



## Australian Government

### Commonwealth Grants Commission

File ref: 2011/013

John Hawkins  
Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Mr Hawkins

#### **Commonwealth Grants Commission – Impact of Natural Disaster Expenditure on GST distribution**

Thank you for your letter of 4 April 2011 inviting submissions to the Senate's inquiry into the State Government Insurance and Flood Levy.

I am writing to explain how the Commonwealth Grants Commission currently treats State, Territory and Commonwealth expenses relating to natural disaster relief for the purpose of the GST distribution.

For major disasters, between 50 and 75 per cent of expenditure is funded by the Commonwealth under the Natural Disaster Relief and Recovery Arrangements (NDRRA). The Commission ensures that neither the Commonwealth NDRRA funding received by a State nor its related expenditure affects its GST share.

State spending on natural disasters in excess of that funded by the Commonwealth through the NDRRA is then taken into account in determining a State's GST share. Because States and Territories operate under a common administrative and policy framework (the NDRRA), we assume they have the same spending policies in regard to natural disaster relief. As a result, States are considered to spend what they need to spend because they are making decisions consistent with the NDRRA requirements. Our assessment of their GST requirements recognises their actual expenditure, net of payments from the Commonwealth. In this way, the burden on State budgets of dealing with the non-Commonwealth funded costs of dealing with recovery from natural disasters is shared between the States through the GST allocation process.

The table below shows the States' average annual natural disaster relief expenses for 2006-07 to 2008-09. It also shows average annual Commonwealth NDRRA payments and net State expenses for the same period. The net expenses have an impact on State GST shares when States spend more or less than average. For example, Queensland's GST share would be increased by \$15.39 per person because its net spend of \$32.83 is more than the all-State average spend of \$17.32.

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**Impact of natural disaster relief expenses and NDRRA payments for 2006-07 to 2008-09 on the GST distribution, 2010 Review**

Annual average	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Total
Gross State expenses (\$m)	105.5	168.3	291.3	17.9	0.4	3.7	0.0	17.3	604.4
NDRRA revenue (\$m)	2.6	73.4	151.8	0.0	0.0	0.2	0.0	6.9	234.9
Net expenses (\$m)	102.9	94.9	139.5	17.9	0.4	3.5	0.0	10.4	369.5
Net expenses (\$pc)	14.81	17.73	32.83	8.40	0.28	7.08	0.00	47.79	17.32
Impact on GST (\$pc)	-2.62	0.52	15.39	-9.01	-17.08	-10.33	-17.36	30.17	3.55

Source: Commission calculation based on State provided data.

This assessment means every dollar of net spending by a State above the average is partly funded by a reduction in other States' GST. For example, for every extra \$1 million Queensland spends on natural disaster relief due to the recent floods (if no other State had a requirement for such expenditure), its GST entitlement would increase by \$800 000. This would be funded by a reduction in the GST of other States equivalent to their population shares. For New South Wales, \$1 million of net expenditure by Queensland would mean a \$320 000 reduction in its GST. Of course, because natural disasters also occur in other States, the impact on the GST is not this simple. But the net budget impact of \$1 million of net natural disasters relief expenses for Queensland, all other things equal, will be limited to its population share or \$200 000.

The Commission's assessments use State provided data on natural disaster spending. For its work it is important that that data are collected on a comparable basis; for example, that all States have recorded insurance premiums paid or insurance claims received in the same way. Because it has become clear that States have different insurance arrangements and because recorded net natural disaster expenses are likely to grow significantly as a result of the Queensland floods, ensuring that States are reporting on a comparable basis will be an important part of preparing future GST distributions.

Yours sincerely

John Spasojevic  
Secretary

6 April 2011