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Statement by Treasurer to Trade Unionists

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REVENUE MEASURES

STATEMENT BY THE TREASURER

23rd February, 1971.

Following the unsatisfactory conference held in Canberra on the 4th of this month between the Prime Minister and the Premiers of the States I announced that it would be necessary for the South Australian Government to introduce measures to increase revenues and to control expenditures. I now wish to explain to Members the background to the decisions taken as well as detailing the measures themselves.

In February and June, 1970, at conferences of the Commonwealth and State Governments, attempts were made to negotiate a proper sharing of national revenue resources which would have regard to the responsibilities of each Government. The Commonwealth offered an improved system of taxation reimbursement grants, but all Premiers left Canberra convinced that the level of grants, even though improved, taken in combination with their own restricted revenue raising fields would not suffice to finance social services and other State responsibilities at acceptable standards.

The South Australian Government, believing that the standards of services it would be able to support out of revenues available would be even lower than those of the other States, applied to the Commonwealth Grants Commission for a special grant. The Commission accepted that a case had been made and recommended to the Commonwealth that a special advance grant of \$5-million be paid. The Commonwealth accepted that recommendation. I expect that, when the year's actual results are known, we will be able to sustain a case before the Commission that some further grant is justified in respect of 1970-71. I will return to that in a moment.

After having regard to the improved tax reimbursement grant, the special grant recommended by the Commission, our own revenue raising measures as set out in the budget papers, and the minimum

needs of schools, hospitals and other essential services, I presented to the House a budget which forecast a deficit of just under \$5-million. As I explained then, the costs of further wage and salary awards were to be expected and these would be offset in part only by increases in the taxation reimbursement grant through the operation of the formula.

The aggregate of revenue deficits forecast by all States early in the year, including South Australia's \$5-million, was about \$36-million.

Since those budgets were prepared all States have felt the adverse effects of a number of wage and salary awards. For South Australia the cost to Revenue Account in 1970-71, of the National Wage decision, of other awards given since the budget was prepared, and of determinations still under review, is estimated at about \$11-million. As the budget took into account about \$7½-million for the carryover effect of awards given last year and for minor determinations in July and early August it may be seen that the 1970-71 results are being affected to the extent of a total of about \$18½-million from increased costs of all wage and salary awards. This is considerably greater than the \$10½-million for comparable items in 1969-70 and the \$5-million to \$7-million a year for the previous three years.

The prospective cost of salary and wage awards since the budget, that is about \$11-million, will probably be partly offset by an increase of some \$4½-million in the tax reimbursement grant as a consequence of the operation of the formula. Thus the net adverse impact may be about \$6½-million and this is the measure of the expected deterioration in the budget result for 1970-71. There are some other movements in individual items of receipts and payments but in aggregate they may be expected to offset each other.

The probable deterioration of about \$6½-million in the South Australian accounts is matched by comparable adverse movements in

the Revenue Budgets of the other States. Instead of the aggregate of deficits of about \$36-million forecast originally it appears that the total of the six State deficits is now likely to be more than three times as great at about \$110-million.

Despite this gloomy and worrying picture with its serious implications for the future standards of State services, the Commonwealth has refused to make available any additional financial assistance, even though it was pointed out at the recent conference that expenditures this year were already committed, and that any special assistance would not increase the current outlay on goods and services. It would merely reduce the order of deficits and run down of cash resources and would thus have no inflationary effect. While the Prime Minister has agreed to meet the Premiers again in April it seems clear at this point of time that each State will have no alternative but to look for ways of increasing its own revenues, of controlling its current expenditures even to the stage of holding standards below desirable levels, and of deferring capital programmes so that loan funds may be available to finance unavoidable revenue deficits. The recent conference has offered us no hope whatever of relief. Let me make it quite clear. There has been some loose talk in the Press that the State will get some assistance from the Commonwealth in April. There has been no such indication from the Commonwealth - the indications were in fact clearly to the contrary. What is more, we could obtain no undertaking that next year there would be an increase in loan monies - or even that they would be maintained at this year's level. In my view the Commonwealth's attitude requires far too great an effort on the part of the public sector in the overall plan to avoid problems of inflation and too little effort on the part of large areas of private enterprise. It calls for a further distortion of the real priorities in the use of physical resources.

May I return to the part played by the Grants Commission in South Australia's financial situation and to the prospects of our

receiving further assistance by way of special grant. I believe we may reasonably expect a recommendation for some further grant in aid of the 1970-71 revenue accounts beyond the \$5-million advance, but we cannot expect the Commission to recommend grants sufficient to meet our deficits in full, irrespective of the level of financial effort we make to help ourselves.

Under the Commission's procedures we may expect a recommendation for grants sufficient to put us in much the same position as the "standard" States (presently New South Wales and Victoria) provided that our overall effort in raising revenues and in providing services is comparable with theirs. It follows that if those two States are placed in a difficult situation because of Commonwealth policy then the claimant States of South Australia and Tasmania will also face a comparably difficult situation.

If we wish to provide services of a level comparable with the standard States and not record deficits any greater than theirs, then we must be prepared to tax and to charge overall equally as heavily. If we wish to hold revenue deficits to levels below those of the standard States then we must be prepared to tax and charge more heavily or to provide social services and otherwise function more economically.

The Government has reviewed very carefully the extent to which it may be practicable to contain or reduce current expenditures and we have given firm instructions to all departments to achieve every practicable economy in staffing, travel, printing and use of goods and services generally.

While we would not entertain any unwarranted panic action such as dismissal of staff for example, we will look for any savings which can be made without jeopardising the real standard of essential services.

However, a firm control on expenditures will be able to meet only a relatively small part of our present revenue budget problem and it is necessary for a number of revenue raising measures to be

introduced if essential services are to be maintained at minimum levels and deficits be contained within manageable bounds.

In looking at possible measures we have kept in mind five major factors. The first I have already mentioned, that is measurement by the Grants Commission. I want to make it clear that the Commission does not expect us necessarily to levy every tax levied by the standard States and to apply each at the levels operative in the standard States. We are not bound to follow them in every particular but if we want to achieve a comparable final budget result we must be prepared to make a comparable effort overall. New South Wales has a tax on poker machines which is expected to yield about \$34-million this year. I have said before, and repeat now, that the South Australian Government has no intention of seeing poker machines introduced here. But that leaves us with a problem of looking for revenues in other ways, either in fields which New South Wales does not tax or in some areas at rates higher than levied by New South Wales.

The second factor is the constraint or limit imposed by Commonwealth financial pressures and by the Australian Constitution (and the interpretations and decisions given thereon by the High Court). The Commonwealth has consistently made grants to States on the firm condition that they refrain from levying an income tax or a payroll tax. It has refused at recent conferences to alter its attitude on this matter and therefore income taxes and payroll taxes continue to lie outside the area of State choice. The ruling given by the High Court in the successful challenge to the receipts duties levied by the several States has limited the opportunities of the States to impose duties on transactions.

The third factor is the extent of administration required in the levying of a tax or charge and the additional work which may be entailed for the businessman or private individual in making returns or payment. Clearly there are fewer problems of this nature in increasing an existing tax than in introducing a new tax. If a new tax is to be introduced it is obviously desirable that the administration be simple and the cost small in relation to the return.

The fourth factor is equity and the avoidance as far as possible of charges which bear heavily on a small part of the community, in particular of course on the lower income groups.

The fifth factor is the increasing level of costs which have to be met by the business undertakings and the increase in charges necessary if the users of the services are to make a reasonable contribution to those higher costs.

As a result of a review of all the points I have mentioned the Government has decided to implement the following revenue raising measures -

1. A levy equal to 3 per cent of the gross revenues of the Electricity Trust of South Australia.
2. An increase of 20 per cent in the registration fees for motor vehicles combined with a parallel requirement that the Highways Fund shall undertake financial responsibility for certain police road traffic services and the eventual financial responsibility for the proposed Kangaroo Island ferry service.
3. An increase in tax on bookmakers' turnover from 1.8 per cent to 2 per cent.
4. A levy of  $7\frac{1}{2}$  per cent of the admission charges made by persons and authorities licensed to provide public entertainment subject to an exemption of admission charges not exceeding \$1.
5. An increase in bus and tram fares as recommended by the Municipal Tramways Trust.
6. An increase in rail fares and freight as recommended by the Railways Commissioner.
7. Increase of valuations for water and sewer rating purposes where they are below full present-day values together

with an increase in the water rebate charge operative from next financial year.

The proposed contribution by the Electricity Trust of 3 per cent of its gross revenues from the sale of electricity will be in line with a levy introduced by Victoria in 1966 requiring such a contribution from its two publicly owned authorities responsible for the supply of electricity and gas. The concept of a contribution to Consolidated Revenue by those public authorities which are not called upon to pay income tax and some other costs and taxes which impinge on comparable private undertakings is common to all States and the Commonwealth. It has applied for many years to Government insurance offices, banks, airlines, brick-works and other business undertakings. As Members know, the State Bank of South Australia has since 1968-69 paid a contribution to Revenue comparable with the amount of income tax it would have paid if it were a company. As the annual revenue of the Electricity Trust is now approaching \$70M. its contribution initially will be about \$2M. a year.

The Government proposes that legislation will be introduced shortly to provide for a contribution from 1st April next so that the 1970-71 Budget will benefit from one quarter's receipt of about \$500,000. I point out that the Trust's tariffs have been held so that they are presently no higher than they were 19 years ago, a remarkable achievement against a background of increasing costs in virtually all other areas. The Trust, faced with increases in its own costs, particularly in wages and salaries, and in interest rates, would have had to contemplate some increases in tariffs in any case in the relatively near future. Moreover over the past fifteen to twenty years its structures of costs have altered and so have practices in both industrial and domestic usage of power, and I believe the Trust may wish to make a careful review of the structure of its tariff schedules. Pending this review, which will inevitably take some months, the Trust will probably carry the impact of the proposed 3 per cent levy. The increased tariffs when determined

will undoubtedly have to be somewhat greater overall than the 3 per cent required for public revenues. I would not attempt at this stage any precise forecast of the overall increase likely in electricity tariffs. Having regard to the amazing stability of tariffs over nearly twenty years when costs and incomes have so greatly increased the 3 per cent for Government revenues must be regarded as very modest indeed, whilst any other addition for the Trust's own costs I am sure will likewise be modest.

It is now seventeen years since the scales of motor vehicle registration fees have been varied. The Government proposes that the fees shall be increased by an average of about 20 per cent from 1st July next, subject to a proviso that currently qualifying for public transport concessions pensioners/will be protected against the increase by giving them an appropriate percentage rebate upon the normal fees to be prescribed. The increased revenue derived will be next year of the order of \$2,750,000 to \$3,000,000 and the extra moneys will be devoted to three main purposes -

- (1) An amendment of the Highways Act will be submitted to authorise appropriations of up to 6 per cent of the gross registration fees (about \$1,000,000 or so next year) toward meeting the rapidly increasing costs of police services in controlling and otherwise dealing with motor traffic and road safety. These direct costs are already running in excess of \$1,000,000 a year.
- (2) Making the necessary financial provisions for a ferry between the mainland and Kangaroo Island, both in construction and operation.
- (3) A considerable proportion of the increased revenues will necessarily be required for ordinary direct road provisions to offset in some measure the increased wage and salary costs which would otherwise have unduly restricted road works.

From 1st July, 1969, when the winning bets tax was lifted the tax on bookmakers' turnover was increased from  $1\frac{1}{2}$  per cent to 1.8 per cent to offset partially the loss of revenue. It is now proposed to increase the tax from 1st April to 2 per cent, the most common rate applicable in the other States. This will yield additional revenues of about \$110,000 in a full year, and about \$35,000 this financial year.

It is proposed to enact as from 1st July next an entertainment or amusement duty upon admission charges made by persons and authorities licensed to provide public entertainment. The proposed rate is  $7\frac{1}{2}$  per cent of the gross charges subject to exemption of admission charges not exceeding one dollar. The proposal is that the duty shall be paid as a license fee and administered by way of a statutory return rendered at prescribed intervals, so as to keep the administration as simple as possible. The duty will extend to race meetings, films, football and other sports, stage shows, and other entertainment. A preliminary estimate of the revenue derivable is about \$200,000 to \$250,000 a year.

The Municipal Tramways Trust has recommended that a contribution toward rapidly increasing costs be made by reviewing tram and bus fares for the fourth, fifth, eighth and ninth sections, which were last increased over four years ago in October, 1966. The Government has agreed to an increase of 5 cents for each of those sections from next Sunday, the 28th February. In the normal course this would not require an increase in the fares for children or pensioners upon the fourth and fifth sections but would require a 5 cent increase for them upon the eighth and ninth sections. However, in the light of the absence of any significant recent increase in pensions, pensioners will be exempted from the latter increase upon M.T.T. services. In a full year the increase will yield additional revenues of a little over \$300,000 (nearly \$100,000 this year), and to that extent will reduce the Government's obligation to make good the losses of the Trust.

The Railways Commissioner has recommended that a contribution towards increasing costs be made by reviewing both passenger fares and freights. The Government has agreed that metropolitan fares

be adjusted so that they will more nearly approach bus fares for comparable distances, so that the fare for return journeys will be double that for single journeys and so that periodical fares will retain generally their present relationship to return fares. This adjustment, to become operative from 1st April, will yield about \$200,000 additional revenues in a full year, and perhaps \$50,000 this year. Because of longer distances involved in certain private bus operation and by railways, and because of the generally lower fare level by railways, the pensioner concession will continue to be the same as for children, that is, it will be 50 per cent of the adult fare as a maximum.

As to rail freights the Government has agreed that the Commissioner review all intra-State schedules and special contract rates as may be practicable within the agreements made and re-negotiate contract rates having regard to increasing costs both as they affect the railways undertaking itself and its competitors in road transport.

I am unable to give a firm estimate of the additional revenues likely to be available from these reviews but I am hopeful that a further \$300,000 at least will be obtained in a full year. Little of this is likely to be available in 1970-71.

The Commissioner will discuss with his counterparts in the other railway undertakings the matter of interstate rates for both fares and freights with a view to achieving increased revenues commensurate with increased costs. With water and sewer charges the Government's design will be so far as possible to secure additional revenues adequate to offset unavoidable increased costs so that this function will not absorb funds so urgently required to maintain our essential education, health, and social services. Generally valuations are presently some 7 per cent to 10 per cent below full current values and the proposal is for next financial year to adopt full normal current values. At the same time the standard 35 cent charge per thousand gallons for rebate water will be increased to 40 cents, so that the increase in rate revenue is not automatically absorbed simply by reducing the amount of excess

water paid for or by using more water. It is expected that the charge for excess water and water supplied by measure will remain at 35 cents per thousand gallons. The Government has received the report of the Special Committee on Water Rating which was appointed by the previous Government. That Report is presently being studied but it is of such a nature that its main recommendations, if accepted, could not possibly be implemented for the next financial year, and we must of course protect the State's revenue position in the meantime.

The immediate proposals for adjustments in valuation and in rebate water allowances will not prejudice the ultimate implementation of the Committee's recommendations should they be accepted.

The revenue measures I have reviewed will benefit the budget by about \$6M. in a full year, but it will be difficult to achieve a yield of more than \$700,000 this financial year.

Having regard to the fact that the full year's cost of awards will add considerable sums to next year's State revenue budgets over and above the part year's cost in 1970-71, that there will be some further awards during 1971-72, and that the Commonwealth's present attitude gives no indication of any significant supplementary revenue assistance, we must contemplate the likelihood of continuing Revenue deficits in all States. For South Australia, in particular, we must bear in mind that the carryover cost into 1971-72, because of the full year's effect of awards given this year, may be of the order of \$14M. This would compare with a carryover cost at the beginning of 1970-71 of about \$7½M.

Therefore despite significant revenue raising efforts in areas under our own control we must plan also to reserve an adequate volume of Loan funds substantially to cover present and prospective Revenue deficits. The indications from the Commonwealth at the conference three weeks ago were that we could not expect support of Loan programmes at all significantly greater in 1971-72 than in 1970-71, and there is undoubtedly some serious risk of the Commonwealth seeking to impose a reduction. In such

circumstances it would require a very firm control indeed of our works programmes if we are to hold sufficient Loan funds in reserve.

The Government has already given the necessary instructions to see that such a control is exercised. In this way I would hope that Loan funds in hand on 30th June, 1971, may be within a \$1,000,000 or so of the accumulated Revenue deficit. Endeavours will be made to reduce the margin further. For 1971-72, however, I am unable to forecast with any precision. Much depends upon the extent of any supplementary Commonwealth assistance, upon the extent to which the Commonwealth is prepared to support Loan allocations, and the future movement of wages and costs. However the expedient which all States must adopt temporarily to meet Revenue deficits - that is to divert Loan funds from developmental projects - must not be regarded as other than a temporary one, both because of the effect upon development and because of the ultimate crushing impact of unrecouped interest.

All State Governments are now facing very serious financial difficulties and they are likely to continue for some time. From the figures mentioned at and subsequent to the recent Premier's Conference it is apparent that the deterioration in finances in most, if not all, of the other States since they submitted their Budgets has been greater than in South Australia. Some States have announced that they propose to deal at least temporarily with the situation by slowing down of essential works programmes, and one has announced reduction of its recruitment of teachers and nurses. The South Australian Government's approach is that it will maintain all its essential works and all its essential social services. Where necessary it will continue to expand education, health and other social services, both by authorising proper additional works provisions and with appropriate further recruitment. It will, so far as practicable, meet the recurrent costs involved by positive revenue raising measures which I have already announced. The Government has already taken measures to ensure firm control of expenditures both on works and services which are not immediately

necessary, and it will continue to pursue those measures, but it will not be stampeded into a programme of slashing provisions irrespective of their necessity and public importance.