- An eligible disaster includes bushfires, earthquakes, floods, storms, cyclones, storm surges, landslides, tsunamis, meteorite strikes, tornados and terrorist attacks.

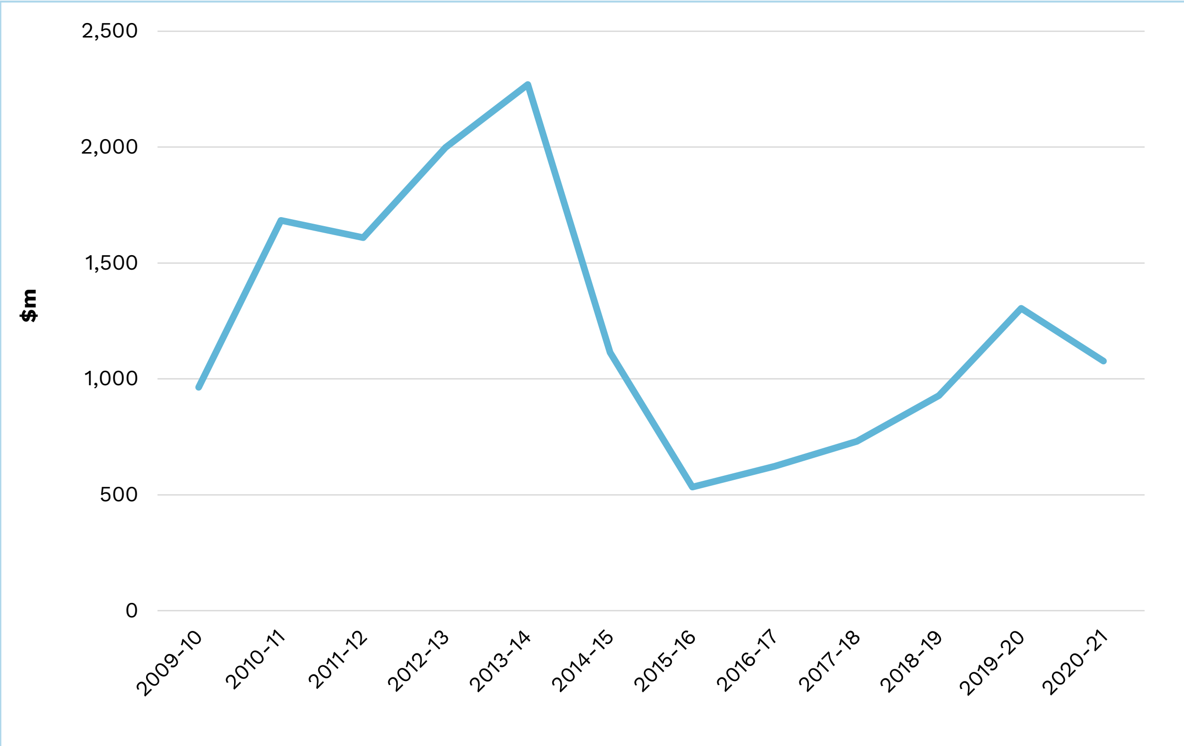
Expenses covered under the framework include:

- immediate reconstruction of public assets to their pre-disaster function
- emergency financial and non-financial assistance to individuals including food, clothing, temporary accommodation, and counselling
- financial support to businesses and organisations
- longer term community recovery activities.

State funding of expenses for which local governments are responsible is also covered by the Disaster Recovery Funding Arrangements.

The Commonwealth undertakes assurance activities to validate the spending reported by states.

Figure 1 Net natural disaster relief expenses, all states (2020-21 dollars)



Source: State data; Commission calculation

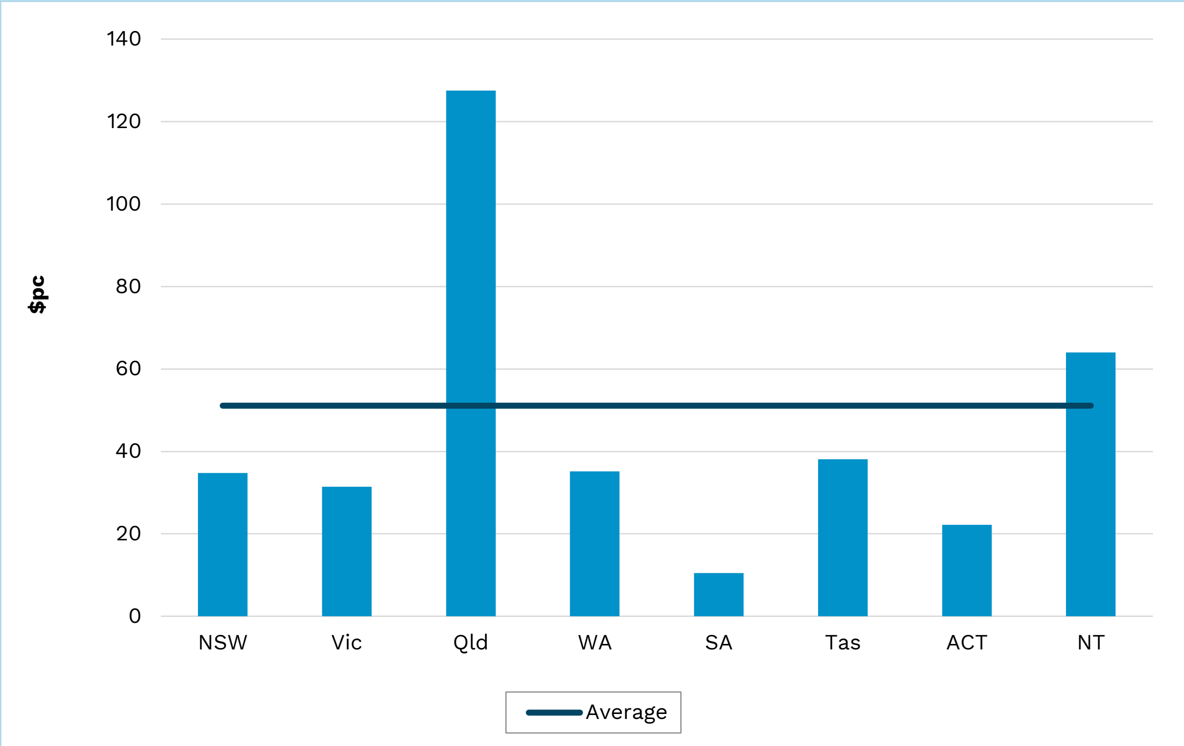
Note: Indexed net natural disaster relief expenses are shown to aid comparability.

The impact of the Commission's natural disaster assessment on GST distribution

Although there is considerable fluctuation in natural disaster relief spending each year, certain states tend to receive a higher share of the GST distribution due to natural disasters. Queensland typically has a relatively high number of cyclones and floods that affect population centres, which means it needs to spend more than other states on relief. The Northern Territory also has relatively high per person spending. This is due to its relatively small population size which means that any natural disasters which affect the Northern Territory (mainly cyclones and flooding) result in high costs per person. Spending by South Australia and the ACT is well below average.

State spending on natural disaster relief over the past 10 years is shown in Figure 2.

Figure 2 Per person average net annual spending on natural disaster relief (2009-10 to 2020-21)



Source: State data; Commission calculation

Conclusion

A key responsibility of the states is to provide relief arising from natural disasters. The amount each state needs to spend each year depends on the type, frequency, scale and severity of the disasters they experience. These are factors outside the control of governments.

To be eligible for Commonwealth assistance to meet the costs of natural disaster relief, state spending needs to be consistent with the expenses included in the Disaster Recovery Funding Arrangements.

Taken together, these factors mean that the Commission sets states' GST revenue needs for natural disaster relief as equivalent to the amount they actually spend.

Floods, and disasters which cause flooding, such as cyclones and storms, result in the largest natural disaster relief expenses. Queensland is more susceptible to these types of natural disasters.

States with a relatively high number of natural disasters receive a higher share of the GST revenue pool.

The Commission's approach to assessing state spending on natural disaster relief helps to ensure that a state's fiscal capacity to provide services is not compromised by natural disasters.