Natural disaster relief

Overview

1 On 6 October 2023, the Commission issued a consultation paper on the natural disaster relief assessment. The Commission considered changes since the 2020 Review and their implications for the assessment method.

2 The Commission proposed to retain the 2020 Review assessment method.

3 A summary of state and territory (state) responses to the consultation question is included below, as well as the Commission's draft position and the draft 2025 Review assessment method.

4 State submissions can be viewed here.

Consultation questions

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

State views

5 New South Wales, Queensland, Western Australia, South Australia, the ACT and the Northern Territory supported the retention of the natural disaster relief assessment in its current form.

6 New South Wales and South Australia said it was important for the Commission to recognise the interaction between natural disaster relief and natural disaster mitigation expenses when considering the assessment of mitigation and relief expenses in future reviews.

7 South Australia, Tasmania and the Northern Territory said it was important to take account of the outcome of reviews into Australia's disaster funding arrangements.

8 Victoria did not support the continuation of the current natural disaster relief assessment because:

- the 2014 Productivity Commission Inquiry Report on Natural Disaster Funding Arrangements highlighted policy influences on spending on natural disaster relief[1]
- the differences in states' rates of insurance of state assets could influence the need for disaster relief funding

[1] Productivity Commission (PC), *Natural Disaster Funding Arrangements*, Volume 1, inquiry report no. 74, PC, Australian Government, 2014, accessed 1 June 2024 (PC, Natural Disaster Funding Arrangements inquiry report).

- local government expenses are included in the assessment and should be removed for consistency across assessments.

9 Victoria recommended the assessments of natural disaster relief and mitigation should be considered together to account for their complex interrelationship. Victoria recommended that, if a policy neutral driver cannot be identified, natural disaster relief should be assessed equal per capita.

Commission response

Policy influences on natural disaster relief expenses

10 The 2014 Productivity Commission Inquiry Report on Natural Disaster Funding Arrangements stated:

> 'The incentives for governments to manage risks to their assets, and to support management of shared risks more broadly, are undermined by the structure of the Natural Disaster Relief and Recovery Arrangements and the budget treatment of this funding. This has led to a bias towards governments retaining risks rather than investing in mitigation or funding the transfer of risks through insurance.'[2]

11 The Productivity Commission also stated:

> 'The GST redistribution due to natural disaster relief costs creates another avenue for cost-shifting. It is not clear to what degree equalisation of natural disaster relief costs affects the incentives for states to effectively manage natural disaster risks, but it may influence incentives at the margin.'[3]

12 It concluded that:

> 'It would be imprudent at this stage to recommend ad hoc changes to GST distribution formula due to the significant potential for unintended consequences.'[4]

13 Sharing the cost of responding to natural disasters among states is a long-standing feature of the GST distribution arrangements and, consistent with the objective of horizontal fiscal equalisation, helps ensure that a state's capacity to provide services is not adversely compromised as a result of experiencing and responding to natural disasters. The Commission is not aware of any evidence suggesting the GST arrangements are creating a disincentive for states to reduce their exposure to natural disasters. While the Productivity Commission suggested the GST distribution arrangements could marginally influence incentives for mitigation spending, its conclusion was not to recommend changes.

[2] PC, *Natural Disaster Funding Arrangements* inquiry report, p 128.

[3] PC, *Natural Disaster Funding Arrangements* inquiry report, p 33.

[4] PC, *Natural Disaster Funding Arrangements* inquiry report, p 34.

Insurance

14 The Disaster Recovery Funding Arrangements require states to insure their assets against natural disasters.

> 'States have a responsibility to put in place insurance arrangements which are cost effective for both the state and the Commonwealth.'[5]

15 The adequacy of state insurance arrangements was addressed in the 2020 Review.

> 'The Commission considers that the Commonwealth is best placed to decide if state insurance arrangements are sufficient to satisfy the requirements of the funding agreements and to receive Commonwealth assistance.'[6]

16 No new evidence has been presented in the 2025 Review to support a change. The Commission is not persuaded of the need to adjust its assessment method due to differences in states' natural disaster insurance arrangements.

Local government expenses

17 The treatment of local government expenses was considered in the 2020 Review. The Commission concluded that 'it is average policy for states to fund a significant proportion of the local government out-of-pocket expenses.' No new evidence has been provided in the 2025 Review to the contrary.

18 Under the Disaster Recovery Funding Arrangements, local government expenses are treated as equivalent to state expenses and are equally eligible for Commonwealth reimbursement.[7]

19 All states (except the ACT) fund local government natural disaster relief expenses, although policies vary.

20 Victoria's concern about inconsistent treatment of state support for local government across assessments was also addressed in the 2020 Review.

> 'While financial assistance grants, including local roads grants, are removed from the adjusted budget, other payments to local government are included. These payments contribute to the average expenses to which disabilities apply. Therefore, it is not inconsistent for the Commission to assess state payments to local government for disaster recovery. The Commission considers this does not amount to local government equalisation. It recognises an unavoidable cost that all states fund.'[8]

[5] Department of Home Affairs, *Disaster Recovery Funding Arrangements 2018*, Home Affairs, Australian Government, 2018, accessed 1 June 2024, (Home Affairs, Disaster Recovery Funding Arrangements 2018), p 15.

[6] Commonwealth Grants Commission (CGC), *Report on GST Revenue Sharing Relativities: 2020 Review,* Volume 2, Part B (Ch19–33), CGC, Australian Government, 2020, accessed 1 June 2024, (CGC, 2020 Review), p 373.

[7] Home Affairs, *Disaster Recovery Funding Arrangements 2018*, p 10.

[8] CGC, *2020 Review*, p 373.

Commission draft position

21 The Commission sees no case to change the long-standing treatment of natural disaster expenses in the GST distribution arrangements. The current approach is consistent with the objectives of horizontal fiscal equalisation. The Commission is not aware of any evidence that the GST distribution arrangements are creating a disincentive for states to reduce their exposure to natural disasters.

22 As stated in the services to communities chapter, following the 2025 Review, the Commission will continue to monitor developments and explore in consultation with states whether a differential assessment of natural disaster mitigation expenses is appropriate. The Commission will consider the outcome of the Independent Review of National Natural Disaster Governance Arrangements which concluded in December 2023, with the final report being considered by the Australian Government.[9] The Commission will consult with states on the implications of the Government response for the assessment of natural disaster relief expenses.

23 For the 2025 Review, the Commission's draft position is that the actual per capita assessment method should be retained.

Draft 2025 Review assessment method

24 Following consideration of state views, the Commission proposes to retain the 2020 Review assessment method.

25 Table 1 shows the structure of the proposed 2025 Review natural disaster relief assessment.

Table 1 Proposed structure of the natural disaster relief assessment

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

Indicative distribution impacts

26 No method changes are proposed for this assessment.

[9] National Emergency Management Agency, 'Independent Review of National Natural Disaster Governance Arrangements', NEMA website, n.d., accessed 1 June 2024.