




Australian Government  
Commonwealth Grants Commission

# 2025 Methodology Review

Natural disaster relief  
consultation paper

October 2023

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## Overview of category

- 1 The natural disaster relief assessment covers net expenses that fall within the scope of the Commonwealth-State Disaster Recovery Funding Arrangements.<sup>1</sup>
- 2 Under the Disaster Recovery Funding Arrangements, states and territories (states) can be reimbursed for expenses incurred in response to an eligible disaster by the Commonwealth. The reimbursement amount depends on the type of spending undertaken by states and whether spending thresholds have been exceeded. The reimbursement rate for different types of spending and the method used to determine annual thresholds are outlined in the arrangements.
- 3 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 some terrorist attacks.
  - The process for the recognition of a natural disaster and eligibility for relief spending is defined by the Disaster Recovery Funding Arrangements.
- 4 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.
- 5 State funding of expenses for which local governments are responsible is also covered by the Disaster Recovery Funding Arrangements.
- 6 This assessment excludes state spending on:
  - events such as pandemics, droughts, oil or chemical spills, etc.
  - some terrorist acts that are not eligible disasters under the Disaster Recovery Funding Arrangements<sup>2</sup>
  - natural disaster mitigation, currently included in the services to communities category
  - any other expenses on natural disaster relief by a state that are not recognised under the Disaster Recovery Funding Arrangements framework. These expenses are covered by other expense assessments depending on where they are included in state budgets.

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<sup>1</sup> Department of Home Affairs (DHA), [Disaster Recovery Funding Arrangements 2018](#), DHA, 2022, accessed August 18 2023.

<sup>2</sup> Department of Home Affairs (DHA), [Process for determining a terrorist attack is a natural](#) disaster, DHA, n.d., accessed August 18 2023.

## Current assessment method – 2020 Review

- 7 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 assessment.
- 8 An actual per capita assessment can be appropriate when state spending is not influenced by state specific policy decisions and is therefore policy neutral.
- 9 The natural disaster relief assessment is assessed actual per capita because:
  - States have limited ability to control the impact of natural disasters and associated relief expenses. Costs for providing natural disaster relief vary among states, driven by the scale, severity, frequency and type of natural disaster.
  - The Disaster Recovery Funding Arrangements prescribe allowable types of expenses in response to natural disasters.
- 10 The use of an actual per capita assessment for natural disaster relief means that states that experience natural disasters receive a higher share of GST revenue. As a result, the costs of responding to natural disasters are effectively shared between the states.
- 11 The assessment includes the net payments made by states to local governments for the costs they incur in responding to natural disasters, consistent with the Disaster Recovery Funding Arrangements. That is, in this assessment relief to local government is considered a state type service. State policies on the level of local government contributions vary, and so an actual per capita assessment of the local government contribution is not appropriate. Local government contributions are assessed using average contribution rates.

### Data used in the assessment

- 12 This assessment uses state data to determine net state expenses. The state data include associated Commonwealth and local government revenue.

### Category and component expenses

- 13 Table 1 shows state spending on natural disaster relief, net of reimbursements from the Commonwealth, local governments and insurance payments. Total state spending was \$1.2 billion in 2021–22, representing 0.4% of total state expenditure. Queensland spent the largest share of its expenditure, 0.8%, and the Northern Territory the smallest, 0.03%, on natural disaster relief.

**Table 1 Total natural disaster relief expenditure by state, 2021–22**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Total expenditure (\$m)	566	71	472	46.8	51.2	9.2	7.4	1.7	1,225
Proportion of total expenditure (%)	0.66	0.11	0.79	0.12	0.26	0.14	0.13	0.03	0.43

Source: Commission calculation, 2023 Update.

14 State expenses on natural disaster relief have increased from \$0.8 billion in 2018–19 to \$1.2 billion in 2021–22 (around a 57% increase) (see Table 2 below).

15 Spending in New South Wales associated with the 2019–20 Black Summer Bushfires and major flooding events during 2021 and 2022, were the main factor in the change in spending between 2018–19 and 2021–22.

**Table 2 Total natural disaster relief expenditure, 2018–19 to 2021–22**

	2018–19	2019–20	2020–21	2021–22
Total expenditure (\$m)	780	1,304	703	1,225
Proportion of total expenditure (%)	0.3	0.6	0.3	0.4

Source: Commission calculation, 2023 Update.

16 Table 3 shows the current structure of the natural disaster relief assessment.

**Table 3 Structure of the natural disaster relief assessment**

Component	Component expense	Driver	Influence measured by driver
	\$m		
Natural disaster relief	1,225	Actual per capita	Recognises that natural disaster relief expenses are beyond state control and are policy neutral.

Source: Commission calculation, 2023 Update.

## GST distribution in the 2023 Update

17 Table 4 shows the impact of the natural disaster relief assessment on the distribution of GST in 2023–24. Natural disaster relief distributed \$383 million (\$14 per capita) compared to an equal per capita distribution.

**Table 4 GST Impact of natural disaster relief assessment, 2023–24**

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total effect
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Natural disaster relief	100	-287	283	-42	-23	-10	-10	-13	383
<b>Total (\$pc)</b>	<b>12</b>	<b>-42</b>	<b>52</b>	<b>-15</b>	<b>-12</b>	<b>-17</b>	<b>-21</b>	<b>-48</b>	<b>14</b>

Source: Commission calculation, 2023 Update.

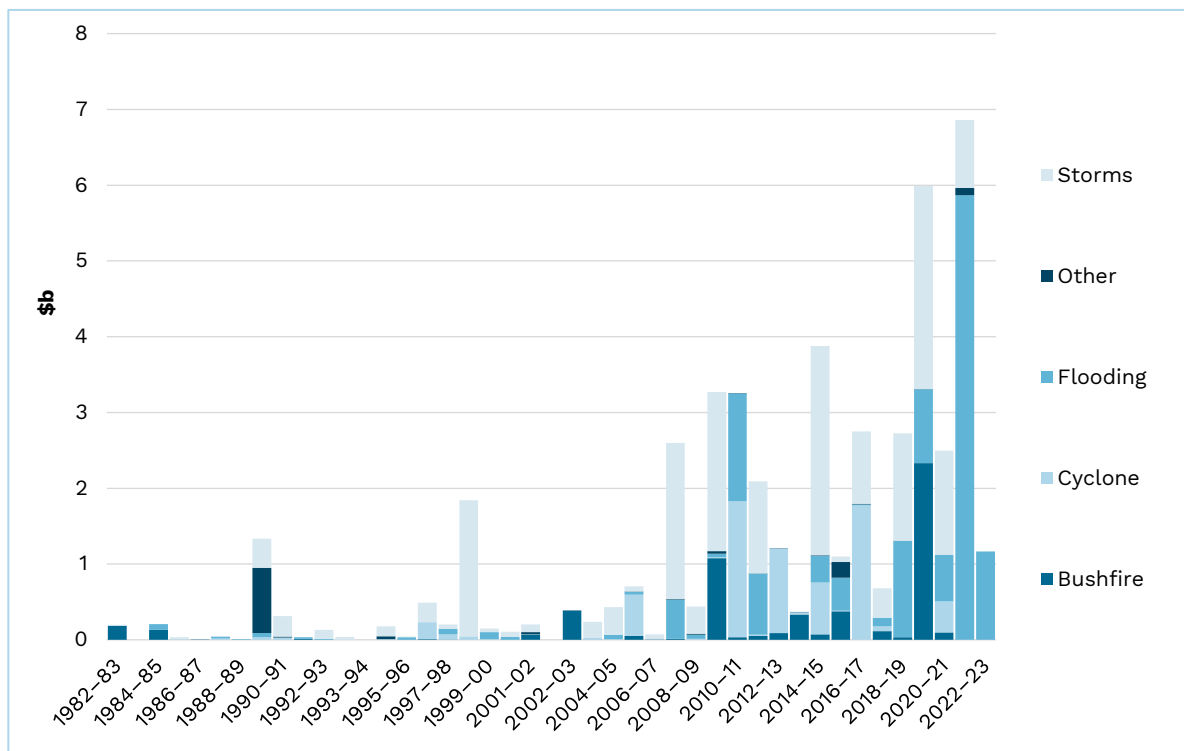
18 Further detail on service provision arrangements, the scope of the adjusted budget and the underlying conceptual cases for assessment methods are explained in volume 2, chapter 23, [Report on GST Revenue Sharing Relativities, 2020 Review](#).

# What has changed since the 2020 Review?

## Increase in the frequency and severity of natural disasters

19 Climate change is exacerbating the frequency and severity of natural disaster risk from bushfires, flooding, storms, coastal inundation, erosion and landslip.<sup>3</sup> Insurance Council of Australia data on insured losses over the past 40 years shows a steady increase in natural disaster related payouts, particularly since the turn of the century (Figure 1).

**Figure 1 Normalised value of insured losses caused by natural disasters<sup>(a)</sup>**



(a) The trend shown also represents increases in population and asset values, and therefore total value of assets insured, highlighting the difficulties in measuring total social and economic impacts of natural disasters.

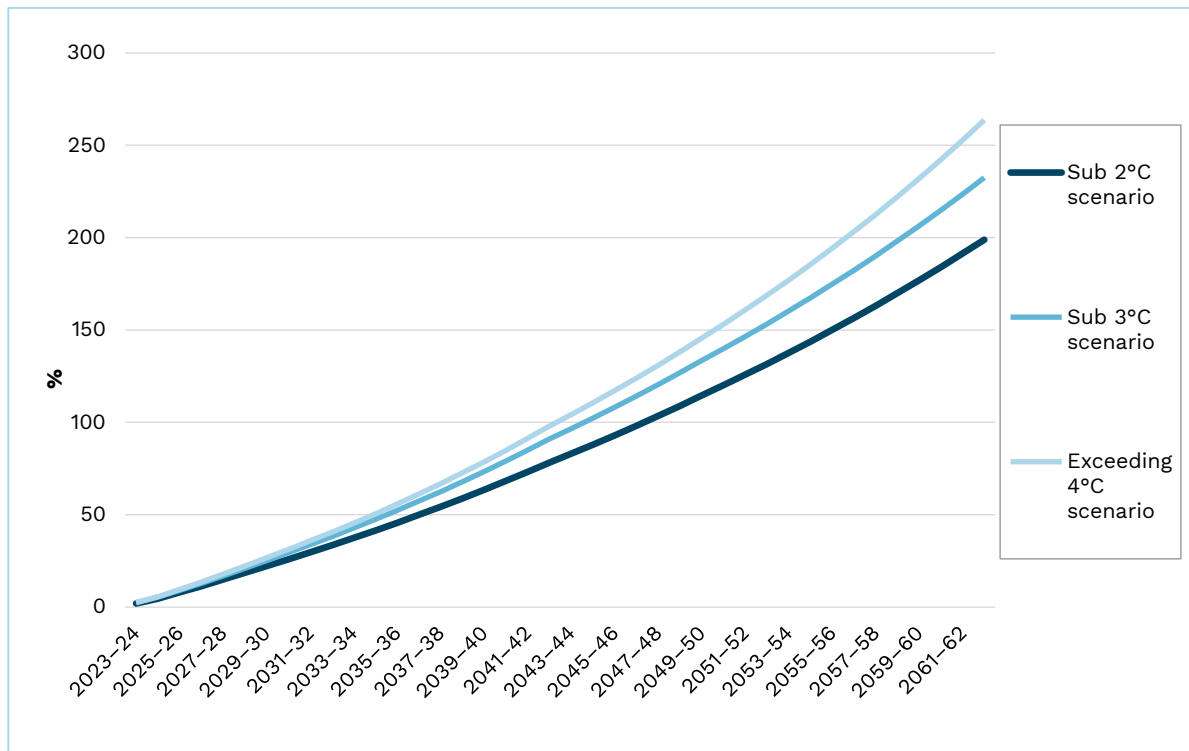
Source: 2023 Intergenerational Report, Australia's future to 2063, Commonwealth of Australia

20 The frequency and severity of some natural disaster events are predicted to further increase.<sup>4</sup> The Australian Government's Intergenerational Report 2023 contained estimates of Commonwealth government spending under the Disaster Recovery Funding Arrangements over the next 40 years under alternative climate change scenarios (Figure 2).

<sup>3</sup> 2023 Intergenerational Report, Australia's future to 2063, Commonwealth of Australia, p105 [Intergenerational Report 2023 \(treasury.gov.au\)](https://www.treasury.gov.au)

<sup>4</sup> Royal Commission into National Natural Disaster Agreements (RCNDA), [Report](#), RCNDA, 2020, accessed August 18 2023.

**Figure 2 Australian government spending under the Disaster Recovery Funding Arrangements, total percentage change**



Source: 2023 Intergenerational Report, Australia's future to 2063, Commonwealth of Australia

## Improving resilience of infrastructure

- 21 The Royal Commission into National Natural Disaster Arrangements recommended that ‘Australian, state and territory governments should incorporate the principle of “build back better” more broadly into the Disaster Recovery Funding Arrangements.’<sup>5</sup>
- 22 The Disaster Recovery Funding Arrangements state that ‘An essential public asset directly damaged by an eligible disaster, or a re-damaged essential public asset, may be reconstructed to its pre-disaster function.’<sup>6</sup> However, the National Emergency Management Agency’s fact sheet on the Disaster Recovery Funding Arrangements states that ‘Disaster Recovery Funding Arrangements assistance should be used to complement and promote disaster resilience outcomes for affected individuals and communities.’<sup>7</sup>
- 23 As such, some future expenses intended to improve resilience to natural disasters will be covered by the Disaster Recovery Funding Arrangements. For example, Queensland has established a ‘Betterment Fund’ to allow ‘local governments and

<sup>5</sup> Royal Commission into National Natural Disaster Arrangements Report.

<sup>6</sup> Department of Home Affairs, Disaster Recovery Funding Arrangements 2018.

<sup>7</sup> Department of Home Affairs, Disaster Recovery Funding Arrangements 2018.



state agencies to rebuild essential public assets to a more resilient standard to help them withstand the impacts of future natural disasters.’<sup>8</sup>

- 24 Some resilience spending under other programs, such as the Commonwealth’s Disaster Ready Fund, will be separate to the Disaster Recovery Funding Arrangements. These expenses are currently included in the environmental protection component in the services to communities assessment. The Commission has included a discussion of a separate assessment of state spending on natural disaster mitigation/resilience in the consultation paper for the 2025 Review on services to communities.
- 25 In February 2023, the Commonwealth commissioned an independent review into Australia’s disaster funding arrangements, to ensure government investment in disaster funding is fit-for-purpose and effective in the face of increasingly frequent and more severe natural disasters.<sup>9</sup> The Review will consider how government investment in disaster risk reduction, preparedness, response, recovery and resilience can better support a national system. It will also look at what will be needed to build resilience to the extreme disaster events Australia is projected to experience over the coming decades. A final report is expected to be provided to the government in April 2024.
- 26 Pending the outcome of the Independent Review of National Natural Disaster Governance Arrangements, the Commission’s preliminary view is to continue the natural disaster assessment in its current form. Restricting assessed expenses to those covered by the Disaster Recovery Funding Arrangements provides assurance that spending is policy neutral, which allows state spending on natural disaster relief to be assessed on an actual per capita basis. Expenses outside the Disaster Recovery Funding Arrangements will be assessed in other categories.

### Consultation question

Q1. Do states support the continuation of the natural disaster relief assessment in its current form?

## Proposed assessment

- 27 Subject to state views, the Commission does not propose to make changes to its 2020 Review approach.

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<sup>8</sup> Queensland Reconstruction Authority (QRA), [Queensland Betterment Programs, QRA, n.d., accessed 18 August 2023.](#)

<sup>9</sup> National Emergency Management Agency (NEMA), [Independent Review of Natural Disaster Governance Arrangements, NEMA, n.d., accessed August 18 2023.](#)

## Proposed assessment structure

28 The proposed structure of the natural disaster relief assessment is in Table 5.

**Table 5 Proposed assessment structure for natural disaster relief**

Component	Driver	Influence measured by driver	Change since 2020 Review
Natural disaster relief	Actual Per Capita	Recognises that natural disaster relief expenses are beyond state control and are policy neutral.	No

Source: Commission calculation, 2023 Update.

## New data requirements

29 The Commission will not request any new data.

## Consultation

30 The Commission welcomes state views on the consultation question identified in this paper (outlined below) and the proposed assessment. State submissions should accord with the 2025 Review framework. States are welcome to raise other relevant issues with the Commission.

Q1. Do states support the continuation of the natural disaster relief assessment in its current form?