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Costs of climate-driven disasters and local government revenue

The costs of climate change are increasing rapidly, while local government revenues grow slowly. Climate costs will become increasingly onerous on local government unless new revenue sources are created, such as a climate disaster levy on fossil fuel companies.

Author: Rod Campbell
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INTRODUCTION

Climate change is making natural disasters more frequent and more intense, increasing costs for households, businesses, and governments. This includes local governments, which are responsible for infrastructure such as roads, footpaths, drainage, sewage, parks and community facilities.

This briefing note makes the simple point that the costs of climate change are increasing rapidly, while local government revenues are growing far more slowly. To demonstrate this, we compare the value of insured losses from natural catastrophes as estimated by the Insurance Council of Australia and compare this with Australian Bureau of Statistics data on local government revenues.[1]

It is important to note that insured losses are an imperfect measure of the costs of climate change, notably:

[1] Insurance Council of Australia (2025) *ICA Historical Catastrophe List*, https://insurancecouncil.com.au/industry-members/data-hub/; Australian Bureau of Statistics (2025) *Government Finance Statistics,* https://www.abs.gov.au/statistics/economy/government/government-finance-statistics-annual/2023-24

- Some types of disaster – for example, drought – see far lower payouts by insurers, but are no less harmful for the people who experience them.
- Not everyone has insurance, and many only have partial insurance. Australia Institute research shows that over 800,000 Australian households and over 2 million people do not have full home building insurance.[2]
- Insured losses generally do not include public disaster response spending, such as under the Natural Disaster Relief and Recovery Arrangements. However, public disaster response spending tends to occur in years with high insured losses.
- Insured losses are inherently tied to existing economic inequalities, for instance harm done to communities with less wealth and lower incomes will see lower insured losses, despite considerable harm occurring.
- In addition to climate disasters, climate change will have a range of long-term impacts which are subtler but still highly damaging impacts, such as reducing crop yields and labour productivity.

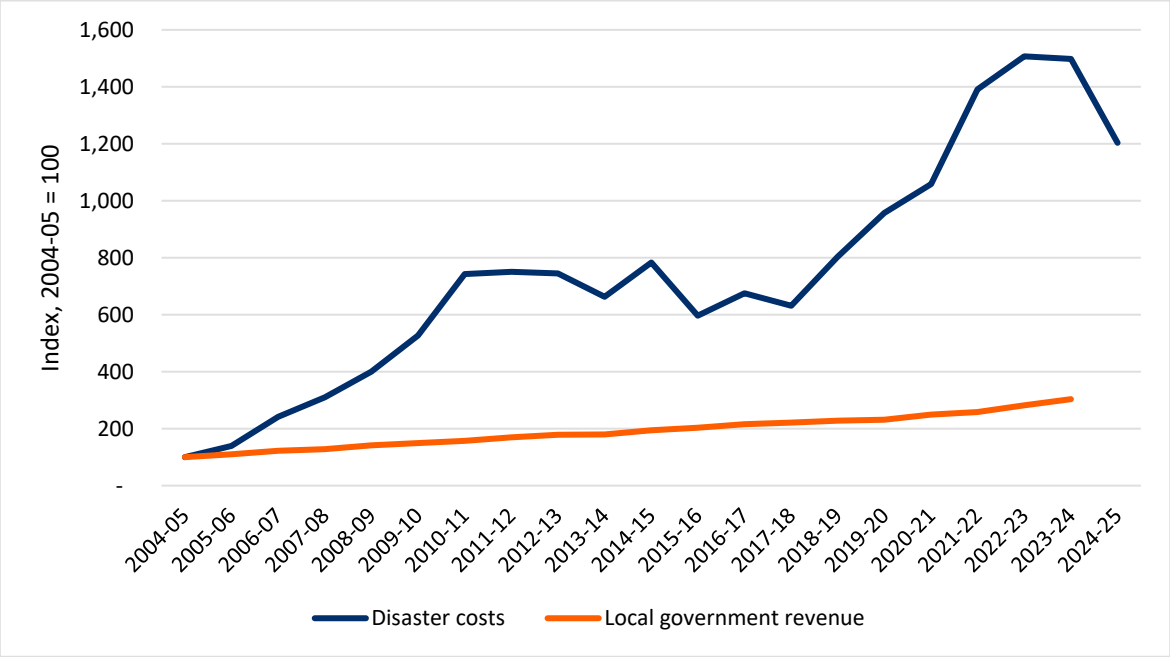
Nevertheless, insurance payout data provides a reasonable estimation of the trends in the costs of natural disasters.

INSURED LOSSES VS LOCAL GOVERNMENT REVENUE

Local governments will incur substantial costs from natural disasters and will need to make significant climate adaptation investments to help keep their constituents safe. Despite these cost pressures, the revenue available to local governments is growing substantially slower than the costs of natural disasters. Figure 1 below compares Australia-wide costs of disasters with the revenues of local governments.

[2] Thrower (2025) *Betting the house: Australia's uninsured and underinsured households and the climate crisis*, https://australiainstitute.org.au/report/betting-the-house/

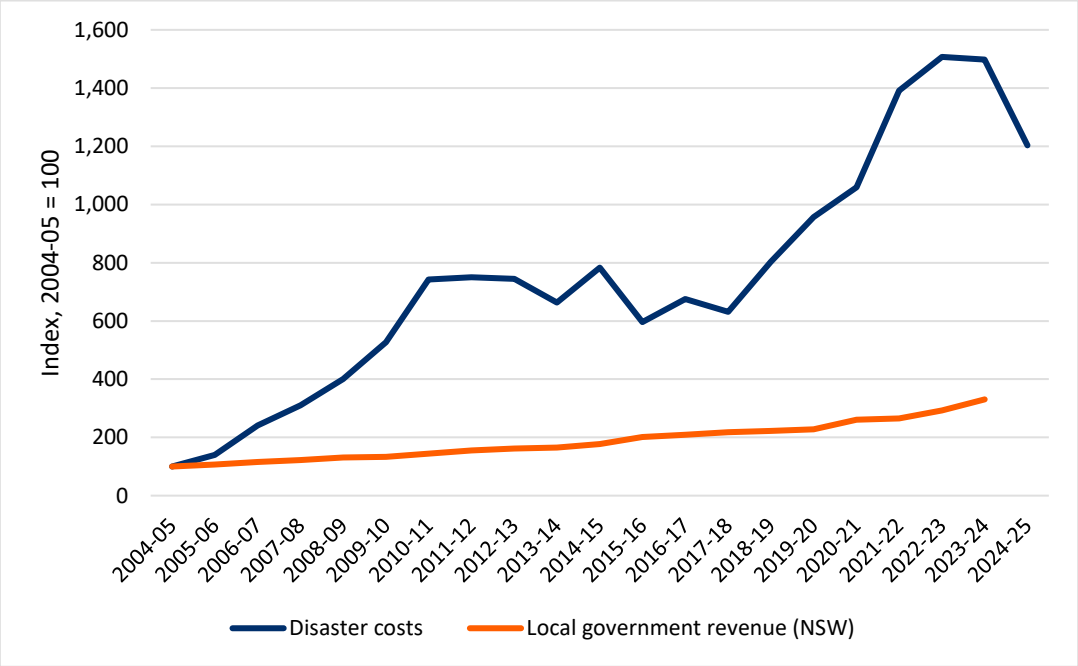
Figure 1: Disaster costs vs local government revenue, 2004-05 to 2024-25, total



Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Disaster costs are calculated as a five-year rolling average of insured losses due to catastrophes. 2024-25 local government revenue figure is not yet available.

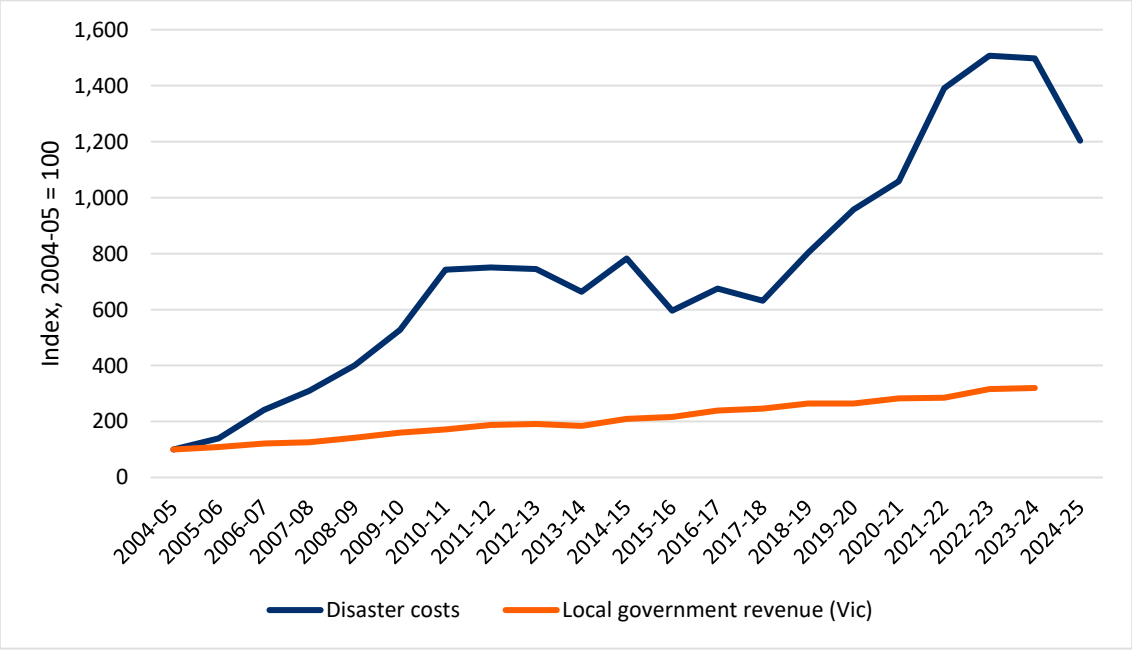
Insured losses from disasters are generally not neatly divided by states – some highly destructive disasters have crossed state boundaries, for instance, the many floods and storms that eastern Australia has endured in recent years. Comparing changes in overall disaster costs with each state's local government revenue reveals that no state is increasing local government revenues as quickly as disaster costs are growing (Figures 2 to 7).

Figure 2: Disaster costs vs local government revenue, 2004-05 to 2024-25, NSW



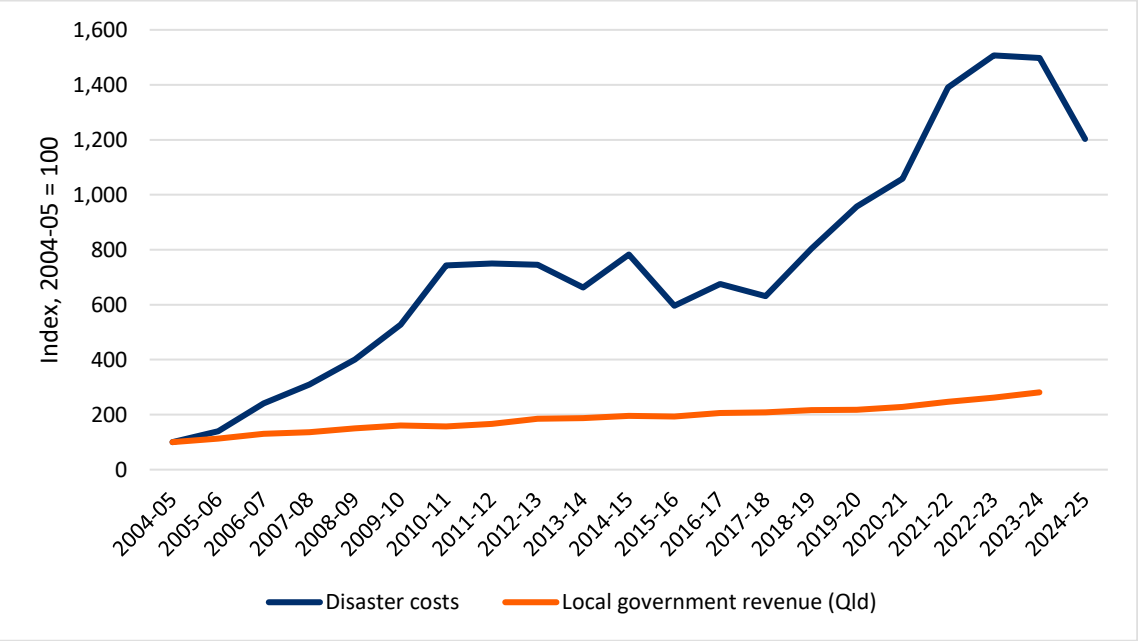
Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Uses the same methodology as Figure 1.

Figure 3: Disaster costs vs local government revenue, 2004-05 to 2024-25, Vic



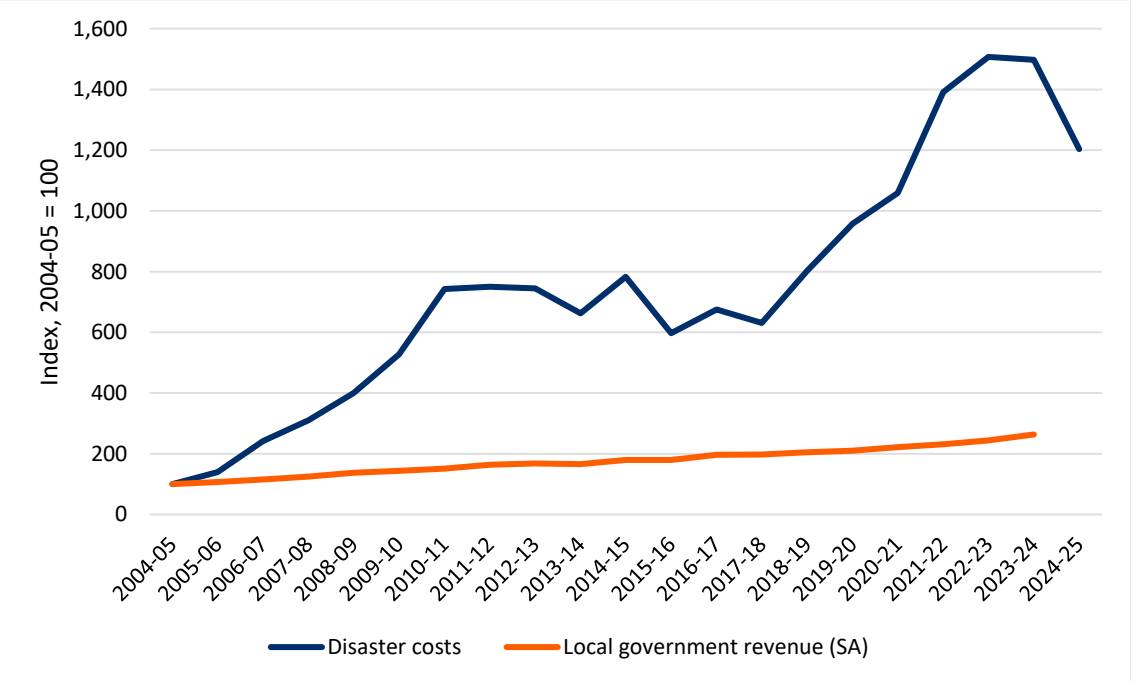
Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Uses the same methodology as Figure 1.

Figure 4: Disaster costs vs local government revenue, 2004-05 to 2024-25, Qld



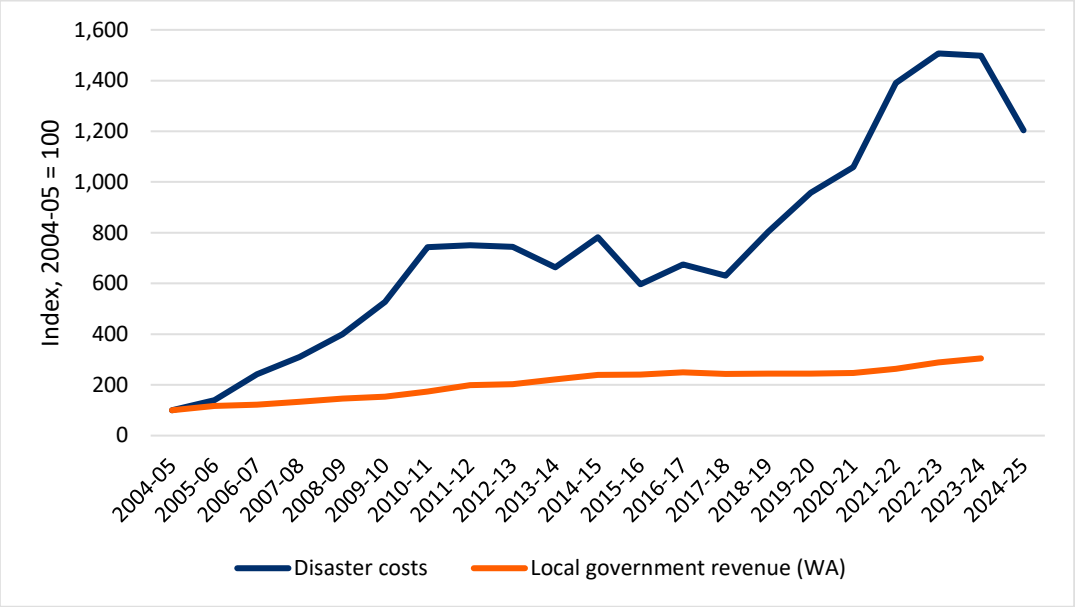
Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Uses the same methodology as Figure 1.

Figure 5: Disaster costs vs local government revenue, 2004-05 to 2024-25, SA



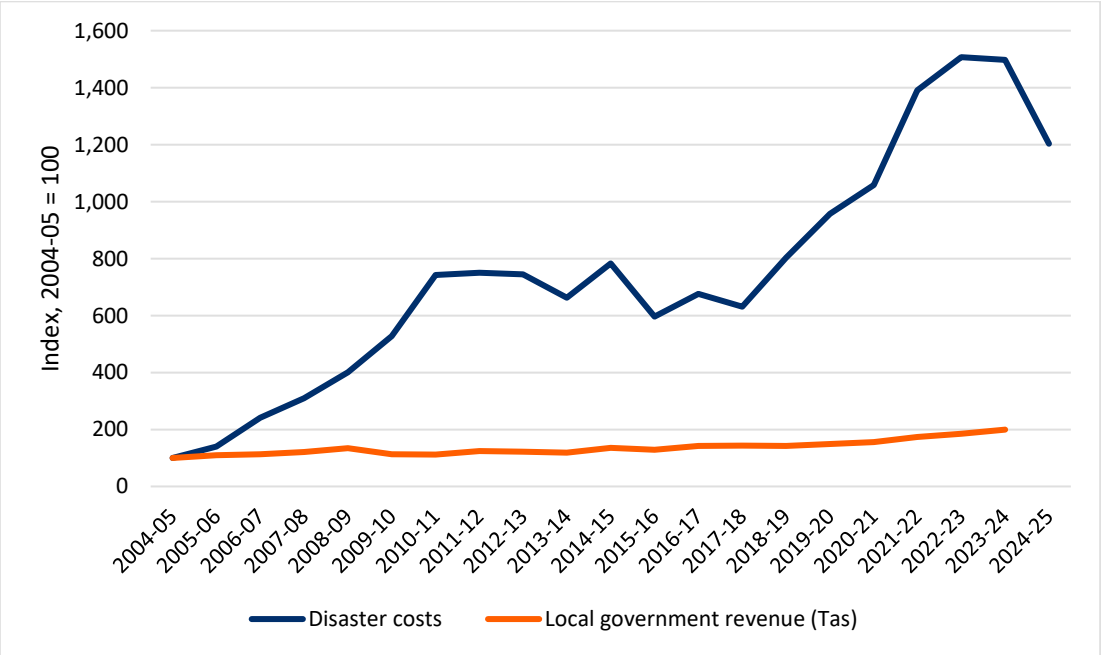
Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Uses the same methodology as Figure 1.

Figure 6: Disaster costs vs local government revenue, 2004-05 to 2024-25



Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Uses the same methodology as Figure 1.

Figure 7: Disaster costs vs local government revenue, 2004-05 to 2024-25



Source: Insurance Council of Australia (2025) ICA Historical Catastrophe List; Australian Bureau of Statistics (various years) Government Finance Statistics, Annual. Methodology notes are the same as Figure 1.

CONCLUSION

The costs of climate are increasing and will hit local governments hard. Local governments will be required to respond to the impacts of climate disasters and will need to invest in climate adaptation infrastructure to reduce the damage done by these disasters.

Instead of taxing the Australian general public, the fossil fuel industry, which profits from exacerbating climate change, should be required to pay these costs. The Australia Institute has long argued for a National Climate Disaster Fund, which would help pay for the costs of natural disaster response and recovery for Australian households, businesses, and taxpayers. This could be funded by a levy per tonne of carbon pollution caused by coal, oil and gas production, if this levy was set at $30 per tonne it would raise $44 billion in this year alone.[3]

[3] The Australia Institute (2025) *SA algal bloom underlines urgent need for National Climate Disaster Fund*, https://australiainstitute.org.au/post/sa-algal-bloom-underlines-urgent-need-for-national-climate-disaster-fund/