10 State taxes

Outline

This section considers the taxes and other own-source revenue of the States and the taxes of local government. It also outlines the issue of state taxation in the broader context of federal fiscal relations and the revenue and expenditure responsibilities of the Australian government and the States.

Key points

- Taxes levied by states and local governments account for a significant proportion of total tax revenue in Australia.
- The taxes levied by the States have changed over time. The current array of state taxes includes some transaction taxes which are relatively inefficient.
- Fiscal relations between the Australian government and the States are characterised by vertical fiscal imbalance, whereby the States' own revenue sources are insufficient to fund their expenditure responsibilities, while the Australian government's revenue sources are greater than is necessary to meet its expenditure responsibilities. There are both costs and benefits to this imbalance.

10.1 Introduction

In 2006-07, the States collected $48.9 billion in tax (including $159 million in rates collected by the ACT), with local government taxes in other States raising a further $9.4 billion. Together this accounted for 18 per cent of total tax revenue raised by governments in Australia. A description of the major state taxes (including local government rates) is presented in Section 2.5. An additional dimension to state taxation is its role within broader state financing, which includes non-tax revenue and grants from the Australian government.

10.2 State taxes have changed over time

Since federation, there have been a number of changes in the taxes that have been available to the States. This largely reflects policy developments and the High Court's interpretation of the Constitution, particularly in relation to the definition of excise taxes. These changes include: the agreed handover of customs and excise duties to the Australian government at the time of federation; the takeover of income tax by the Australian government during the Second World War; the handover of payroll tax to the States in 1971; and a series of High Court cases through to the late 1990s where a progressively broader interpretation of excise duties effectively narrowed the range of taxes that the States can impose. Interstate competition has also affected how the States have applied taxes. For example, the abolition of estate taxes in Queensland in 1977 led to all States abolishing their estate taxes by the early

1980s. This has also occurred, albeit less dramatically, with payroll tax, where the States began with uniform legislation when they took over the tax in 1971, but have since eroded their tax bases through changes in their thresholds and other exemptions. The form of several other taxes has also changed over time. Several States used to include land used for primary production and principal places of residence in their base for land tax. Section 4 provides further detail on the history of the Australian tax system.

The current array of state taxes includes taxes which are transaction based or are levied on narrow tax bases. The opportunities for the States to introduce new forms of taxation are limited. Where States have sought to increase their taxation revenue, they have often resorted to taxes which are narrowly based or designed to realise some gain from rapidly growing areas of the economy. Other taxes such as conveyance duties have delivered increasing amounts of revenue to the States in recent years, but the tax base can be subject to fluctuations in line with the property market.

Changes to state tax arrangements can have significant implications for financial relations between the Australian government and the States (discussed further in Section 10.6). This implies that any significant reform of state taxation has broader implications for federal fiscal relations and would require cooperation between the Australian government and the States. The provision of GST revenue to the States and the abolition of a number of inefficient state taxes through the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (Intergovernmental Agreement) is a good example of this.

10.3 Issues with the taxes levied by the States

The High Court's interpretation of the Constitution has restricted the States from imposing taxes on the production, manufacture, sale or distribution of goods. Without the ability to impose broad consumption taxes, the States have resorted to specific transaction taxes. Stamp duties on transactions, such as on motor vehicle purchases, insurance contracts and property conveyancing are significant sources of revenue. Such transaction taxes can reduce economic efficiency either through discouraging turnover (as tax is levied on the full value of the product each time a transaction occurs) or being embedded in the cost of production. Further, in some States insurance companies can also be required to contribute directly to the funding of fire services, a tax which is additional to the stamp duty. See Box 10.1 for a discussion of transaction taxes.

State tax revenues are also affected by a number of significant tax expenditures. This is particularly the case for payroll tax, where the States generally apply exemptions for certain institutions and allow tax-free thresholds (though the States differ in terms of whether they consider the tax-free threshold to be a tax expenditure). Land tax is another example, the main exemptions being for principal places of residence, land used in primary production and a tax-free threshold (again depending on the State's definition of a tax expenditure). Such tax expenditures can considerably narrow otherwise broad bases. Section 2.6 provides a list of the main state tax expenditures.

Box 10.1: Transaction taxes

A tax that is levied on a good every time it changes hands is referred to as a transaction tax. The tax base for such taxes is determined not only by the value of the good but also the frequency of its transfer. In Australia, transaction taxes have generally been levied on a narrow set of goods and services and have a long history of use, probably reflecting their relative administrative simplicity.

Taxing on the basis of the frequency of transfer may discourage turnover of the good, such as housing, to minimise or avoid tax. Individuals and businesses may continue to use an existing good instead of a preferred alternative simply to avoid the tax. By reducing turnover, a high transaction tax can also make price discovery in a market more difficult. Reducing the certainty and quality of a price signal imposes additional risk on all those who engage in the market. The extent of these efficiency costs varies, and will be lower if the transaction tax is low relative to the benefit of undertaking the activity.

The narrow base of many transaction taxes and their interaction with other taxes can have an impact on resource allocation in the economy. For example, insurance products are subject to GST, insurance transaction taxes and, in some States, insurance companies can also be required to contribute directly to the funding of fire services. The interaction of these taxes increases the cost of premiums relative to other products, which may encourage people to take up less insurance than otherwise.

An additional efficiency cost arises where a taxable product is used as a business input, since the tax can encourage businesses to use a less efficient mix of inputs. In addition, such input taxes cascade through the production chain to affect the market price of the final product, reducing international competitiveness.

Transaction taxes also have equity implications as they tax only specific goods or activities. People may choose to engage in activities subject to higher rates of tax even though they have low incomes. Also, people with similar incomes may pay different amounts of tax because they turn over a taxed good more frequently. To address these equity issues, governments may narrow transaction tax bases to exempt certain types of people, such as some first home buyers for stamp duty on residential conveyancing. While of benefit to recipients, such exemptions add to the complexity of the tax system and increase the burden on the broader population.

Differences in tax policies between the States

While the mix of taxes levied by the States is similar, there are many differences in their application. As highlighted in Table 2.18, there are different thresholds, rates and ranges of exemptions between States.

There are, however, many similarities in the way these taxes operate. For example, all States that levy land tax exempt land used for primary production and individuals' principal place of residence. Further, the States have been working to harmonise payroll tax arrangements (other than rates or exemption thresholds). NSW and Victoria harmonised their payroll tax legislative and administrative arrangements from 1 July 2007. From 1 July 2008, Tasmania also harmonised its payroll tax arrangements with NSW and Victoria. The other States have agreed to harmonise initially over eight areas (including grouping provisions and vehicle and accommodation allowance exemptions) with work continuing on harmonising arrangements in other areas.

Access to their own taxes allows the States to modify the bases and rates to account for differences such as house prices, geography, climate, industry structure and revenue needs. This diversity can result in healthy tax competition between the States, in which the States face competitive pressure to adopt best practice in the design of their tax systems and the setting of tax levels, to minimise the adverse effects of taxation on economic activity. However, this can also lead to increased complexity for businesses operating in more than one state, particularly when there are definitional differences in the tax bases. In addition, if tax policies are driven by a desire to match other States, rather than the need to raise revenue, this may compromise the sustainability of the States' own source tax revenues. Such behaviour has largely been addressed through the Interstate Investment Cooperation Agreement (see Box 10.2).

Box 10.2: Interstate tax competition

Although there can be benefits from the States having the freedom to alter their taxes to meet their own constituents' needs, certain forms of tax competition between the States can be unproductive. As identified by Gabbitas and Eldridge (1998) there are potential problems if a State changes the rates and bases of their taxes in a 'bidding war' to deliberately attract business to their State.

The first problem is that a firm may have located in that State in any case as its decision may be more based on other commercial factors such as the proximity to associated markets and the skill set of the local labour market. Tax incentives offered by a State may have little influence on the decision. Secondly, while an individual State might gain some benefit from offering tax exemptions to certain businesses, this may be offset when the other States also offer similar exemptions to attract other businesses. To the extent that these exemptions simply move businesses between the States, there is no benefit for the nation as a whole.

Such tax competition can lead to significant erosions in tax bases. This is of particular concern if it occurs with relatively more efficient taxes, as the loss in revenue may be made up from increasing the rates of less efficient taxes.

In 2003, the treasurers of NSW, Victoria, Western Australia, South Australia, Tasmania and the ACT signed an Interstate Investment Co-operation Agreement, whereby these States agreed to work together to eliminate unnecessary bidding wars and to restrict the use of financial incentives in seeking investments and major events. In 2006, these States, along with the Northern Territory, decided to extend the agreement for a further five years.

10.4 Other own-source revenue

In addition to revenue from taxes, the States raised a further $36 billion in 2006-07 from other own-source revenue. Use of other own-source revenue reduces the need for the States to raise tax revenue. Other own-source revenue includes user charges for services provided by governments, dividends and tax equivalent payments from state owned enterprises, resource royalties and charges, fines, and interest income. The proportion of other own-source revenue to total state revenue ranges from over 30 per cent in Queensland to around 14 per cent in the Northern Territory, which largely reflects the differing economic structures and relative shares of grants received by jurisdictions.

States levy user charges on a wide range of activities, such as transport, education and environmental services. COAG recognises that well-targeted user charges can have a significant impact on the use of these services. User charging may encourage the efficient use of publicly provided goods and services (see Box 10.3). Under-charging may result in overuse of public services compared to the socially optimal level. It also encourages a greater reliance on tax to fund the additional services which can reduce economic activity. However, in some cases under-charging for the provision of a public good may be used to achieve socially desirable outcomes.

10.5 Local government taxes

In 2006-07, local government rates and other minor taxes on immovable property raised $9.4 billion (see Section 2.5 for a description of rates). Local governments are created by statutes of state parliaments[1], although state governments do not have access to local government revenue.

While revenue from rates levied by local governments is available for local governments to spend as they wish, the States exercise legislative controls over the manner in which local governments levy rates (see Table 2.20). This includes restrictions on: the valuation methods which can be used; the ability to charge different rates on different categories of rate payer; the provision of exemptions and concessions; and restrictions on the annual percentage increase in rates revenue (in NSW and, for three years from 1 July 2008, in the Northern Territory).

In 2005-06, rates accounted for 37 per cent of the $23.9 billion of total local government revenue in Australia.[2] The remaining local government revenue was comprised of: sales of goods and services (29 per cent); grants and subsidies (17 per cent); interest and dividend income (3 per cent); and other revenue (14 per cent), which includes fines and developer charges.

1 The exception is the ACT, where the Federal Parliament legislated self-government. The ACT Government has responsibility for both state and local government functions.

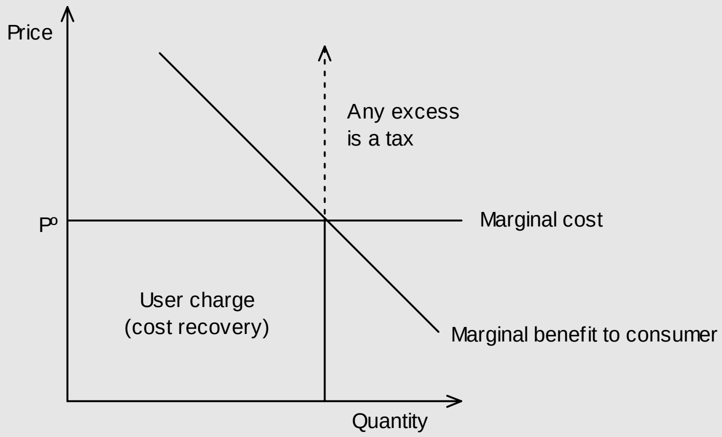
2 For a detailed description and analysis of local government revenues, see Productivity Commission (2008a).

Box 10.3: User charging — paying the cost of a benefit received

In some cases, rather than impose a tax, governments charge users directly for a publicly provided good or service. An efficient user charge recovers the cost of providing that good to the next user (its marginal cost). For example, in the case of a public road, this is the cost directly attributable to the driver making another trip, including road damage costs.

By definition a user charge is not a tax, because those who pay the charge receive a direct benefit that is proportionate to it. However, if the charge is in excess of the cost of providing the service, or unrelated to it, then some portion of it is a tax (see Chart 10.1 and Box 2.2).

Chart 10.1: User charging



If a good or service is provided at no charge to a user, then some users will consume it even if the benefit that they receive from it is less than the cost of providing it. This outcome will reduce the overall wellbeing of society as resources are being used to undertake activities where the benefit to society is less than the cost society incurs for providing that activity. When demand outstrips supply in this way, the service is typically rationed (for example, users must queue or suffer congestion), or service quality declines.

If usage of a publicly provided good or service can be clearly identified and one person's consumption reduces another's use, then it is efficient for government to impose a user charge. This equates the price of accessing the good or service with the cost of providing it. Only those who value the good or service at this price will be willing to pay to use it. Supply can then be matched with demand, and the service can be provided without additional funding from general tax revenue.

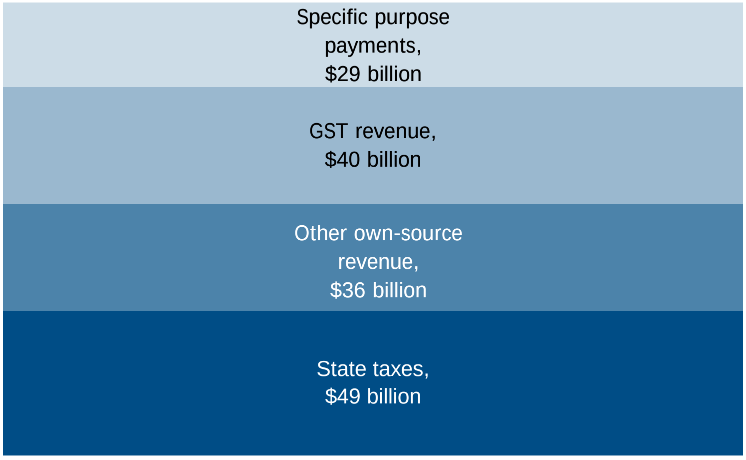
Efficient user charging depends on being able to measure accurately the use of a particular service. This may change through time due to technology.

Although user charging gives rise to more economically efficient outcomes, it also gives rise to equity concerns. This is because those with limited capacity to pay may not be able to access essential services, even if they value them very highly. For these reasons, some products are not thought to be suitable for user charging and some user charges are provided at concessional rates to particular groups. However, to the extent that compensation can be provided through the tax-transfer system, user charging can enable the public provision of goods and services at a lesser cost to society as a whole.

10.6 Federal fiscal relations

The States raised around $49 billion in state taxes and $36 billion in other own-source revenue in 2006-07. These combined sources represented around 55 per cent of the States' total revenue in that year. The remainder consists of transfers from the Australian government (Chart 10.2).

Chart 10.2: Composition of state government revenue in 2006-07



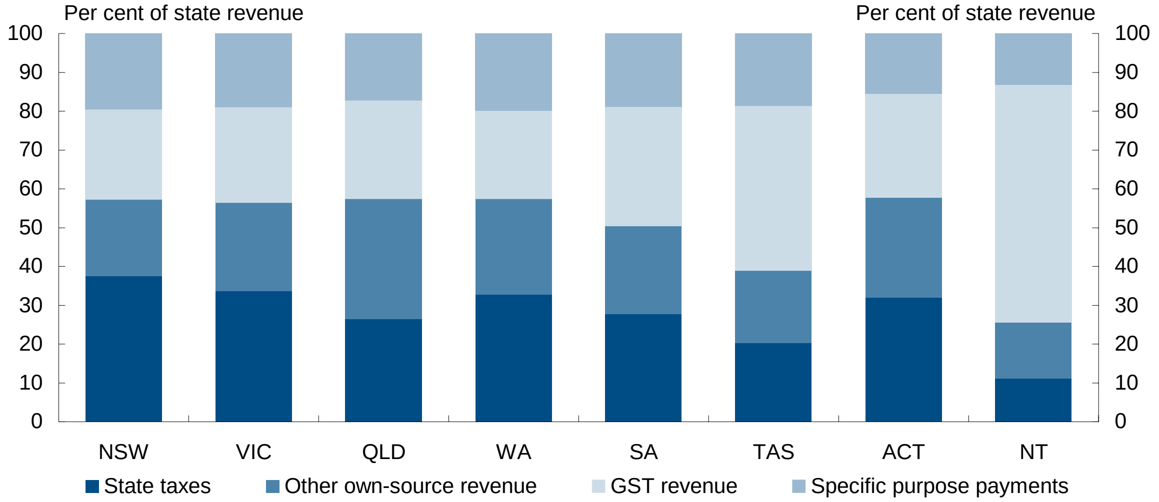
Source: ABS (2008a); Australian Government (2007c).

In addition to their own revenue sources, the States received around $40 billion in GST revenue from the Australian government. The GST is an Australian government tax, with all revenue provided to the States to compensate them for — among other things — the removal of a range of inefficient state taxes, the loss of revenue replacement payments (originally levied in place of franchise fees) and the loss of financial assistance grants. The Australian government distributes the GST to the States as an untied grant based on the principle of horizontal fiscal equalisation (HFE), which takes into account the relative revenue raising capacity and expenditure needs of each of the States (see Box 10.4).

The States also received $29 billion in specific purpose payments (SPPs) from the Australian government. These are payments provided to the States to deliver specific policy outcomes in areas that are administered by the States. These payments are currently the subject of a reform process being undertaken through COAG.

The proportion of total revenue that comes from Australian government grants (GST and SPPs) differs considerably between the States (Chart 10.3). For example, NSW, Victoria, Queensland, Western Australia and the ACT each received a little over 40 per cent of their total revenue in 2006-07 from the Australian government. The Northern Territory received around 75 per cent of its revenue from the Australian government, reflecting its higher per capita share of GST revenue delivered through the HFE process.

Chart 10.3: Sources of revenue for state governments in 2006-07



Source: ABS (2008a); Australian Government (2007c).

Expenditure responsibilities

The allocation of expenditure responsibilities between levels of government in Australia has been largely shaped by the Constitution and reflects, to some extent, the principle of subsidiarity — that is, that decisions should be taken as close as possible to the citizens by the lowest level of government possible. The States have, and will continue to have, significant expenditure responsibilities and this means that the States need sustainable sources of revenue to fund expenditure.

In the context of an ageing population, the Productivity Commission (2005) noted that, given current taxing powers and expenditure responsibilities, the States' taxation sources would be relatively stable but, due to increasing expenditure pressures, their fiscal positions would be heavily influenced by transfers from the Australian government.

Box 10.4: Horizontal fiscal equalisation

Under the principle of HFE used by the Commonwealth Grants Commission (CGC) to allocate GST revenue, state governments receive funding from GST revenue and unquarantined health care grants, such that if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services at the same standard.

The aim is to distribute the GST pool so that all States have the same fiscal capacity to deliver services to their populations. This does not mean that the same level of services is actually provided (as that is a matter of policy for each State). The CGC only takes into account differences that are beyond the control of individual States in working out the needs of each state. Each State's share is calculated on the assumption that it and all the other States apply average policies and practices in delivering services and that they all make the same effort to raise revenue.

A State's allocation from the GST pool is calculated as an equal per capita share, adjusted for:

- expense needs — the effect of its above or below average disabilities relating to the use and costs of government services;
- revenue needs — the effect of its above or below average revenue raising capacities; and
- SPP needs — its above or below average per capita revenue from SPPs that are available to fund its expenditure requirements.

Each of these adjustments can have a negative or positive effect. For example, the extra cost associated with providing health and education services to people in remote areas is a positive expense need, while relatively high property values (which can lead to relatively higher amounts of conveyance duty revenue) are a negative revenue need.

The per capita allocation (equalising requirement) for each State is expressed as a ratio of the national average per capita amount distributed in the relevant year. This produces the State's 'relativity'. The relativities are calculated for five assessment years and then averaged. For example, the per capita relativities recommended for use in 2008-09 are the average of the annual relativities for the five assessment years from 2002-03 to 2006-07.

A relativity of less than one, indicates a State will have less than an equal per capita share of the GST pool; a relativity above one indicates it will have more than an equal per capita share. No State can have its relativity increased without at least one of the other States having its reduced.

The GST relativities are applied to estimated state populations in order to determine weighted shares of the GST pool. The final distribution of GST revenue is calculated by deducting the unquarantined health care grants, which are separately provided to the States, from each State's share of the GST pool. The calculations for the estimated distribution of the GST pool for 2008-09 are shown in Table 10.1.

Box 10.4: Horizontal fiscal equalisation (continued)

Table 10.1: Distribution of the GST pool 2008-09

	Estimated 31 December population	State revenue sharing relativities	Adjusted population (1) x (2)	Share of adjusted population (%)	Share of GST pool $million	Unquarantined health care grants $million	GST payments (5) — (6) $million
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
NSW	7,006,018	0.91060	6,379,680	29.7	16,171.3	3,083.6	13,087.7
VIC	5,328,012	0.92540	4,930,542	22.9	12,498.0	2,248.1	10,249.9
QLD	4,314,913	0.96508	4,164,236	19.4	10,555.6	1,811.0	8,744.6
WA	2,180,356	0.88288	1,924,993	8.9	4,879.5	934.6	3,944.9
SA	1,609,330	1.20856	1,944,972	9.0	4,930.2	760.5	4,169.7
TAS	499,914	1.52994	764,838	3.6	1,938.7	197.4	1,741.3
ACT	347,686	1.17205	407,505	1.9	1,033.0	118.6	914.4
NT	221,170	4.51835	999,323	4.6	2,533.1	105.6	2,427.5
Total	21,507,399		21,516,090	100.0	54,539.4	9,259.4	45,280.0

Source: Australian Government (2008b).

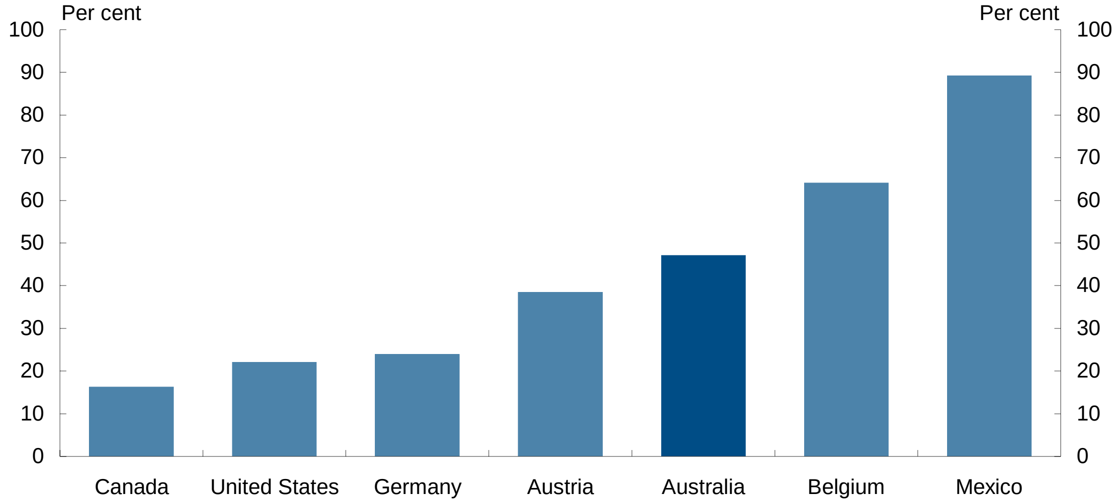
A change in tax mix adopted by all States will change the relative revenue raising capacities of the States, therefore affecting the assessment of revenue needs and ultimately the distribution of GST revenue. A change in tax mix might be revenue neutral to the States in an aggregate sense, but an individual State might have one of their relatively stronger tax bases replaced with a relatively weaker base, such that revenue from their own taxes is lower. However, this loss in revenue would be made up through the HFE process, as the loss of their relatively stronger tax base means that their revenue needs are higher. In theory, in the presence of well functioning HFE, no state would have a financial incentive to resist or favour a revenue neutral reform of State tax base composition on account of the local strength or weakness of particular tax bases.

Perspectives on vertical fiscal imbalance

That the States' own revenue sources are insufficient to fund their expenditure responsibilities, while the Australian government's revenue sources are greater than is necessary to meet its expenditure responsibilities, results in what is called 'vertical fiscal imbalance' (VFI). The level of VFI can be measured as the revenue transferred from the Australian government to the States as a proportion of the States' total revenue. In 2006-07, the Australian government transferred approximately $68 billion to the States in the form of GST revenue and SPPs, accounting for around 45 per cent of total state revenue.

VFI in Australia has developed primarily as a result of the States retaining many of their pre-federation expenditure responsibilities and the Australian government assuming control of the main sources of taxation revenue. This reflects, in part, the comparative advantage in revenue raising and expenditure between levels of government in a federal system. Indeed, VFI is not unique to Australia — other countries with federal structures also exhibit VFI, although to varying degrees (Chart 10.4).

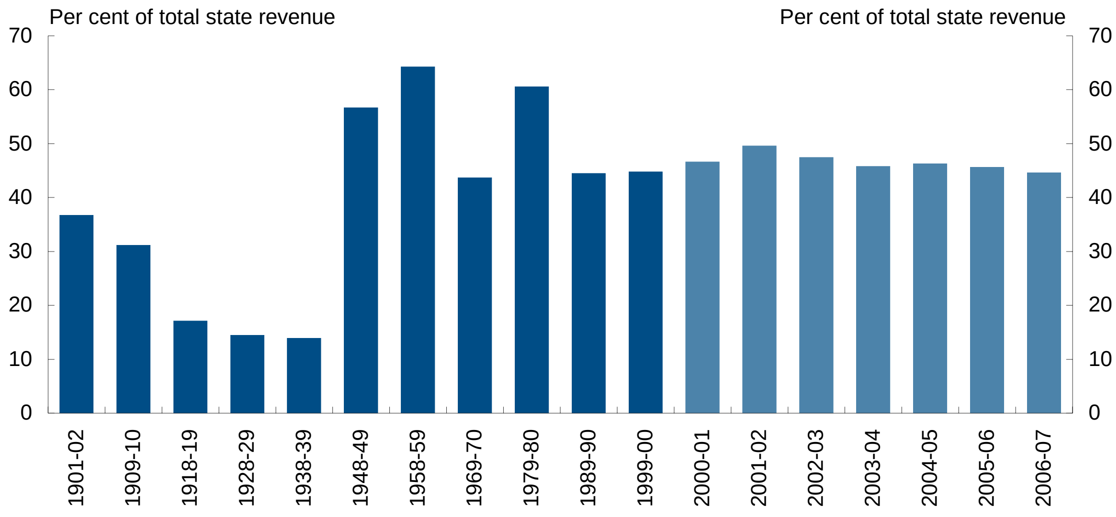
Chart 10.4: Vertical fiscal imbalance in selected OECD countries[(a)]



(a) VFI is defined as the ratio of federal payments to total sub-national revenue. Data are for 2003, except Australia which uses data for 2005-06.
Source: OECD (2006).

The level of VFI in Australia is not fixed and has fluctuated significantly since federation (Chart 10.5). The changing level of VFI has been driven mainly by changes in taxation responsibilities (as outlined briefly in Section 10.2 and in Section 4.3), rather than changes in expenditure responsibilities.

Chart 10.5: Vertical fiscal imbalance since federation
(Grants as a percentage of total state revenue)



Source: Mathews and Jay 1997; Australian Treasury estimates.

The introduction of the GST in 2000-01 and the abolition of a number of state taxes resulted in an increase in measured VFI. However, focusing on measured VFI would conceal the impact that this reform had in the broader context of federal fiscal relations. That is, as all GST revenue is transferred to the States, this provides the States with an efficient and growing source of revenue to fund their expenditure responsibilities. The States reimburse the Australian government for the ATO's GST administration costs. Box 10.5 outlines the administration arrangements in relation to the GST base.

Box 10.5: Administration of the GST base

Clauses 32-36 of the *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* set out the administration arrangements applying to the GST. Any change to the rate or the base of the GST must be unanimously agreed by the Australian government and all the States. Purely administrative changes only require the majority support of the Australian government and the States.

These arrangements mean that the base and rate of the GST have been more stable than otherwise may have been the case. The rate of the GST has remained unchanged since introduction eight years ago. This compares to countries such as New Zealand and South Africa, which increased their rates of similar value added taxes within three years of introduction. Further, there have been no major changes to the GST base since its introduction, which again is unusual when compared to other countries such as South Africa (where products such as basic foods and paraffin have been made GST free) and France (where the entire value added tax system was revised).

The terms of reference for this review exclude examination of the rate and base of the GST.

As the Intergovernmental Agreement reforms illustrate, the measurement of VFI, and using it as a comparison across time, may not reflect what is occurring. Measurements of VFI may not accurately reflect the fiscal autonomy of the States because of the definition of the level of government that controls a particular tax base.

The same level of measured VFI can mask significant differences in the fiscal autonomy of the States because of the institutional arrangements governing grants from the Australian government. For example, an arrangement in which a State received 50 per cent of its revenue through Australian government grants that were 'untied' is markedly different to an arrangement in which a State received 50 per cent of its revenue through Australian government grants, but those grants had conditions attached to their receipt.

Although there are limitations to using measurements of VFI as a comparative tool, this does not diminish the importance of the costs and benefits stemming from the existence of VFI where it reflects a genuine mismatch between revenue raising powers and expenditure responsibilities, and is not just a measurement issue.

Costs of vertical fiscal imbalance

VFI may lead to accountability problems in regard to expenditure and taxation decisions made by governments. A closer matching of revenue and expenditure responsibilities at each level of government may increase the accountability of governments by making government financing more transparent. When a government does not have to raise the revenue it spends, this can create 'fiscal illusion'[3], potentially leading to an over provision of services.

3 Fiscal illusion refers to the possibility that citizens may not appreciate the actual cost of the services they receive, due to the tax raised to fund the services not being fully visible to them. In relation to transfers, this illusion may occur if citizens do not link their payment of tax to one level of government with the provision of services by another level of government.

This is because governments that receive grants might obtain a political benefit from providing services without the political cost of raising revenue.

These accountability problems with VFI may be alleviated if governments can, at the margin, raise their own revenue to fund their own discretionary expenditure. However, raising revenue at the margin may not address the risk of 'blame shifting'. Blame shifting can occur when citizens can hold either level of government accountable. The government that receives grants can blame any inadequacy in service provision on inadequate funding. This is particularly the case where the recipient government can convince its voters that its tax bases are not capable of raising enough revenue to deliver the service at the required level. Equally, the donor government can blame poor outcomes on either the administration or funding inadequacies of the recipient government.

Accountability can also be blurred where the recipient government's service provision is influenced by the government that provides the transfer. The conditions on service delivery may be different to the preferred option of the recipient government. Such an outcome may result in weakened accountability, as citizens hold the recipient government responsible for the services provided, even though it is unable to provide the service in its preferred way. Recognising the need to make roles and responsibilities clearer, COAG's reform agenda (as noted in Section 1.2) includes work on this front.

VFI may also distort the types of services provided. If the donor government chooses to spend the excess revenue it raises rather than transfer it to the recipient government, VFI may lead to an over-provision of services in areas of responsibility of the donor government and under-provision of recipient government services, relative to citizens' preferences.

Finally, the provision of grants may result in administration costs which might otherwise be avoided if each government were able to match its revenue and expenditure responsibilities. For example, resources are necessary to negotiate and monitor conditions on grant payments.

Benefits of vertical fiscal imbalance

By collecting relatively more revenue, a national government is likely to reduce the cost of taxation through economies of scale generally and, for those businesses that operate across sub-national jurisdictions, lower compliance costs from having to deal with only one set of rules and one collection agency for any particular tax.

VFI also provides the national government with greater scope to create the opportunity for each citizen in the nation to receive the same overall standard of sub-national government services. It has been argued that Australia's HFE process may provide a disincentive for States to undertake reforms, as some of the benefits of those reforms may be equalised away to other States, although it is questionable as to how relevant this argument is in practice (Garnaut and FitzGerald 2002).

The additional revenue available to a national government also provides it with scope to act in areas which may be the responsibility of sub-national governments, but in which the existence of externalities or spillovers across borders can lead to sub-national governments acting individually, rather than acting in the national interest. In Australia, the responsibilities in relation to water are an excellent example of this.