

Natural disaster relief

Review outcomes

- No changes were made to the assessment method for natural disaster relief.
 - The long-standing treatment of natural disaster relief in the GST distribution arrangements was considered to remain appropriate and the actual per capita treatment of relief expenses has been retained.
 - The Commission is unaware of any evidence to suggest the GST distribution arrangements create a disincentive for states to reduce their exposure to natural disasters.
- The Commission will consider the outcome of the Independent Review of Commonwealth Disaster Funding and consult with states on any implications of the Government response for the assessment of natural disaster relief expenses.

Introduction

- 1 On 6 July 2024, the Commission published the [Draft Report](#) for the 2025 Methodology Review.
- 2 The Draft Report included a detailed analysis and response to issues raised by states and territories (states) in their [submissions](#) on the Commission's [consultation paper](#).
- 3 State submissions on the Draft Report can be viewed [here](#).
- 4 This chapter includes:
 - an overview of the issues considered throughout the review
 - the Commission's response and decision on each issue.
- 5 A description of the assessment method can be found in the other expenses chapter of the *Commission's Assessment Methodology*.

Issues considered

Method for assessing natural disaster relief expenses

- 6 The Commission sought state views on whether an actual per capita assessment method remained appropriate for assessing state expenses on natural disaster relief.

State views

- 7 Most states said that an actual per capita assessment remained appropriate.

- 8 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. Some states also noted that it would be important to take account of the outcome of reviews into Australian disaster funding arrangements.
- 9 Victoria did not support the continuation of the actual per capita 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
 - differences in states' rates of insurance of state assets could influence the need for disaster relief funding
 - local government expenses are included in the assessment and should be removed for consistency across assessments.
- 10 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 could not be identified, natural disaster relief should be assessed equal per capita.

Commission response

- 11 Sharing the cost among the states of responding to natural disasters is a long-standing feature of the GST distribution arrangements. Consistent with the objective of horizontal fiscal equalisation, it helps ensure that a state's capacity to provide services is not adversely affected by experiencing and responding to natural disasters. The Commission is not aware of any evidence to suggest that the GST distribution arrangements create a disincentive for states to reduce their exposure to natural disasters. Whilst the Productivity Commission suggested the GST distribution arrangements could marginally influence incentives for mitigation spending, its conclusion was not to recommend changes.
- 12 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 to the contrary was provided in the 2025 Review.
- 13 Under the Disaster Recovery Funding Arrangements, local government expenses are treated as equivalent to state expenses and are equally eligible for Commonwealth reimbursement.¹
- 14 Victoria's concern about inconsistent treatment of state support for local government across assessments was also addressed in the 2020 Review.

¹ [Disaster Recovery Funding Arrangements 2018 \(disasterassist.gov.au\), p10](https://disasterassist.gov.au)

“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.”²

Commission decision

- 15 The Commission considers the long-standing treatment of natural disaster relief expenses in the GST distribution arrangements remains appropriate. The Commission is not aware of any evidence that the GST distribution arrangements create a disincentive for states to reduce their exposure to natural disasters.

GST impacts of method changes

- 16 There are no method changes to this assessment.

² [2020 Review Final Report, Vol 2, Part B \(Ch19-33\)](#), p373