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1. Executive Summary

Over the last decade Australia’s tourism performance and competitiveness has faltered. ABS data show that over the last decade, domestic overnight trips have fallen from 72 million to 64 million (7.8 percent); tourism’s share of capital expenditure has decreased from 3.5 percent to 3.0 percent; and Australia’s share of global international arrivals has declined from 0.69 percent to 0.57 percent (17.3 percent). Yet the importance of tourism and its growth potential in Australia is widely accepted, while the net benefits to the community are well documented.

Tourism directly contributes circa $34 billion to GDP and employs over half a million people. Beyond weighty economic statistics it is increasingly understood that tourism offers an important range of benefits in education, environmental sustainability, natural amenity, opportunities in indigenous communities and regions, and provides a sense of place along with national pride.

Government policies, regulations and incentives have a significant impact on the tourism sector and can play a key role in encouraging tourism growth. While governments at all levels impact tourism, their focus has been skewed towards promoting the demand side of the sector with the supply side lacking in attention. There is a strong view among industry leaders that investment in tourism supply over the past decade, particularly in accommodation and attractions, has been insufficient to grow the sector.

L.E.K. Consulting has been engaged by the Investment and Regulatory Reform Working Group of the Tourism Ministers Council to review the relationship between regulation and investment in the tourism sector. The main objectives of this study are to:

- Identify the key regulatory barriers to tourism investment; and
- Formulate reform recommendations to lower these barriers, with the aim of increasing investment in an efficient manner.

L.E.K. has drawn upon a number of supply side focused studies and consulted with over 80 stakeholders in the industry. This report concentrates principally on two tourism sustaining segments: accommodation and attraction development.

The supply side of the tourism industry is highly fragmented, with the majority of tourism operations being small and medium enterprises, resulting in a structure which negatively impacts industry co-ordination. The regulatory footprint on tourism is heavy, broad, and high relative to other sectors and countries. L.E.K. believes that when the industry structure is overlaid with a disproportionate regulatory burden, negatively impacting investment, the case for regulatory reform is very strong.
Consultations with industry have uncovered three major investment gaps in the tourism sector:

- A deficiency in short-term accommodation in metro areas, particularly hotels;
- A viable stand alone business case for attractions is difficult to mount; and
- Regional areas suffer from a lack of quality accommodation stock.

Five core barriers to investment have been identified by L.E.K. through consultation and its own rigorous analysis.

1. Tourism investment produces poor aggregate returns compared with other sectors due to such factors as cyclical and seasonality, a fragmented value chain, high labour costs in a labour intensive industry, increasing overseas competition and poorer access to financing.

2. A complex range of regulations, including planning and building regulation, labour supply, taxation, liquor licensing, food hygiene and occupational health and safety, is challenging and costly for operators. Planning schemes are particularly challenging for the industry because generally they do not recognise the scope and role of tourism development and tourism is not well understood, resulting in complications at the approval stage along with higher costs. Unintentionally, tourism is disadvantaged by regulations which also, in many cases, were designed before tourism became a significant economic activity.

3. Process requirements can add costs and delays to investment proposals within a complex approvals regime where many councils lack the resources or experience to deal effectively with tourism developments.

4. A lack of commercial sophistication and industry co-ordination leads to the same regulation having a more detrimental impact on tourism than other industries.

5. As a corollary to fragmented sector composition, the industry suffers from a lack of public sector engagement at the highest government levels. When coupled with a paucity of data, information and market understanding on supply side issues, this lack of public sector engagement and vision acts to inhibit the development of tourism.
L.E.K. has analysed each of these barriers to examine areas where reform may be warranted while discarding areas outside the scope of government to resolve. **Five broad areas for reform have been identified.**

1. **Planning, development approvals and other regulation such as local development controls.** Nine related planning framework and development approval reforms are recommended to facilitate tourism investment. If adopted, these recommendations will create a more efficient and effective regulatory framework. Proper consideration of tourism will reduce costs and stimulate investment in tourism accommodation and attractions, both in regional and metro areas.

2. **Labour supply.** There is a mismatch between labour supply and demand in tourism and the Labour and Skills Working Group (LSWG), created by the Tourism Ministers’ Council, is examining this problem. It is recommended that an extension of the working holiday visa programs and a review of the 457 visa process be considered by the LSWG.

3. **Accommodation supply.** The report recommends that investment in short term accommodation supply is supported by mixed use developments with Floor Space Ratio (“FSR”) and other concessions; by the use of state-owned historical buildings and sites; and by capital works deduction incentives. These initiatives will lead to increases in stock especially in metro areas and to increases in accommodation refurbishment particularly in regional areas.

4. **Supply of tourism in high natural amenity areas.** This report recommends that investment in tourism in high natural amenity areas is supported by broad management objectives for administrators; by schemes for tourism development in National Parks; by review of development approval processes; and by increases in the default lease and license durations. These recommendations approximate the regulatory landscape in New Zealand, commonly regarded as best practice. The desired outcome of these reforms is to achieve a shift to a “partnership” model between National Parks public land administrators and tourism operators (a goal currently targeted by Australia’s National Landscapes program). Increases in sustainable accommodation and experiences in high natural amenity areas will result. There will be improved access for the public. This partnership model should boost environmental education and advocacy and provide increased private funding towards conservation objectives.

5. **National collaboration.** There is need for enabling mechanisms to develop and implement supply side tourism strategies. Federal and state collaboration on agreed tourism investment priorities, the regulatory reform agenda and a tourism investment knowledge bank is recommended. A dedicated tourism economic modelling capability should be established.
L.E.K. has carried out independent, pragmatic modelling of the economic impact of the relevant recommendations using data from existing research and analysis, along with case examples.

In addition, L.E.K. has developed a set of 15 stylised case studies and in each instance the analysis demonstrates the project would benefit from the reform recommendations, especially in hotels in metro and high natural amenity areas.

Bearing in mind the overall objective of reform is to create value for the community, L.E.K.’s analysis has concluded that the recommendations can be expected to generate a positive net impact and, therefore, should be seriously considered by government for implementation.

Among many desirable outcomes, these recommendations will deliver an estimated 3,300-6,600 new hotel rooms per year in the capital cities, produce new attraction and accommodation offerings in high natural amenity areas, and encourage the refurbishment of existing room stock across metro and regional Australia. In doing so, they will help achieve the 2020 Tourism Industry Potential, which estimates that 40,000-70,000 additional rooms will be required (at a 75% occupancy rate), a formidable target which reinforces the imperative for reform.
2. Background and Context

2.1 Study objectives

As part of its execution of the National Long Term Tourism Strategy, the Tourism Ministers’ Council has created a number of working groups including the Investment and Regulatory Reform Working Group (IRRWG). The IRRWG engaged L.E.K. Consulting to review the relationship between regulation and investment in the tourism sector. There is a strong view among industry leaders that investment in tourism supply over the past decade (particularly accommodation and attractions) has been insufficient to grow the sector:

- The Australian Government Minister for Resources, Energy and Tourism, The Hon Martin Ferguson AM MP, in the National Long-Term Tourism Strategy: “… Supply side issues must be given a heightened importance in shaping the future of tourism to ensure Australia’s competitiveness…”

Investment in Australia’s tourism product is required so that the sector can fulfil its significant inherent growth potential. Tourism Australia’s 2020 Tourism Industry Potential estimates that between 40,000 and 70,000 additional rooms are required in order for this potential to be realised.

L.E.K.’s brief is, therefore, to analyse the drivers behind tourism under-investment including structural and non-regulatory factors (for example, seasonality), market failure (for example, externalities / spend created by hotels and attractions but captured elsewhere by the broader economy) and regulatory barriers or processes. L.E.K. has also been asked to recommend how the regulatory barriers could be mitigated.

The overall objective of the study is to deliver a robust set of regulatory reform recommendations, supported by appropriate analysis. By providing compelling economic evidence, the study will also strengthen industry and governments’ shared understanding of the value of tourism.
2.2 Context

Focus on the tourism industry is needed as over the last decade there has been a steady decline in visitor numbers domestically and loss of market share internationally. Australian Bureau of Statistics data shows that between 2000 and 2010 the number of domestic overnight trips has fallen 7.8 percent, and Australia’s share of global international arrivals has fallen from 0.69 percent to 0.57 percent (a decline in share of 17.3 percent).

At the same time, there has been a lack of capital investment in tourism in Australia. In particular, between 1998 and 2009, tourism’s share of total capital expenditure has decreased from 3.5 percent to 3.0 percent (Figure 1).

Figure 1: Tourism's share of total capital investment in Australia (1998-09)

New Zealand’s performance offers a good benchmark to Australia, given New Zealand is Australia’s nearest tourism competitor with a comparable tourism offering. In addition, New Zealand’s regulatory landscape is seen as an example of best practice in the tourism sector. Growth in Australia’s direct GDP from tourism has been significantly slower than New Zealand’s. Whereas Australia’s direct tourism GDP (not adjusted for inflation) grew between 2001-10 at an annual growth rate of 3.8 percent (to $34 billion in 2010), New Zealand’s growth rate has been 5.4 percent (to NZ$7 billion in 2010) (see Figure 2). This average annual growth differential of 1.6 percent between the two countries is substantial. If Australia's direct GDP from tourism had grown at New Zealand’s rate from 2001 it would have been $4.8 billion higher than it actually achieved (almost $39 billion instead of circa $34 billion).
Beyond the need to strengthen Australia’s competitive positioning, there are other arguments for why a focus on tourism is needed. They include that tourism…

- …promotes deeper cultural and business integration (including airline connectivity) with the rest of world, contributing to our global competitiveness
- …in Australia is globally significant, with export earnings ranked eighth in the world despite not having land borders and being distant from many of our key source markets
- …benefits from Australia’s strategic positioning for fast expansion in exports with the rapid growth of the Asian middle classes (for example, safe, friendly, English speaking)
- …diversifies the risks facing our economy associated with the end of the resources boom, as tourism is favourably leveraged to a lower Australian dollar
- …offers great potential for productivity improvement in response to capital investment, due to its high labour-intensity
- …provides a path to education exports as visitors return as students, and a path to promotion to, and selection of, the most committed and valuable migrants
- …is one of the most environmentally sustainable of the major sectors in the Australian economy
• …leads to education and advocacy on environmental sustainability
• …provides funding for the maintenance of our natural amenities
• …is a major source of national pride and provides the best opportunity to project to the world the Australia we want to be (“soft power”)
• …contributes to growth of regional Australian communities and young people staying in these communities, as it widens the scope of employment opportunities across regions
• …offers opportunities for training and employment for indigenous communities, other disadvantaged individuals and the current high level of under-employed.

Considering that Australians source markets are changing as a result of the significant visitor growth from inbound markets such as the Middle East and China (see Figure 3), and the forecast growth in visitor numbers, there is a need for new and refreshed tourism products that add capacity and reflect changing visitor preferences. The ability of the industry to meet its growth potential is the focus of the 2020 Tourism Industry Potential. In this study, by 2020, the potential is estimated at between $115 billion and $140 billion in overnight expenditure.

Figure 3: Top five international source markets, by growth in visitor nights (2010-2020)

![Bar chart showing top five international source markets](image)

The lack of supply side development in the sector, coupled with the high potential and the importance of tourism for Australia, provide the imperative for the current reviews relating to tourism investment.
2.3 **Scope of study**

Tourism investment falls into four segments, notably short term accommodation; attractions / experiences; general amenities; and access assets. This report focuses principally on the two tourism sustaining segments accommodation and attraction development, rather than the shared use general amenity and access asset investments (see Table 1).

**Table 1: Tourism investment segments**

<table>
<thead>
<tr>
<th>Type</th>
<th>Short Term Accommodation</th>
<th>Attractions / Experiences</th>
<th>General Amenities</th>
<th>Access Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Examples</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hotels</td>
<td>Parks</td>
<td>Restaurants</td>
<td>Airports</td>
</tr>
<tr>
<td></td>
<td>Motels</td>
<td>Tours</td>
<td>Retail precincts</td>
<td>Flights</td>
</tr>
<tr>
<td></td>
<td>Serviced apartments</td>
<td>Adventure experiences</td>
<td>Entertainment precincts</td>
<td>Roads</td>
</tr>
<tr>
<td></td>
<td>Backpacker hostels</td>
<td>Natural and World Heritage sites</td>
<td></td>
<td>Public transport</td>
</tr>
<tr>
<td></td>
<td>Bed and breakfasts</td>
<td>Museums / zoos</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Caravan parks</td>
<td>Theme parks</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Resorts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Investment decisions</strong></td>
<td>Closely linked to tourism</td>
<td>Closely linked to tourism</td>
<td>Largely related to non-tourism factors</td>
<td>Also related to non-tourism factors</td>
</tr>
</tbody>
</table>

**Tourism Sustaining (Areas of greatest focus)**

**Shared Use**

2.4 **Related tourism studies**

In developing this report, L.E.K. has drawn on a number of supply side focused studies on tourism. These studies have typically been commissioned by federal or state governments, but also includes some private sector initiatives. As noted before, the catalyst for the development of this report was the National Long-Term Tourism Strategy launched by the Australian Government Minister for Resources, Energy and Tourism, The Hon Martin Ferguson AM MP, and endorsed by all states and territories. This strategy highlighted the key role government can play in growing tourism, by facilitating investment and driving regulatory reform in the industry.
Preceding the National Long-Term Tourism Strategy was The Jackson Report, which noted that regulatory reform is needed to provide transparency and certainty for investors in order to encourage greater investment in tourism, and to drive long-term profitability. The Jackson Report also encouraged a focus on Australia’s fundamental tourism assets including our: unique indigenous culture; distinctive landscapes, flora and fauna; sophisticated cities; and reputation for diverse, interesting and friendly people. Reflecting these points, L.E.K. has included a focus on the improvement of sector investment economics and tourism in high natural amenity areas. The Jackson Report also highlighted the need to develop a collaborative product development strategy that would consider long-term trends and broader market requirements rather than narrow short-term considerations, a view which L.E.K. supports in this report.

This report has drawn on Tourism Australia’s 2020 Tourism Industry Potential, which seeks to encourage Australian industry and governments to focus on increased returns from the tourism industry. It is particularly focused on overnight visitor expenditure.

The report has also drawn on the Sustainable Tourism Cooperative Research Centre’s (STCRC) scoping study Tourism Investment in Australia. This study identified contemporary issues for, and barriers and impediments to, tourism investment in Australia.

L.E.K. has also noted the work conducted by the states such as the O’Neill Report into Tourism in NSW, the NSW Joint Ministerial Taskforce on Tourism Planning and Investment, the NSW Taskforce on Tourism and National Parks, and the Victorian Nature-based Tourism Strategy. More recently, the Victorian Competition and Efficiency Commission (VCEC) has published its draft report Unlocking Victorian Tourism. The recommendations of VCEC on tourism development in high natural amenity areas share the same spirit as the L.E.K. report, even though the two reports were developed independently.

Another influential publication has been the Perth Hotel Economic Impact Study by Access Economics. The analysis in this report is reflected in the economic impact analysis section of this report.

Finally, a number of non-tourism specific studies have been important in the creation of this report. Most notably, these have been the Productivity Commission and VCEC studies on the cost of planning and approvals regulation on new developments.
2.5 Government activities relating to tourism

Government has a significant impact on the tourism sector, primarily through regulations and incentives. The regulatory footprint of government will be discussed in more detail in later sections of this report. The most relevant areas of regulation relate to planning, environment, taxation and other / general business, and are administered at the federal, state and local council levels. This has been represented in Table 2 below:

Table 2: Key relevant regulation by type and level of government

<table>
<thead>
<tr>
<th>Planning</th>
<th>Environmental</th>
<th>Taxation</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State</strong></td>
<td>State planning schemes</td>
<td>National Parks Acts and other related legislation</td>
<td>Payroll tax</td>
</tr>
<tr>
<td><strong>Local</strong></td>
<td>Local planning schemes Local planning controls</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

On the incentives side, the federal and state governments are both active. The primary incentives available to facilitate tourism investment are:

- Grant programs providing broad sector support
- Non-financial incentives aimed at specific issues (e.g. providing pre-approved tourism land, floor space ratio concessions, use of crown land etc)
- Financial incentives aimed at specific issues (e.g. land tax concessions or depreciation allowances)

The largest incentive to the tourism sector is the funding of Tourism Australia. Tourism Australia is the government agency responsible for the marketing of Australia, both domestically and internationally, as a destination for both business and leisure travel. As part of this, Tourism Australia is working towards the achievement of the 2020 Tourism Industry Potential, which is focused on increasing returns from the tourism industry with a specific focus on overnight visitor expenditure. Funding Tourism Australia has a limited direct impact on tourism investment.

Another significant budgetary outlay is the reduction of the capital gains tax (CGT) for small business, but this is an economy wide, rather than a tourism specific, initiative.
Currently, the main attempts to support tourism investment are through non-financial incentives in the development stage such as floor space ratio concessions. The TQUAL grants program appears to be effective, but is small relative to the scale of the industry. In addition, some financial incentives to improve operating economics (such as payroll or land tax concessions) have been used selectively, by the states for some major investments.

It is noted that government assistance programs are mostly focused at the development stage, while the most challenging stages are the pre-approval and approval stages. Hence, developers and operators require the most assistance and support at these stages. As Figure 4 below shows, government assistance programs at the development stage include floor space ratio and height incentives; mixed-use development schemes; and zoning and land release programs. In contrast, there are limited schemes to improve, and expedite, the project approval process.

**Figure 4: Government assistance programs, by stage**

<table>
<thead>
<tr>
<th>Pre-approval</th>
<th>Approval</th>
<th>Development</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schemes to improve and expedite the project approval process</td>
<td>Grant schemes to encourage development and improve product offering</td>
<td>Floor space ratio bonuses and height incentives for hotel developments</td>
<td>Grants offered to indigenous tourism businesses</td>
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<tr>
<td></td>
<td></td>
<td>Release of Crown land for tourism developments</td>
<td>GFC support package for small businesses</td>
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<tr>
<td></td>
<td></td>
<td>Mixed-use development schemes</td>
<td>Tax concessions / exemptions</td>
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<tr>
<td></td>
<td></td>
<td>Exclusive zoning for tourism developments</td>
<td>Higher depreciation allowance for hotels</td>
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<td></td>
<td></td>
<td>Strata title hotel ownership</td>
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<tr>
<td></td>
<td></td>
<td>Reduction in accessible room requirements for hotels</td>
<td></td>
</tr>
</tbody>
</table>

2.6 Tourism industry characteristics

The supply side of the tourism industry is highly fragmented. This degree of fragmentation translates into a low level of commercial sophistication and co-ordination compared to many other sectors. The small portion of total tourism expenditure captured by each individual operator provides a co-ordination imperative.

For example, Australian Bureau of Statistics data (Figure 5) show that the tourist accommodation sector is made up of a large number (around 15,000 businesses) of small operators (more than 10,000 businesses have less than 10 employees):
Most other sectors of the tourism industry are similarly dominated by smaller businesses. The majority of tourism operators are small and medium enterprises (SMEs) with revenues below $2 million per year, and they are typically localised by nature. Further, industry consultations highlighted the fact that even operators that are considered large by tourism standards are often at best medium-sized businesses by the standards of other industries. The small scale of most operators, and fragmented market structure, results in an insufficient level of commercial sophistication among operators, and a high level of local industry competition.

This particular industry structure negatively impacts on industry co-ordination. Not only is there often a reluctance amongst operators to share data and insights with (potential) competitors, the fragmented and diverse nature of their membership also means that industry bodies have found it difficult to provide the required levels of research and analysis, education and facilitation services.

As a fragmented industry, tourism relies heavily on public support for industry development. On the demand side, tourism operators logically require a central body to market their destination because of the positive externalities for all industry participants (the free-rider problem). However, while similar, as well as additional, externalities exist on the supply side, L.E.K.’s consultations indicate that this side currently lacks attention.

This lack of supply side attention flows through to limited supply side research and data. This has a flow on effect on government planning and infrastructure priorities given the lack of supporting information to assist government decision making in these areas.
A further characteristic of the tourism industry is that tourism expenditure is fragmented across operators, which enhances the need for co-ordination. Each business in the industry captures only a small portion of the total tourism spend of their customers. Because of the absence of value chain integration, businesses, therefore, are dependent on each other, without having a commercial relationship with each other. Direct tourism gross value added data (as shown in Figure 6) suggest that even the sum of airlines, accommodation and food do not dominate tourism revenues by themselves (especially considering that expenditure within these categories will be shared across multiple operators):

**Figure 6: Australian direct tourism gross value added, by industry (2009-10)**

![Diagram showing percentage distribution of Australian direct tourism gross value added by industry for 2009-10.](attachment:image.png)

Note: *Other consists of categories each representing less than 5% of expenditure*
2.7 Case for regulatory reform

The regulatory barriers faced by the tourism industry in Australia are high relative to other sectors and countries. These barriers include planning; environmental regulation; labour controls, as well as general business regulation, and span across a range of areas and levels of government. In many cases regulation impacting on tourism business was designed before tourism became a significant economic driver in Australia. Furthermore, these high regulatory barriers are augmented by the sector’s market structure.

At a planning level, tourism is not well understood by stakeholders and this results in complications, particularly at the approval stage of the planning process. This creates a disproportionate burden on the tourism industry, compared with other sectors which are more traditional and better understood, such as the commercial building sector.

The planning process in Australia as it relates to tourism, requires significant stakeholder involvement that adds time and cost to the process, as well as allowing arguably frivolous and vexatious objections. In comparison, international jurisdictions such as New Zealand, British Columbia and Hawaii have undertaken measures to ensure that tourism receives greater attention during the planning and approval process. For example, in British Columbia, the Ministry of Environment’s mandate includes a focus on tourism and specific outcome targets (for example, visitation), when considering tourism projects, and in Hawaii there are generally less regulatory stakeholders for investors to engage with during a project assessment / approval process.

Environmental regulation including the federal Environment Protection and Biodiversity Conservation Act 1999 (“EPBC”), and state National Parks Acts, impact the tourism industry significantly. In particular, the complexity and highly involved process, and regulators’ lack of understanding of tourism’s commercial imperative acts as a strong deterrent to investment. As the tourism industry mostly consists of relatively small operators, this deterrent is especially strong. For example, the short duration of National Park lease terms imposed by National Parks Acts limits investment. This has an adverse effect on long-term tourism investment.

In addition, at an operational level, the tourism industry has a high reliance on labour as well as general business regulation and development controls, such as liquor licensing and food hygiene regulations. For example, visa restrictions limit access to short-term workers from overseas. Tourism is excluded from additional visa scheme elements that would relieve shortages. Furthermore, stringent state liquor licensing laws restrict tourism product offerings. In particular, applying for annual liquor licences is a costly and time consuming process for small tourism operators. This results in a disproportionate regulatory burden on the tourism industry, compared with other sectors that are less dependent on labour and general business regulation.

While the tourism industry has access, like other sectors, to a range of generic business assistance programs, the sector lacks additional sector-specific support. In particular, compared to agriculture and manufacturing, the tourism sector and the accommodation and food industries receive a low level of budgetary assistance in the form of outlays and tax concessions (see Figure 7). This further increases the burden on the sector relative to other industries in Australia.
In addition, Table 3 shows that compared with other sectors in Australia, the number of budgetary assistance schemes and net assistance (outlays and tax concessions) administered to the tourism sector in Australia are significantly lower compared with other sectors of the economy.
Table 3: Federal government budgetary assistance, by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of schemes (2008-09)</th>
<th>Value of schemes (2008-09) ($m)</th>
<th>Top 3 schemes by value (2008-09)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excl. tourism and A&amp;F</td>
<td></td>
<td></td>
<td>Small business CGT reduction / exemption ($910m)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R&amp;D and premium R&amp;D tax concessions ($381m)</td>
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<td></td>
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<td></td>
<td>Offshore banking unit tax concession ($305m)</td>
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<tr>
<td>Services/Tourism</td>
<td></td>
<td></td>
<td>Tourism Australia funding ($138m)</td>
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<td></td>
<td></td>
<td></td>
<td>Tasmanian Forest Tourism Initiative ($15m)</td>
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<td></td>
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<td></td>
<td>Australian Tourism Development Program ($4m)</td>
</tr>
<tr>
<td>Accom. &amp; food services</td>
<td></td>
<td></td>
<td>Small business CGT 50% reduction ($78m)</td>
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<td></td>
<td></td>
<td>Small business CGT exemption ($41m)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Small business CGT retirement exemption ($34m)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>43</td>
<td>1,766</td>
<td>Automotive competitiveness and investment scheme ($479m)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>R&amp;D and premium R&amp;D tax concessions ($270m)</td>
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<td></td>
<td></td>
<td></td>
<td>Duty drawback ($118m)</td>
</tr>
<tr>
<td>Agriculture, fisheries &amp; forestry</td>
<td>65</td>
<td>1,669</td>
<td>Exceptional circumstances program ($779m)</td>
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<td></td>
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<td></td>
<td>Farm Management Deposits Scheme ($140m)</td>
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<td></td>
<td></td>
<td></td>
<td>Income tax averaging provisions ($90m)</td>
</tr>
<tr>
<td>Mining</td>
<td>20</td>
<td>420</td>
<td>R&amp;D and premium R&amp;D tax concessions ($288m)</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Capital expenditure deduction ($15m)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>National low emissions coal initiative ($9m)</td>
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<tr>
<td>Other</td>
<td>37</td>
<td>334</td>
<td>Austrade ($95m)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Textiles, clothing and footwear corporate wear program ($74m)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Regional partnerships program ($15m)</td>
</tr>
<tr>
<td>Total</td>
<td>138</td>
<td>7,655</td>
<td>Small business CGT 50% reduction ($730m)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R&amp;D tax concession ($620m)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Automotive competitiveness and investment scheme ($479m)</td>
</tr>
</tbody>
</table>

Note: * Includes schemes provided to the accommodation & food services industry
Source: Productivity Commission Trade & Assistance Review 2008-09; L.E.K. analysis

Because tourism is not explicitly recognised as a sub sector, its use of some schemes (e.g. small business CGT assistance) is not identified.

Given the disproportionate regulatory burden on the tourism industry in Australia, coupled with the sector’s economics and structure, it is clear that regulatory reform is warranted in order to mitigate the negative regulatory impact on the industry.
2.8 Principles for government reform

In assessing the issues and formulating reform solutions, this study observes a number of principles for government intervention. These principles are primarily based on the best practice standards for regulation as formulated by the Council of Australian Governments (COAG) in 2007, but incorporate additional input from the IRRWG:

- Consulting effectively with a wide body of stakeholders at all stages of the regulatory review process
- Considering the intent, as well as the impact, of regulation in proposing regulatory reform
- Considering the design and administration of well designed and targeted regulation a responsibility of government
- Reviewing existing regulation to check it remains relevant and effective over time
- Establishing an evidence-based case for action before considering intervention
- Proposing government intervention to address significant market failure, if there is a net public benefit of doing so
- Considering a range of policy options, including regulatory approaches, incentive-based approaches and other mechanisms
- Adopting the option that generates the greatest net community benefits
- Not restricting competition (unless it can be demonstrated that the net community benefits of doing so are positive, or that the objectives of regulation can only be achieved by doing so)
- Not imposing unnecessary negative incentives on any market participant in order to “level the playing field” between different participants

This study has been guided by the above principles in forming its recommendations.

2.9 Guidelines for recommendation development

This report is cognisant of the Government’s preference for budget neutrality with respect to regulatory reform. In this regard, the focus of the recommendations contained in this report has been to first develop suggestions for reform to the existing regulatory environment, which do not require monetary outlay by the government, or which will be budget neutral due to savings or gains achieved. Having developed these, the review then considered incentives requiring budgetary outlay by the government, where it was deemed necessary to facilitate regulatory reform or address market failure, and thereby support investment in tourism accommodation and attractions.
3. **Tourism Investment Barriers**

Tourism investment in Australia faces significant barriers that are impeding the industry’s ability to provide a quality product to visitors. This section of the report considers five core barriers to investment that have been identified by L.E.K. through consultations with tourism industry stakeholders and independent, rigorous analysis.

One key challenge facing the tourism industry is structural economics. In this regard, there is evidence that tourism investment in aggregate produces weak returns compared to other sectors.

Furthermore, tourism’s core sector characteristics result in the sector lacking the commercial sophistication and co-ordination observed in other industries, and make the investment process challenging for operators.

In addition, the tourism sector in Australia is subject to a wide variety of regulations across a broad range of instruments and agencies. This adds complexity and cost for tourism operators.

The tourism sector in Australia also suffers from a lack of public sector vision that inhibits the development of tourism. This is in the context of a complex bureaucracy and engagement process.

Finally, feedback from consultations suggests that tourism development in Australia is hampered by a range of planning and development process challenges that add complexity and costs.

3.1 **Outcomes of consultations**

L.E.K. has completed consultations with more than 80 tourism industry stakeholders with a wide range of backgrounds. These consultations typically lasted between one and two hours, and were held in person where possible, and via phone in other instances (see Appendix). Many of these conversations detailed the disproportionate impact on tourism of the current regulatory environment in Australia, and have been used by L.E.K. when forming its reform recommendations.

From these consultations, three major investment gaps have emerged:

- There is a shortage of short-term accommodation in metro areas (particularly hotels) because of scarce land and competition from other land uses with better business cases. This has produced a market failure of high occupancy rates, underinvestment in existing stock, and substantial turn away demand during peak periods.
Apart from precinct developments like casinos, it is difficult to mount a viable stand-alone business case for attractions, due to the high level of externalities. In addition, the regulatory approval process is generally complex and uncertain, especially in areas of national significance. There have been few new marquee tourist attractions in most regions.

Australia’s regional areas suffer from a lack of quality accommodation stock due to insufficient investment in and renewal / replacement of existing facilities. Regional attractions are more heavily leveraged to natural areas, which typically face a higher regulatory burden.

In addition, other themes were raised during discussions, but which are outside the scope of this study, and so have been excluded from analysis. These themes are detailed in Table 4 below.

Table 4: Themes arising out of consultations that have been deemed out of scope

<table>
<thead>
<tr>
<th>Theme</th>
<th>Argument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access assets</td>
<td>There is insufficient development of access assets (roads, airports etc)</td>
</tr>
<tr>
<td>Cruise ship terminals</td>
<td>There has been insufficient development of cruise terminals</td>
</tr>
<tr>
<td>Regulatory roles</td>
<td>The regulatory authority for tourism should be reallocated amongst the levels of government</td>
</tr>
<tr>
<td>Camp sites</td>
<td>Governments need to act to arrest the decline of campsite availability</td>
</tr>
<tr>
<td>Bilateral aviation agreements</td>
<td>Bilateral aviation agreements need to be loosened to allow more flights from emerging markets to get to Australia</td>
</tr>
<tr>
<td>Foreign Investment</td>
<td>FIRB regulations need to be loosened around tourism in particular</td>
</tr>
</tbody>
</table>

In terms of access assets, these are shared use assets with high capital value meaning it is difficult to justify that the possible economic benefit to tourism supports greater capital investment incentives or regulatory changes to assist this development.

Similarly, in relation to the argument for specific support for camp sites in Australia, making decisions about supporting particular classes of accommodation is not within the scope of the project.

In terms of cruise ship terminals, given that the cruise sector is achieving strong growth, the case for intervention appears weak, and so this argument has been excluded from the report.
The argument that the regulatory authority for tourism should be reallocated among the levels of government is not within the scope of this project as it would result in altering the fundamental roles of each level of government in Australia.

Some people spoken to argue that bilateral aviation agreements need to be relaxed to allow more flights, however, this argument does not relate to issues with investment decisions, and so has been excluded from this report.

Suggestions to specifically address foreign investment in tourism has been excluded as it is not appropriate for this project to make recommendations that enhance access to foreign capital by tourism at the expense of other sectors.

3.2 Key barriers to tourism investment

On the basis of consultation and research, L.E.K. has grouped the various challenges facing tourism into five core barriers. Firstly, tourism produces weak returns compared with other sectors. Secondly, tourism in Australia is subject to a broad range of regulations, which disproportionally affect tourism compared to other industries. Thirdly, tourism investment in Australia is also restricted by a range of process requirements that often unnecessarily add costs and delays to investment projects. Fourthly, the sector’s composition (dominated by large numbers of small and often unsophisticated operators) presents a barrier to investment through a lack of sophistication and industry co-ordination. Fifthly, and as a corollary to sector composition, the sector suffers from a lack of public sector vision, which reinforces the other barriers (see Figure 8 below).

Figure 8: Key barriers to tourism investment in Australia
3.2.1. Structural economics

There is evidence that tourism investment in recent years has produced poor aggregate returns compared to other sectors. Feedback from consultations suggests that this is due to a combination of factors, including: high levels of cyclicality and seasonality; a fragmented value chain (meaning that tourism operators only capture a small portion of the tourism expenditure of their customer); high labour costs in the context of the labour intensive nature of tourism and Australia’s constrained labour market; and increasing competition from international markets / destinations that puts pressure on prices.

With lower returns and volatile cash flows, investments in the tourism sector have poorer access to financing than those in other sectors. As a result, potential investors prefer alternative opportunities in Australia and overseas.

3.2.2. Regulation

The tourism sector in Australia is subject to a broad range of regulations across a large number of instruments and agencies, including, for example, planning and building regulation, labour supply, taxation, liquor licensing, food hygiene and occupational safety and health. This complexity is challenging and costly for operators. Within the broad set of general regulation relevant to tourism, some of the most important influences are planning schemes and taxation.

Planning schemes are challenging for the tourism industry, because tourism has a low profile in planning. Planning is governed by different instruments in each state, creating different issues and challenges in each regime:

- Generally, the planning regime does not fully recognise the scope and role of tourism development.
- The nature of tourism developments often requires them to be situated in high natural amenity areas that appeal to visitors. This means that they touch more regulations than other investments of similar sizes.
- Tourism is frequently excluded, or highly restricted, in areas of high natural amenity or historical significance.

Another particular challenge is that tourist accommodation is disadvantaged by tax regulation relative to residential development. This affects the sector’s capability to compete for scarce land.

Unintentionally, regulation thus disadvantages the tourism sector. This results in a disproportionate burden of regulation on tourism developments compared with other sectors of the economy.
3.2.3. Process

Related to the regulation issues, tourism development is also hampered by a range of process challenges.

The complex and often unique planning issues associated with tourism development, and the large number of agencies with regulatory oversight of tourism, lead to an approvals process that is intrinsically complex / difficult to navigate (especially for small and unsophisticated applicants). This complexity significantly increases process, and holding costs, for small investors.

Furthermore, many local councils lack the resources / experience to deal effectively with tourism developments. This capacity issue is exacerbated by the fact that local councils necessarily reflect, and consider, the opinions / objections of local residents: this means that local approvals can often involve extensive consultation processes with a range of stakeholders. In addition, the framework and organisation of local government allows scope for arguably frivolous objections and “NIMBYism”.

While the above applies to some degree also to other sectors than tourism, tourism developments tend to fall below the required thresholds to activate effective alternative processes available to progress difficult applications.

3.2.4. Sector composition

Tourism’s core sector characteristics result in the sector lacking the commercial sophistication and co-ordination observed in other industries.

The tourism sector is made up of a large number of small, often unsophisticated firms, with a high degree of competitive rivalry. Only a small portion of total tourist spend is captured by each individual participant in the sector. This highly fragmented nature of tourism operators presents a barrier to successful, cohesive service delivery in the absence of co-ordination and leadership.

These industry characteristics mean that the same regulation can have a more detrimental impact on the tourism industry than other industries, where the players are larger and more sophisticated.

While the sector is characterised by substantial publicly funded demand side marketing, there has been a lack of focus on supply side development. For instance, there is little innovative research and analysis by proponents in the sector. Operators also have limited access to education / information, and project facilitation services.

In contrast, the Australian mining sector is an example of an industry that has a high degree of commercial sophistication and co-ordination. This is evident in the way the industry has responded to recent issues that would have potentially impacted their industry, for example, lobbying for improved port infrastructure, or the potential impact of the emissions trading scheme.
3.2.5. Public sector vision

Public sector vision is important for a highly fragmented industry like tourism, but because of its structure and recent development, the sector appears to occupy a position of relatively low priority within government.

It is noted that while there is a vision for tourism within agencies / portfolios that have direct policy or program responsibilities, this has not yet successfully translated to agencies and portfolios responsible for wider areas of policy, and specific, related functions such as planning and liquor licensing.

Tourism lacks public sector engagement at many levels. While tourism agencies exist, their focus has largely been on demand side marketing. Government agencies have generally not focused on establishing a vision for the supply side and on creating an environment enables this fragmented industry to effectively develop and provide an attractive offering. Within the public sector, tourism also suffers from an absence of study, data, information and, therefore, market understanding on supply side issues.

In contrast, in jurisdictions with stronger public sector tourism engagement, the sector appears to benefit (New Zealand provides evidence of this, which will be elaborated on in this report).

The absence of support at the highest government levels inhibits the development of tourism in the context of the multi-faceted engagement processes of a complex bureaucracy.

3.3 Assessment of barrier importance by asset class

Structural economics; sector composition; regulation; public sector vision; and process issues are the five core barrier themes identified by L.E.K. These have been assessed in terms of their relevance / importance for metropolitan accommodation and attractions and experiences, as well as regional accommodation and attractions and experiences, being the four major asset classes in scope. While the importance of the barriers by asset class varies somewhat, in most cases the impact of the barriers is felt strongly.

Table 5 demonstrates that the importance of these barriers varies by asset type and location, in particular metro accommodation, metro attractions and experiences, regional accommodation and regional attractions and experiences.
Table 5: Barriers and importance, by asset class

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Metro accommodation</th>
<th>Metro attractions &amp; experiences</th>
<th>Regional accommodation</th>
<th>Regional attractions &amp; experiences</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Structural Economics:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australian tourism has poor fundamental</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>economics relative to other sectors and</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>destinations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2. Sector Composition:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private tourism sector participants are</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>small and fragmented</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>3. Regulation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism faces a challenging regulatory</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>4. Public Sector Vision:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism suffers from a lack of public</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>sector emphasis and vision</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>5. Process:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tourism faces obstructive processes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: A full ball means that this issue is very important for the relevant supply gap

3.4 Identification of areas which may warrant reform

In moving towards recommendations for change, L.E.K. has analysed each barrier to divide the issues within them into the following categories (in view of the established regulatory principles described):

- Areas where reform may be warranted
- Areas outside the scope of government to resolve.

As demonstrated in Table 6, L.E.K. has identified five broad areas where reform should be considered.

A. Planning, development approvals and local development controls
B. Labour supply
C. Accommodation supply
D. Supply of tourism in high natural amenity areas
E. National collaboration
The following sections outline the rationale for regulatory reform and proposed reform options for each of these five areas, and the expected outcome of such recommendations on the tourism industry in Australia.

<table>
<thead>
<tr>
<th>Barrier</th>
<th>Areas where reform may be warranted</th>
<th>Supporting regulatory principles</th>
<th>Broad area of potential reform</th>
<th>Areas outside the scope of governments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structural Economics:</strong> Australian tourism has poor fundamental economics relative to other sectors and destinations</td>
<td>Tourism is disadvantaged on labour supply (especially in regional areas)</td>
<td>Improving tourism labour supply in difficult to staff areas has net economic benefit</td>
<td>Labour Supply</td>
<td>It would be inappropriate for governments to alter the underlying relative economics of Australian tourism investment compared to alternative opportunities</td>
</tr>
<tr>
<td></td>
<td>Tourist accommodation is disadvantaged relative to residential accommodation in the short-term market because the relevant regulation is poorly suited to the modern property and accommodation markets</td>
<td>Governments should review existing regulation to ensure it remains relevant and effective over time</td>
<td>Accommodation Supply</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tourist accommodation offers poor returns to developers but provides net economic benefits</td>
<td>Strong evidence of market failure and net economic benefit, when occupancy rates are high</td>
<td>Accommodation Supply</td>
<td></td>
</tr>
<tr>
<td><strong>Composition:</strong> Sector participants are small and fragmented</td>
<td>This issue, combined with the relatively broad regulatory exposure of tourism, supports the need for supportive facilitation processes targeted at tourism</td>
<td>Governments are responsible for making and maintaining well designed, targeted regulation</td>
<td>Planning, development approvals and local development controls</td>
<td>In general, issues of private sector composition, scale and sophistication are beyond the scope of government to alter</td>
</tr>
<tr>
<td><strong>Regulation:</strong> Tourism faces a challenging regulatory environment</td>
<td>In general, existing regulatory frameworks do not provide adequate specification and consideration of tourism</td>
<td>Governments are responsible for making and maintaining well designed, targeted regulation</td>
<td>Planning, development approvals and local development controls</td>
<td>It is unavoidable that tourism activities have a relatively broad regulatory footprint given their reliance on high natural, cultural, and public amenity areas, experiential nature, hours of operation, and other factors</td>
</tr>
<tr>
<td></td>
<td>In areas of high natural amenity, sustainable tourism activities are inappropriately restricted</td>
<td>The current framework does not optimise net community benefits or net economic benefits</td>
<td>Supply in High Natural Amenity Areas</td>
<td></td>
</tr>
<tr>
<td><strong>Public Sector Vision:</strong> Tourism suffers from a lack of public sector emphasis and vision</td>
<td>Tourism investment provides significant net economic benefits but lacks effective investment facilitation support</td>
<td>The current regulatory framework (instruments and broader public sector culture) inhibits economically beneficial tourism investment (it is poorly designed and inefficient)</td>
<td>Planning, development approvals and local development controls</td>
<td>It is unreasonable for governments to ‘champion’ particular industries, without a compelling economic / community benefit based case to do so</td>
</tr>
<tr>
<td></td>
<td>The tourism sector lacks collaboration between local, state and federal governments, and facilitation of national strategic priorities</td>
<td>Governments are responsible for making and maintaining well designed, targeted regulation</td>
<td>National collaboration</td>
<td></td>
</tr>
<tr>
<td><strong>Process:</strong> Tourism faces obstructive processes</td>
<td>Approval and development processes for tourism investment are complex, lengthy and unpredictable</td>
<td>Governments are responsible for making and maintaining well designed, targeted regulation</td>
<td>Planning, development approvals and local development controls</td>
<td>Tourism approvals will remain challenging as they are infrequent, and often more complex and challenging than those in other sectors</td>
</tr>
</tbody>
</table>
4. Reform Recommendations

This section of the report sets out, in detail, the case for reform in each of these areas by reference to the relevant issues and evidence. It then provides L.E.K.’s reform recommendations for each area (as shown in Table 7 below and the remainder of this section), and specifies their expected outcomes.

Table 7: Reform issues and recommendations

<table>
<thead>
<tr>
<th>Issue</th>
<th>Recommendations</th>
</tr>
</thead>
</table>
| A. Planning, development approvals and local development controls | A1: Systematic mechanisms  
A2: Land-use definition and zoning  
A3: Integration of tourism demand forecasts  
A4: Review of local development regulation with tourism relevance  
A5: Binding timeframes for approvals processes  
A6: Merit based escalating process for state significant developments  
A7: Investment facilitation management  
A8: Tourism investment knowledge bank for governments  
A9: Streamlined development approval process |
| B. Labour supply | B1: Extension of the working holiday visa programs  
B2: Review 457 visa process |
| C. Accommodation supply | C1: Mixed use precincts with FSR concessions and other incentives  
C2: Utilisation of state-owned historical buildings and sites  
C3: Capital works deduction incentives  
C4: Accessible room requirements  
C5: Serviced apartments under the BCA |
| D. Supply in high natural amenity areas | D1: Broad management objectives  
D2: Schemes for tourism development in National Parks  
D3: Review of development approvals processes  
D4: Increase of default lease and licence durations |
| E. National collaboration | E1: Facilitation of collaboration  
E2: Economic model |

The full text of the recommendations is included in the section below. These recommendations are repeated, including more detail in the form of tables and figures, in sections 4.1.2, 4.2.2, 4.3.2, 4.4.2 and 4.5.
Recommendation A1: Systematic mechanisms

That at state level tourism is actively and systematically engaged in the planning process and planning instruments development, in order to ensure that tourism’s interests are considered when planning decisions are made and that tourism development receives the appropriate priority in the planning framework.

- To achieve this level of engagement requires tourism to be represented in the planning process. It also requires a whole of government approach to tourism investment at the state level, including a long term plan with development targets, as well as appropriate capacity and resources. One option would be that the investment facilitation management agency (Recommendation A7) be vested with this responsibility.

- This advice about planning schemes is targeted at the policy level to ensure that the benefits of tourism are understood, in principle, by those involved in the planning process. This is already occurring in some states, for example, in NSW all regions have tailored regional and subregional strategies prepared to the particular needs and opportunities of that particular region. Planning for tourism is specifically addressed in the strategies for: Far North Coast, Mid North Coast, Lower Hunter region, Central Coast, Illawarra and South Coast.

- This recommendation is consistent with the approach adopted by a number of state governments in relation to other land uses critical to economic activity, including housing and employment lands. In NSW, for example, an Employment Lands Task Force has been established to “advise on strategies, policies and implementation actions to secure orderly development of employment lands in NSW”. A similar group in each state comprising senior representatives of key stakeholders from government and industry could play a significant role in providing focus on the development and implementation of planning policy and controls to enhance tourism outcomes.

- This recommendation also complements TTF’s National Tourism Planning Guide, which provides a resource for planners, and a tool to facilitate effective working relationships between planning and tourism stakeholders. In order to be completely effective, it needs to be supported by systemic change.
**Recommendation A2: Land-use definition and zoning**

That at state level tourism-based uses are defined in a standardised manner, and that these uses are more commonly included as a permitted use in planning zones.

- To ensure tourism is considered in land-use definitions there should be a focus on streamlining the planning approval framework to ensure standardisation of tourism references. Furthermore, there should be an increased allowance for tourism development within the planning system, by approving tourism use in more zones. This also relates to Recommendation C1, around encouraging mixed used precincts.

- This streamlining has occurred in NSW where the 2006 Local Environment Plan established a set of standard definitions and land use zones. In doing so, it reduced the number of planning definitions from 1,700 to about 300, and the number of land use zones from 3,100 to less than 50.

- The land-use definitions would ideally be nationally consistent, although in practice a degree of variation between states is likely to continue to exist.

- This recommendation is consistent with the COAG initiatives around national reform and standardisation of development controls, as well as with TTF’s National Tourism Planning Guide which establishes a suite of standard definitions and an accompanying broader framework for land use zoning.

**Recommendation A3: Integration of tourism demand forecasts**

That tourism demand forecasts and major development opportunities are integrated into the planning system, as a key input in policy development and zoning decision making.

- The planning process should be cognisant of the principal tourism activities in particular locations, whether these are growing or declining and if there are any specific types of tourism that the industry is expecting to expand. This includes major development opportunities. This information is critical to the plan-making process as it provides for the development of plans at state, regional and local level; a means of determining what strategies for tourism are achievable; a way to ascertain what level of benefits might be expected for local economies and communities; and a means to support particular proposals, for example, to help to demonstrate the benefits of a particular scheme. Such information will often overlap with the analytical work of various planning authorities regarding the need for other land use activities, particularly in the urban context.

- The plan-making process should be informed by research that is sufficient to enable effective evidence-based policy development and informed land use planning decisions. It is, therefore, important that planners and policy makers are equipped with the best information available when engaging in the plan-making process. Planners need to consider relevant quantitative data, including data relating to the economics of tourism development to understand the land use dimension of tourism in the plan-making process.
• The nature of this integration should be strategic (that is, using long term forecasts) rather than tactical, as the length of planning, approval and development processes does not allow for effective short term adjustments. It is noted that existing research can also be incorporated in the planning process.

• As is suggested in Recommendation A7, this research and analysis function should sit within governments, and links with Recommendations E1 and E2. The Tourism Research Advisory Board and Tourism Research Australia should be requested to investigate the options to develop and implement a common methodology for the development of demand forecasts.

Recommendation A4: Review of local development regulation with tourism relevance

That as part of wider and ongoing regulatory reform activity, local development controls with tourism relevance are reviewed to identify where regulatory reform would provide significant benefits for tourism.

• A systematic review of local development regulation and its impact on tourism should identify areas where greater consideration and specification of tourism would be possible without disadvantaging other sectors, or reducing competition. Specifically, local development controls that currently have a negative impact on tourism investment including liquor licensing; food hygiene; noise; and parking should be reviewed. For example, allowing the serving of wine with dinner on remote camp sites, without a full liquor licence.

Recommendation A5: Binding timeframes for approvals processes

That state government agencies are committed to end-to-end maximum time limits for development approval assessments, particularly where there are multiple agency concurrences, in order to reduce the costs and uncertainty for the applicant.

• The nature of the tourism industry in Australia results in a disproportionate regulatory burden, compared with other industries, because of the high exposure of tourism developments to a wide range of regulations and agencies at a state level, for example relating to: transport; environment; heritage; health and safety; built form; and food and beverage.

• Binding time limits for government agencies to provide decisions on tourism applications, should be based on the achieved approval times for a selection of other sectors. Whilst this report does not specify a timeframe, feedback from consultations in New Zealand suggests that an end-to-end process taking anything over two years is considered substandard. This time limit could be linked to the escalation process recommended in Recommendation A6.
It is noted that the EPBC Act currently has strict statutory timeframes prescribed in the legislation for all stages of the assessment and approval process. In particular, it imposes a 20 business day statutory timeframe for deciding whether a referral requires approval. Similarly, it imposes a 20 business day timeframe of deciding on the approach to be used for such an assessment, and between 20 and 40 business days on deciding whether or not to approve the project, depending on the nature of the action. Despite these strict statutory timeframes, however, in a not insignificant number of instances, the timeframes are not complied with. For example, in 2009–10 the Department of Sustainability, Environment, Water, Population and Communities did not meet the 20 business day statutory timeframe for a referral decision 25 percent of the time. Furthermore, in 33 percent of cases it did not determine the assessment approach within the specified timeframe, and 28 percent of the approval decisions were made outside the statutory timeframe. It is, therefore, critical to ensure appropriate time limits are developed, and that agencies be made accountable for meeting these time lines.

The performance of governments against these time limits should be made available in public reporting, as is the case of the EPBC Act where the Department of Sustainability, Environment, Water, Population and Communities is required to report on its performance against the statutory timeframes in its annual report each year. A further option is to deem as approved developments that have not received assessments within the set timeframes. There is precedent in the Airports Act 1996, which is the governing legislation for approval of master plans and major developments, for deemed approvals. For example, section 81(5) of the Act is an example of how the Act deems a master plan or major development approved in the event the Minister does not make a decision within 50 business days.

The agencies should have the right to “stop-the-clock”, but in specific pre-defined circumstances only (e.g. where a development application is incomplete).

Recommendation A6: Merit based escalating process for state significant developments

That developments that meet transparent and firm criteria for the determination of their significance, are eligible for referral to a single higher decision making authority in each state.

The objective of this mechanism is to allow for expediting developments, through upward escalation, where necessary and merited. This recommendation recognises the disproportionate exposure of tourism developments to protracted approval processes (because of the number of agencies involved in assessment), and the fact that the benefits of tourism investments extend beyond capital expenditure to ongoing operating expenditure.
• The merit-based and objectively observable and measurable criteria for determining whether the development requires escalation should take into account the positive impact of developments, for instance including:
  – total investment value;
  – number of jobs created during the project’s development;
  – number of rooms / visitors; and
  – expenditure / GSP impact.

• The investment value threshold of $5 million for eco-tourism developments in current NSW legislation provides a good indication of the appropriate level for such a criterion.

• In association with tourism demand forecasts (Recommendation A3) and systematic mechanism (Recommendation A1), state authorities will be well placed to make merit based assessments in a transparent manner.

• Currently, legislative mechanisms for “call-ins” of tourism projects exist in all states, but with widely varying thresholds and criteria triggering a subjective process. A more consistent, independent and merit-based approach that is more “tourism aware” will provide greater process certainty and streamlined timelines, particularly to improved coordination and referral to multiple government agencies.

• This authority could potentially have the ability to override existing zoning and development controls by local and state bodies. For instance, agencies, at the direction of the Minister of Planning, could undertake an integrated assessment of a development proposal if it satisfies a number of criteria related to significance.

• “Front door” facilitators in government (see Recommendation A7) should be available to assist tourism proponents who are largely unfamiliar with planning approval processes.

Recommendation A7: Investment facilitation management agency

That a state based tourism investment facilitation management agency is established within existing government structures, in order to ensure the development of supply side strategic objectives, and their effective and efficient implementation.

• These bodies should represent the industry in a supply side role, which compares to the demand side role currently fulfilled by the state tourism organisations. Its role should be formally recognised in relevant legislation.

• Responsibilities might include formal engagement in planning and approvals processes, appropriate to each jurisdiction. Specifically, this could involve the provision of strategic planning advice, the identification of strategically significant opportunities or projects, and the capacity to refer projects to the merit based escalating process for state significant developments.
Specific roles in approvals processes could include: supporting other government bodies with resources in approvals processes; and providing “account management” services to applicants (for example, appointing a single representative for support through all approvals stages).

Potentially, this agency could also be tasked with prioritising government funding and incentives (for example, TQUAL) for tourism developments.

Linking to Recommendation A3 regarding the need for a supply side analytical capability, these bodies should provide reporting and analysis on the performance of the approvals processes. Recommendation A8 to create a tourism investment knowledge bank for government would assist with analysis.

Reflecting Recommendation E1, the Commonwealth should ensure these state based facilitation functions are effective at stimulating tourism investment, by facilitating collaboration and co-ordination between the states to help develop and share best practice. The Commonwealth could also provide complementary services.

**Recommendation A8: Tourism investment knowledge bank for governments**

That a national level tourism investment knowledge bank is established for the public sector, supported by local and state level information inputs, in order to capture and leverage approvals expertise, developed in Australian government agencies.

- The capture of previous approvals processes by state and local governments of infrequent and unusual investment proposals (which tourism developments are often considered, especially in regional areas) would ensure that “lessons learned” are leveraged for future development approvals. The knowledge bank will provide governments with economies-of-scale and economies-of-experience by aggregating previous development approvals cases and making them available in an easily accessible manner.

- In addition, this knowledge bank could be the basis for further reporting and analysis on the performance of the approvals processes. This analysis would be the major input in an ongoing review of regulatory effectiveness regarding tourism development approvals.

- Creating and maintaining this knowledge bank would logically be the responsibility of the tourism investment facilitation management agency (recommendation A7). An example of an industry using knowledge banks in Australia is the legal industry. The Australasian Legal Information Institute is an online database of legal resources including important court decisions; legislation and academic thought pieces.

- The knowledge bank would be a major source of information for an ongoing review of the effectiveness of the regulatory environment in respect of tourism development.

- Reflecting Recommendation E1, regarding developing national collaboration, the Commonwealth could also provide complementary services.
Recommendation A9: Streamlined development approval process

That a streamlined approach for tourism development approvals is pursued, with a focus on consolidating approval requirements within, and across, jurisdictions.

- This process would also entail harmonisation of approval processes. It is important to note this recommendation is limited to administrative processes, and does not extend to the harmonisation of policy development and implementation. This is likely to require a staged approach.

- The first stage could focus on identifying synergies that can be gained from consolidation within approval areas so that harmonisation is not undertaken across the board, without considering the efficiencies that can be gained. A first area of focus could be in respect of the environmental approvals process.

- This could be followed by a second stage examination of potential jurisdictional consolidation in relation to approval areas (especially where federal and state agencies are involved). The approvals responsibility would not necessarily rest with one authority for all approvals areas.
  - Consolidation could commence with environment and heritage across Commonwealth and states, and planning across states.
  - It is noted that under the EPBC Act, bilateral agreements are in place with state and territory government for assessments. The intent of these bilateral agreements is that for a project assessed under the bilateral agreement the proponent needs only to produce one set of assessment documentation (for example, a single Environmental Impact Statement), and undergo a single public consultation process that achieves both the state and federal requirements. However, feedback from consultations suggests that this rarely occurs. Furthermore, while proponents have the option of being assessed under the bilateral agreement, if the project is already well advanced in a state process it is often too late to enact the bilateral agreement. In addition, there are still two separate determinations at the state and federal level at the conclusion of the bilateral process.

- Finally, in the third stage, an examination across approval categories could identify areas for jurisdictional consolidation within categories and approval areas.

Recommendation B1: Extension of the working holiday visa programs

That the LSWG reviews the working holiday maker program to encourage employment in the tourism sector in regional areas, for instance through offering a second visa year to those working in regional areas.

- Extension of the WHM program should focus on areas where unskilled, seasonal / casual labour is in short supply. The WHM visa conditions should be structured such that more visitors choose employment in tourism-related jobs in regional areas.
Currently, a second year for the Working Holiday Visa is already available to visitors who complete three months of work in regional Australia in the following areas: plant and animal cultivation; fishing and pearling; tree farming and felling; mining; construction; and specified work in disaster affected areas. As a result, the scheme has been especially successful at reducing labour shortages in the agricultural industry. The 2009 study by Flinders University evaluating the WHM program found that 27 percent of WHM visa holders work as farm hands in regional areas, with the majority working in harvesting jobs such as fruit picking. Tourism jobs are not currently enjoying the condition that a second Working Holiday visa is available if a minimum of three months work in an eligible regional area is concluded.

The nomination of eligible regional areas under the current schemes for agriculture, mining and construction should be considered as a starting point for the regional area definition for a similar tourism scheme.

Recommendation B2: Review 457 visa process

That the LSWG reviews the process required to obtain a 457 visa, to improve the ability of tourism businesses to attract skilled tourism workers in an effective and time efficient manner.

- It would be beneficial to streamline the 457 visa application process to ensure that employers can access appropriate workers in a timely fashion. Ensuring that information is available to employers to assist them in understanding, and navigating, the 457 process would also assist with this.

- The review should also identify which specific skills are in short supply in the tourism industry and evaluate what skills should be included in the eligibility criteria for the Temporary Business Sponsorship 457 visa (e.g. professional skills, language skills).

- In addition, other requirements, including a willingness to work in regional areas, could to be taken into consideration in assessing visa applications.

Recommendation C1: Mixed use precincts with FSR concessions and other incentives

That mixed use precincts and sites are created to encourage short term accommodation development, with floor space ratio concessions, and other incentives such as increased height allowances, provided for the accommodation part of the development, to significantly improve the economics of the development.

- This recommendation has an inner-city focus, to encourage accommodation development through the improvement of its economics. It also allows for cross-subsidisation between elements of the total development, facilitating project funding.
• Mixed use precincts have been successfully used in Victoria to encourage the development of hotels. For example, the Melbourne Convention Centre and Crown Complex cluster highlights the benefits arising from a well-planned project encompassing areas for commercial as well as tourist accommodation and attractions. This resulted in several new hotels in the area including the Crown Metropol and the Hilton Melbourne. Furthermore, hotels can earn higher returns if combined with a convention centre development, as they attract business travellers who are often less price sensitive.

• In addition, historically, floor space ratio concessions have been used to encourage the development of new hotel rooms both in Australia and internationally. As a result of these concessions, there was an improvement in room stock in each of these cities.

• The Central Sydney Local Environment Plan (LEP) 1996 contained Floor Space Ratio incentives aimed at encouraging the development of hotels and serviced apartments in the lead up to the 2000 Olympics. This resulted in a significant room stock increase in a series of CBD properties, with around 3,000 rooms added during the period of the LEP. The fact that FSR concessions were required to stimulate supply, despite the forecast demand arising from the Olympics, suggests that the increase in rooms attributable directly to the Olympics was minimal, particularly given the two week period of the Olympics. There was also a marked decline in the number of new hotel rooms when the FSR incentives were phased out from 2001. It is suggested that FSR incentives of 25 percent or more compared to other uses, be offered to operators in metropolitan areas, which would significantly improve the total returns for hotel operators. The exact nature of the incentives should be determined locally, based on specific local factors.

• Based on the maximum suggested FSR incentives in the draft Sydney LEP 2011, develop and operate total returns can increase by 70 basis points after tax. It is important to note that this is one aspect of the reform recommendations. Other aspects such as the impact of mixed used development also need to be considered.

Recommendation C2: Utilisation of state-owned historical buildings and sites

That state-owned historical buildings and sites be designated for accommodation development, guaranteeing access for the public and providing development opportunities for tourism operators.

• Government land and buildings offer a solution to tourism’s limited ability to compete to access scarce high value land. It can also improve the economics of short-term accommodation development (through government providing concessional lease rates).

• The development of state-owned buildings should result in projects of high public amenity value, given that many of the available land and buildings have significant heritage value and / or are situated in prime locations. It would also ensure public access to the buildings.
Historically, a number of hotels in Sydney have been developed on crown land, or have utilised, often heritage, crown buildings. There have also been a number of successful developments of government buildings in other states including the Treasury casino and 137-room hotel in Brisbane, which occupies two heritage buildings (the Treasury Building and the nearby Lands Administration Building).

There is a large number of buildings and sites in Australia’s major cities that would be suitable for hotel development: for instance the New South Wales Tourism Planning and Investment Taskforce Report highlights a number of NSW government assets that could be further investigated for development as tourism accommodation (such as the Original Lands Building and the Department of Education and Training Head Office in Sydney’s CBD). In another example, the Property Council of Australia’s Perth CBD Hotel Property Conversion Study highlights a number of government buildings suitable for conversion to a hotel. Beyond these reports, a number of sites have been identified by TTF.

This recommendation is highly compatible with recommendation C1, as mixed use precincts could be created within these areas of high public value. This would encourage publicly accessible uses for these buildings and sites, and result in non-economic benefits on top of the improved total returns for operators.

**Recommendation C3: Capital works deduction incentives**

That a 50 percent capital works deduction bonus, with the remaining 50 percent spread over 12.5 years at 4 percent, be made available to stimulate investment in new development as well as refurbishments, for short-term accommodation operators.

- Given the strong demand for accommodation, and the lack of room stock, an incentive to encourage new accommodation construction to increase the level of available accommodation would help ensure visitors do not choose a destination other than Australia due to a lack of suitable accommodation.

- Accelerating the capital works deduction schedule from its current 25 years at 4 percent better aligns the depreciation timeframes with the operational life of investments.

- The creation of depreciation incentives should be for a limited period of time, with a sunset clause after, for example, three years. This has a two-fold impact. Firstly, it helps to prevent a supply bubble as a result of the incentive. Secondly, it limits the government’s outlay.

- This incentive would provide a stimulus to new development and existing accommodation refurbishment, and it would commit developers to continue to provide short-term accommodation for an extended period of time (as they operate the accommodation to recoup their investment).
This capital works incentive does not simply bring forward investments that would otherwise be occurring at a later point in time. Rather, it commits investors to new developments or refurbishments that might not have taken place without the incentive. The crucial point is that the investment intentions of tourism investors do not necessarily need to result in actual commitment, as these investments are discretionary (this is a major difference from for instance non-discretionary replacement of old cars, where the Commonwealth Cleaner Car Rebate brought forward purchases that would have occurred at a later stage anyway: this is because most motorists cannot do without their vehicles). The fact that in the current Australian market tourism investment plans often do not reach the commitment stage, is evidenced by the very high accommodation occupancy rates.

In a related point, the capital works incentive (because it applies to refurbishments too) will also act to stop existing investors from exiting the short term accommodation market. Without incentive, some of these investors might opt to sell, or adopt, an alternative use for their property at the point when re-investment is required.

Modelling by L.E.K. suggests that this incentive will significantly improve the economic return, and ability to obtain finance, for hotel operators. For every $1 billion of investment generated by the incentive it will generate an NPV increase for the tourism sector of $71 million compared to the existing incentive, while the incremental NPV cost to government is $62 million. This represents a 15 percent greater impact to the sector compared with government.

**Recommendation C4: Accessible room requirements**

That as a matter of priority the Australian government commissions a rigorous review by an independent party of the disability access standards for new buildings under classes 2 and 3 of the BCA.

Consultations suggest that the class 3 requirement, as imposed by the Disability (Access to Premises - Buildings) Standards 2010, for around 4.5 percent of available rooms to be accessible for people with a disability is too high. TTF's tourism submission to the Productivity Commission in 2010 (Productivity Commission Annual Review of Regulatory Burdens: Tourism Submission) quotes a national survey that suggests that the average demand for accessible rooms is around 0.5 percent and that the average occupancy rate of accessible rooms is less than half of that for standard rooms. The Productivity Commission in its review, notes these comments, as well as other comments from the sector, and indicates that accessible room requirements may be excessive and impose an unnecessary burden on the industry.
The requirement for accessible rooms adds significant construction costs and reduces operating margins for hotels. L.E.K.’s analysis suggest that in a “build and operate scenario” over a period of 15 years, the NPV impact (from an operational, but excluding the build cost impact) is $300,000 lower for every additional 0.5 percent in accessible room requirements, for a five star, 350 bed hotel in Sydney. A reduction in accessible room requirements would, therefore, strongly improve the investment case for new hotel accommodation.

Whilst it is noted that the current accessible room requirements have been introduced in 2011 and are subject to review after five years, this review should be carried as a matter of priority (e.g. within the next 12 months). This is also the recommendation of the Productivity Commission, that notes that after a suitable period of operation of the new standards, an independent assessment of accessible room supply and demand should be commissioned by the Attorney General’s Department and the Australian Building Codes Board.

**Recommendation C5: Serviced apartments under the BCA**

That once the accessible room requirements are reviewed, new apartments that are to be used for short-term accommodation purposes and hotels are treated consistently in respect of building requirements.

- Room stock in Australia includes residential accommodation which has been built under class 2 of the BCA but now operates as short term accommodation, as well as serviced apartments which have been built under either class 2 or 3 of the code. Where serviced apartments have been built under class 2 of the BCA, this is either because they are considered similar to residential apartments or because the BCA is not being enforced. For rooms built under class 2, this means that this accommodation does not have to meet disability access standards and has lower fire safety requirements than hotels.

- An option for consideration would be that once the accessible room requirements are reviewed, only new buildings that have been built under class 3 of the BCA would be allowed to operate as short term accommodation. This requirement would to a large extent “level the playing field” in terms of the economic disadvantage for hotel investment and the suitability of serviced apartments for tourism use. Because this option would be considered once the accessible room requirements have been reviewed, the returns to investors in new serviced apartments should not be affected significantly.

- There is a large stock of apartments that have been built under class 2, as a result of historical conditions (this is especially the case in Queensland, where there is a high degree of reliance on this form of short term accommodation), or because their intended use at the time of construction was residential. In order not to reduce Australia’s tourism room stock and to protect investors in these properties, any recommended change should recognise current practices and situations (e.g. only apply to new developments).
Issues for resolution include the ability to use the BCA as a regulatory instrument relating to the length of stay (this has been successfully challenged in court cases in Queensland and South Australia, for instance), the ability of local councils to enforce requirements and the treatment of residential-built apartments whose purpose (partially) switches to short-term accommodation provision after construction.

The Commonwealth should take a leading role in reviewing this option and resolving the associated issues.

Reflecting the concerns raised in this recommendation, it is understood that the Australian Building Codes Board is undertaking more work on Class 2 and 3 building classification and use issues.

**Recommendation D1: Broad management objectives**

That broad management objectives (for example, conservation, advocacy, maximisation of public use, and self funding) for administrators of high natural amenity public land are established, consistent with existing policy objectives regarding conservation.

- The objectives are supported by private sector development, where planned and managed appropriately.
- The vision statements of these administrations (and the National Parks Acts) should be updated to reflect these objectives.
- As occurs internationally, key performance indicators should be established to monitor performance against the targets. For example, British Columbia’s Tourism Action Plan 2007 sets out a number of expected outcomes to assess the effectiveness of measures to increase tourism investment on Crown land such as: the number of park visits; the processing time for tourism tenure applications; and the number of Aboriginal tourism businesses within its parks.
- This reform is supported by evidence on funding models and conservation outcomes from other jurisdictions, such as &Beyond Africa outlined in Case Study 7 and the new Canadian funding model for its National Parks as specified in Case Study 8.

**Recommendation D2: Schemes for tourism development in National Parks**

That schemes which provide pre-approved opportunities for tourism development (including lodge / attraction infrastructure and support for other site preparation costs) in National Parks and other high natural amenity public land are developed.

- This recommendation is similar to Western Australia’s Naturebank scheme, which involves the state government selecting and pre-approving selected sites; making infrastructure available; and creating relevant tourism zones.
To ensure a high quality of development opportunities, the nomination of these would need to be done with input from the tourism industry. In this regard, it will be necessary to involve the private sector in site selection, in order to ensure that sites that are selected are commercially attractive to operators. This is because the expertise is not available within the public sector. Site selection may also depend on access arrangements, for example, whether transport linkages are sufficient to support demand for accommodation. Assurances would be required that private sector involvement would not lead to unfair competitive advantages, and where necessary private sector advisors would be excluded from tendering for these opportunities.

In addition, the ability of the administrator of the area to retain its fair share of the lease and other fees generated, would provide an incentive to designate high potential areas for tourism development.

**Recommendation D3: Review of development approvals processes**

That the approval processes for tourism development in National Parks and other high natural amenity public land (through the EPBC and the various National Parks Acts) are reviewed with the objective of streamlining them, while retaining their conservation focus.

- This recommendation strictly does not seek to reduce protection of National Parks and other high natural amenity areas. Rather, it seeks to streamline the application of the regulation from a process perspective.

- This is reflective of the more general recommendations (Recommendations A5-A9) to remedy this issue of the high cost of the development approval framework.

- The review should, amongst others, cover the current requirement to provide separate Environmental Impact Statements to both federal (under the EPBC) and state governments (under state regulation). The power already exists under the EPBC to allow a proponent to have a project assessed under the existing bilateral agreement with each jurisdiction. This allows the state and federal processes to use the same documentation and public comment requirements, and for the processes to run concurrently. However, as noted in Recommendation B5, this rarely occurs. The bilateral agreement should become the default. There is also a need for significantly increased promotion of the bilateral agreement process because proponents often progress down a state process without knowing there is a choice.

- The recommendation in the VCEC draft report on tourism to separate the policy development (to be done by Department of Sustainability and Environment) and the approval process management (to be done by Parks Victoria) is instructive, and is an option for this reform.
Recommendation D4: Increase of default lease and licence durations

That default lease durations to privately-funded developments are increased from their current levels, in order to provide operators with a commercially viable horizon (reflecting the useful life of the asset) under which to operate and recoup their investment.

- Lease durations in high natural amenity areas often do not match the tenure required by private investors to earn their required return on investment. It is noted that in some states, such as Victoria, government policy hashistorically been to prohibit privately owned developments in National Parks altogether. Feedback from consultations suggests that tenures over 10 years provide investors with greater confidence to invest, however, in many instances the tenure offered by government in high natural amenity areas is much shorter. For example, the NSW Taskforce on Tourism and National Parks notes that 46 percent of concessions held in the NSW national parks system are for a duration of less than 10 years. In addition, in Victoria the National Parks Act 1975 states that the Minister of Environment can only grant a lease for up to seven years for a building in a national park.

- As an illustrative example, given normal investment returns (e.g. 8-10% for a well-planned development), a typical lease duration implying commercial viability would be above 10 to 12.5 years as a minimum. In order to offer investors an attractive proposition, leases of at least 15 years in duration should therefore be considered to allow potential operators to plan good quality products and services. For developments with high capital investment requirements or greater uncertainty, longer lease terms may be required.

- There should also be flexibility to negotiate duration with individual businesses according to commercial investment drivers, reflecting a partnership model.

- The increase should be a matter of process rather than regulation. While current legislation often allows for long duration leases, long leases are seldom awarded. When a development proposal is deemed to be able to meet conservation objectives, the minimum lease term should recognise the commercial realities of tourism investment.

- Administrators can retain the right to withdraw existing leases if environmental audits demonstrate that the lease agreement is not being honoured, and have the ability to extend leases and reduce audit requirements for those that achieve positive audit outcomes. This penalty and incentive approach is being used successfully by Western Australia’s Department of Environment and Conservation as part of its Naturebank programme, in order to encourage concession holders to comply with environmental requirements, and to reward outstanding operators.
Recommendation E1: Facilitation of collaboration

That the federal government deepens its supply side facilitation role, which focuses on maximising the effectiveness of state based efforts to stimulate tourism investment and on facilitation of national strategic priorities.

- Federal government agencies (DRET and Tourism Australia, and Austrade for off-shore investments) should organise collaboration between the states. Existing funding such as TQUAL could be used to steer states towards the agreed national strategic priorities for investment, such as the recently announced Strategic Tourism Investment Grants under the TQUAL Grants program. This ensures that the different state tourism strategies reinforce each other, or at the least are not in conflict with each other. In this context, the National Investment Advisory Board should be involved in this coordination effort where appropriate.

- Specific items for co-ordination could include national and state strategic priorities, specific investment targets, regulatory reform agenda and tourism investment knowledge bank. A relevant example of such collaboration is the National Landscapes program which helps regions develop the supply side of the industry through tourism master plans to focus and guide sustainable tourism development. L.E.K. also notes the current focus on collaboration of the National Long-Term Tourism Strategy and the 2020 Tourism Industry Potential.

Recommendation E2: Economic model

That a dedicated tourism economic modelling capability be established to provide states with necessary analytical tools to assess major policy alternatives and satisfy Commonwealth cost-benefit analysis requirements.

- A key problem for policy making on major tourism supply issues in all jurisdictions is the lack of an analytic approach and a rigorous economic model that can be effective in informing and influencing central agencies.

- Analytical capability needs to be created at the state level to analyse the impact of supply side changes on tourism investment, as reflected in the recommendation to create a state based investment facilitation management agency (Recommendation A7).

- Consultations indicated a strong preference of the Commonwealth and Victorian Treasury for CGE modelling. There are also strong advantages in applying a common approach suited to all states and on a national basis. The solution is to further develop the Monash Multi-Regional Forecasting (MMRF) model as the shared tourism CGE modelling tool for use in tourism supply policy and investment analysis.

- Tourism Research Australia, using funding from the Commonwealth and state / territory tourism agencies, currently has an agreement with Dwyer et al to use their CGE model for policy analysis on behalf of the states and the Commonwealth. However, this use has not extended, as yet, to analysis of tourism supply response to regulatory or incentive changes or major tourism investment projects.
The Tourism Research Advisory Board and Tourism Research Australia should be requested to investigate the options to develop and implement a common methodology for the assessment of major strategic supply-side options (including guidelines on when CGE modelling is required for assessment).

4.1 Planning, development approvals and local development controls

The planning framework in Australia includes planning regulation, the development approvals process and local development controls. This section of the report will detail the impact of these components on tourism investment. Specifically, it will examine the cost of planning and development approvals for tourism developments, with the support of high profile case studies. It is noted that this requires high level generalisations across states, and that differences may occur across states. However, despite the occurrence of exceptions the evidence points to systemic issues across jurisdictions.

4.1.1 Issues and evidence

4.1.1.1 Complexity of the planning system

Currently tourism does not receive significant consideration in the planning system, compared to other economic activities such as agriculture, commercial and residential. This extends to both written regulation and its administration (both spheres in Figure 9).

Figure 9: Regulatory environment
Planning regulations that fail to specify, and appreciate, the role of tourism within the economy and society exist mostly at the state level. There is an abundance of planning regulation that impacts on tourism investment across the various states and local councils, creating a complex planning environment for investors to navigate (Figure 10).

Figure 10: Planning instruments, by jurisdiction

At the state level, examples of problems with planning regulation include the lack of understanding and recognition of tourism as a land use. This is because tourism is not defined as a major land use, and as it is seldom considered the highest value and best use it is given low priority. There is also a general lack of direction by the states around tourism supply and urban planning integration due to a lack of coordination of resources to meet strategic objectives. While there are differences between the states on this issue, the commonalities are significant, as shown in Table 8:
4.1.1.2. Short term visitors in planning

Tourism receives disproportionately low attention in terms of population planning relative to other land uses such as commercial or residential. This impacts on local and state government planning schemes.

Total population growth is comprised of both resident and short-term visitor population growth. As the Tourism and Transport Forum (TTF) notes in its submission to the Department of Sustainability, Environment, Water, Population and Communities review of Sustainable Population Strategy, both sources of growth need to be considered in deciding priorities for improvements. There is a need for planning processes to recognise the significant impact of short-term visitors on total populations in many areas of Australia. For example, on average, visitors staying overnight in Australia represent six percent of the Australian resident population. However, the distribution of this population is uneven, with visitors to metro areas and high-profile regional tourism areas having a greater share of the total population. International and National Visitor Survey data estimates that visitors on an average night in inner city (CBD) Sydney, Melbourne and Brisbane, represent between 19 percent and 38 percent of the resident population. This is well above the Australian average (see Figure 11). This ratio in other major cities is also at, or above, the Australian average.
As noted by the Tourism Research Australia (TRA) in its report on The Economic Importance of Tourism in Australia’s Regions, it is not just capital cities but also regional areas that should recognise short term visitors in planning. The report highlights that the economies of many regional areas are heavily dependent on tourism (see Table 9).

Table 9: Top tourism regions in Australia by economic importance of tourism

<table>
<thead>
<tr>
<th>Tourism region</th>
<th>Economic importance of tourism (%)</th>
<th>Total tourism expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central, NT</td>
<td>24.8</td>
<td>$411m</td>
</tr>
<tr>
<td>Phillip Island, Vic</td>
<td>18.7</td>
<td>$391m</td>
</tr>
<tr>
<td>Whitsundays, Qld</td>
<td>17.7</td>
<td>$685m</td>
</tr>
<tr>
<td>Snowy Mountains, NSW</td>
<td>17.1</td>
<td>$495m</td>
</tr>
<tr>
<td>West Coast, Tas</td>
<td>16.2</td>
<td>$102m</td>
</tr>
<tr>
<td>East Coast, Tas</td>
<td>14.6</td>
<td>$129m</td>
</tr>
<tr>
<td>Spa Country, Vic</td>
<td>14.3</td>
<td>$163m</td>
</tr>
<tr>
<td>Kangaroo Island, SA</td>
<td>14.1</td>
<td>$63m</td>
</tr>
<tr>
<td>Tropical North Queensland, Qld</td>
<td>9.7</td>
<td>$2,761m</td>
</tr>
<tr>
<td>Lakes, Vic</td>
<td>9.2</td>
<td>$296m</td>
</tr>
<tr>
<td>Australia benchmark</td>
<td>3.0</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: DRET, The Economic Importance of Tourism in Australia’s Regions
4.1.1.3. General business regulation

An example of the potentially restrictive various general business regulations that apply to tourism investment is liquor licensing. Applying for annual liquor licences (as required under state liquor licensing laws) is a costly and time consuming process and imposes strict requirements on the environment in which alcohol is made available. An example of a high case is Queensland, where the application fee for a commercial hotel liquor licence is $5,300 and the annual renewal fee is $2,900. In addition, the standards for sanitary conditions are necessarily high for venues serving alcohol, reflecting the nature of most licensed premises. While acknowledging the need for prudent licensing requirements, this can unevenly impact tourism, especially for small scale developments in regional and high natural amenity areas. Consultations, for example, highlighted the conflicting requirements for modest nature based tourism ventures in National Parks as a result of a rigid application of the EPBC (minimisation of power and water usage) versus strict local council liquor licensing regulations geared towards entertainment venues (requiring refrigeration and flushing lavatories).

4.1.1.4. Research

There is also a general lack of research to support proper consideration of tourism in the planning process. In particular, the industry does very little to collect and consolidate supply side information, while government research is focused on the demand side. This contrasts with other sectors where either the government provides important input research (for example, health, education, general manufacturing and agriculture) or the industry does (for example, mining).

4.1.1.5. Consideration of tourism in planning

While planning regulation in Australia is not designed to distort tourism investment, one of its unintended consequences is that the application of regulations can have a negative impact on the industry. The regulation is best suited to its largest users: “standard” industries and “conventional” developments (for example, residential, industrial, agriculture). The industry agnostic nature of the planning schemes, and the lack of understanding of “complex” and “non-conventional” tourism development, combine to disadvantage the tourism industry.

The lack of consideration for tourism in planning regulation, such as planning schemes, translates into unnecessarily high costs for tourism operators. These regulations typically add to planning timelines (increasing holding costs), create additional processes and compliance requirements (raising administrative costs and consultant fees), exclude tourism from attractive development opportunities (decreasing revenues and profits) and add to uncertainty by investors (raising capital costs). In addition, an absence of tourism considerations in planning regulation reduces the ability of tourism operators to offer compelling and distinctive experiences to visitors because it can prohibit, discourage or limit the scope of developments.
In contrast, Tourism New Zealand and Local Government New Zealand have developed a tourism planning toolkit to help local government manage specific issues associated with the development and management of tourism, and develop a comprehensive tourism strategy to assist in planning for, and funding of, key projects. This Toolkit recognises that local government is a key player in New Zealand’s tourism sector. In New Zealand local government: manages the natural and cultural resources that tourism relies on; determines where businesses can locate and build; provides core infrastructure, attractions and facilities; and often funds regional marketing and visitor information. As Figure 12 shows, the Tourism Planning Toolkit provides a resource for local government to respond to the opportunities and challenges that tourism presents. It enables local authorities to take a comprehensive approach to tourism planning, by setting out the relevant factors to include in the planning process including: situation analysis; strategic planning; implementation and monitoring of performance. It also suggests relevant tools to assist with this process including identification of core tourism data sets; analysis processes and detailed case studies.

**Figure 12: New Zealand Tourism Planning Toolkit**

![Figure 12: New Zealand Tourism Planning Toolkit](source: Tourism Planning Toolkit)

This comprehensive Toolkit compares to the Australian National Tourism Planning Guide (NTPG) released in April 2011, which is designed to determine and communicate the ways policy-making and development assessment practices can contribute to the development of the tourism industry. It focuses on appropriate consideration of land use, and is less prescriptive than its New Zealand counterpart. It is primarily designed to ensure that planners understand the importance of tourism and take this into consideration when preparing plans and making planning decisions; and ensure that planners and the industry work in unison deliver new tourism developments. For example, while the NTPG provides a check-list outlining a methodology to address the supply side of tourism through the plan-making process, it does not provide specific tools such as a suggested approach to economic modelling and analysis of proposed tourism projects, or historical case studies to support decision making.
The NSW Department of Planning and Infrastructure’s Practice Note on providing for tourism in standard instrument local environmental plans, provides a toolkit to assist local government manage specific issues with the development, and management, of tourism within their local government areas.

4.1.1.6. Development approvals process

The development approvals process in Australia is characterised by high degrees of complexity and ambiguity arising from the multitude of process requirements. Insufficient information and investment facilitation services are available to facilitate this. This complexity creates high compliance, appeal and holding costs for investors compared with other industries. It also postpones the generation of revenue and, thereby pushes out the investment payback period. Finally, it deters potential investors from lodging applications. These issues impact negatively on the quantity and range of tourism assets.

The Productivity Commission in its draft report on Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments, notes that there are a number of factors that can influence the approval time of developments. As Table 10 shows, many of these factors have a particular relevance to tourism related development applications, given that: these applications are often complex involving new ideas; applicants are often inexperienced at the application process; and staff evaluating the proposal may not have had much experience with tourism applications given that they are not as frequent as other types of application.
Table 10: Factors influencing approval times

<table>
<thead>
<tr>
<th>Description</th>
<th>Relevance to tourism applications</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Planning scheme</strong></td>
<td></td>
</tr>
<tr>
<td>The nature of the planning scheme can determine</td>
<td></td>
</tr>
<tr>
<td>the length and number of approval processes</td>
<td>•</td>
</tr>
<tr>
<td>required</td>
<td></td>
</tr>
<tr>
<td><strong>Complexity</strong></td>
<td></td>
</tr>
<tr>
<td>The degree of complexity of the proposal</td>
<td>•</td>
</tr>
<tr>
<td>impacts on the time needed to review the proposal</td>
<td></td>
</tr>
<tr>
<td><strong>Development type</strong></td>
<td></td>
</tr>
<tr>
<td>The mix of development types impacts the</td>
<td>•</td>
</tr>
<tr>
<td>assessment process</td>
<td></td>
</tr>
<tr>
<td><strong>Quality of application</strong></td>
<td></td>
</tr>
<tr>
<td>The quality of the application (and the need for</td>
<td>•</td>
</tr>
<tr>
<td>additional information to be provided by</td>
<td></td>
</tr>
<tr>
<td>applicants), can impact the length of time taken</td>
<td></td>
</tr>
<tr>
<td>to review the application</td>
<td></td>
</tr>
<tr>
<td><strong>Impact assessment</strong></td>
<td></td>
</tr>
<tr>
<td>The requirements for government agencies to</td>
<td>•</td>
</tr>
<tr>
<td>scrutinise and provide feedback on the impacts</td>
<td></td>
</tr>
<tr>
<td>of development projects can add time to the</td>
<td></td>
</tr>
<tr>
<td>approval process</td>
<td></td>
</tr>
<tr>
<td><strong>Public consultation</strong></td>
<td></td>
</tr>
<tr>
<td>Public consultation requirements can extend the</td>
<td>•</td>
</tr>
<tr>
<td>approval time of projects</td>
<td></td>
</tr>
<tr>
<td><strong>Appeal rights</strong></td>
<td></td>
</tr>
<tr>
<td>The appeal rights for the applicant, government</td>
<td>•</td>
</tr>
<tr>
<td>and third party objectors can add to approval</td>
<td></td>
</tr>
<tr>
<td>times</td>
<td></td>
</tr>
<tr>
<td><strong>Staff</strong></td>
<td></td>
</tr>
<tr>
<td>The efficiency and experience of development</td>
<td>•</td>
</tr>
<tr>
<td>assessment staff can impact approval times</td>
<td></td>
</tr>
</tbody>
</table>

Note: A full ball means that this issue is highly relevant to tourism applications


In addition to the high cost of regulation for actual investors, there is also a strong impact on prospective investors that are deterred. Unfortunately, this effect can not be quantified. To L.E.K.’s knowledge there is no survey data available that indicates how many investment plans are prematurely terminated due to the cumbersome approval processes (although in L.E.K’s numerous consultations, many industry experts suggested this number is large).

Ministerial call-in powers generally exist to take significant developments out of the hands of local councils, but there is a lack of clarity and consistency, compared to other industries, with the application of these powers in respect of tourism developments. In practice, ministerial call-ins are typically triggered by a combination of investment size and potential employment, generally excluding, typically smaller, tourism developments. Industry participants argue that the existing approach is not serving tourism well because it does not take account of the broader economic benefit which tourism developments can produce. An additional criticism is that the call-in process does not take account of the complexity of tourism developments, or the ability of the local councils to adequately deal with them. Table 11 below sets out the existing ministerial powers by state in Australia.
Table 11: Ministerial decision powers, by state

<table>
<thead>
<tr>
<th>State</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>New South Wales</td>
<td>For tourist facilities, the minister determines proposals that are valued at least $100m, or employ at least 100 people, with significantly reduced thresholds for sensitive areas. The new Liberal government has announced that it will remove Part 3A of the NSW Planning Act, which allows a development to be declared a “major project”</td>
</tr>
<tr>
<td>Queensland</td>
<td>There is no minimum project dollar value for a ministerial call-in, rather the focus is on significance</td>
</tr>
<tr>
<td>Victoria</td>
<td>The Minister has the power to call in a planning permit application if several key criteria are met including a major policy issue being raised and significant delays disadvantaging the applicant</td>
</tr>
<tr>
<td>Western Australia</td>
<td>An application to call in by the Minister is made to the State Administrative Tribunal if the project is of State or regional importance</td>
</tr>
<tr>
<td>South Australia</td>
<td>When deciding whether a development or project should be declared a ‘Major Development’, two tests must be met, namely that the project is of major environmental, social or economic importance, and that such a declaration is appropriate for the proper assessment of the proposal</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>When making a development permit-related decision, the Minister must observe the public interest and the merits and potential impact of the proposed development</td>
</tr>
<tr>
<td>Australian Capital Territory</td>
<td>An application can be called in if it raises a major policy issue, or its approval or refusal would have a significant impact on the public or territory plan</td>
</tr>
<tr>
<td>Tasmania</td>
<td>Minister directs the Tasmanian Planning Commission to undertake an integrated assessment of the proposal if it satisfies a number of criteria related to significance</td>
</tr>
</tbody>
</table>

Source: Urbis; TTF

While the Commonwealth does not have broad planning system call-in powers, the development approvals process can also be significantly impacted by the federal government under the EPBC Act.

Another complicating factor with respect to the approvals process for tourism developments in Australia is that most of the approval agencies have no incentive to consider the application in a timely fashion. In addition, the stop / start provisions relating to time limits for deciding development applications, adds to the uncertainty and costs of the approvals process.
4.1.7. Costs

As a result of the above issues, planning and development approval costs are high for the tourism industry in Australia. Evidence of this can be found in the Victorian Competition and Efficiency Commission’s (VCEC) reports on the cost of planning and on unlocking Victorian tourism, as well as from selected high profile case studies developed by L.E.K. following consultations.

The VCEC Cost of Planning Report states that planning costs amount to $491 million, and represent 1.2 percent of the gross fixed capital formation in Victoria. The recent VCEC draft report on Unlocking Victorian Tourism highlights that tourism-related projects tend to be perceived as more complex than other types of projects, with around 70 percent of high value (where the cost of work is greater than $5 million) tourism-related applications in Victoria being deemed complex, compared with around 50 percent of total applications. It is this perception of complexity that flows through to the timeframe for determining project applications, and the cost associated with the development approval process. For example, the average timeframe for determining high-value tourism-related projects in Victoria is 305 days, while the timeframe for all high-value applications is 239 days (see Figure 13).

![Figure 13: Average timeframe for determining high-value tourism projects](image)

Given the perceived complexity of tourism-related applications, and their protracted determination timeframes, they share a disproportionate burden of these costs. A high profile example of the planning costs borne by tourism developments is the Wolgan Valley Resort and Spa developed by Emirates Airlines in New South Wales. Consultations held with the operator indicated that the direct cost to the company of the approval process, including lost profit and consultant, legal and administrative costs, might have been as high as $16 million, and this process extended the length of the project by about two years (see Case Study 1).
These costs represented between 10-15 percent of the total costs of the project, about 10 times the average across all industries (as planning is estimated by VCEC to represent 1.2 percent of total gross fixed capital formation). In addition to the direct costs, the indirect costs of lost revenue are often larger still.

Case Study 1: Wolgan Valley Resort, Sydney

<table>
<thead>
<tr>
<th>Wolgan Valley Resort &amp; Spa, New South Wales</th>
</tr>
</thead>
<tbody>
<tr>
<td>The $125m, 40-suite Wolgan Valley Resort and Spa was opened by Emirates Hotels and Resorts in 2009. The resort is set on a 1,500 hectare wildlife sanctuary 3 hours drive from Sydney, and features a conservation reserve for endangered wildlife and native plants.</td>
</tr>
<tr>
<td>In 2006, 20 submissions were received under the NSW Environmental Planning and Assessment Act 1979 in response to the initial Concept Plan for the Resort. The key concerns were around potential traffic impacts, helicopter flights and environmental damage. In 2007, 47 submissions were received in response to the modified Concept Plan, which reallocated some resort facilities into National Park land. Mitigation measures, and recommended conditions of approval, were provided.</td>
</tr>
<tr>
<td>Delays in the planning and approval process for this project were due to miscommunication between applicant and authorities, that could have been avoided with streamlined arrangements. For instance, the applicant could have taken advantage of the bilateral agreement between the NSW and federal Governments to produce one set of assessment documentation, which would meet the requirements of both jurisdictions. In this case the applicant submitted a referral under federal legislation when the NSW assessment process was being finalised. As the NSW process did not take account of federal regulatory requirements, the applicant was required to address those matters through a separate assessment process. Earlier engagement with the EPBC Act would have significantly reduced the time taken to complete both state and federal processes.</td>
</tr>
</tbody>
</table>

Source: Press; NSW Department of Planning; SEWPAC; Wolgan Valley Resort & Spa website

L.E.K. has undertaken analysis of VCEC’s Cost of Planning Report to identify the cost of planning regulation borne by the tourism industry on the basis that Victoria’s planning and regulation costs are indicative of Australia wide planning and regulation costs. In this regard, tourism’s contribution to industry Gross Value Added (GVA) was used to determine the gross fixed capital formation (GFCF) attributable to tourism. Victoria’s share of Australia’s tourism GVA was then applied to Australian tourism’s GFCF. This analysis suggests that at an Australian level, the direct process planning costs (for example, consultant and application fees) borne by tourism developments amount to $81 million per year (1.7 percent of total tourism gross fixed capital formation). A significant proportion (70 percent) of these costs incurred at the approval stage (see Figure 14). These costs exclude significant non-process costs (for example, holding costs).
Because tourism investment proposals are not well understood by those administering the approvals process, these costs are unnecessarily high. Feedback from consultations suggests that this is due to the fact that approvals officials get limited experience at handling tourism-based applications, and that often these applications involve new ideas or concepts that they may not have dealt with before. This can lengthen the approval timeframe and delay the project, while adding further costs as a result of a need to provide additional supporting information to assist with the approval process. A high profile example of this in Australia is the BridgeClimb development, which involved an application to develop and operate a tourist attraction across Sydney’s Harbour Bridge. Consultations with the company highlighted the protracted approval process before the project was approved. (see Case Study 2). The unique nature of this proposal meant that the various agencies involved did not have experience with similar applications. As a result, the approval process was much more involved and lengthy than for “standard” developments. An increased expertise and engagement of administrators would partially lower this barrier.
Case Study 2: BridgeClimb, Sydney

BridgeClimb, Sydney

BridgeClimb offers guided climbs that take visitors to the summit of the Sydney Harbour Bridge, 134 metres above the water. BridgeClimb has a 20-year contract with the RTA, which requires it to contribute a total of $3.9 million to the Bridge’s Pylon Museum. BridgeClimb is also required to contribute to the maintenance of the bridge.

Founder Paul Cave invested almost ten years of effort before the business opened on 1 October 1998. Negotiations with the various approval bodies commenced in 1994. The company was required to consult widely, with some 500 parties, and in total addressed more than 60 local council and state government objections across a range of issues including safety, legality, aesthetics and the environment (although no development application was required). It highlights the inherent difficulty of establishing a private business providing access on a major piece of publically owned high infrastructure, and of the challenges in the approval process for unique developments.

In addition, tourism applications can often be seen as more complex due to the location or nature of the project, for example near National Parks. This would add to the approval times and costs, particularly if it is combined with a novel concept. In this regard, impact assessment requirements are greater in high natural amenity areas, which add significant costs to the approval process, in the form of consultant fees and costs passed on by the approval agencies.

L.E.K. has conducted analysis to identify the additional costs incurred by developers over and above what they would have incurred had the approval process for their project been efficient. These holding costs include a sum of the process costs, interest and other costs incurred in holding the underlying asset such as land and development costs, and foregone profits as a result of delays in the approval process. Specifically, L.E.K. has looked at two high profile case studies that have incurred significant costs and delays as a result of the planning and approval process: Wolgan Valley Resort that has been referred to above, as well as the Saffire Freycinet luxury lodge in Tasmania where the development approval process took over four years (see Case Study 3).

Case Study 3: Saffire Freycinet, Tasmania

Saffire Freycinet, Tasmania

Saffire Freycinet features 20 suites on 11 hectare of land in Coles Bay, Tasmania. The building of the resort was a condition of the 15-year extension granted in 2003 to Federal Group, the monopoly poker machine operator in Tasmania. Federal Group was required to spend at least $25m on the project. The final total building cost was $32m.

The development approval process took over four years. The operator’s variation in the number of rooms at the resort from 100 down to 22 (these reductions were driven by private investment concerns rather than the regulatory process) lengthened the process as new regulatory approvals were required.

Additional time and cost was added due to the additional processes resulting from concerns around the height, sitting and appearance of the development, and waste water and sewage infrastructure.

Source: Press; Saffire Freycinet website; Development Approval Planning Assessment Report
In this regard, L.E.K. has drawn on consultations with the developers of these projects, and the approval authorities, to identify the specific issues they faced, and the delays they experienced. As a benchmark, L.E.K. has drawn on comments from the Tourism Industry Association of New Zealand, which stated that in New Zealand approval delays of two years or more are considered sub-standard for large projects.

As noted in Case Study 1, Emirates’ development of the Wolgan Valley Resort and Spa, was delayed by two years as a result of the planning processes related to the project. L.E.K. analysis suggests that this cost Emirates c. $16 million in additional holding costs (compared to developments costs of c. $125 million). L.E.K. has also examined the development of the Saffire Freycinet luxury lodge in Tasmania, where the development approval process took over four years due to the concerns raised in Case Study 3. This created an estimated $9 million in holding costs, on total building costs of $32 million (see Figure 15).

**Figure 15: Additional holding costs**

In addition to the additional holding costs associated with the planning and approval process, it is critical to understand the impact of these costs on the viability of the projects from a net present value (NPV) perspective. In this regard, the delays associated with the Wolgan Valley Resort and Spa impacted the NPV of the project by an estimated $11 million. The delays impacted the NPV of the Saffire Freycinet luxury lodge in Tasmania by approximately $6 million. Such impacts on NPV significantly affect the viability of projects. A summary of this impact is highlighted in Figure 16.)
Figure 16: Impact of planning and approvals on project net present value process on NPV

<table>
<thead>
<tr>
<th>Millions of dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
</tr>
<tr>
<td>-3</td>
</tr>
<tr>
<td>-6</td>
</tr>
<tr>
<td>-9</td>
</tr>
<tr>
<td>-12</td>
</tr>
</tbody>
</table>

Wolgan Valley  Saffire Lodge

Source: Press; company websites; L.E.K. analysis

It is worth noting that the highlighted projects now enjoy general community support and provide economic and non-economic benefits (for example, environmental and community activities). This highlights that the additional costs incurred for these projects are a result of a poor understanding of tourism proposals, not of inherent issues that would require regulation to control them.

4.1.2. Recommendations

Nine related planning framework and development approval reforms are recommended to facilitate tourism investment. In this regard, it is noted that in some instances the recommendations for reform have less priority in some states because of variances in the degree of barriers by state, however, the purpose of these suggestions is to create a consistent situation across states.

Recommendation A1: Systematic mechanisms

That at state level tourism is actively and systematically engaged in the planning process and planning instruments development, in order to ensure that tourism’s interests are considered when planning decisions are made and that tourism development receives the appropriate priority in the planning framework.

- To achieve this level of engagement requires tourism to be represented in the planning process. It also requires a whole of government approach to tourism investment at the state level, including a long term plan with development targets, as well as appropriate capacity and resources. One option would be that the investment facilitation management agency (Recommendation A7) be vested with this responsibility.
- This advice about planning schemes is targeted at the policy level to ensure that the benefits of tourism are understood, in principle, by those involved in the planning process. This is already occurring in some states, for example,
in NSW all regions have tailored regional and subregional strategies prepared to the particular needs and opportunities of that particular region. Planning for tourism is specifically addressed in the strategies for: Far North Coast, Mid North Coast, Lower Hunter region, Central Coast, Illawarra and South Coast.

- This recommendation is consistent with the approach adopted by a number of state governments in relation to other land uses critical to economic activity, including housing and employment lands. In NSW, for example, an Employment Lands Task Force has been established to “advise on strategies, policies and implementation actions to secure orderly development of employment lands in NSW”. A similar group in each state comprising senior representatives of key stakeholders from government and industry could play a significant role in providing focus on the development and implementation of planning policy and controls to enhance tourism outcomes.

- This recommendation also complements TTF’s National Tourism Planning Guide, which provides a resource for planners, and a tool to facilitate effective working relationships between planning and tourism stakeholders. In order to be completely effective, it needs to be supported by systemic change.

**Recommendation A2: Land-use definition and zoning**

That at state level tourism-based uses are defined in a standardised manner, and that these uses are more commonly included as a permitted use in planning zones.

- To ensure tourism is considered in land-use definitions there should be a focus on streamlining the planning approval framework to ensure standardisation of tourism references. Furthermore, there should be an increased allowance for tourism development within the planning system, by approving tourism use in more zones. This also relates to Recommendation C1, around encouraging mixed used precincts.

- This streamlining has occurred in NSW where the 2006 Local Environment Plan established a set of standard definitions and land use zones. In doing so, it reduced the number of planning definitions from 1,700 to about 300, and the number of land use zones from 3,100 to less than 50.

- The land-use definitions would ideally be nationally consistent, although in practice a degree of variation between states is likely to continue to exist.

- This recommendation is consistent with the COAG initiatives around national reform and standardisation of development controls, as well as with TTF’s National Tourism Planning Guide which establishes a suite of standard definitions and an accompanying broader framework for land use zoning.
Recommendation A3: Integration of tourism demand forecasts

That tourism demand forecasts and major development opportunities are integrated into the planning system, as a key input in policy development and zoning decision making.

- The planning process should be cognisant of the principal tourism activities in particular locations, whether these are growing or declining and if there are any specific types of tourism that the industry is expecting to expand. This includes major development opportunities. This information is critical to the plan-making process as it provides for the development of plans at state, regional and local level; a means of determining what strategies for tourism are achievable; a way to ascertain what level of benefits might be expected for local economies and communities; and a means to support particular proposals, for example, to help to demonstrate the benefits of a particular scheme. Such information will often overlap with the analytical work of various planning authorities regarding the need for other land use activities, particularly in the urban context.

- The plan-making process should be informed by research that is sufficient to enable effective evidence-based policy development and informed land use planning decisions. It is, therefore, important that planners and policy makers are equipped with the best information available when engaging in the plan-making process. Planners need to consider relevant quantitative data, including data relating to the economics of tourism development to understand the land use dimension of tourism in the plan-making process.

- The nature of this integration should be strategic (that is, using long term forecasts) rather than tactical, as the length of planning, approval and development processes does not allow for effective short term adjustments. It is noted that existing research can also be incorporated in the planning process.

- As is suggested in Recommendation A7, this research and analysis function should sit within governments, and links with Recommendations E1 and E2. The Tourism Research Advisory Board and Tourism Research Australia should be requested to investigate the options to develop and implement a common methodology for the development of demand forecasts.

Recommendation A4: Review of local development regulation with tourism relevance

That as part of wider and ongoing regulatory reform activity, local development controls with tourism relevance are reviewed to identify where regulatory reform would provide significant benefits for tourism.

- A systematic review of local development regulation and its impact on tourism should identify areas where greater consideration and specification of tourism would be possible without disadvantaging other sectors, or reducing competition. Specifically, local development controls that currently
have a negative impact on tourism investment including liquor licensing; food hygiene; noise; and parking should be reviewed. For example, allowing the serving of wine with dinner on remote camp sites, without a full liquor licence.

**Recommendation A5: Binding timeframes for approvals processes**

That state government agencies are committed to end-to-end maximum time limits for development approval assessments, particularly where there are multiple agency concurrences, in order to reduce the costs and uncertainty for the applicant.

- The nature of the tourism industry in Australia results in a disproportionate regulatory burden, compared with other industries, because of the high exposure of tourism developments to a wide range of regulations and agencies at a state level, for example relating to: transport; environment; heritage; health and safety; built form; and food and beverage.

- Binding time limits for government agencies to provide decisions on tourism applications, should be based on the achieved approval times for a selection of other sectors. Whilst this report does not specify a timeframe, feedback from consultations in New Zealand suggests that an end-to-end process taking anything over two years is considered substandard. This time limit could be linked to the escalation process recommended in Recommendation A6.

- It is noted that the EPBC Act currently has strict statutory timeframes prescribed in the legislation for all stages of the assessment and approval process. In particular, it imposes a 20 business day statutory timeframe for deciding whether a referral requires approval. Similarly, it imposes a 20 business day timeframe of deciding on the approach to be used for such an assessment, and between 20 and 40 business days on deciding whether or not to approve the project, depending on the nature of the action. Despite these strict statutory timeframes, however, in a not insignificant number of instances, the timeframes are not complied with. For example, in 2009–10 the Department of Sustainability, Environment, Water, Population and Communities did not meet the 20 business day statutory timeframe for a referral decision 25 percent of the time. Furthermore, in 33 percent of cases it did not determine the assessment approach within the specified timeframe, and 28 percent of the approval decisions were made outside the statutory timeframe. It is, therefore, critical to ensure appropriate time limits are developed, and that agencies be made accountable for meeting these time lines.

- The performance of governments against these time limits should be made available in public reporting, as is the case of the EPBC Act where the Department of Sustainability, Environment, Water, Population and Communities is required to report on its performance against the statutory timeframes in its annual report each year. A further option is to deem as approved developments that have not received assessments within the set
timeframes. There is precedent in the Airports Act 1996, which is the governing legislation for approval of master plans and major developments, for deemed approvals. For example, section 81(5) of the Act is an example of how the Act deems a master plan or major development approved in the event the Minister does not make a decision within 50 business days.

- The agencies should have the right to “stop-the-clock”, but in specific pre-defined circumstances only (e.g. where a development application is incomplete).

**Recommendation A6: Merit based escalating process for state significant developments**

That developments that meet transparent and firm criteria for the determination of their significance, are eligible for referral to a single higher decision making authority in each state.

- The objective of this mechanism is to allow for expediting developments, through upward escalation, where necessary and merited. This recommendation recognises the disproportionate exposure of tourism developments to protracted approval processes (because of the number of agencies involved in assessment), and the fact that the benefits of tourism investments extend beyond capital expenditure to ongoing operating expenditure.

- The merit-based and objectively observable and measurable criteria for determining whether the development requires escalation should take into account the positive impact of developments, for instance including:
  - total investment value;
  - number of jobs created during the project’s development;
  - number of rooms / visitors; and
  - expenditure / GSP impact.

- The investment value threshold of $5 million for eco-tourism developments in current NSW legislation provides a good indication of the appropriate level for such a criterion.

- In association with tourism demand forecasts (Recommendation A3) and systematic mechanism (Recommendation A1), state authorities will be well placed to make merit based assessments in a transparent manner.

- Currently, legislative mechanisms for “call-ins” of tourism projects exist in all states, but with widely varying thresholds and criteria triggering a subjective process. A more consistent, independent and merit-based approach that is more “tourism aware” will provide greater process certainty and streamlined timelines, particularly to improved coordination and referral to multiple government agencies.
This authority could potentially have the ability to override existing zoning and development controls by local and state bodies. For instance, agencies, at the direction of the Minister of Planning, could undertake an integrated assessment of a development proposal if it satisfies a number of criteria related to significance.

“Front door” facilitators in government (see Recommendation A7) should be available to assist tourism proponents who are largely unfamiliar with planning approval processes.

Recommendation A7: Investment facilitation management agency

That a state based tourism investment facilitation management agency is established within existing government structures, in order to ensure the development of supply side strategic objectives, and their effective and efficient implementation.

These bodies should represent the industry in a supply side role, which compares to the demand side role currently fulfilled by the state tourism organisations. Its role should be formally recognised in relevant legislation.

Responsibilities might include formal engagement in planning and approvals processes, appropriate to each jurisdiction. Specifically, this could involve the provision of strategic planning advice, the identification of strategically significant opportunities or projects, and the capacity to refer projects to the merit based escalating process for state significant developments.

Specific roles in approvals processes could include: supporting other government bodies with resources in approvals processes; and providing “account management” services to applicants (for example, appointing a single representative for support through all approvals stages).

Potentially, this agency could also be tasked with prioritising government funding and incentives (for example, TQUAL) for tourism developments.

Linking to Recommendation A3 regarding the need for a supply side analytical capability, these bodies should provide reporting and analysis on the performance of the approvals processes. Recommendation A8 to create a tourism investment knowledge bank for government would assist with analysis.

Reflecting Recommendation E1, the Commonwealth should ensure these state based facilitation functions are effective at stimulating tourism investment, by facilitating collaboration and co-ordination between the states to help develop and share best practice. The Commonwealth could also provide complementary services.

Recommendation A8: Tourism investment knowledge bank for governments

That a national level tourism investment knowledge bank is established for the public sector, supported by local and state level information inputs, in order to capture and leverage approvals expertise, developed in Australian government agencies.
• The capture of previous approvals processes by state and local governments of infrequent and unusual investment proposals (which tourism developments are often considered, especially in regional areas) would ensure that “lessons learned” are leveraged for future development approvals. The knowledge bank will provide governments with economies-of-scale and economies-of-experience by aggregating previous development approvals cases and making them available in an easily accessible manner.

• In addition, this knowledge bank could be the basis for further reporting and analysis on the performance of the approvals processes. This analysis would be the major input in an ongoing review of regulatory effectiveness regarding tourism development approvals.

• Creating and maintaining this knowledge bank would logically be the responsibility of the tourism investment facilitation management agency (recommendation A7). An example of an industry using knowledge banks in Australia is the legal industry. The Australasian Legal Information Institute is an online database of legal resources including important court decisions; legislation and academic thought pieces.

• The knowledge bank would be a major source of information for an ongoing review of the effectiveness of the regulatory environment in respect of tourism development.

• Reflecting Recommendation E1, regarding developing national collaboration, the Commonwealth could also provide complementary services.

**Recommendation A9: Streamlined development approval process**

That a streamlined approach for tourism development approvals is pursued, with a focus on consolidating approval requirements within, and across, jurisdictions.

• This process would also entail harmonisation of approval processes. It is important to note this recommendation is limited to administrative processes, and does not extend to the harmonisation of policy development and implementation. As Figure 17 suggests, this is likely to require a staged approach.
The first stage could focus on identifying synergies that can be gained from consolidation within approval areas so that harmonisation is not undertaken across the board, without considering the efficiencies that can be gained. A first area of focus could be in respect of the environmental approvals process.

This could be followed by a second stage examination of potential jurisdictional consolidation in relation to approval areas (especially where federal and state agencies are involved). The approvals responsibility would not necessarily rest with one authority for all approvals areas.

- Consolidation could commence with environment and heritage across Commonwealth and states, and planning across states.

- It is noted that under the EPBC Act, bilateral agreements are in place with state and territory government for assessments. The intent of these bilateral agreements is that for a project assessed under the bilateral agreement the proponent needs only to produce one set of assessment documentation (for example, a single Environmental Impact Statement), and undergo a single public consultation process that achieves both the state and federal requirements. However, feedback from consultations suggests that this rarely occurs. Furthermore, while proponents have the option of being assessed under the bilateral agreement, if the project is already well advanced in a state process it is often too late to enact the bilateral agreement. In addition, there are still two separate determinations at the state and federal level at the conclusion of the bilateral process.

---

**Figure 17: Tourism approvals framework**

<table>
<thead>
<tr>
<th>Category</th>
<th>Approval areas</th>
<th>Main jurisdictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environment</td>
<td>Lease and licensing (1)</td>
<td>1 Commonwealth</td>
</tr>
<tr>
<td></td>
<td>Land (2)</td>
<td>2 State</td>
</tr>
<tr>
<td></td>
<td>Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Public land</td>
<td></td>
</tr>
<tr>
<td>Heritage</td>
<td>Indigenous (3)</td>
<td>Commonwealth</td>
</tr>
<tr>
<td></td>
<td>Build form</td>
<td>State</td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Planning</td>
<td>Built form</td>
<td>State</td>
</tr>
<tr>
<td></td>
<td>Hours</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Licenses and permits</td>
<td>Local</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Roads / transport (4)</td>
<td>State</td>
</tr>
<tr>
<td></td>
<td>Water</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Electricity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Operational</td>
<td>Liquor</td>
<td>State</td>
</tr>
<tr>
<td></td>
<td>OH&amp;S</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Food safety</td>
<td></td>
</tr>
</tbody>
</table>

- Commonwealth
- State
- Local
- Indigenous
- Build form
- Other
- Heritage
- Roads / transport
- Water
- Services
- Electricity
- Other
- Liquor
- OH&S
- Food safety
• Finally, in the third stage, an examination across approval categories could identify areas for jurisdictional consolidation within categories and approval areas.

4.1.3. Expected outcomes

The outcome of these reforms will be the creation of a more efficient and effective regulatory framework for planning approvals. Proper consideration of tourism will reduce the cost of regulation for the sector, and this will stimulate investments. These positive impacts apply equally to tourism accommodation and attractions, both in regional and metro areas, across Australia.

Tourism will also receive the consideration it is due in planning and other regulation at the federal, state and local government levels. This increased prominence will contribute to better access to investment opportunities, and increased resourcing to pursue these opportunities. This positive impact applies both to tourism accommodation and attractions, both in regional and metro areas, across Australia.

4.2 Labour supply

4.2.1. Issue and evidence

There is a mismatch between labour supply and labour demand in tourism in Australia. Shortages occur in particular areas and / or for particular skills (and these shortages will be further exacerbated by increased tourism investment stimulated by this report). From consultations, it is apparent that this limits the investment attractiveness of tourism ventures.

Labour recruitment remains a common problem for tourism operators, with a relatively high vacancy levels. The accommodation and food services industry has a higher level of vacancies as a proportion to total employment (1.9 percent) relative to the average across all industries (1.6 percent). For the construction, manufacturing and retail trade industries, vacancies represent 1.3 percent of employment (see Figure 18).
Tourism vacancies are also subject to peak demand. As many jobs within the tourism sector are for casual or part-time work, most workers, particularly Australian workers, tend to be unwilling to move to regional areas, where many of the vacancies exist. Due to this immobility of labour, there are high levels of tourism vacancies in pockets of the country.

These particular issues are being investigated by the Labour and Skills Working Group (LSWG), as one of the nine working groups created by the Tourism Ministers’ Council to progress implementation of the National Long-Term Tourism Strategy. The LSWG is undertaking a range of relevant work including a regional survey that will identify the current levels of tourism and hospitality employment across regions, project labour and skills needs by occupation, and volume, as well as expected labour supply and expected shortages by region and occupation.

To address labour shortages in an economy with full employment (which is effectively the situation in Australia with 4.9 percent unemployment), particularly with regards to casual employment and jobs in regional areas, many employers already make use of the Working Holiday Maker (WHM) program, comprising the Working Holiday Visa (Subclass 417) and the Work and Holiday Visa (Subclass 462). Under this program, visas are issued to people aged 18 to 30 years of age for a working holiday of up to 12 months in Australia. Visa holders may work in Australia for up to six months with each employer and may study for up to four months during their stay. In 2009-10, the Department of Immigration and Citizenship issued 175,739 Subclass 417 visas and 7,422 Subclass 462 visas.

An evaluation of the WHM program by the National Institute of Labour Studies at Flinders University in 2009, found that the average visitor tends to stay in Australia for eight months and more than two-thirds (69 percent) of them worked during their holiday in Australia.
A 2007 member poll by TTF found that 27 percent of its members (spanning the hospitality, investment, transport and aviation, tourism and infrastructure sectors) employ people under the Working Holiday Visa scheme. This amounted to around 30,000 workers in 2008.

Just under 60 percent of WHMs work in low skills jobs in the cities, where there is a large supply of labour. A quarter of these WHMs work as waiters, kitchen hands, bar attendants or cooks. In these jobs, they compete with the local low skill labour force as well as students. But it is worth noting that many WHM travellers are likely to have skills suited to tourism / hospitality, and that they would be attracted to areas experiencing seasonal labour issues.

The labour supply issue applies disproportionately to tourism because while tourism does have elevated labour needs (for example, peak demand for seasonal / casual labour, regional labour shortages, specialised skills), the industry does not benefit from specific treatment in immigration regulation like other industries with similar needs (for example, agriculture has access to “fruit picking visas” where a second year extension is available to working holiday makers who have worked for a minimum of three months in regional areas). As a consequence of agriculture’s specific treatment in immigration regulation, it is one of biggest users of the scheme. Therefore, if tourism received specific treatment in immigration regulation there would likely be a significant uptake in demand for this labour source.

4.2.2. Recommendations

Two potential solutions should be referred to LSWG, for consideration in the light of the labour shortage in tourism in Australia.

Recommendation B1: Extension of the working holiday visa programs

That the LSWG reviews the working holiday maker program to encourage employment in the tourism sector in regional areas, for instance through offering a second visa year to those working in regional areas.

- Extension of the WHM program should focus on areas where unskilled, seasonal / casual labour is in short supply. The WHM visa conditions should be structured such that more visitors choose employment in tourism-related jobs in regional areas.

- Currently, a second year for the Working Holiday Visa is already available to visitors who complete three months of work in regional Australia in the following areas: plant and animal cultivation; fishing and pearling; tree farming and felling; mining; construction; and specified work in disaster affected areas. As a result, the scheme has been especially successful at reducing labour shortages in the agricultural industry. The 2009 study by Flinders University evaluating the WHM program found that 27 percent of WHM visa holders work as farm hands in regional areas, with the majority working in harvesting jobs such as fruit picking. Tourism jobs are not currently enjoying the condition that a second Working Holiday visa is available if a minimum of three months work in an eligible regional area is concluded.
• The nomination of eligible regional areas under the current schemes for agriculture, mining and construction should be considered as a starting point for the regional area definition for a similar tourism scheme.

**Recommendation B2: Review 457 visa process**

That the LSWG reviews the process required to obtain a 457 visa, to improve the ability of tourism businesses to attract skilled tourism workers in an effective and time efficient manner.

• It would be beneficial to streamline the 457 visa application process to ensure that employers can access appropriate workers in a timely fashion. Ensuring that information is available to employers to assist them in understanding, and navigating, the 457 process would also assist with this.

• The review should also identify which specific skills are in short supply in the tourism industry and evaluate what skills should be included in the eligibility criteria for the Temporary Business Sponsorship 457 visa (e.g. professional skills, language skills).

• In addition, other requirements, including a willingness to work in regional areas, could be taken into consideration in assessing visa applications.

4.2.3. **Expected outcomes**

The implementation of these recommendations is expected to result in a lower level of vacancies within the tourism sector. Extending the WHM scheme will allow tourism operators to tap a larger pool of low skills labour, especially in regional areas where there is a shortage of casual and seasonal workers. Streamlining the 457 visa process will enable tourism operators to better fill crucial vacancies for skilled jobs. The reduction in job vacancies is expected to improve the business case for investment in tourism.
4.3 Accommodation supply

4.3.1. Issue and evidence

Australia’s tourism industry suffers from a lack of investment in new short term tourist accommodation as well as limited refurbishment of existing accommodation stock. This has resulted in a shortage of quality accommodation stock, most obviously in inner metropolitan areas.

The investment case for hotels is challenged because in metro areas land is scarce, which has resulted in high land values. Furthermore, residential and commercial property offer higher returns, are more easily financed and can compete better for this land than short term accommodation.

It is also noted that residential dwellings built under class 2 of the Building Code of Australia are able to enter the short-term accommodation market with lower build requirements (for example disabled access, and fire safety, requirements). In addition, they are also subject to different tax treatments, including input tax compared with GST; reduced land taxes; reduced capital gains tax; and the ability to apply negative gearing.

In light of the additional build requirements for hotels, the construction costs for hotels are significantly higher than serviced apartments (both hotel and residential style). As Table 12 notes, the costs to construct a 350 bed five star hotel in Sydney are significantly higher than similarly sized residential-style serviced apartments (40 percent higher) and hotel-style serviced apartments (16 percent higher). This, combined with lower operating margins, results in significantly lower total returns for hotels, compared with other accommodation investments.

Table 12: Construction costs and returns for accommodation investments

<table>
<thead>
<tr>
<th></th>
<th>5 star, 350 room hotel</th>
<th>Residential-style serviced apartment</th>
<th>Hotel-style serviced apartment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction cost</td>
<td>$115m</td>
<td>$82m</td>
<td>$99m</td>
</tr>
<tr>
<td>15 year develop and operate post tax total average return*</td>
<td>3.0%</td>
<td>16.5%</td>
<td>11.3%</td>
</tr>
</tbody>
</table>

Note: * Income and capital return
Source: L.E.K. interviews; L.E.K. analysis; Davis Langdon The Blue Book 2010; ABS; Urbis; Broker Reports; TTF; Press; Royal Incorporation of Architects

The impact of this is seen in limited investment in short term accommodation compared with other forms of property investment, despite improving core operating performance metrics for hotels. This is evident from increasing occupancy rates and revenue per available room (RevPAR), at a rate much faster than the stock of hotel rooms. Internationally, hotel room stock tends to rise with hotel occupancy rates, reflective of the underlying demand for the room, however, in Sydney hotel room stock has declined despite a significant increase in hotel occupancy rates (Figure 19 and Figure 20).
Figure 19: Hotel occupancy rates by city (2002-09)

![Graph showing hotel occupancy rates by city (2002-09)]

- New York: 5.4%
- Hong Kong: 6.0%
- Sydney*: 6.1%
- Paris: 0.3%

Percentage point change (2002-09)

Note: * Includes all hotels
Source: Hong Kong Tourism Board; HVS 2010 Manhattan Hotel Market Overview; Paris Office du Tourisme et des Congrès; ABS Cat. No. 8635.1; L.E.K analysis

Figure 20: Hotel room stock by city (2002-09)

![Graph showing hotel room stock by city (2002-09)]

- Paris: 0.8%
- New York: 1.2%
- Hong Kong: 6.3%
- Sydney*: (0.1)

Compound Annual Growth Rate (%)

Note: * Includes all hotels
Source: Hong Kong Tourism Board; HVS 2010 Manhattan Hotel Market Overview; Paris Office du Tourisme et des Congrès; ABS Cat. No. 8635.1; L.E.K analysis
High occupancy rates are not limited to Sydney and have further increased in 2009. Recently, occupancy rates in major Australian cities (for example, Sydney, Perth, Brisbane) have increased to above 85 percent. In Melbourne, focused initiatives to increase room stock have been moderately successful.

Consultations and analysis undertaken by L.E.K. suggest that the nature of hotel ownership also discourages capital investment. In Australia, most hotels are operated under a management contract, and this has resulted in limited refurbishment of hotel room stock. A major factor driving this in Australia is the role of superannuation funds. Their investment models are focused on controlling cash flows and providing smooth returns, which can discourage capital investment in hotels. In contrast, owner operator models provide more scope for capital investment, given that operators can take a long term approach to returns and cash flow management. For example, most externally managed hotels carry out refurbishments at a cost of between $20,000 and $90,000 per room, while owner operated hotels such as the Crown Towers Melbourne and the Hilton Sydney spent $135,000 and $347,000 per room, respectively (as seen in Table 13).

Table 13: Australian hotel refurbishment spend

<table>
<thead>
<tr>
<th>Hotel</th>
<th>Last refurbished</th>
<th>Value</th>
<th>Spend per room</th>
<th>Management Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hilton, Sydney</td>
<td>2005</td>
<td>$200m</td>
<td>$347k</td>
<td>Owned and operated</td>
</tr>
<tr>
<td>Crown Towers, Melbourne</td>
<td>2009</td>
<td>$65m</td>
<td>$135k</td>
<td>Owned and operated</td>
</tr>
<tr>
<td>Sofitel, Melbourne</td>
<td>2006</td>
<td>$32m</td>
<td>$88k</td>
<td>Managed</td>
</tr>
<tr>
<td>Shangri-La, Sydney</td>
<td>2005</td>
<td>$37m</td>
<td>$67k</td>
<td>Managed</td>
</tr>
<tr>
<td>Intercontinental, Sydney</td>
<td>2003</td>
<td>$30m</td>
<td>$59k</td>
<td>Managed</td>
</tr>
<tr>
<td>Langham, Melbourne</td>
<td>2005-6</td>
<td>$12m</td>
<td>$31k</td>
<td>Owned and operated</td>
</tr>
<tr>
<td>Four Seasons, Sydney</td>
<td>2009</td>
<td>$16m</td>
<td>$30k</td>
<td>Managed</td>
</tr>
<tr>
<td>Sofitel, Sydney</td>
<td>2007</td>
<td>$10m</td>
<td>$23k</td>
<td>Managed</td>
</tr>
<tr>
<td>Treasury Hotel, Brisbane</td>
<td>1995*</td>
<td>-</td>
<td>-</td>
<td>Managed</td>
</tr>
</tbody>
</table>

Note: * No refurbishment since opening in 1995

As a consequence of the lack of refurbishment there has been a degradation in the quality of hotel room stock across Australia, particularly in the five star segment. For example, as Figure 21 shows, the proportion of total hotel room stock rated as five star by AAA Tourism has reduced from 11.3 percent to 8.3 percent over the last six years.
This reduces Australia’s ability to adequately meet the needs of high value tourists, and to compete for their business in the international market for tourists. The degradation in hotel stock quality has impacted visitors’ perceptions of the quality of the metropolitan hotel stock in Australia, and there is evidence from traveller feedback that Australia’s hotel stock is weak compared to that in major overseas cities. In particular, overall guest satisfaction with hotel accommodation in Australia is lower, particularly in Sydney and Brisbane (as seen in Figure 22).
The differences in guest satisfaction are even more marked for business travellers. For example, the median Tripadvisor score given by business travellers for hotels in Sydney is 2.9 out of five, which is significantly lower compared with other international business hubs such as Hong Kong (3.8 out of five); New York (3.6 out of five); and London (3.2 out of five) (see Figure 23).

Figure 23: Business traveller Tripadvisor hotel rating, by city* (2011)
On top of the impacts of high land prices and hotel management contracts, the investment case for hotels is subject to an inherent problem. Hotels do not capture all the economic benefits that guests generate in an economy, but rather their spend is split across multiple businesses including airlines, restaurants and retailers. For example, in 2009-10 accommodation operators in Australia received 17 percent of the gross value added by tourism, and airlines and food retailers each received 15 percent of the gross value added.

The investment case for hotels is further weakened by a market failure which arises when high occupancy rates are reached. In these situations, there is limited scope to use yield management practices to increase room rates due to the commercial pressure exerted by powerful bulk buyers (for example, airlines requiring rooms for flight crews, inbound wholesalers), the competition from other destinations coupled with the presence of internet rate comparison sites and the low market entry barriers for residential-built accommodation.

High hotel occupancy rates result in a congested market that increases search costs and drives up the cost for visitors seeking accommodation. This in turn impacts on demand for accommodation as visitors are rationed by their willingness, and ability, to bear the costs and inconvenience of locating accommodation in a congested market. In the Perth hotel accommodation market, for example, Access Economics estimates that the economic impact of constrained hotel accommodation supply through loss of accommodation takings was around $10 million in 2008-09 (and more than $27 million in 2007-08).

L.E.K. considers that congestion costs are a major issue that is set to grow in importance in the short to medium term, without remedial action by governments. For example, in inner Sydney (20,000 rooms) in 2010, the annual average occupancy rate in hotels / motels / serviced apartments was 86 percent, resulting in many days this year where inner Sydney tourist accommodation was full.

Under current market conditions (that is, without reform as recommended in this report), the room rate increases required to get the industry to a level of sustainable profitability would be prohibitively high. L.E.K.’s economic modelling indicates that room rates for a five star hotel in Sydney would need to conservatively increase to, on average, $500 per night, from around $250 per night, to achieve a total return (income and capital) of around six percent. This six percent return (still insufficient to tempt rational investors) is an arbitrary figure as a result of doubling room rates, and indicates that increasing room rates alone will be insufficient to correct the investment case for hotels. In addition, any room rate increase is likely to have a negative impact on current demand for rooms, together with a turn away effect on future demand (impacting the effectiveness of a room rate increase). Furthermore, under bullish projections for room rates and occupancy levels ($450 per night; 80 percent), Access Economics estimates that a new five star hotel in the Perth CBD would still only achieve an indicative return on historic cost of 5.4 percent. Current average takings per room night occupied for five star hotels in Perth is around $230, so in order to achieve a return of 5.4 percent, room rates would need to increase by 96 percent.
By encouraging new accommodation supply, it would also generate positive externalities for the broader economy and community in terms of extra consumption of tourism generated by these “accommodated” visitors such as airfares, attractions and meals. Given this, there is a case for direct intervention in order to improve the economics of investment in the short term accommodation sector to reduce congestion costs.

4.3.2. Recommendations

L.E.K. suggests a set of five reforms to improve the investment case for additional short term accommodation, and lead to improvements to the quality of the room stock in Australia:

**Recommendation C1: Mixed use precincts with FSR concessions and other incentives**

That mixed use precincts and sites are created to encourage short term accommodation development, with floor space ratio concessions, and other incentives such as increased height allowances, provided for the accommodation part of the development, to significantly improve the economics of the development.

- This recommendation has an inner-city focus, to encourage accommodation development through the improvement of its economics. It also allows for cross-subsidisation between elements of the total development, facilitating project funding.

- Mixed use precincts have been successfully used in Victoria to encourage the development of hotels. For example, the Melbourne Convention Centre and Crown Complex cluster highlights the benefits arising from a well-planned project encompassing areas for commercial as well as tourist accommodation and attractions. This resulted in several new hotels in the area including the Crown Metropol and the Hilton Melbourne. Furthermore, hotels can earn higher returns if combined with a convention centre development, as they attract business travellers who are often less price sensitive.

- In addition, historically, floor space ratio concessions have been used to encourage the development of new hotel rooms both in Australia and internationally (see Table 14). As a result of these concessions, there was an improvement in room stock in each of these cities.
Table 14: Floor space ratio incentives

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auckland</strong></td>
</tr>
<tr>
<td><strong>New York</strong></td>
</tr>
<tr>
<td><strong>San Francisco</strong></td>
</tr>
<tr>
<td><strong>Sydney</strong></td>
</tr>
</tbody>
</table>

Source: L.E.K. research; Hotel Development WA

- The Central Sydney Local Environment Plan (LEP) 1996 contained Floor Space Ratio incentives aimed at encouraging the development of hotels and serviced apartments in the lead up to the 2000 Olympics. This resulted in a significant room stock increase in a series of CBD properties, with around 3,000 rooms added during the period of the LEP. The fact that FSR concessions were required to stimulate supply, despite the forecast demand arising from the Olympics, suggests that the increase in rooms attributable directly to the Olympics was minimal, particularly given the two week period of the Olympics. There was also a marked decline in the number of new hotel rooms when the FSR incentives were phased out from 2001. It is suggested that FSR incentives of 25 percent or more compared to other uses, be offered to operators in metropolitan areas, which would significantly improve the total returns for hotel operators. The exact nature of the incentives should be determined locally, based on specific local factors.

- As Table 15 highlights, based on the maximum suggested FSR incentives in the draft Sydney LEP 2011, develop and operate total returns can increase by 70 basis points after tax. It is important to note that this is one aspect of the reform recommendations. Other aspects such as the impact of mixed used development also need to be considered.
Table 15: Impact of FSR incentives

<table>
<thead>
<tr>
<th>Hotel, base case</th>
<th>Pre-tax total return*</th>
<th>Post-tax total return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed and operate</td>
<td>5.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Hotel, increase FSR from 8:1 to 9.5:1</td>
<td>5.5%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Hotel, increase FSR from 8:1 to 10:1</td>
<td>5.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Hotel, increase FSR from 8:1 to 12.5:1</td>
<td>6.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Hotel, increase FSR from 8:1 to 14:1</td>
<td>6.2%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Note: * Assumes capital gains realised after 15 years
Source: L.E.K. analysis

Recommendation C2: Utilisation of state-owned historical buildings and sites

That state-owned historical buildings and sites be designated for accommodation development, guaranteeing access for the public and providing development opportunities for tourism operators.

- Government land and buildings offer a solution to tourism’s limited ability to compete to access scarce high value land. It can also improve the economics of short-term accommodation development (through government providing concessional lease rates).

- The development of state-owned buildings should result in projects of high public amenity value, given that many of the available land and buildings have significant heritage value and/or are situated in prime locations. It would also ensure public access to the buildings.

- Historically, a number of hotels in Sydney have been developed on crown land, or have utilised, often heritage, crown buildings (Table 16). There have also been a number of successful developments of government buildings in other states including the Treasury casino and 137-room hotel in Brisbane, which occupies two heritage buildings (the Treasury Building and the nearby Lands Administration Building).
### Table 16: Sydney CBD hotels developed on government land

<table>
<thead>
<tr>
<th>Date</th>
<th>Tenure</th>
<th>Number of rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ibis Hotel</td>
<td>2008</td>
<td>SHFA</td>
</tr>
<tr>
<td>Holiday Inn Rocks</td>
<td>2006</td>
<td>SHFA</td>
</tr>
<tr>
<td>Grand Mercure Apartments</td>
<td>1999</td>
<td>SHFA</td>
</tr>
<tr>
<td>Medina Railway Square</td>
<td>1999</td>
<td>Parcel Post Office</td>
</tr>
<tr>
<td>Star City Hotel</td>
<td>1995</td>
<td>Ex-Government</td>
</tr>
<tr>
<td>Sydney GPO</td>
<td>1995</td>
<td>Sydney General Post Office</td>
</tr>
<tr>
<td>Park Hyatt</td>
<td>1990</td>
<td>SHFA</td>
</tr>
<tr>
<td>Sir Stamford Circular Quay</td>
<td>1987</td>
<td>Ex-Government owned hotel</td>
</tr>
<tr>
<td>Novotel Darling Harbour</td>
<td>1987</td>
<td>SHFA*</td>
</tr>
<tr>
<td>Intercontinental Sydney</td>
<td>1984</td>
<td>NSW Treasury</td>
</tr>
<tr>
<td>Shangri La</td>
<td>c.1980s</td>
<td>SHFA</td>
</tr>
<tr>
<td>Four Points by Sheraton</td>
<td>n/a</td>
<td>SHFA</td>
</tr>
<tr>
<td>Four Seasons</td>
<td>n/a</td>
<td>SHFA</td>
</tr>
</tbody>
</table>

Note: * Sydney Harbour and Foreshore Authority
Source: L.E.K. interviews; NSW Tourism Planning and Investment Taskforce

- There is a large number of buildings and sites in Australia’s major cities that would be suitable for hotel development: for instance the New South Wales Tourism Planning and Investment Taskforce Report highlights a number of NSW government assets that could be further investigated for development as tourism accommodation (such as the Original Lands Building and the Department of Education and Training Head Office in Sydney’s CBD). In another example, the Property Council of Australia’s Perth CBD Hotel Property Conversion Study highlights a number of government buildings suitable for conversion to a hotel. Beyond these reports, a number of sites have been identified by TTF (see Table 17 for selected opportunities).
Table 17: Government assets suitable for conversion to a hotel

<table>
<thead>
<tr>
<th>Occupant</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Housing and Works Building, Perth</td>
<td>Department of Housing and Works. High suitability in Perth CBD Hotel Property Conversion Study</td>
</tr>
<tr>
<td>363 and 365 Wellington Street, Perth</td>
<td>Western Power. High suitability in Perth CBD Hotel Property Conversion Study</td>
</tr>
<tr>
<td>Don Aitken Centre, Perth</td>
<td>Main Roads. High suitability in Perth CBD Hotel Property Conversion Study</td>
</tr>
<tr>
<td>Riverside Precinct, Perth</td>
<td>East Perth Redevelopment Authority (EPRA). Various developments under way on 40 ha site</td>
</tr>
<tr>
<td>GPO site (Forrest Place), Perth</td>
<td>Australia Post. Refurbished in 2008. Harbour foreshore site, development planning underway with need to include hotel</td>
</tr>
<tr>
<td>Barangaroo, Sydney</td>
<td>Bangaroo Delivery Authority. Redevelopment plans for convention centre include hotel</td>
</tr>
<tr>
<td>Darling Harbour South, Sydney</td>
<td>Sydney Harbour Foreshore Authority. Overlooks Sydney Domain</td>
</tr>
<tr>
<td>Hospital Road Courts, Sydney</td>
<td>Attorney General’s Department. State government Sydney. New offices</td>
</tr>
<tr>
<td>Original Lands Building, Sydney</td>
<td>Department of Planning. State government offices.</td>
</tr>
<tr>
<td>Walsh Bay, Sydney</td>
<td>NSW Maritime Authority. Structurally refurbished wharves.</td>
</tr>
<tr>
<td>Darling Harbour South Master plan area, Sydney</td>
<td>Sydney Harbour Foreshore Authority. Master plan to make provision for visitor accommodation and facilities for the site</td>
</tr>
<tr>
<td>Disused Police Centre, Sydney</td>
<td>Attorney General’s Department. Derelict building.</td>
</tr>
</tbody>
</table>

Source: Tourism Planning and Investment Taskforce Report; Perth CBD Hotel Property Conversion Study, October 2008; TTF

- This recommendation is highly compatible with recommendation C1, as mixed use precincts could be created within these areas of high public value. This would encourage publicly accessible uses for these buildings and sites, and result in non-economic benefits on top of the improved total returns for operators.
Recommendation C3: Capital works deduction incentives

That a 50 percent capital works deduction bonus, with the remaining 50 percent spread over 12.5 years at 4 percent, be made available to stimulate investment in new development as well as refurbishments, for short-term accommodation operators.

- Given the strong demand for accommodation, and the lack of room stock, an incentive to encourage new accommodation construction to increase the level of available accommodation would help ensure visitors do not choose a destination other than Australia due to a lack of suitable accommodation.

- Accelerating the capital works deduction schedule from its current 25 years at 4 percent better aligns the depreciation timeframes with the operational life of investments.

- The creation of depreciation incentives should be for a limited period of time, with a sunset clause after, for example, three years. This has a two-fold impact. Firstly, it helps to prevent a supply bubble as a result of the incentive. Secondly, it limits the government’s outlay.

- This incentive would provide a stimulus to new development and existing accommodation refurbishment, and it would commit developers to continue to provide short-term accommodation for an extended period of time (as they operate the accommodation to recoup their investment).

- This capital works incentive does not simply bring forward investments that would otherwise be occurring at a later point in time. Rather, it commits investors to new developments or refurbishments that might not have taken place without the incentive. The crucial point is that the investment intentions of tourism investors do not necessarily need to result in actual commitment, as these investments are discretionary (this is a major difference from for instance non-discretionary replacement of old cars, where the Commonwealth Cleaner Car Rebate brought forward purchases that would have occurred at a later stage anyway: this is because most motorists can not do without their vehicles). The fact that in the current Australian market tourism investment plans often do not reach the commitment stage, is evidenced by the very high accommodation occupancy rates.

- In a related point, the capital works incentive (because it applies to refurbishments too) will also act to stop existing investors from exiting the short term accommodation market. Without incentive, some of these investors might opt to sell, or adopt, an alternative use for their property at the point when re-investment is required.

- Modelling by L.E.K. suggests that this incentive will significantly improve the economic return, and ability to obtain finance, for hotel operators. For every $1 billion of investment generated by the incentive it will generate an NPV increase for the tourism sector of $71 million compared to the existing incentive, while the incremental NPV cost to government is $62 million (see Figure 24). This represents a 15 percent greater impact to the sector compared with government.
Figure 24: Impact of 50 percent capital works deduction bonus

<table>
<thead>
<tr>
<th>Impact</th>
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</thead>
<tbody>
<tr>
<td>NPV of current capital works deduction scheme to government</td>
</tr>
<tr>
<td>NPV of current capital works deduction scheme to private sector</td>
</tr>
<tr>
<td>NPV of proposed capital works deduction scheme to government</td>
</tr>
<tr>
<td>NPV of proposed capital works deduction scheme to private sector</td>
</tr>
<tr>
<td>Change in NPV to government</td>
</tr>
<tr>
<td>Change in NPV to private sector</td>
</tr>
</tbody>
</table>

Source: L.E.K. analysis

Whilst not a core recommendation, payroll tax concessions to existing and new hotel operators would improve hotel returns by decreasing the tax liability of the operators, given that L.E.K. consultations and analysis found that labour costs represent approximately 35 percent of accommodation providers’ total operating costs. These concessions would, however, give a general incentive, without providing a link to the underlying issues for hotel operators. Individual states could, at their discretion, provide payroll tax concessions as an additional incentive to hotel operators.

**Recommendation C4: Accessible room requirements**

That as a matter of priority the Australian government commissions a rigorous review by an independent party of the disability access standards for new buildings under classes 2 and 3 of the BCA.

- Consultations suggest that the class 3 requirement, as imposed by the Disability (Access to Premises - Buildings) Standards 2010, for around 4.5 percent of available rooms to be accessible for people with a disability is too high. TTF’s tourism submission to the Productivity Commission in 2010 (Productivity Commission Annual Review of Regulatory Burdens: Tourism Submission) quotes a national survey that suggests that the average demand for accessible rooms is around 0.5 percent and that the average occupancy rate of accessible rooms is less than half of that for standard rooms. The Productivity Commission in its review, notes these comments, as well as other comments from the sector, and indicates that accessible room requirements may be excessive and impose an unnecessary burden on the industry.

- The requirement for accessible rooms adds significant construction costs and reduces operating margins for hotels. L.E.K.’s analysis suggest that in a “build and operate scenario” over a period of 15 years, the NPV impact (from an operational, but excluding the build cost impact) is $300,000 lower for every additional 0.5 percent in accessible room requirements, for a five star, 350 bed hotel in Sydney. A reduction in accessible room requirements would, therefore, strongly improve the investment case for new hotel accommodation.
Whilst it is noted that the current accessible room requirements have been introduced in 2011 and are subject to review after five years, this review should be carried as a matter of priority (e.g. within the next 12 months). This is also the recommendation of the Productivity Commission, that notes that after a suitable period of operation of the new standards, an independent assessment of accessible room supply and demand should be commissioned by the Attorney General’s Department and the Australian Building Codes Board.

Recommendation C5: Serviced apartments under the BCA

That once the accessible room requirements are reviewed, new apartments that are to be used for short-term accommodation purposes and hotels are treated consistently in respect of building requirements.

- Room stock in Australia includes residential accommodation which has been built under class 2 of the BCA but now operates as short term accommodation, as well as serviced apartments which have been built under either class 2 or 3 of the code. Where serviced apartments have been built under class 2 of the BCA, this is either because they are considered similar to residential apartments or because the BCA is not being enforced. For rooms built under class 2, this means that this accommodation does not have to meet disability access standards and has lower fire safety requirements than hotels.

- An option for consideration would be that once the accessible room requirements are reviewed, only new buildings that have been built under class 3 of the BCA would be allowed to operate as short term accommodation. This requirement would to a large extent “level the playing field” in terms of the economic disadvantage for hotel investment and the suitability of serviced apartments for tourism use. Because this option would be considered once the accessible room requirements have been reviewed, the returns to investors in new serviced apartments should not be affected significantly.

- There is a large stock of apartments that have been built under class 2, as a result of historical conditions (this is especially the case in Queensland, where there is a high degree of reliance on this form of short term accommodation), or because their intended use at the time of construction was residential. In order not to reduce Australia’s tourism room stock and to protect investors in these properties, any recommended change should recognise current practices and situations (e.g. only apply to new developments).

- Issues for resolution include the ability to use the BCA as a regulatory instrument relating to the length of stay (this has been successfully challenged in court cases in Queensland and South Australia, for instance), the ability of local councils to enforce requirements and the treatment of residential-built apartments whose purpose (partially) switches to short-term accommodation provision after construction.
• The Commonwealth should take a leading role in reviewing this option and resolving the associated issues.

• Reflecting the concerns raised in this recommendation, it is understood that the Australian Building Codes Board is undertaking more work on Class 2 and 3 building classification and use issues.

4.3.3. Expected outcomes

These initiatives will lead to an increase in stock, which will address the shortage that currently exists (especially in metro areas). There will also be a necessary increase in tourism accommodation refurbishment in regional and metro areas.

4.4 Supply in high natural amenity areas

4.4.1. Issue and evidence

An important area for reform is the impact of relevant regulation (EPBC and state level legislation relating to National Parks and public land) and its administration on tourism development in high natural amenity areas (World Heritage Areas, National Parks and other, often public, land and reserves with significant natural or cultural qualities). The existing situation, which varies, but has more commonalities than differences, between states, is that the regulation is unnecessarily burdensome for tourism. It is a result of the underlying assumption that tourism development is posing risks to environmental values. This assumption fails to appreciate that tourism can act to protect, and increase awareness of, these values. The regulation and its administration create two barriers to tourism investment:

• the complex, highly involved and iterative processes for obtaining development approval deter tourism development (as a by-product of the conservation mandate of administrators)

• the default lease terms granted in National Parks have a duration which is too short, which limits the attractiveness of long term capital investments

Tourism development should not be seen as conflicting with the conservation mandate for high natural amenity areas. In fact, tourism’s positive externalities are strong and plentiful: it improves public access to these areas; it creates advocacy and provides education; and it provides private funding for conservation.

The current situation has been characterised in various consultations as a “landlord-tenant” model while a “partnership” model is more appropriate. The alignment of interests of conservators and tourism operators should not in itself be difficult. For instance, nature based tourism developments tend to be “light touch” compared to other development options. And the interests of tourist operators are closely aligned with those of the administrators of these areas in that both have conservation objectives (tourists demanding high quality nature experiences).
Tourism is disproportionately affected by the existing regulation and management framework, because it has a higher interest than most sectors in developments in high natural amenity areas. In particular, the Australian international tourism offering is highly dependent on natural attractions, and this places Australian tourism operators at a disadvantage. Also, the tourism industry structure (with an abundance of small operators, for example, around 50 percent of accommodation operators have revenue of less than $200,000) makes the industry more vulnerable than most to complex and lengthy processes with high costs. Further, those involved in administering environmental regulation and managing public land may not have an appropriately developed understanding of commercial drivers, and so may not tailor or manage such regulation in a way that enables appropriate investment. This adds to the regulatory burden.

Furthermore, regulations have failed to recognise new tourism trends such as ecotourism and a preference for medium intensity experiences and higher yields. In this regard, many regulations have been developed in the context of potential large scale, intrusive developments.

The impact of these barriers is that, for a country which has more than 10 percent of its land in protected land areas, there are low levels of tourism development in Australia’s high natural amenity areas. As development of tourism amenities is low, access to parks is mostly limited to low level immersion (for example, driving through parks without further interactive experiences) or to high intensity activities (for example, carrying a 30 kilogram backpack with tent and food). Where moderate intensity, quality tourism developments are proposed in National Parks, they face high regulatory barriers given the need for infrastructure to support the product offering. An unfortunate implication of this is that broad public access, education and advocacy relating to high natural amenity areas are impeded. A high profile example of this is the proposed Three Capes Track in Tasmania. To date the regulatory process to grant approval for the construction of five huts, and new or upgraded tracks, has taken over four years, which has added significant cost to the project, and deters similar types of development (see Case Study 4).
Case Study 4: Three Capes Track, Tasmania

Three Capes Track, Tasmania

The proposed Three Capes Track in Tasmania has been designed as a 68 kilometre six day / five night hut-based bushwalk along the southern coast of the Tasman Peninsula. The proposal is to cater 60 walkers departing each day, and requires construction of about 30 km of new walking track, major upgrading of about 25 km of existing track and minor upgrading of about 13 km of existing track. Overnight accommodation and services (for example, water, toilet) at each of the five sites in the recreation zones of the national park are also proposed.

The regulatory approval process to date has taken over four years as it has involved thorough investigation into the environmental and economic impact through consultation with the relevant authorities, and the public. In particular, the potential environmental and cultural impacts on the Tasman National Park required evaluation. Requirements included: a draft management plan and public submissions process, which was reviewed by the Resource Planning and Development Commission; development of final plan for approval by the Minister for Environment, Parks and Heritage; and a Master Plan outlining the anticipated environmental impacts of the development and mitigation measures.

In contrast, many countries that compete with Australia for international visitors, have developed, and are continuing to develop, high quality tourism offerings in their National Parks. For example, Ultimate Hikes operates guided multi-day walks through Fiordland and Mount Aspiring National Parks on New Zealand’s South Island. In permitting Ultimate Hikes to operate in National Parks, the New Zealand Department of Conservation (DOC) not only increases New Zealand’s tourism offering, but it also receives significant revenue from Ultimate Hikes, as well as a contribution to the upkeep of the tracks. Ultimate Hikes also assists DOC with achieving its conservation objectives, through specific projects as well as through responsible tourism policies. The New Zealand experience shows the value of developing tourism in National Parks (see Case Study 5).

Case Study 5: Ultimate Hikes, New Zealand

Ultimate Hikes, New Zealand

Ultimate Hikes holds Department of Conservation (DOC) approved concessions for multi-day guided walks on the Milford and Routeburn Tracks on New Zealand’s South Island.

It offers an all-inclusive package including comfortable accommodation (either private bedrooms with ensuite or bunk rooms), hot showers and flushing toilets, all meals, some equipment, transfers, as well as an experienced guide.

As part of this offering, the company has developed six well-appointed lodges on DOC land, at various points along the tracks.

In addition to concession and lease payments to DOC, including a payment of five percent of gross revenue to DOC, Ultimate Hikes covers 50 percent of all track maintenance and capital project costs on the Milford Track. Furthermore, Ultimate Hikes helps DOC monitor Blue Duck (Whio Whio) numbers on the Milford Track, and the Kea (mountain parrot) numbers on the Mackinnon Pass on the Milford Track. They are also involved in the process of eradicating pest plant species from its Milford lease area.

Source: Press; Tourism Industry Council of Tasmania Economic Impact Study June 2010; Tasmania Department of Environment, Parks Heritage and the Arts; Tasmania Department of Treasury and Finance; SEWPAC

Source: Ultimate Hikes; Department of Conservation; Press
Recognising that lengthy approval times and processes can impact on the viability of new infrastructure projects, the New Zealand Government has recently reformed its Resource Management Act 1991, which regulates access to natural and physical resources. These changes are aimed at streamlining the approval process for projects of national significance, and removing the ability of interest groups to mount frivolous or vexatious objections, that can add significant time and, consequently, expense to the project approval process. Given that many of New Zealand’s tourism attractions and accommodation are based around natural and physical resources, it is expected that this will further assist tourism operators with developing tourism projects more quickly (see Case Study 6).

Case Study 6: New Zealand’s Resource Management Act reforms

<table>
<thead>
<tr>
<th>New Zealand's Resource Management Act reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Resource Management Act 1991 (the Act) regulates access to natural and physical resources such as land, air and water, with sustainable management of these resources being the overriding goal.</td>
</tr>
<tr>
<td>New Zealand has recently implemented changes to the Act to remove red tape and enable essential infrastructure to be built in a more timely way. Key changes as they relate to tourism projects include streamlining processes for projects of national significance, and initiatives “removing frivolous, vexatious and anti-competitive objections that can add expense to consent applications” (New Zealand Parliament, 2009). Further changes are proposed to reform the urban planning rules to assist with development, including tourism projects.</td>
</tr>
</tbody>
</table>

Source: Ministry for the Environment; New Zealand Parliament

Tourism in National Parks also creates significant revenue for the regions where the tourism activity is located. Research undertaken by the Sustainable Tourism Cooperative Research Centre (STCRC) in its report on the Economic Value of Tourism to National Parks and Protected Areas in Australia, shows that tourism spend by visitors is driven, to a degree, by the presence of park attractions. In particular, it shows that tourism in National Parks and protected areas in Australia generates tourism spending that would not have been spent in the state or territory, if the park attraction was not available (the substitution factor). Examining it counterfactually, the STCRC estimates, on average, that around 20 percent of the spend would not have occurred in the region where the National Park is located, had the National Park not existed.

The interests of those administering National Parks and high natural amenity areas, and of commercial tourism operators within these areas, are often aligned, which can result in improved conservation outcomes. Tourism operators in national parks and high amenity areas are reliant on the continued quality of the underlying resource, so that they can continue to attract visitors. As a consequence, these operators often undertake their own self-funded conservation programmes, and have a focus on ensuring sustainable development that does not unnecessarily intrude on the natural environment. For example, &Beyond Africa, a luxury tourism operator in South Africa, has multiple programs designed to improve the number of endangered animals in its Reserves. These initiatives are driven, in part, by the fact that visitors to the Reserves are drawn by the opportunity to observe these animals in their natural habitat, but they also accord with the conservation objectives of the administrator of the resource (see Case Study 7).
Case Study 7: &Beyond Africa

&Beyond Africa, is a luxury adventure tourism company operating in South Africa and other parts of Africa. It highlights how tourism in high natural amenity areas, can in fact promote conservation outcomes.

For example at &Beyond’s Phinda Private Game Reserve in KwaZulu-Natal, the company has participated in the Black Rhino Range Expansion Project, which has seen the successful reintroduction of black rhino into the Reserve over the last few years. Phinda now boasts a healthy, growing population of these highly endangered animals.

In addition, the Munyawana Leopard Research Project at &Beyond Phinda Reserve began in April 2002 and has been instrumental in sustaining the long-term conservation of local leopard populations. As a consequence of the program, leopard density has increased by more than 50 percent; mortality rates have dropped; and the reproductive performance of the population has improved.

Source: &Beyond Africa

Experience in Canada further suggests that if government administered national parks and high natural amenity areas are re-organised to focus on commercial returns, including generating returns from tourism, that this can reduce costs for government, and result in some park functions and services becoming fully subsidised through tourism. As a consequence, there can be improvements in the quality, and range, of the tourism offering in these areas (see Case Study 8).

Case Study 8: Re-organisation of Parks Canada

Re-organisation of Parks Canada

In 1998, legislation was passed in Canada to alter Parks Canada’s mandate to focus more on capturing tourism revenues in its parks. The approach altered the management style of Parks Canada so that it resembled a state-owned corporation with objectives including: the retention and reinvestment of revenues; maintaining multi-year, non-lapsing operating budgets; increasing non-tax revenues from products and services; and borrowing against future revenue.

By 2000-01, Parks Canada had increased its gross revenues by 111 percent from 1994-95, with a significant increase in revenue from entry fees, rentals and concessions, and camping fees. This enabled a phase out of subsidies, and many services were stabilised on a full cost recovery basis.

This autonomous model has allowed Parks Canada to better utilise tourism revenue through partnerships with tourism operators and other stakeholders within its parks, and optimise the contribution of tourism to the parks.

Source: Parks Canada; Secretariat of the Convention on Biological Diversity, Protected Areas in Today’s World

As these case studies highlight, these outcomes can occur while the primary objective of national parks and high natural amenity areas, being the preservation of conservation values, is still achieved.
A result of the low levels of tourism development in Australia’s National Parks is that these parks almost exclusively rely on public funding to execute their conservation mandate. As a consequence, Australian National Parks are underfunded compared with countries such as New Zealand and Canada where there is more commercial activity in National Parks, and perform less well on key conservation metrics such as eco-system vitality (reducing the loss or degradation of ecosystems and natural resources); biome protection (the degree to which a country achieves the target of protecting at least 10% of each terrestrial group of distinctive plant and animal communities within its borders); and critical habitat (the degree to which endangered species are protected), as set out in Table 18.

Table 18: International funding of national parks and conservation outcomes

<table>
<thead>
<tr>
<th></th>
<th>Australia (Parks Australia)</th>
<th>New Zealand (DOC)</th>
<th>Canada (Parks Canada)</th>
<th>South Africa (SANParks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding – federal (2009-10)</td>
<td>A$75m*</td>
<td>A$205m</td>
<td>A$634m</td>
<td>A$89m</td>
</tr>
<tr>
<td>Funding – state</td>
<td>A$1.1bn*</td>
<td>n/a</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Funding – private** (2009-10)</td>
<td>A$76m</td>
<td>A$28m</td>
<td>A$110m</td>
<td>A$14.3m</td>
</tr>
<tr>
<td>Total funding</td>
<td>A$1.3bn</td>
<td>A$233m</td>
<td>A$744m</td>
<td>A$103m</td>
</tr>
<tr>
<td>Area (National Parks and reserves)</td>
<td>60m hectares</td>
<td>8.5m hectares</td>
<td>37m hectares</td>
<td>4.3m hectares</td>
</tr>
<tr>
<td>Total funding / hectare</td>
<td>A$21 / hectare</td>
<td>A$27 / hectare</td>
<td>A$26 / hectare</td>
<td>A$24 / hectare</td>
</tr>
<tr>
<td>Number of visitors (2009-10)</td>
<td>14.1m^</td>
<td>2.2m</td>
<td>22m</td>
<td>2.1m</td>
</tr>
<tr>
<td>Number of visitors / hectare</td>
<td>0.24</td>
<td>0.26</td>
<td>0.69</td>
<td>0.49</td>
</tr>
<tr>
<td>Yale Environmental Performance Index – Eco-system vitality^^</td>
<td>75.6</td>
<td>86.5</td>
<td>77.7</td>
<td>49.8</td>
</tr>
<tr>
<td>Yale Environmental Performance Index – Biome protection ^^</td>
<td>39.6</td>
<td>56.8</td>
<td>48.1</td>
<td>42.6</td>
</tr>
<tr>
<td>Yale Environmental Performance Index – Critical habitat ^^</td>
<td>69.4</td>
<td>78.6</td>
<td>75.8</td>
<td>58.8</td>
</tr>
</tbody>
</table>

Note: * 2006-7 being the most recent ABS classification of relevant data; ** Includes concessions, leases, licences and rents, permission cost recoveries, recreational charges and non-departmental capital receipts; ^ Visitors to national or state parks. A domestic overnight or an international tourist can visit a number of national or state parks during their trip, but are only recorded as one visit in this data source; ^^ With 100 being the highest and best score

Source: DSE; DECCW; DERM; Parks Victoria; DCE; DPIW; NRETAS; DEH; Tourism Research Australia, ABS; Yale Environmental Performance Index 2010; Parks Canada; National Park Service; SANParks; New Zealand Department of Conservation; L.E.K. analysis

While there is obvious scope to increase the level of tourism development in high natural amenity areas through the lowering of regulatory barriers, positive
developments in recent years include the creation of Australia’s National Landscapes program and the Tourism and Protected Areas Forum (“TAPAF”):

- Australia’s National Landscapes program is a partnership between Parks Australia and Tourism Australia to identify Australia’s iconic landscapes and to achieve environmental, social, and economic outcomes for these areas and their surrounding region. The two main partners work with each other as well as with industry partners and with state and local governments in each National Landscape region. The program specifically aims to enhance conservation outcomes at the same time as encouraging sustainable tourism.

- TAPAF is a group of state and federal parks and tourism agencies that meets regularly to share expertise and information to better manage and promote tourism in and around protected areas. Its current focus areas include tourism product development and investment barriers to tourism development in and around National Parks.

4.4.2. Recommendations

There are four areas for reform that this report proposes to remedy the underinvestment in tourism in areas of high natural amenity:

**Recommendation D1: Broad management objectives**

That broad management objectives (for example, conservation, advocacy, maximisation of public use, and self funding) for administrators of high natural amenity public land are established, consistent with existing policy objectives regarding conservation.

- The objectives are supported by private sector development, where planned and managed appropriately.
- The vision statements of these administrations (and the National Parks Acts) should be updated to reflect these objectives.
- As occurs internationally, key performance indicators should be established to monitor performance against the targets. For example, British Columbia’s Tourism Action Plan 2007 sets out a number of expected outcomes to assess the effectiveness of measures to increase tourism investment on Crown land such as: the number of park visits; the processing time for tourism tenure applications; and the number of Aboriginal tourism businesses within its parks.
- This reform is supported by evidence on funding models and conservation outcomes from other jurisdictions, such as &Beyond Africa outlined in Case Study 7 and the new Canadian funding model for its National Parks as specified in Case Study 8.

**Recommendation D2: Schemes for tourism development in National Parks**

That schemes which provide pre-approved opportunities for tourism development (including lodge / attraction infrastructure and support for other site preparation costs) in National Parks and other high natural amenity public land are developed.
This recommendation is similar to Western Australia’s Naturebank scheme, which involves the state government selecting and pre-approving selected sites; making infrastructure available; and creating relevant tourism zones.

To ensure a high quality of development opportunities, the nomination of these would need to be done with input from the tourism industry. In this regard, it will be necessary to involve the private sector in site selection, in order to ensure that sites that are selected are commercially attractive to operators. This is because the expertise is not available within the public sector. Site selection may also depend on access arrangements, for example, whether transport linkages are sufficient to support demand for accommodation. Assurances would be required that private sector involvement would not lead to unfair competitive advantages, and where necessary private sector advisors would be excluded from tendering for these opportunities.

In addition, the ability of the administrator of the area to retain its fair share of the lease and other fees generated, would provide an incentive to designate high potential areas for tourism development.

**Recommendation D3: Review of development approvals processes**

That the approval processes for tourism development in National Parks and other high natural amenity public land (through the EPBC and the various National Parks Acts) are reviewed with the objective of streamlining them, while retaining their conservation focus.

- This recommendation strictly does not seek to reduce protection of National Parks and other high natural amenity areas. Rather, it seeks to streamline the application of the regulation from a process perspective.

- This is reflective of the more general recommendations (Recommendations A5-A9) to remedy this issue of the high cost of the development approval framework.

- The review should, amongst others, cover the current requirement to provide separate Environmental Impact Statements to both federal (under the EPBC) and state governments (under state regulation). The power already exists under the EPBC to allow a proponent to have a project assessed under the existing bilateral agreement with each jurisdiction. This allows the state and federal processes to use the same documentation and public comment requirements, and for the processes to run concurrently. However, as noted in Recommendation B5, this rarely occurs. The bilateral agreement should become the default. There is also a need for significantly increased promotion of the bilateral agreement process because proponents often progress down a state process without knowing there is a choice.

- The recommendation in the VCEC draft report on tourism to separate the policy development (to be done by Department of Sustainability and Environment) and the approval process management (to be done by Parks Victoria) is instructive, and is an option for this reform.
Recommendation D4: Increase of default lease and licence durations

That default lease durations to privately-funded developments are increased from their current levels, in order to provide operators with a commercially viable horizon (reflecting the useful life of the asset) under which to operate and recoup their investment.

- Lease durations in high natural amenity areas often do not match the tenure required by private investors to earn their required return on investment. It is noted that in some states, such as Victoria, government policy has historically been to prohibit privately owned developments in National Parks altogether. Feedback from consultations suggests that tenures over 10 years provide investors with greater confidence to invest, however, in many instances the tenure offered by government in high natural amenity areas is much shorter. For example, the NSW Taskforce on Tourism and National Parks notes that 46 percent of concessions held in the NSW national parks system are for a duration of less than 10 years. In addition, in Victoria the National Parks Act 1975 states that the Minister of Environment can only grant a lease for up to seven years for a building in a national park.

- As an illustrative example, given normal investment returns (e.g. 8-10% for a well-planned development), a typical lease duration implying commercial viability would be above 10 to 12.5 years as a minimum. In order to offer investors an attractive proposition, leases of at least 15 years in duration should therefore be considered to allow potential operators to plan good quality products and services. For developments with high capital investment requirements or greater uncertainty, longer lease terms may be required.

- There should also be flexibility to negotiate duration with individual businesses according to commercial investment drivers, reflecting a partnership model.

- The increase should be a matter of process rather than regulation. While current legislation often allows for long duration leases, long leases are seldom awarded. When a development proposal is deemed to be able to meet conservation objectives, the minimum lease term should recognise the commercial realities of tourism investment.

- Administrators can retain the right to withdraw existing leases if environmental audits demonstrate that the lease agreement is not being honoured, and have the ability to extend leases and reduce audit requirements for those that achieve positive audit outcomes. This penalty and incentive approach is being used successfully by Western Australia’s Department of Environment and Conservation as part of its Naturebank programme, in order to encourage concession holders to comply with environmental requirements, and to reward outstanding operators.
4.4.3. Expected outcomes

The desired outcome of these reforms is to achieve a shift to a “partnership” model between National Parks and public land administrators and tourism operators. This will result in increased presence of sustainable accommodation and experiences in high natural amenity areas and improved access for the general public. This in turn will boost education and advocacy, and will provide increased private funding towards conservation objectives.

4.5 National collaboration

In addition to the above recommendations relating to specific reform areas, there is the need for supporting mechanisms to develop and implement supply side tourism strategies. While there is extensive collaboration on the demand side, collaboration of supply side activities remains fragmented and unconnected. This demand side experience shows that there are significant benefits from co-ordination and collaboration within the sector.

While noting healthy competition between states and territories is good, experience from the demand side shows there are significant benefits from some co-ordination and collaboration on the supply side

**Recommendation E1: Facilitation of collaboration**

That the federal government deepens its supply side facilitation role, which focuses on maximising the effectiveness of state based efforts to stimulate tourism investment and on facilitation of national strategic priorities.

- Federal government agencies (DRET and Tourism Australia, and Austrade for offshore investments) should organise collaboration between the states. Existing funding such as TQUAL could be used to steer states towards the agreed national strategic priorities for investment, such as the recently announced Strategic Tourism Investment Grants under the TQUAL Grants program. This ensures that the different state tourism strategies reinforce each other, or at the least are not in conflict with each other. In this context, the National Investment Advisory Board should be involved in this coordination effort where appropriate.

- Specific items for co-ordination could include national and state strategic priorities, specific investment targets, regulatory reform agenda and tourism investment knowledge bank. A relevant example of such collaboration is the National Landscapes program which helps regions develop the supply side of the industry through tourism master plans to focus and guide sustainable tourism development. L.E.K. also notes the current focus on collaboration of the National Long-Term Tourism Strategy and the 2020 Tourism Industry Potential.

**Recommendation E2: Economic model**

That a dedicated tourism economic modelling capability be established to provide states with necessary analytical tools to assess major policy alternatives and satisfy Commonwealth cost-benefit analysis requirements.
• A key problem for policy making on major tourism supply issues in all jurisdictions is the lack of an analytic approach and a rigorous economic model that can be effective in informing and influencing central agencies.

• Analytical capability needs to be created at the state level to analyse the impact of supply side changes on tourism investment, as reflected in the recommendation to create a state based investment facilitation management agency (Recommendation A7).

• Consultations indicated a strong preference of the Commonwealth and Victorian Treasury for CGE modelling. There are also strong advantages in applying a common approach suited to all states and on a national basis. The solution is to further develop the Monash Multi-Regional Forecasting (MMRF) model as the shared tourism CGE modelling tool for use in tourism supply policy and investment analysis.

• Tourism Research Australia, using funding from the Commonwealth and state / territory tourism agencies, currently has an agreement with Dwyer et al to use their CGE model for policy analysis on behalf of the states and the Commonwealth. However, this use has not extended, as yet, to analysis of tourism supply response to regulatory or incentive changes or major tourism investment projects.

• The Tourism Research Advisory Board and Tourism Research Australia should be requested to investigate the options to develop and implement a common methodology for the assessment of major strategic supply-side options (including guidelines on when CGE modelling is required for assessment).
5. Impact of Reform

The objective of L.E.K.'s tourism regulatory and incentive reform recommendations is to increase tourism investments in an efficient manner, thereby creating value for the community (i.e. general public, tourism investors and government). The process for estimating the net community benefits or costs of reforms to regulations varies depending on the recommendation area.

Recommendations A1-A9 (on planning and approvals) can be assessed on the basis of analysis of the costs of existing regulation, and thereby of the potential benefits of red-tape reform, using analysis from bodies like the Productivity Commission or VCEC. The recommendations do, however, imply the setting up of new bodies in each jurisdiction, supported by research activities. This will require either a reallocation of resources from within tourism portfolios, or the provision of new resources. There may also be savings from a simplified approvals system. If new funding is sought, however, a cost benefit analysis may be required.

The costs and benefits of recommendations B1-B2 relating to labour supply are subject to analysis by a different study. This report recommends that the LSWG working group consider these issues in more detail.

Recommendations E1-E2 are enablers, for which no cost-benefit analysis is performed. They are necessary framework conditions for an efficient sector representation.

The remaining recommendations on tourism investment warrant more detailed analysis. In studying the impact of reforms C1-C5 (short term accommodation supply) and D1-D4 (tourist investment in areas of high natural amenity) the following analytical steps have been explored:

- What are the estimated impacts on tourist expenditure by visitors from outside the jurisdiction? Estimating this variable requires three intermediary steps:
  - What is the tourism supply response (for example, extra rooms) to the recommendations? How will this increased supply affect tourist spending?
  - What is the impact on market pricing due to the recommendations? How will this affect tourist spending?
  - Given these impacts, what is the expected total change in tourist spending by visitors from outside the jurisdiction?

- What are the estimated net direct costs (or opportunity costs) for the bureaucracy of the recommendations?

- How does the estimated growth in tourist expenditure from outside the jurisdiction impact on overall economic activity in the jurisdiction?
If the economic gain as a result of the additional expenditure associated with the recommendations is greater than the costs, this implies a net community benefit from the recommendation.

It is noted that L.E.K.’s preference was to utilise a CGE model together with supporting supply side analysis, in order to assess the impact of the reform recommendations. Due to the lack of availability of an appropriate CGE model, however, a pragmatic approach has been adopted. The absence of a CGE model is reflected in Recommendation E2, which suggests that a dedicated tourism economic modelling capability, including a CGE model, is established.

After first analysing the impact of the recommendations on a number of stylised projects to illustrate their workings, this section of the report follows the above structure to analyse the economic impact of the recommendations to remove or lower regulatory barriers to tourism investment. It will conclude that the recommendations do generate a positive net impact and, therefore, should be considered further for implementation.

5.1 Stylised projects

L.E.K. has developed a set of stylised projects to highlight the positive impact of the report’s recommendations on tourism investment in Australia, in line with how they have been targeted and designed.

Table 19 below outlines the impact of the five areas of reform on 15 stylised case studies across accommodation and experiences in both metropolitan and regional areas. In each instance, it shows that the project would positively benefit from the reform recommendations.

In particular, the accommodation supply recommendations will positively impact hotel projects in metropolitan areas, as well as those in high natural amenity areas, by counteracting the high investment barriers in this sector, thereby encouraging quality new and refurbished accommodation stock.

The recommendations in respect of high natural amenity areas are expected to further support the development of quality accommodation in these areas, as well as new experiences and attractions that harness Australia’s natural environment. The planning, development approval and other regulation reforms are expected to have a wide ranging impact on all the stylised projects, reflective of pervasiveness of the current issues with planning and approvals in the tourism industry. Most notable is the impact on tourism operators in National Parks and high natural amenity areas, who currently face high regulatory barriers.

Tourism operators in regional areas are expected to benefit significantly from the report’s recommendations in relation to labour supply, given the challenges they face with attracting and retaining labour. Metropolitan hotel operators will also benefit significantly from reforms to labour supply.
Finally, an alignment of the supply side tourism strategy development and implementation within, and between, the states will positively impact the tourism industry as a whole in Australia by maximising the effectiveness of state based efforts to stimulate tourism investment and on facilitation of national strategic priorities.

Table 19: Stylised projects

<table>
<thead>
<tr>
<th>Stylised projects</th>
<th>A. Planning, development approvals and other regulation</th>
<th>B. Labour supply</th>
<th>C. Accom. supply</th>
<th>D. High natural amenity areas</th>
<th>E. National collaboration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  CBD hotel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2  Casino precinct including accommodation</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>3  Regional motel redevelopment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4  Mixed regional development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5  Coastal luxury boutique hotel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Coastal caravan park</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7  Luxury farm stay</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8  Luxury lodge in high natural amenity area</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>9  Eco-lodge within national park</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>10 Convention centre precinct including accommodation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 CBD tour operator with base, motor and water vehicles</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 Low impact experience on iconic crown property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Wine tourism experience development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Tour operator providing experiences in national parks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Walking track and amenities through a national park</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
5.2 Cost / benefit impact of recommendations

To estimate the expected investments, tourism expenditure and cost impacts of the two direct expenditure generating recommendation areas C1-C5 and D1-D4, L.E.K. has primarily drawn on domestic and international precedent and analysis.

The investment and expenditure impact of the accommodation supply recommendations have been estimated based on the supply side impacts of Sydney’s 1996 LEP and Melbourne’s convention centre precinct planning. In addition to this precedent, this report draws on several supporting pieces of analysis. The costs of these recommendations are based on stylised economic modelling.

The investment and expenditure impact of the high natural amenity area recommendations are primarily estimated based on benchmarking of tourism in national parks in New Zealand, and estimates from Tasmanian project studies and Western Australia’s Naturebank. The costs of these recommendations are estimated based on cost inputs from Tasmania, Naturebank and New Zealand.

To estimate the cost of regulation related to the other recommendations, L.E.K. has used existing domestic analysis. The cost of planning schemes and development approvals is estimated based on VCEC and Productivity Commission research, and L.E.K. case studies for high profile developments.

The labour supply issues will be analysed in more depth by the LSWG.

5.2.1 Planning, development approvals and other regulation

As noted in Section 4.1, planning and development approval costs are high for the tourism industry in Australia, due to a lack of consideration and understanding by those administering the process. Utilising VCEC’s Cost of Planning Report, L.E.K. analysis suggests that at an Australian level, the process costs associated with planning (e.g. cost of applications and appeals, legal and planning advice) borne by tourism developments amount to $81 million per year. This implies that these account for 1.7 percent of the value of tourism gross fixed capital formation versus 1.2 percent for the average of all developments (an uplift of around 40 percent). If these costs can be reduced to the average across all developments of 1.2 percent, this will reduce the cost to developers by around $24 million per year.

As evidenced by case studies 1-3 (Wolgan Valley, BridgeClimb, Saffire Freycinet), the process costs of planning are potentially many times smaller than the total costs of planning including holding costs (for example, interest on loan for site acquisition) and lost revenue. The implication of the process costs of planning being around 40 percent higher for tourism than for the average all developments, is that the total costs of planning are disproportionally higher for tourism as well.
5.2.2. Accommodation supply

This report recommends new room stock be added to capital cities, rather than Australia wide. This is due to the high average occupancy rates in these markets, and the market failure arising from the congestion costs associated with this demand. As such, the economic impact analysis as a result of the accommodation supply recommendations assumes an increase in room stock in capital cities.

This report recommends that investment in short term accommodation supply is supported by mixed use developments with FSR and other concessions; by the use of state-owned historical buildings and sites; and by capital works deduction incentives. Of these three recommendations, two have been observed in action in recent history in Australia.

Precedent for accommodation supply incentives in the form of mixed use developments with FSR and other concessions as well as the use of state-owned historical buildings and sites exists in Sydney and Melbourne. These incentives had a positive economic impact. For example, the Sydney Local Environment Plan 1996 increased room stock by six percent per year over a period of about five years and the Melbourne Convention Centre development increased room stock by four percent per year over a two year period. Therefore, in the current situation (where there are high occupancy rates in state capitals) a similar impact of five percent in annual room stock increase is assumed, in response to supply side incentives that are targeting relief to high demand requirements.

The impact of capital works deduction incentives in the form of a 50 percent depreciation bonus plus depreciation of the remaining 50 percent over 12.5 years has not been observed before. An assumption on this impact of between zero and five percent annual room stock increase has been adopted. There is no precedent for this assumption, but it can be considered reasonable that this incentive, in combination with other recommendations in this area, has the potential to double the impact on additional room stock. Because there is no clear evidence for this, sensitivity analysis on this key assumption is included in section 5.4.

As noted earlier, the proposed capital works incentive does not simply bring forward investments that would otherwise be occurring at a later point in time. Rather, it commits investors to new developments or refurbishments that might not have taken place without the incentive. These incentives are necessary now to overcome the market failure of congestion in selected high occupancy rate markets.

The overall annual room stock increase that has been assumed for every year of these incentives (which will have a fixed duration) is, therefore, between five and ten percent for each of the state capitals in total (five percent from mixed use developments with FSR and other concessions and the use of state-owned historical buildings and sites, and between zero and five percent from the capital works deduction incentive). There are currently, in total, 66,000 short term accommodation rooms across the state capitals. Thus, the estimated recommendation impact is between 3,300 and 6,600 rooms, per year.
For the existing rooms in these high congestion markets the average RevPAR is between $106 and $156 per night. Reflecting the modelling of the Perth hotel market by Access Economics, it is assumed that a room stock increase of 10 percent results in a one percent fall in average room rates. In the Access Economics study, this lowering of prices will in turn result in a one percent increase in room nights sold. As a consequence, the net effect on total accommodation revenue of the small fall in room rates and the associated demand response with new room supply in congested markets balances out. This is supported by assumptions in Access Economics’ TARDIS model, where a 10 percent increase in room night supply results in a 5 percent increase in room nights sold. With marginal occupancy rates of 50 percent (again as per the Access Economics modelling of the Perth hotel market), the increase in rooms would result in additional annual accommodation expenditure between $66 - 127 million.

A proportion of the additional accommodation expenditure comes from within the state in which it is spent. Under general equilibrium assumptions, this expenditure is not considered to directly translate into economic value creation. Discounting intrastate expenditure by 100 percent, interstate expenditure by 50 percent (assuming half of it replaces otherwise outbound travel) and international expenditure by zero percent (assuming all of it is additional), the additional annual accommodation expenditure is $38 - $76 million. It is noted that the assumption that half of increased domestic interstate tourism expenditure contributes to additional national expenditure warrants further consideration (and sensitivity analysis on this assumption has therefore been included in section 5.4), however, L.E.K. considers that the assumption is reasonable in light of the high occupancy rates that currently exist in inner city areas and the evidence in the following two paragraphs.

There are ample opportunities for increased domestic tourism at the expense of outbound tourism, with increased tourist accommodation supply. The National Visitor Survey by Tourism Research Australia shows that in the year ending September 2010, for every dollar spent by Australians on domestic overnight tourism, 73 cents was spent on outbound tourism expenditure. While domestic overnight tourism expenditure from the year ending September 2005 to the year ending September 2010 increased in nominal terms by nine percent, expenditure on outbound trips increased in nominal terms by 76 percent, despite the Australian dollar buying more foreign currency. With very high occupancy rates in Australia’s capital cities, including Hobart, Canberra and Darwin in peak seasons, it is realistic to expect that congestion cost market failure will encourage otherwise domestic leisure tourism and business event travel to shift to outbound, unless accommodation supply is available in these cities.

Furthermore, as noted above, L.E.K. has excluded all intrastate tourist expenditure from the assessment of national economic benefits. This is a conservative assumption, given restrictions to the travel budget of households and businesses, combined with the increasing competition from short haul outbound destinations such as Bali, New Zealand and Fiji.
As a next step, using Tourism Research Australia data (specifically the National and International Visitor Surveys for the year ending December 2010), a multiplier of 3.9 is applied to translate accommodation expenditure in total tourism expenditure. Based on this multiple, the additional accommodation expenditure of $38 - $76 million would then add approximately $149 - $297 million in tourism revenue each year (see Table 20). It is acknowledged that the impacts will vary between cities depending on local circumstances (for example, occupancy rates, economic structure, visitor mix, and seasonality).

Table 20: Revenue impact of additional room stock

<table>
<thead>
<tr>
<th>City</th>
<th>Number of rooms (FY2010)</th>
<th>Additional rooms per year (5% growth)</th>
<th>Additional rooms per year (10% growth)</th>
<th>RevPAR (FY2010)*</th>
<th>Additional annual revenue*</th>
<th>International visitors</th>
<th>Overnight visitors from interstate**</th>
<th>Annual accom revenue from international and interstate visitors*</th>
<th>Total annual expenditure from international and interstate visitors**</th>
<th>Total annual expenditure from international and interstate visitors*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>19,885</td>
<td>994</td>
<td>1,988</td>
<td>$156</td>
<td>$24m - $47m</td>
<td>46.0%</td>
<td>36.0%</td>
<td>$11m - $22m</td>
<td>$15m - $30m</td>
<td>$42m - $85m</td>
</tr>
<tr>
<td>Melbourne</td>
<td>15,655</td>
<td>783</td>
<td>1,566</td>
<td>$138</td>
<td>$15m - $30m</td>
<td>33.0%</td>
<td>56.0%</td>
<td>$5m - $10m</td>
<td>$9m - $18m</td>
<td>$30m - $51m</td>
</tr>
<tr>
<td>Brisbane</td>
<td>8,974</td>
<td>449</td>
<td>897</td>
<td>$129</td>
<td>$8m - $16m</td>
<td>27.0%</td>
<td>42.0%</td>
<td>$2m - $4m</td>
<td>$4m - $6m</td>
<td>$8m - $12m</td>
</tr>
<tr>
<td>Perth</td>
<td>5,827</td>
<td>291</td>
<td>583</td>
<td>$137</td>
<td>$8m - $11m</td>
<td>36.0%</td>
<td>44.0%</td>
<td>$2m - $4m</td>
<td>$3m - $7m</td>
<td>$8m - $16m</td>
</tr>
<tr>
<td>Canberra</td>
<td>5,025</td>
<td>251</td>
<td>503</td>
<td>$123</td>
<td>$4m - $8m</td>
<td>8.0%</td>
<td>89.0%</td>
<td>$0m - $1m</td>
<td>$2m - $4m</td>
<td>$1m - $3m</td>
</tr>
<tr>
<td>Adelaide</td>
<td>4,220</td>
<td>211</td>
<td>422</td>
<td>$119</td>
<td>$4m - $7m</td>
<td>22.0%</td>
<td>66.0%</td>
<td>$1m - $2m</td>
<td>$2m - $4m</td>
<td>$3m - $6m</td>
</tr>
<tr>
<td>Darwin</td>
<td>3,753</td>
<td>188</td>
<td>375</td>
<td>$107</td>
<td>$3m - $5m</td>
<td>25.0%</td>
<td>69.0%</td>
<td>$1m - $1m</td>
<td>$2m - $3m</td>
<td>$2m - $5m</td>
</tr>
<tr>
<td>Hobart</td>
<td>2,221</td>
<td>111</td>
<td>222</td>
<td>$108</td>
<td>$2m - $3m</td>
<td>15.0%</td>
<td>74.0%</td>
<td>$0m - $1m</td>
<td>$1m - $2m</td>
<td>$1m - $2m</td>
</tr>
<tr>
<td>Total</td>
<td>65,560</td>
<td>3,278</td>
<td>6,556</td>
<td>N / A</td>
<td>$66m - $127m</td>
<td>N / A</td>
<td>N / A</td>
<td>$23m - $45m</td>
<td>$38m - $76m</td>
<td>$86m - $173m</td>
</tr>
</tbody>
</table>

Note: * Assumes that room nights sold grow at 2.5 - 5.0 percent (50 percent of the 5 - 10 percent increase in room numbers); ** Proportion of accommodation visitor nights from out of state for year ending June 2010; ^ Includes all international expenditure and 50% of expected interstate expenditure. The 50% interstate expenditure is 50% of the expenditure calculated by the proportion of overnight visitors from interstate. ** Assumes a multiplier of 3.9 on total accommodation spend.

Source: JBA Hotel Development Survey; ABS Cat No. 8635.1 and 5249.0; National Visitor Survey 2010; International Visitor Survey; L.E.K. analysis.

Under the assumption that effective GST rate is six percent after allowing for imputations, state governments will receive revenue from the additional room nights of between $8 and $16 million when the effective GST rate is applied to the additional tourism revenue each year. Also, the federal government will collect additional profit tax revenue of between $3 and $6 million (assuming that 73 percent of accommodation businesses make a profit and that they have a 11 percent operating margin as per ABS data for 2008-09, and a 30 percent tax rate).

In addition to this there will be other revenue to governments from land and payroll tax; income tax on employees’ incomes; and duties.
For mixed use developments with FSR and other concessions, no additional costs to government have been assumed. For this, the developer bears the cost of development (benefiting from mixed use cross-subsidy effects and floor FSR and associated height restriction concessions), where there is no government expenditure or tax impact associated with changes to floor space ratio and height restrictions.

The use of state-owned historical buildings and sites will result in opportunity costs to government, as these buildings and sites could otherwise be leased for commercial use. Again, the impact of this will vary by city. Assuming a Sydney CBD metropolitan scenario (lease revenue of $450/m2 for a hotel and $750/m2 for a commercial building in the CBD, and 45m2 per hotel room), and that 25 percent of additional rooms are created in historical buildings, the use of state-owned historical buildings and sites would result in an opportunity cost to the government of between $8 and $16 million for the creation of 3,300 to 6,600 hotel rooms. Some of this cost would, however, be offset by lower maintenance costs as a result of the government moving out of the state-owned historical buildings, which incur significant costs for their up-keep.

The largest cost to government will come from the capital works deduction incentives. At an average capital expenditure of almost $223,000 per room, the cost of the capital works deduction bonus of 50 percent plus depreciation of the remaining 50 percent over 12.5 years is between $116 million and $231 million (assuming a cost of capital to government of 5.75 percent). It is assumed that capital works incentive applies to the full room uplift because all new room stock will be as a result of the recommendation, and be subject to the capital works incentive. These costs can be annualised over 10 years, resulting in annual costs of $12 - $23 million.

This report assumes that offering a capital works deduction incentive will not encourage the development of new room stock in regional areas. This is based on the lower occupancy rates in regional areas (31.5 percent in 2010 as per ABS data) in combination with seasonality factors. However, in regional areas a refurbishment effect will be felt.

The proposed capital works deduction incentive will boost the refurbishment of existing room stock in metropolitan and regional areas. If, as a result of the incentive, seven and a half percent of room stock is refurbished per year (up from an assumed base of five percent, equivalent to refurbishment of an asset once every 20 years), the cost of the incentive equals the full cost of the capital works deduction for the additional two and half percent refurbishment plus the additional cost of the capital works deduction incentive for the existing five percent refurbishment.

At an average cost of $20,000 per room in metropolitan areas (that is two-thirds of the cost of a basic refurbishment for a 5-star CBD hotel), this would result in 4,677 rooms refurbished at a total cost of $16.5 million (or $1.7 million when annualised over 10 years). The additional cost over and above the existing arrangements would be around $930 thousand annualised.

At an average cost of $15,000 per room in regional areas (that is half the cost of a basic refurbishment for a 5-star CBD hotel), this would result in 1,776 rooms refurbished at a total cost of $4.7 million (or $470 thousand when annualised over 10 years). The additional cost over and above the existing arrangements would be around $265 thousand annualised.
5.2.3 National parks

In summary, the cost to government of incentivising $149 - $297 million in tourism expenditure from outside the state (around 3,300 – 6,600 rooms) would be between $21 - $40 million per year (although some of this cost will recouped through taxes):

- $8 - $16 million in lease opportunity cost to state governments of all development on state government land
- $12 - $23 million in annualised costs of capital works incentives to federal government, for new rooms in metro areas
- $1.2 million in annualised costs of capital works incentives to federal government, for refurbished rooms in metropolitan and regional areas

Table 21: Cost to government of incentives

<table>
<thead>
<tr>
<th></th>
<th>Annual accommodation revenue from international and 50% interstate visitors (mil)</th>
<th>Total annual expenditure from international and 50% interstate visitors (mil)</th>
<th>Additional rooms, per year*</th>
<th>Additional total capex***</th>
<th>Total cost of capital works deduction bonus (mil)</th>
<th>Annualised cost of capital works deduction bonus*</th>
<th>Annual opportunity cost (mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hobart</td>
<td>$38m - $76m</td>
<td>$149m - $297m</td>
<td>3,278 - 6,556</td>
<td>$730m - $1,460m</td>
<td>$116m - $231m</td>
<td>$12m - $231m</td>
<td>$8m - $16m</td>
</tr>
<tr>
<td>Sydney</td>
<td>$15m - $30m</td>
<td>$69m - $118m</td>
<td>994 – 1988</td>
<td>$211m - $443m</td>
<td>$35m - $70m</td>
<td>$3m - $7m</td>
<td>$2.5m - $5.0m</td>
</tr>
<tr>
<td>Melbourne</td>
<td>$9m - $18m</td>
<td>$36m - $72m</td>
<td>783 – 1556</td>
<td>$174m - $348m</td>
<td>$28m - $55m</td>
<td>$3m - $6m</td>
<td>$0.6m - $1.2m</td>
</tr>
<tr>
<td>Brisbane</td>
<td>$4m - $8m</td>
<td>$15m - $30m</td>
<td>449 – 897</td>
<td>$100m - $200m</td>
<td>$16m - $32m</td>
<td>$2m - $3m</td>
<td>$2.0m - $3.5m</td>
</tr>
<tr>
<td>Perth</td>
<td>$3m - $7m</td>
<td>$13m - $26m</td>
<td>291 - 583</td>
<td>$65m - $130m</td>
<td>$10m - $20m</td>
<td>$1m - $2m</td>
<td>$1.1m - $2.3m</td>
</tr>
<tr>
<td>Canberra</td>
<td>$2m - $4m</td>
<td>$9m - $17m</td>
<td>251 – 503</td>
<td>$56m - $112</td>
<td>$9m - $18m</td>
<td>$1m - $2m</td>
<td>$0.7m - $1.5m</td>
</tr>
<tr>
<td>Adelaide</td>
<td>$2m - $4m</td>
<td>$8m - $15m</td>
<td>211 - 422</td>
<td>$47m - $94m</td>
<td>$7m - $15m</td>
<td>$1m - $1m</td>
<td>$0.5m - $1.1m</td>
</tr>
<tr>
<td>Darwin</td>
<td>$2m - $3m</td>
<td>$6m - $12m</td>
<td>188 – 375</td>
<td>$42m - $84m</td>
<td>$7m - $13m</td>
<td>$1m - $1m</td>
<td>$0.3m - $0.6m</td>
</tr>
<tr>
<td>Hobart</td>
<td>$1m - $2m</td>
<td>$3m - $7m</td>
<td>111 – 222</td>
<td>$25m - $49m</td>
<td>$4m - $8m</td>
<td>$0m - $1m</td>
<td>$0.5m - $0.9m</td>
</tr>
</tbody>
</table>

Note: * Includes all international expenditure and 50% of expected interstate expenditure. The 50% interstate expenditure is 50% of the expenditure calculated by the proportion of overnight visitors from interstate; ** Assumes room stock growth of 5% - 10% per annum; *** Assumes capex of $222,602 per room and no land costs; * Total cost annualised over 10 years
Source: ABS Cat. No. 8635.1, L.E.K. analysis

5.2.3 National parks

This report recommends that investment in tourism in high natural amenity areas is supported by broad objectives for administrators; by schemes for tourism development in National Parks; by review of development approval processes; and by increases in the default lease and licence durations. These recommendations approximate the regulatory landscape as observed in New Zealand.

Australia’s National Parks receive nine to 13 percent fewer tourism visits as a share of overall tourism visits to the country compared with New Zealand. Australia has 25 percent fewer lodges than New Zealand’s National Parks, assuming three parks per state (excluding ACT) are suitable or appropriate for tourism. A development target of 6.4 lodges per park would bring Australian National Park accommodation development in line with New Zealand. This implies increasing the number of lodges in Australia’s National Parks from around 100 to 135.
The average per night expenditure of National Park visitors staying in new tourist accommodation in National Parks is assumed to be between $209 (using National Parks studies and an expenditure multiplier of 3.35 on the sum of basic accommodation spend and Park entry fees, based on the 2008 report for the Australian Department of Environment, Water, Heritage and Arts by Gillespie Economics and BDA Group) and $408 (the average for a range of up-market fully lodged, catered and guided tours in National Parks). Per night expenditure assumptions will be subject to sensitivity analysis.

Using this anticipated nightly spend of visitors to National Parks in a scenario with 30 beds per additional lodge and assumed occupancy rates of 60 percent (acknowledging the impact of seasonality on occupancy), the additional expenditure would be between $47 - $91 million.

As noted in relation to the assessment of accommodation supply, intrastate expenditure has been discounted by 100 percent, interstate expenditure by 50 percent and international expenditure by zero percent. On this basis, the additional annual expenditure would be between $22 - $44 million per year (see Table 22).

Table 22: Impact of expenditure on annual visitor expenditure

<table>
<thead>
<tr>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current number of lodges</strong></td>
</tr>
<tr>
<td><strong>Proposed number of additional lodges</strong></td>
</tr>
<tr>
<td><strong>Increased annual visitor expenditure</strong></td>
</tr>
<tr>
<td><strong>Increased annual expenditure from international visitors</strong></td>
</tr>
<tr>
<td><strong>Increased annual expenditure from international and 50% interstate visitors</strong></td>
</tr>
</tbody>
</table>

Note: * Based on 3 parks per state, excluding ACT and 6.4 lodges per park; ** Benchmark 6.4 lodges per park with 3 parks per state; ^ Assumes 30 additional beds per lodge with occupancy rate of 60 percent, and expenditure based on tourist expenditure of between $209 and $408 per night in National Parks. $209 was derived from using a multiplier of 3.35 on accommodation spend in National Parks and Park entry fees, and $408 is the average for a range of lodged, catered and guided tours in National Parks. ^^ Assumes 33 percent of Australian leisure (those visitors on holiday or visiting friends and relatives), visitor nights are from international visitors and 31% of total visitors nights are from interstate leisure visitors. Of the expenditure generated by the 31% of interstate visitors; it is assumed that only 50% will be realised, due to the impact of interstate erosion of spend.

From this expenditure, the state governments would receive $3 million in GST per year (assuming an effective tax rate of 6 percent), and the federal government profit tax revenue of $1 million (assuming 73 percent of tourism businesses make a profit, a 11 percent operating margin and 30 percent tax rate).

In addition to this there will be other revenue to governments from land and payroll tax; income tax on employees’ incomes; and duties.
The costs to state governments of providing lodge infrastructure and other site preparation has been estimated on average at $1 million per lodge, based on discussions with the Western Australia Department of Environment and Conservation in respect of their experience with Naturebank. These costs will vary depending on the site, the proposed lodge development and the level of infrastructure required.

Under this scenario, each park (of which there are assumed three per state, as not every National Park is attractive from a tourism perspective) is equipped with an attraction like a walking track or similar. The upfront cost (to be annualised over 25 years) to state governments of providing this attraction infrastructure is set at $1.7 million per activity (based on actual Australian and New Zealand experiences shown in Table 23, and assuming 80 percent of the attractions need to be provided while 20 percent is already in place).

**Table 23: Infrastructure costs for selected tracks in Australia**

<table>
<thead>
<tr>
<th>Project</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three Capes Track*</td>
<td>$6m</td>
</tr>
<tr>
<td>Wodonga to Tallangatta Rail trail</td>
<td>$1.5m</td>
</tr>
<tr>
<td>Boonah to Ipswich trail</td>
<td>$2m</td>
</tr>
<tr>
<td>Grampain Peaks Trail</td>
<td>$1.6m</td>
</tr>
<tr>
<td>Yungaburra - Atherton Rail trail</td>
<td>$3.8m</td>
</tr>
<tr>
<td>Atherton - Herberton Rail trail</td>
<td>$1.4m</td>
</tr>
<tr>
<td>Herberton - Ravenshoe Rail trail</td>
<td>$1.3m</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>$2.2m</strong></td>
</tr>
<tr>
<td><strong>Average cost assuming 20 percent of tracks are existing</strong></td>
<td><strong>$1.7m</strong></td>
</tr>
</tbody>
</table>

* Based on the average of the best and worst case scenarios

Source: Atherton Tablelands Rail Trails Feasibility Study; High Country Rail Trail; Grampians; Three Capes Track Feasibility Study

Annual maintenance costs of $59,000 per attraction are also based on the average of the annual maintenance costs for the tracks identified in Table 23.
In summary, the annual cost to state governments of stimulating between $22 - $44 million per year in out of state tourism expenditure would be $4.1 million (see Table 24).

Table 24: Cost to government of stimulating additional expenditure

| Additional annual expenditure | $4.1m |
| Additional annual expenditure from international and 50% crowding out | $22m - $44m** |
| Additional annual expenditure from international visitors | $15m - $30m |
| Annualised upfront lodge infrastructure cost^** | $1.4m |
| Annualised upfront track / trail infrastructure cost | $1.5m |
| Annual maintenance cost | $1.2m |
| Annualised total cost^**^ | $4.1m |

5.3 Impact of additional tourism expenditure on state and national economies

This section analyses the impact of additional tourism expenditure on state and national economies, as a result of the recommendations. In essence, it highlights the positive translation of expenditure into gross state product (GSP) and gross domestic product (GDP). While ideally this analysis would be performed using the government's preferred tools (that is CGE modelling), in reality the capabilities required for this approach are currently not available. In the absence of a CGE model with a tourism sector and coverage of the states and the Commonwealth, there has been a pragmatic reliance on data points from existing academic research and models. It is L.E.K.’s recommendation that the MMRF model that is currently under development is adopted by the tourism sector and will be used for this type of analysis in the future.

5.3.1. Analysis approach

L.E.K.’s proposed approach was to use the existing economic analysis techniques and models used by governments. This approach was favoured as it would: increase the prospects of the recommendations being implemented; and avoid some of the criticisms of recommendations that draw upon estimates from models with which policy makers are unfamiliar.
However, state and Commonwealth tourism agencies have been able to provide only limited input on the impacts of reform of regulations or incentives affecting tourism investment from their existing cost-benefit analysis, or economic models run by their government. There is a shortage of this type of analysis at the state or Commonwealth level within tourism agencies.

To estimate the economic impact (on a state and national level) of additional tourism expenditure, L.E.K. relied on existing academic research as well as two 2010 studies by Access Economics. This approach has been discussed with Tourism Research Australia and Commonwealth Treasury.

L.E.K. developed an extensive literature review of economic analysis of tourism supply side policy reform. While the academic literature on economic models of tourism were not focused on supply side reform, this source provided insights on how increased tourism spending translates into increased state / territory and national economic activity. This L.E.K. review was also developed with feedback from Professors Forsyth, Dwyer and Spurr.

The review concluded that, following the advice of Professor Forsyth, an approach that combines elements of both cost benefit analysis techniques and CGE models is recommended for evaluation of tourism supply policy and investment proposals. A version of this combined approach was used by Access Economics for their Perth hotel market study as commissioned by Tourism Western Australia.

Using CGE models alone risks oversimplifying analysis of tourism sub-sectors by ignoring the need for detailed tourism sector modelling to estimate impacts on tourism spending of regulatory change. In addition, reliance on CGE models risks ignoring the impact of externalities in tourism markets, and not providing net benefit measures after allowing for the costs of regulatory reform and additional labour and capital that might be required.

Similarly, using cost benefit techniques alone risks ignoring the significant impacts of tourism growth on other industries. In addition to the direct effects of regulatory change on the tourism industry that determines the increase in tourist spending, there is a range of economic impacts of tourism industry growth that go beyond the tourism industry that influence the change in net jurisdiction economic activity.

Inter-industry impacts are commonly estimated using CGE models. For example, increased tourism due to increased investment following regulatory change is expected to:

- Reduce available budgets for, and hence, spending on non-tourism production of residents of the jurisdiction - leading to a common focus on only looking at increased tourism spending from beyond the jurisdiction;
- Have a positive initial impact on the balance of trade resulting in increased pressure on the exchange rate. A higher exchange rate has negative impacts on the earnings of other exporting and import competing industries, reducing net economic benefits;
• Increase tourism employment, reducing potential labour supply to other industries and possibly increasing wages faced by other industries, reducing profitability; and

• Increase demand for capital (equity and debt), tightening the supply of capital to other industries.

5.3.2. Impact of increased tourism expenditure on state economies

Varying estimates exist of what share of the increase in tourist spending in a state translates to changes in economic activity in that state. This is unsurprising given the use of different CGE models, with different sources of, and reasons for, increased tourist spending for different state economies and for different points in time. The share of the change in tourist spending that translates to a change in economic activity is expected to vary for different state economies and for different points in time, despite a common model examining increased tourist spending, due to a common reason with common assumptions about the way the economy works. At different points in time, for the same jurisdiction, there is a varying strength of the inter-industry feedback mechanisms. When an economy is operating at close to full capacity the inter-industry feedbacks will be comparatively strong.

The Access Economics report on the Perth hotel accommodation market highlighted that even in an economy operating at very close to full capacity, a boost to tourism investment can result in increased gross state product (GSP). This is an example that is important as the Australian economy moves closer to resources-boom-inspired full employment.

A key to the growth estimated by Access Economics in Western Australian GSP from countering constraints in the Perth hotel market related to the opportunity for the Western Australia government to reduce the impact of a powerful externality, or market failure in the Perth hotel market.

Access Economics compared the actual constrained supply of tourist accommodation in Perth with a modelled unconstrained result for the period 2006-07 to 2008-09 to estimate lost tourism export (international and interstate) earnings to Western Australia of $212 million.

After plugging this value into AE-GEM, the Access Economics proprietary CGE model, the loss of GSP was estimated at $46 million in net present value terms, or 22 percent of the aggregate lost tourism real export spending.
The Access Economics Report also noted that the absence of hotel development over the next 10 years is estimated to cost the West Australian economy around $435m in foregone GSP:

“Given this, and despite the possibility of a market solution emerging in due course, policymakers may deem it appropriate to accelerate it. An injection of funds or in-kind support which brought forward hotel investment by five years would generate net benefits for the state economy (that is, return a cost benefit ratio greater than one) provided the assistance given was less than the present value of the expected GSP foregone over the five year period (estimated at around $100 million). Of course this will vary on a case-by-case basis and ultimately a cost-benefit analysis should be undertaken on any specific policy proposals which are developed.”

A higher estimate of the share of tourist spending that translates to changes in GSP was provided by Madden et al (2002) in estimating the value of spending by visitors to Tasmanian National Parks to the Tasmanian economy. These estimates used the FEDERAL CGE model. The estimated $145 million of total tourist expenditure related to visitor expenditure in Tasmanian parks in 1998-99, translated to $126 million in Tasmanian GSP, or 87 percent of the aggregate tourism spending.

A further estimate of the share of tourist spending that translates to GSP came from Dwyer et al (2003), who modelled a 10 percent increase in inbound tourist expenditure in NSW in 1998. This increase in tourism expenditure was worth $372 million. Dwyer et al used a CGE model based on the MONASH MRF model with adaptations to include tourism industries, and assumed that labour is fixed nationally but free to move to NSW, with wages and capital variable. The resulting increase in NSW GSP was estimated at $232 million or 62 percent of the increase in tourist expenditure.

It is not surprising that the Madden et al (2002) result for Tasmania (87 percent), and Dwyer et al (2003) result for NSW (62 percent) produced higher shares of incremental tourism spending translating into GSP than did Access Economics (2010) (22 percent) for Western Australia. The difference is influenced by the much tighter capacity utilisation of labour and capital in the Western Australia economy and the great trade exposure of this economy in 2010 than in Tasmania in 1998/99 or NSW in 1998, as well as by differences in the CGE models used and the key assumptions made about how the economy works (see Table 25).
Table 25: Varying estimates of the share of the increase in tourist spending that translate to increased Australian GSP

<table>
<thead>
<tr>
<th>Author</th>
<th>Jurisdiction</th>
<th>Year(s) modelled</th>
<th>Share of tourist spending that translates to increased GSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access Economics (2010)</td>
<td>Western Australia</td>
<td>2006/07 to 2008/09</td>
<td>22% (A similar ratio arises for 2011-12 to 2019-20)</td>
</tr>
</tbody>
</table>

5.3.3. Impact of increased tourism expenditure on the national economy

Varying estimates also exist of what share of the increase in national tourist spending translates to changes in Australian economic activity (GDP). The national estimates also highlight the risks of assuming “additivity” of state results into national results.

Where an individual state increases tourism investment by undertaking reforms it will normally increase its GSP. The increased tourism investment in one state will, however, reduce the competitiveness of other state economies due to general equilibrium effects in the markets for: consumer spending; labour; capital; and foreign exchange - so the GSP of other states will fall. CGE models allow for these general equilibrium factors.

For example, if a number of states pursued regulatory reforms and, thereby, gained increased investment in inner city tourist accommodation the change in Australian GDP would be noticeably smaller than the sum of the increase in GSP of the reforming states. This is due to a negative impact on economic activity in the non-reforming states. Similarly, the net impact on economic activity in each of these reforming states would be less than estimated by only evaluating their own reform.

It is not unusual for one state to implement active policies that have the implication of reducing economic activity in another state. For example, this occurs when international airline services are won by one state over another, or when states use incentives to attract footloose investment such as in manufacturing. In these cases, the expected gain in GDP for the Australian economy will be far less than the gains for the benefiting state in GSP.
The change in Australian GDP from increased tourism investment that impacts domestic as well as international tourism would also be lower than the sum of the impacts estimated for all states. Depending on the specification of the CGE model used, the model when estimating the change in Australian GDP may not include the impact of any changes in interstate and intrastate domestic tourism flowing from the new investment and only focus on the impact on inbound tourism spending in Australia. However, this would be a conservative assumption as it would ignore the potential of new tourist accommodation or facilities to encourage more Australians to travel either intra or interstate, rather than travel overseas.

With benefits focused on a single state Dwyer et al (2003) found that there is a lower ratio of expected growth in economic activity to the growth of tourist spending at the national level compared to the returns to the benefiting state. From the earlier cited study, while NSW was estimated to increase its GSP by $232 million in 1998, the fall in other states GSP was estimated at $203 million. Nationally Australian GDP was estimated to lift by $29 million, or eight percent of the increase in tourist spending to NSW.

Other CGE modelling has looked at increased tourism expenditure spread more evenly though the country. The marginal impact on economic activity of increased international tourist spending at a national level was estimated at around 10 percent of the nominal value of tourist spending according to subsequent CGE modelling in 2005 by Forsyth, Dwyer and Spurr (2005) using their variant of the MONASH MRF model. This modelling was produced for 2000-01 and includes the impact of the tax changes and the introduction of the GST which increased the share of international tourist spending that flows through to increased GDP. The study found that a $100 million increase in inbound tourism spending in Australia, led to an estimated increase in GDP of between $8 million and $15 million, depending on whether the CGE model assumed that employment was fixed or variable.

However, this result was heavily influenced by the assumption that capital stocks were fixed and there were no changes in industry investment.

An alternative source of estimates of the impact on Australian GDP of an increase in tourism expenditure comes from a study provided to the Department of Resources, Energy and Tourism on the long run effects on GDP of increased tourism expenditure. In this case, of the increase in tourist expenditure (both domestic and international) 45 percent flows through to an increase in Australian GDP. As a long run projection, the total national capital stock is not fixed in this modelling - helping to explain the greater translation of increased tourist spending into increased GDP (see Table 26).
Table 26: Varying estimates of the share of the increase in tourist spending that translate to increased GDP

<table>
<thead>
<tr>
<th>Author</th>
<th>Source of tourist spending increase</th>
<th>Year modelled</th>
<th>Share of tourist spending that translates to increased GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwyer et al (2005)</td>
<td>Inbound tourism</td>
<td>2000-01</td>
<td>8-15%</td>
</tr>
<tr>
<td>A study provided to DRET for internal analysis (2010)</td>
<td>Domestic overnight and inbound tourism</td>
<td>2020</td>
<td>45%</td>
</tr>
</tbody>
</table>

Sensitivity analysis on these key assumptions will be performed in section 5.4.

Even with the Dwyer et al (2005) estimates where labour and capital are fixed, the increase in inbound tourism expenditure translates to an eight percent increase in Australian GDP. In the view of Professor Forsyth, this scenario of fixed employment and capital provides a minimum estimate of the net benefit to the economy of increased inbound tourism to Australia. This reflects that there are costs for increased labour or capital across the economy. That this estimate is above zero indicates that an increase in inbound tourism expenditure in 2000-01 was in the national economic interest.

5.3.4. Economic impact summary

All studies reviewed show positive GSP and GDP impacts of additional tourist expenditure:

- With the range of the estimates reflecting the: different sources of the increased tourism expenditure; different jurisdictions; different time periods; and use of different CGE models and model assumptions.

Looking beyond the change in economic activity resulting from increased inbound tourism expenditure, Dwyer et al (2005) find that increased inbound tourism expenditure produced a net community benefit. While there is no reason to think this is an isolated result, it is incumbent on model users to test whether this result holds after allowing for the costs of a specific regulatory or incentive reform.
5.4 Net community benefit

To approximate the net community benefit of the recommendations regarding short term accommodation supply and tourism development in high natural amenity areas, L.E.K. has performed sensitivity analysis based on the range of inputs listed in Table 27.

Table 27: Sensitivity analysis

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>25th percentile</th>
<th>Mid-point</th>
<th>75th percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additional room stock per year*</td>
<td>5%</td>
<td>10%</td>
<td>6.25%</td>
<td>7.5%</td>
<td>8.75%</td>
</tr>
<tr>
<td>Average per night expenditure of interstate and international National Park visitors**</td>
<td>$209</td>
<td>$408</td>
<td>$259</td>
<td>$309</td>
<td>$358</td>
</tr>
<tr>
<td>Percentage of additional interstate tourism expenditure considered additional to Australia***</td>
<td>30%</td>
<td>70%</td>
<td>40%</td>
<td>50%</td>
<td>60%</td>
</tr>
<tr>
<td>CGE estimates for increased GDP^</td>
<td>8%</td>
<td>15%</td>
<td>9.75%^</td>
<td>11.5%^</td>
<td>13.25%^</td>
</tr>
</tbody>
</table>

Note: * Room stock growth stimulated; ** $209 was derived from using a multiplier of 3.35 on accommodation spend in National Parks and Park entry fees, and $408 is the average of a range of lodged, catered and guided tours in National Parks; *** Adjustment factor to take into account the crowding out of interstate spend across states; ^ Adjustment factor for the GDP impacts of additional tourist expenditure ^^ Low, mid and high boundary adjusted to reflect 8-15 percent range (as per Dwyer et al), and 45 percent (as per a study provided to DRET for internal analysis) as the upper bound

In producing net community benefit estimates, three scenarios have been modelled:

- A low scenario applying the 25th percentile points of the ranges for the key assumptions
- A base scenario applying the mid-points of the ranges for the key assumptions
- A high scenario applying the 75th percentile points of the ranges for the key assumptions

L.E.K. does not consider it realistic to combine the extreme lows for the key assumptions into a low scenario, or the extreme highs into a high scenario.
On this basis, L.E.K. analysis shows annualised expected government expenditure, tourism expenditure from outside the state, and increased GDP are summarised in Table 28.

Table 28: Net community benefit of short term accommodation supply and tourism development in high natural amenity areas recommendations

<table>
<thead>
<tr>
<th>Short term accommodation</th>
<th>Incentives</th>
<th>Low scenario (25th percentile)</th>
<th>Base scenario (Mid-point)</th>
<th>High scenario (75th percentile)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tourism expenditure from outside the state</td>
<td>$27.5m</td>
<td>$32.6m</td>
<td>$37.6m</td>
</tr>
<tr>
<td></td>
<td>Impact on GDP</td>
<td>$170m</td>
<td>$223m</td>
<td>$282m</td>
</tr>
<tr>
<td>High natural amenity areas</td>
<td>Incentives</td>
<td>$4.1m</td>
<td>$4.1m</td>
<td>$4.1m</td>
</tr>
<tr>
<td></td>
<td>Tourism expenditure from outside the state</td>
<td>$27.7m</td>
<td>$33.1m</td>
<td>$40.8m</td>
</tr>
<tr>
<td></td>
<td>Impact on GDP</td>
<td>$3.0m</td>
<td>$6.2m</td>
<td>$10.8m</td>
</tr>
</tbody>
</table>

Source: L.E.K. analysis

In the base case scenario (and the positive scenario), the additional GDP impact is higher than the value of the required government incentives. Even in the pessimistic scenario, the “at-risk” component of government incentives is limited to around 25% of their total cost.

These recommendations are expected to deliver new rooms in the capital cities, new offerings in high natural amenity areas, and encourage the refurbishment of existing room stock across Australia. In doing so, they will help deliver on the 2020 Tourism Industry Potential.
6. Appendix

6.1 Consultations and sources

L.E.K. has completed consultations with more than 80 tourism industry stakeholders with a wide range of backgrounds (see Table 29). These consultations typically lasted between one and two hours, and were held in person where possible, and via phone in other instances.

Table 29: Tourism sector consultations

<table>
<thead>
<tr>
<th>Commonwealth Government</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Alana Pekar, Treasury</td>
<td>Michael Ham, Treasury</td>
</tr>
<tr>
<td>Bruce Taplin, Treasury</td>
<td>Michael Pahlow, DOI</td>
</tr>
<tr>
<td>Ian Donaldson, ABCB</td>
<td>Samuel Lucas, DOI</td>
</tr>
<tr>
<td>Jane Madden, DRET</td>
<td>Siddharth Shirodkar, Treasury</td>
</tr>
<tr>
<td>Jenny Allen, Treasury</td>
<td>Stephen Borthwick, DOI</td>
</tr>
<tr>
<td>Kevin Newhouse, ABCB</td>
<td>Tim Hicks, Treasury</td>
</tr>
<tr>
<td>Ly Ma, Treasury</td>
<td>Tom Shael, Treasury</td>
</tr>
<tr>
<td>Martin Hoffman, DRET</td>
<td>Vic Dobie, DRET</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IRROWG / DRET Working Group</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheryl Scott, Austrade</td>
<td>Nicholas Dowie, DRET</td>
</tr>
<tr>
<td>David Morgans, Tourism Queensland</td>
<td>Paul King, Seashells Hospitality Group</td>
</tr>
<tr>
<td>Evan Hall, TTF</td>
<td>Richard Pearson, NSW Department of Planning</td>
</tr>
<tr>
<td>Ian Silk, Australian Super</td>
<td>Vikki Maddison, DSEWPC</td>
</tr>
<tr>
<td>Mark Jones, Queensland DEEDI</td>
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<td>Mark Stone, Tourism Victoria</td>
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<th>Other public sector</th>
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<td>Andrew McIlroy, Tourism Australia</td>
<td>John Bates, Tourism NSW</td>
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<td>Bill Rennan, Tourism Victoria</td>
<td>John Dalton, Tourism Victoria</td>
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<tr>
<td>Brendan McClements, VMEC</td>
<td>John Hutchinson, Business Events Sydney</td>
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<td>Brett Cheatley, Parks Victoria</td>
<td>John O’Sullivan, Queensland Events</td>
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<td>Brett Wood, Tourism Victoria</td>
<td>Oliver Harper, Austrade</td>
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<td>David Saunders, Tourism Tasmania</td>
<td>Paul Fagg, DEEDI Queensland</td>
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<td>Dianne Smith, Parks Victoria</td>
<td>Peter Armour, NSW Industry &amp; Investment</td>
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<td>Geoff Parmenter, NSW Major Events</td>
<td>Peter Fragiacomo, NSW Industry &amp; Investment</td>
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<td>James Hewitt, Tourism WA</td>
<td>Rod Quartermain, DEC WA</td>
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<td>Jason Bannikoff, Tourism Victoria</td>
<td>Rob Glason, Tourism TNG</td>
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<tr>
<td>Jeff Hele, VCEC</td>
<td>Simonne Shepherd, Australian Capital Tourism</td>
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<th>Lobby / industry groups</th>
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<tbody>
<tr>
<td>Caroline Wilkie, AAA (ex TTF)</td>
<td>John Anderson, ARAMA</td>
</tr>
<tr>
<td>Chris Denny, ARAMA</td>
<td>John King, Australian Tourism Export Council</td>
</tr>
<tr>
<td>Daniel Oorschwind, QTC</td>
<td>Lorraine Duffy, HMAA</td>
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<td>Denise Kirk, TTF</td>
<td>Tim Cosar, Tourism Industry Association NZ</td>
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<th>Private sector</th>
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<tr>
<td>Anna Guillian, Hayman Island</td>
<td>Max Shepherd, Skyrail</td>
</tr>
<tr>
<td>Bob East, Mantra Group</td>
<td>Peter Blackburn, Cairns Colonial Club &amp; Palm Royal</td>
</tr>
<tr>
<td>Charles Carrow, Wild Bush Luxury</td>
<td>Peter Freeman, Hartley’s Crocodile Ventures</td>
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<tr>
<td>Chris Woodruff, Melbourne Airport</td>
<td>Peter Shepherd, Creative Alliance</td>
</tr>
<tr>
<td>Damien Tkalec, Melbourne Airport</td>
<td>Richard Ayson, Delawere North</td>
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<tr>
<td>James Bailey, Baille Lodges</td>
<td>Rose-Marie Dash, H&amp;S Group</td>
</tr>
<tr>
<td>John van der Wallen, Colonial First State</td>
<td>Rob Gurney, Qantas</td>
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<tr>
<td>Joost Heymeljier, Wolgan Valley Resorts</td>
<td>Sir Rod Eddington, VMEC</td>
</tr>
<tr>
<td>Kerrie Mather, Map</td>
<td>Todd Coates, Bridgeclimb Sydney</td>
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<tr>
<td>Matt Bekier, TabCorp</td>
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<tr>
<th>L.E.K. experts</th>
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<tbody>
<tr>
<td>Dan McKone, L.E.K. Boston</td>
<td>Ken Boundy, Regnan</td>
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<tr>
<td>Dan Schechter, L.E.K. Los Angeles</td>
<td>Loftus Harris, Ex Senior Public Servant</td>
</tr>
<tr>
<td>Karl Flowers, Tourism Economist</td>
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</table>
In formulating its recommendations, L.E.K. has also made reference to a wide range of secondary sources as listed in Table 30.

Table 30: Secondary research

<table>
<thead>
<tr>
<th>Company Websites &amp; Web Analytics</th>
<th>External Reports &amp; Resources</th>
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<tbody>
<tr>
<td>• &amp;Beyond Africa</td>
<td>• ABS data by Cat. No.</td>
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<td>• AAA Tourism website</td>
<td>3401.0 – Arrivals and departures</td>
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<td>• ATDP website</td>
<td>4130.0 – Housing occupancy and costs</td>
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<tr>
<td>• British Airways Holdings</td>
<td>5204.0 – National accounts</td>
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<tr>
<td>• City of Sydney website</td>
<td>5220.0 – State accounts</td>
</tr>
<tr>
<td>• Conde Nast Traveler website</td>
<td>5249.0 – Tourism satellite account</td>
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<tr>
<td>• Exploria</td>
<td>6105.0 – Labour market statistics</td>
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<tr>
<td>• Fair Work Australia website</td>
<td>8155.0 – Australian Industry</td>
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<td>• Hotel Development WA</td>
<td>8165.0 – Employment and turnover</td>
</tr>
<tr>
<td>• HVS website</td>
<td>8635.0 – Tourist accommodation</td>
</tr>
<tr>
<td>• International Congress and Convention Association website</td>
<td>8695.0 – Accommodation services</td>
</tr>
<tr>
<td>• Lodging Econometrics website</td>
<td>8731.0 – Building approvals</td>
</tr>
<tr>
<td>• New Zealand</td>
<td>• Access Economics, Perth Hotel Economic Impact Study 2010</td>
</tr>
<tr>
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<td>• Access Economics, TARDIS model</td>
</tr>
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<td>• statistics, tourism and government department websites</td>
<td>• Australian International and Domestic Visitor Surveys</td>
</tr>
<tr>
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<td>• Deekle, Hospitality Vision Spring 2009 Global Performance Review</td>
</tr>
<tr>
<td>• DERM, Parks Victoria, DCE, DPMW, NRETAS, DEH)</td>
<td>• DRET, National Long-Term Tourism Strategy</td>
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<td>• Driti, The Economic Value of Tourism to National Parks and Protected Areas in Australia – technical report 2010</td>
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<td>• Sydney Morning Herald travel section</td>
<td>• Eungella Feasibility Study</td>
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<td>• Tourism Forecasting Council</td>
<td>• Dwyer, Forsyth, Spurr and Ho, Measuring the Benefits of Tourism, 2003</td>
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<td>• HVS, 2010 Manhattan Hotel Market Overview</td>
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<td>• Yale Environmental Performance Index 2010</td>
<td>• IHG, Annual Report</td>
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<td>• Royal Incorporation of Architects, A Guide to Architect’s Fees</td>
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<td>• SanParks Annual Report 2010</td>
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<td>• SCEC, Fact File</td>
<td>• KPMG, Three Capes Track – Economic Impact of Additional Day Walk Visitors 2010</td>
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<td>• Madden, Giesecke, Thapa, Estimating the value of Tasmanian National Parks to Park Visitors 2002</td>
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<td>• STCRC, Legal Basis for State and Territory Tourism Planning</td>
<td>• National Institute of Labour Studies, Evaluation of Australia’s Working Holiday Maker Program</td>
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<td>• STCRC, National Business Events Study 2005</td>
<td>• NSW Joint Ministerial Taskforce on Tourism Planning and Investment March 2010</td>
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<tr>
<td>• STCRC, Tourism Investment in Australia: A Scoping Study 2010</td>
<td>• NSW Taskforce on Tourism and National Parks November 2008</td>
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<tr>
<td>• Syneca Consulting, Economic Impact for Three Capes Track, Tasman National Park 2008</td>
<td>• Parks Victoria, Victoria’s Nature Based Tourism Strategy</td>
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<td>• Tanzanian Parks and Wildlife Services, Three Capes Track feasibility study 2007and 2011</td>
<td>• Parks Canada Performance Report 2010</td>
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<td>• Tasmanian National Parks Association, 2010 TNPA Policy for the Tasmanian Election for the Tasmanian Reserved Land System</td>
<td>• Perth CBD Hotel Property Conversion Study, October 2008</td>
</tr>
<tr>
<td>• The Alien Consulting Group, The Cost of Planning and Building Regulation Administered or Imposed at the Local Level in Victoria</td>
<td>• Productivity Commission, Trade &amp; Assistance Review 2008 – 09</td>
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<td>• The Jackson Report on behalf of the Steering Committee Long-Term Tourism Strategy</td>
<td>• Productivity Commission, Performance Benchmarking of Australian Business Regulation</td>
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<td>• Three Capes Feasibility Study</td>
<td>• Property Council of Australia, Tourism Dashboard Spring 2010</td>
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<tr>
<td>• Tourism Australia, 2020 Tourism Industry Potential</td>
<td>• PWC, A world class convention and exhibition centre for Sydney: pre-feasibility study</td>
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<td>• Tourism Industry Council of Tasmania Economic Impact Study June 2010</td>
<td>• Tourism Victoria, Economic Contribution of Tourism to Victoria 2007-2008</td>
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<td>• Tourism Victoria, Economic Contribution of Tourism to Victoria</td>
<td>• Tourism WA, Review of Nature Based Tourism</td>
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<td>• Urban Research Centre, Hotels as Civic Landmarks, Hotels as Assets: the case of Sydney’s Hilton report</td>
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<td>• UTS, Submission to TTF and Urbis, National Tourism Planning Guide April 2011</td>
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<td>• WTW Tourism Accommodation Monitor</td>
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<tr>
<td>• VCEG, Cost of Planning and Building Regulation Administered or Imposed at the Local Level in Victoria</td>
<td>• Yale Environmental Performance Index 2010</td>
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</table>
6.2 Incentive review

When developing its recommendations, L.E.K. examined the impact government has on tourism, through incentives and other mechanisms. In many cases, support from all three levels of government is critical for new tourism investments to proceed. The following tables contrast the experience of Australian tourism with other sectors.

Table 31: Outlay and tax concession budgetary assistance

<table>
<thead>
<tr>
<th>Industry / sector</th>
<th>Outlays ($m)</th>
<th>Tax concessions ($m)</th>
<th>Total budgetary assistance ($m)</th>
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<tbody>
<tr>
<td>Agriculture, fisheries &amp; forestry</td>
<td>1,440 (39%)</td>
<td>229 (6%)</td>
<td>1,669 (22%)</td>
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<tr>
<td>Mining</td>
<td>109 (3%)</td>
<td>311 (8%)</td>
<td>420 (6%)</td>
</tr>
<tr>
<td>Motor vehicles &amp; parts</td>
<td>25 (1%)</td>
<td>549 (14%)</td>
<td>573 (8%)</td>
</tr>
<tr>
<td>Machinery, equipment, metal and non-metallic products</td>
<td>208 (6%)</td>
<td>217 (5%)</td>
<td>425 (6%)</td>
</tr>
<tr>
<td>Total manufacturing</td>
<td>724 (20%)</td>
<td>1,042 (26%)</td>
<td>1,766 (23%)</td>
</tr>
<tr>
<td>Property, business, finance &amp; insurance services</td>
<td>227 (6%)</td>
<td>1,130 (28%)</td>
<td>1,357 (18%)</td>
</tr>
<tr>
<td>Retail &amp; wholesale trade</td>
<td>258 (7%)</td>
<td>354 (9%)</td>
<td>613 (8%)</td>
</tr>
<tr>
<td>Accommodation &amp; food services</td>
<td>6 (0%)</td>
<td>162 (4%)</td>
<td>168 (2%)</td>
</tr>
<tr>
<td>Unallocated services / tourism</td>
<td>158* (4%)</td>
<td>-</td>
<td>158 (2%)</td>
</tr>
<tr>
<td>Total services</td>
<td>1,181 (32%)</td>
<td>2,286 (57%)</td>
<td>3,467 (45%)</td>
</tr>
<tr>
<td>Unallocated other</td>
<td>215 (6%)</td>
<td>119 (3%)</td>
<td>334 (4%)</td>
</tr>
<tr>
<td>Total</td>
<td>3,670</td>
<td>3,986</td>
<td>7,655</td>
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</tbody>
</table>

Note: * Includes $2m granted to the Australian Tourism Development Program, $15m granted to the Tasmanian Forest Tourism initiative and $138m granted to Tourism Australia

Source: Productivity Commission Trade & Assistance Review 2008-09; L.E.K. analysis
Table 32: Tariff budgetary assistance

<table>
<thead>
<tr>
<th>Industry / sector</th>
<th>Output tariff assistance ($m)</th>
<th>Input cost penalty * ($m)</th>
<th>Net tariff assistance ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, fisheries &amp; forestry</td>
<td>159 (2%)</td>
<td>(72)</td>
<td>87</td>
</tr>
<tr>
<td>Mining</td>
<td>1 (0%)</td>
<td>(288)</td>
<td>(285)</td>
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<tr>
<td>Motor vehicles &amp; parts</td>
<td>1,531 (16%)</td>
<td>(507)</td>
<td>1,023</td>
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<tr>
<td>Machinery, equipment, metal and non-metallic products</td>
<td>3,259 (37%)</td>
<td>(1,015)</td>
<td>2,244</td>
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<td>Total manufacturing</td>
<td>9,375 (98%)</td>
<td>(2,845)</td>
<td>6,530</td>
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<td>Property, business, finance &amp; insurance services</td>
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<td>(492)</td>
<td>(492)</td>
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<td>Retail &amp; wholesale trade</td>
<td>-</td>
<td>(1,087)</td>
<td>(1,087)</td>
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<tr>
<td>Accommodation &amp; food services</td>
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<td>(424)</td>
<td>(424)</td>
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<tr>
<td>Unallocated services / tourism</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total services</td>
<td>-</td>
<td>(4,939)</td>
<td>(4,939)</td>
</tr>
<tr>
<td>Unallocated other</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>9,535</td>
<td>(8,143)</td>
<td>1,392</td>
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</table>

Note: * Estimate of the penalty imposed on industries using inputs that are more expensive due to tariffs
Source: Productivity Commission Trade & Assistance Review 2008-09
6.3 Case studies

As part of this study, L.E.K. examined a number of specific case studies to understand the key issues facing the tourism industry in Australia, and how the regulatory environment impacts these situations. The following case studies provide a high level summary of the key issues faced by those in the sector.

Figure 25: Convention Centre and Crown Casino Entertainment Complex, Melbourne

| Melbourne Convention Centre and Crown Casino and Entertainment Complex, Melbourne |
|-----------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| **Background**                          | **Timeline**                    | **Outcomes**                    | **Key regulatory issues**       |
| ● The Melbourne Convention Centre (MCC) was developed as a Public Private Partnership, with the Victorian Government contributing $370m, the private sector investing $1.4bn, and the City of Melbourne contributing $43m | The CCEC, featuring Crown Towers hotel opened in 1997. The second hotel opened in 2003 | ● The MCC was constructed and opened on time and on budget. It is estimated that the flow-on effect for Victoria, mainly Melbourne, from this 5,000-seat convention centre is $197m per annum | ● The PPP was crucial to the success of the MCC as it aligned the interests of the developer and operator to provide a functionally effective facility. It also allowed expenditure on the MCC to exceed that budgeted by the government |
| ● The new precinct is adjacent to the Crown Casino and Entertainment Complex (CCEC), and includes an office tower, a Hilton hotel and retail space. Most of the construction around the site, including the hotel tower, is complete. The office tower and retail space are fully leased | A PPP was established to develop a new convention centre, the first in Victoria to invest in tourism infrastructure | | ● A clear vision by the state government encouraged the development of tourist accommodation and attractions while simultaneously creating demand through supporting infrastructure and facilities |

**Source:** STCRC Tourism Investment in Australia: A Scoping Study 2010; Press; L.E.K. interviews

This example showcases how a clear public sector vision can result in financially viable tourist accommodation projects that are part of a larger development.
Treasury Casino, Brisbane

**Background**
- The casino and 137-room hotel, occupies two heritage buildings, the Treasury Building, and the nearby Lands Administration Building in Brisbane. The buildings are separated by Queens Park.
- Owned by Tabcorp, the casino, hotel and function centre began operating in 1995.

**Key regulatory issues**
- State governments control the number, and scope of casino operating concessions. Recently the government has expanded the concession, partly in exchange for additional hotel stock.
  "...Tabcorp will lift its Brisbane expansion to be worth $260 million, including a new 400-room hotel linked with its Treasury casino. In return, the Queensland government had agreed to several concessions, including 500 more electronic gaming machines, 50 extra table licences and a reduced tax threshold for interstate and international gamblers, across the Treasury and Jupiters Casinos in Queensland."
  Australian Associated Press, 13 December 2010

**Timeline**
- Treasury Casino and Hotel begins operating 1995
- Hilton extends management rights for a further five years 2005
- WorldHotels acquires operating rights from Tabcorp. Hotel and casino rebranded Treasury Casino and Hotel 2008
- Tabcorp agrees to spend $260m to develop a new hotel and other facilities, in return for new casino concessions 2009, 2010

**Outcomes**
- New tourism accommodation and attractions for Queensland
  "...More than three quarters of the investment at the developments in Brisbane and on the Gold Coast would be in non-gaming areas such as hotels, restaurants, events space, spas and pools..."
  Australian Associated Press, 13 December 2010

**Westin GPO, Sydney**

**Background**
- The original Sydney GPO building was constructed in several stages between 1864 and 1905.
- Restoration work was required due to progressive disuse and disrepair, and redevelopment proposals were submitted in 1995. The winning scheme proposed:
  - a non-heritage 26 level, 40,000m² office tower
  - a 31 level, 369 room hotel tower on adjacent land
  - 5,000m² of ground floor retail

**Key regulatory issues**
- A Floor Space Ratio (FSR) bonus of 27.5% was provided to the developer under the pre-Olympics incentive mechanism. The bonus applied as long as the project was completed three months prior to the start of the Games.
- Development risk exposure was reduced by securing commitments from tenants including Westin Hotels Group, ASIC and Macquarie Bank prior to completion.

**Timeline**
- Original erection of the building 1864 - 1905
- Development consent issued in December 1996
- Redevelopment work completed in September 1999. Building renamed No. 1 Martin Place
- Construction commenced in May 1997

**Outcomes**
- The reported project cost was between $500 – 700m, with c.7.5% attributable to requirements associated with the heritage listing.
- The FSR bonus provided a strong financial incentive to redevelop the GPO, thereby ensuring the utilisation of a landmark heritage building in Sydney’s CBD.

**Regulation**
- Schemes, such as FSR bonuses, issued by local councils can provide a strong incentive to develop new accommodation

**Public Sector Leadership**
- New developments can occur when government takes the lead on tourism by making resources available

Source: NSW Joint Ministerial Taskforce on Tourism, Planning and Investment March 2010; Press; L.E.K. interviews
Perth hotel market

Background
- Hotel occupancy rates and demand for hotel accommodation in Perth have been rising steadily over the last decade and the city’s hotels are now close to capacity.
- Despite the considerable increase in average room rates, new supply has been limited. There are no additional rooms in the pipeline, though a few potential developments sites have been identified.
- There are concerns about the flow-on impact of this shortage in hotel accommodation going forward.

Key regulatory issues
- Regulation does not appear to be the key factor impeding hotel accommodation development. However, the lack of emphasis placed on developing and coordinating tourism infrastructure has had some impact on investment.
- The return on hotel accommodation development has been inadequate to stimulate investment.
  - Room rates in Perth are lower than those in the Eastern states.
  - Perth has the highest hotel construction costs in Australia.

Outcomes
- Insufficient capacity has reduced visitation to the state, resulting in lost tourism exports estimated at $213m 2008-09 dollar.
- The WA economy lost c.$46m in GSP and 220 FTE positions over the period from 2006-07 to 2008-09 due to the accommodation shortages.
- Government regulation, and incentives, are required to encourage future development.

Meriton Serviced Apartments, Sydney

Background
- Meriton Apartments, one of Australia’s largest residential developers, began to invest in serviced apartments and sold its last hotel interest in the mid-1990s.
- The oversupply of residential apartments, the fall in demand for hotel accommodation as well as the increasing demand for serviced apartments, and the relative economics of serviced apartments compared to hotels has contributed to an upward trend in serviced apartment supply.

“...The serviced apartment market is booming, while hotels are closing down, because we can charge less ...” Meriton, The Australian, 5 July 2002.

Key regulatory issues
- Apartment developers are able to file applications to reclassify units as “dual use” so they can be used for residential or short-stay accommodation facilities. This reclassification can disadvantage hotel owners and operators by:
  - providing serviced apartments with a cost advantage due to lesser regulatory requirements and controls, compared with hotels.

Outcomes
- The supply of serviced apartments in Sydney has increased significantly in the last decade, given their returns relative to hotels.

Source: Access Economics Perth Hotel Economic Impact Study 2010; Press; L.E.K. interviews

Structural Economics

Investment in tourist accommodation offers poor structural returns compared to other industries. This effect is particularly pronounced in Perth.

Source: Meriton website; Press; L.E.K. interviews

Figure 28: Perth hotel market

Figure 29: Meriton Serviced Apartments, Sydney
The City of Melbourne is now responsible for the municipal management of Melbourne Docklands, with VicUrban responsible for overseeing the development until completion.

The Docklands Authority Act 1991 was passed in Parliament to govern the development of the area. The Docklands Authority facilitates the private sector development and took on municipal management for the area from 1999 to 2007.

The land parcel was zoned for a variety of uses including residential, commercial and entertainment/tourist attractions.

The City of Melbourne is now responsible for the municipal management of Melbourne Docklands.

Background:
- The Victorian Government began planning the development of the Docklands area, now Melbourne’s biggest urban renewal project, in the early 1990s.
- The $1bn Waterfront City project was one of the seven precincts to be developed.
- The site was released to the market in seven separate precincts in 1996.
- Negotiations commenced in 1994 – the company faced regulatory issues delays.
- The Victorian Government’s Docklands Taskforce was appointed to identify and report on the best options for the area.
- The Docklands Stadium and key transport links opened followed by the first residents moving in.
- The wheel opened in late December 2008 and had to close down for repairs in early 2009.
- The wheel opened in late December 2008 and had to close down for repairs in early 2009.
- The first phase of the Docklands renewal cost c.$5.5bn, and it is estimated that the second phase, expected to be completed in 2020, will cost $9bn.
- In January 2009, after six weeks of trading, the observation wheel was on track to become a leading attraction in Melbourne.

Timeline:
- 1990s
- 2001
- 2002
- 2008 - 09
- The site was released to the market in seven separate precincts in 1996.
- The Docklands Stadium and key transport links opened followed by the first residents moving in.
- The first phase of the Docklands renewal cost c.$5.5bn, and it is estimated that the second phase, expected to be completed in 2020, will cost $9bn.
- In January 2009, after six weeks of trading, the observation wheel was on track to become a leading attraction in Melbourne.

Outcomes:
- Over 2.5 million people have experienced BridgeClimb since its opening.
- The company employs c.250 people and generated revenues of c.$50 million in 2005.

BridgeClimb faced, and overcame, more than 60 local council and state government objections on the grounds of danger, legality, aesthetics and the environment – almost 500 people were involved in the consultation process.

Key regulatory issues:
- Regulatory changes can assist in the development of tourist attractions.
- The complex regulatory approval process also hinders development.

Background:
- The Boutique Observation Wheel offers three types of guided climbs that take visitors to the summit of the Sydney Harbour Bridge, 134 metres above the water.
- Founder Paul Cave invested nine years before the business was operational.
- “...It’s been like a baby in many ways and I had a total focus, a passion and a drive to make it happen. But it was very stressful and often a very painful process...”
- Paul Cave, BridgeClimb founder

Process:
- The cost of the wheel, initially $40m, escalated to $100m due to engineering and design issues.
- The Southern Star Observation Wheel helped the joint venture between ING Real Estate and Lewis Land Group win the bid to develop the project.
- The idea of the Southern Star Observation Wheel was conceived by Paul Cave.
- The project was released to the market in 2005.
- BridgeClimb opened on 1 October 1998 after overcoming regulatory and financial objections. BridgeClimb has a 20-year contract with the RTA, and is required to contribute $3.9 million to the Bridge’s Pylon Museum. The contract has the potential to raise $26 million earmarked for bridge maintenance.

Timeline:
- 1989
- 1994
- 1998
- Idea conceived by Paul Cave
- Negotiations commenced in 1994 – the company faced regulatory issues delays
- BridgeClimb opened on 1 October 1998 after overcoming regulatory and financial objections. BridgeClimb has a 20-year contract with the RTA, and is required to contribute $3.9 million to the Bridge’s Pylon Museum. The contract has the potential to raise $26 million earmarked for bridge maintenance.

Outcomes:
- Over 2.5 million people have experienced BridgeClimb since its opening.
- The company employs c.250 people and generated revenues of c.$50 million in 2005.

Key regulatory issues:
- BridgeClimb faced, and overcame, more than 60 local council and state government objections on the grounds of danger, legality, aesthetics and the environment – almost 500 people were involved in the consultation process.

Process:
- Australian tourism can suffer from limited public sector vision for innovative and unique tourism development.
- The complex regulatory approval process also hinders development.

Source:
Press; L.E.K. interviews; Docklands website; L.E.K. interviews
### Figure 32: Port Arthur, Tasmania

**Background**
- The Port Arthur area includes a number of World Heritage listed convict and coal mine sites
- The Port Arthur Historic Site Management Authority (PAHSHA) is a State Government Business Enterprise, and is the statutory authority responsible for the administration, marketing, preservation and maintenance of the sites

**Key regulatory issues**
- Five Acts of state parliament govern PAHSHA
- The Port Arthur Historic Sites Management Plan 2008 guides the Authority in respect of the sustainable management of the sites
  - the Management Plan includes a focus on developing tourism in accordance with the area’s natural environment
  - “… To encourage tourism, recreational use and enjoyment consistent with the conservation of the State reserve’s natural and cultural values ...

**Outcomes**
- The site has been recognised through a number of awards, including the 2009 The Australian Newspaper Travel and Tourism Award in the Best Heritage Tourism category and the 2010 Australian Gourmet Traveller Awards – Best Heritage Tourism category
- Port Arthur has a significant share of visitors to Tasmania

### Figure 33: Saffire Freycinet, Tasmania

**Background**
- Saffire Freycinet features 20 suites on 11ha of land in Coles Bay, Tasmania
- The building of the resort was a condition of the 15-year extension granted in 2003 to Federal Group, the monopoly poker machine operator in Tasmania
- Federal Group was required to spend at least $25m on the project. The final total building cost was $32m
- While the property is owned by Federal Group, it is marketed under the Pure Tasmania brand

**Key regulatory issues**
- The development approval process took over four years. The operator’s variation in the number of rooms at the resort from 100 down to 22 lengthened the process as new regulatory approvals were required
- Concerns were also raised around the height, sitting and appearance of the development, and waste water and sewage infrastructure. As a result, a proportion of the development costs went towards enlarging water storages in the surrounding area

**Regulation**
- The regulatory approval process makes it difficult to make changes to the development proposal

**Process**
- Concerns regarding the impact of developments on the environment can delay new tourism projects

**Outcomes**
- The luxury lodge is a popular destination for high-value tourists, who contribute to the Tasmanian economy

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*Note: These reductions were driven by private investment concerns rather than the regulatory process*

Source: Press; Saffire Freycinet website; Development Approval Planning Assessment Report; L.E.K. interviews
### Figure 34: Southern Ocean Lodge, Kangaroo Island

**Southern Ocean Lodge, Kangaroo Island**

<table>
<thead>
<tr>
<th>Background</th>
<th>Timeline</th>
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</thead>
<tbody>
<tr>
<td>- A $375,000 regional infrastructure grant from the South Australian Government was used to cover a significant proportion of the electricity infrastructure costs.</td>
<td>- Development approved by the SA Governor. - Opens in early 2008.</td>
</tr>
</tbody>
</table>

**Key regulatory issues**

- As part of the BIA** process Baillie Lodges applied for Major Development status, which is appropriate for proposed developments of major economic, social or environmental significance. This status was required for the vegetation clearance under the Native Vegetation Act.

- 223, mostly opposing submissions were received in response to the PER**. Key issues raised included environmental damage and bushfire protection measures.

- The development needed to conform with seven pieces of legislation including the Development Act 1993 and the EPBC Act 1999, as well as SA tourism policies.

**Outcomes**

- The Lodge has won numerous awards including the Australian Gourmet Traveller Winner for Best Resort / Lodge in 2009 and 2010.

---

**Public Sector Leadership**

Public sector leadership is often critical to progress sensitive development proposals.

**Process**

Special project status can facilitate new tourism developments in areas of environmental sensitivity.

Note: * Environmental Impact Assessment; ** Public Environmental Report.

Source: Southern Ocean Lodge website; Press; Assessment Report for the PER October 2006; L.E.K. interviews.

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### Figure 35: Wolgan Valley Resort, NSW

**Wolgan Valley Resort & Spa, New South Wales**

<table>
<thead>
<tr>
<th>Background</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>- The $125m, 40-suite Wolgan Valley Resort and Spa was opened by Emirates Hotels and Resorts in 2009.</td>
<td>- Emirates begins a search for a location for a new luxury resort development in Australia. - Negotiation of a land swap with the Department of Environment and Conservation. - Final approval of modified Concept Plan. - Opened in early 2008.</td>
</tr>
<tr>
<td>- The resort is set on a 1,500ha wildlife sanctuary, and features a conservation reserve for endangered wildlife and native plants.</td>
<td>- Proposed development announced in Wolgan Valley Submission of Concept Plan for the proposal. - Exhibition of Concept Plan, and review of submissions, followed by approval by Minister for Planning. - Submission of modified Concept Plan Submission of PER** for approval under the EPBC Act.</td>
</tr>
</tbody>
</table>

**Key regulatory issues**

- In 2006, 20 submissions were received in response to the initial Concept Plan. The key concerns were around potential traffic impacts, helicopter flights and environmental damage.

- In 2007, 47 submissions were received in response to the modified Concept Plan, which reallocated some resort facilities into National Park land. Mitigation measures, and recommended conditions of approval, were provided.

- Classification as a major project under the EPAA* Act aided the process and led to final approval in mid-2007.

- "... The NSW Government outed itself as a cheerleader of the proposal and this is the same Government which recently gave itself the power to grant major developments exemptions from environment planning laws ..." - Ian Cohen, Greens MP

**Outcomes**

- The project employed 150 workers during construction, and is expected to employ 120 staff on an ongoing basis.

- The estimated annual operating costs of c. $7.6m will generate economic benefits to the local community.

- The resort brings high-wealth individuals to the region, with flow-on economic benefits to the local economy.

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**Regulation**

Innovative developments involving National Parks can be difficult for local bodies to assess.

**Process**

The current approval process for developments in National Parks is prone to delays.

Note: * Environmental Planning and Assessment Act 1979; ** Public Environment Report.

Source: Press; NSW Department of Planning; Wolgan Valley Resort & Spa website; L.E.K. interviews.
**Figure 36: Skyrail Rainforest Cableway, Cairns**

<table>
<thead>
<tr>
<th>Skyrail Rainforest Cableway, Cairns</th>
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<tbody>
<tr>
<td><strong>Background</strong></td>
</tr>
<tr>
<td>● The Skyrail Rainforest Cableway is a 90 minute journey that spans 7.5 kilometres of environmentally sensitive World Heritage listed tropical rainforest near Cairns</td>
</tr>
<tr>
<td>● The initial project cost was $35m, with a further $2.5m spent on upgrades</td>
</tr>
<tr>
<td><strong>Key regulatory issues</strong></td>
</tr>
<tr>
<td>● The extensive approval process involved complying with legislation including the World Heritage Properties Conservation Act 1983</td>
</tr>
<tr>
<td>● The developers also had to satisfy the Queensland Department of Environment and Cultural Heritage, local councils and opposition groups and the Aboriginal community, among others around the environmental implications of the project</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
</tr>
<tr>
<td>● The development has won numerous awards including ‘Best Tourist Development Project’, ‘Best Major Tourist Attraction’ and the ‘Sustainable Tourism Award’</td>
</tr>
<tr>
<td>● The proposal bypassed the Wet Tropics Management Authority and was taken to the Wet Tropics Ministerial Council for Skyrail in an attempt to shorten the approval process</td>
</tr>
<tr>
<td><strong>Timeline</strong></td>
</tr>
<tr>
<td>Original Skyrail concept conceived</td>
</tr>
</tbody>
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**Figure 37: Kooljaman Cape Leveque**

<table>
<thead>
<tr>
<th>Kooljaman at Cape Leveque</th>
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<tbody>
<tr>
<td><strong>Background</strong></td>
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<tr>
<td>● Kooljaman at Cape Leveque is a multi award winning Aboriginal owned wilderness style luxury camp offering a variety of accommodation types, located 220 kilometres north of Broome on the Dampier Peninsula</td>
</tr>
<tr>
<td>● The two surrounding indigenous communities of Djarindjin and One Arm Point jointly developed, and own, Kooljaman</td>
</tr>
<tr>
<td><strong>Key regulatory issues</strong></td>
</tr>
<tr>
<td>● The focus has been on developing a low impact project that can be controlled by local people and be of a size, and extent, that minimises the impact on the surrounding natural environment</td>
</tr>
<tr>
<td>● The Kimberley area has a focus on development through Regional Development Australia Kimberley. RDA is an Australian Government initiative that aims to bring together all levels of government to enhance the growth and development of regional Australia</td>
</tr>
<tr>
<td>● The Kimberley Land Council works to protect traditional land and waters, and is charged with the responsibility to protect, enhance and gain formal status (legal, social and political) for the customs, laws and traditions of the owners. It controls development on the land</td>
</tr>
<tr>
<td><strong>Outcomes</strong></td>
</tr>
<tr>
<td>● Winner of numerous state tourism awards as well as the National Indigenous Tourism Award; the Australian Ecotourism Award over multiple years; and the Australian Tourism Unique Accommodation Award</td>
</tr>
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</table>

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**Regulation**
Local and state governments need to actively facilitate the approval process through planning measures

**Process**
SkyRail shows that streamlined processes can reduce the lengthy development delays experienced by Heritage listed sites

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Source: Press; Skyrail website; L.E.K. interviews

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**Public sector leadership**
When government works with landowners, and tourism operators, successful tourism projects can be developed

Source: Kooljaman at Cape Leveque website; Press; Regional Development Australia; Kimberley Land Council; L.E.K. interviews
### Three Capes Track, Tasmania

#### Background
- The proposed track is a new 68 kilometre 6 day / 5 night hut-based bushwalk along the southern coast of the Tasman Peninsula – it aims to rival the Overland Track.
- New infrastructure would likely be required to cater for 60 walkers departing each day (10,000 annually)
- In addition to park entry fees, it is estimated that walkers will pay $200 for hut accommodation during the walk
- The total expected cost of the project is $33m, $12.5m and $12.8m will be contributed by the federal and state governments respectively, and $8m will be raised privately

#### Key regulatory issues
- The potential environmental and cultural impacts on the Tasman National Park need to be evaluated – the EPBC Act 1999 is a key piece of legislation for this project
- The regulatory approval process to date has taken over four years as it involves thorough investigation into the environmental and economic impact through consultation with the relevant authorities, and the public.

#### Timeline
- **2005**
  - Gavin and Dana Ronan began their search for a suitable development site, and initially approached Parks Victoria. The site chosen was on private land in a rural conservation zone
- **2006**
  - The couple spent $20,000 in 2007 conducting research to prove and substantiate 15 years of continuous use of the site. This involved working closely with the Colac-Otway Shire to obtain the zoning approval
- **2007**
  - The lodge opened in December 2007
- **2008**
  - The lodge was purchased in December 2007. The planning permit was submitted in January 2008 and approved in March 2008
- **2009**
  - $200 for hut accommodation during the walk
- **2013**
  - Commonwealth government expected to provide funding of $12.5m over four years

#### Outcomes
- According to a recent economic impact study, the project is expected to create between 700 and 1,500 jobs within seven years, and generate between $90 and $190 million a year

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**Note:** * Resource Planning and Development Commission

Source: Press; Tourism Industry Council of Tasmania Economic Impact Study June 2010; Tasmania Department of Environment, Parks Heritage and the Arts; Tasmania Department of Treasury and Finance; L.E.K. interviews

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Other factors impeding investment and limiting visitor numbers are the remoteness of the park, and the pronounced seasonal variation in weather conditions and accessibility. Kakadu National Park is located in a remote area, 260 kilometres east of Darwin. According to the Aboriginal Land Rights (Northern Territory) Act, the Aboriginal owners need to approve all potential use of land for private sector investment—development on Aboriginal land is a sensitive issue, and this makes for a lengthy and expensive process. The park’s World Heritage listing further complicates the development approval process. Other factors impeding investment and limiting visitor numbers are the remoteness of the park, and the pronounced seasonal variation in weather conditions and accessibility.

Key regulatory issues
- Development on Aboriginal land is a sensitive issue, and this makes for a lengthy and expensive process.
- The park’s World Heritage listing further complicates the development approval process.
- Other factors impeding investment and limiting visitor numbers are the remoteness of the park, and the pronounced seasonal variation in weather conditions and accessibility.

Outcomes
- Kakadu National Park currently suffers from a lack of supporting infrastructure and an appropriate range of experience-based accommodation.
- Improved regional collaboration, and further investment are required.

**Figure 41: Mount Buller, Victoria**

**Background**
- Mount Buller is a mountain resort in Victoria.
- Grollo, a property investment and development group, has facilities for tourists at Mount Buller, including accommodation and dining, ski lifts and equipment hire and snow-making infrastructure.

**Key regulatory issues**
- Grollo recently sought approval for the redevelopment plan of the Mount Buller resort leasehold. The experience provides insight into the challenges faced by high natural amenity developments.
  - Well-intended environmental policy often lacks the specificity required to provide clear guidance for implementation.
  - Relatedly, planning outcomes (e.g., timelines or likelihood of approval) are difficult to predict due to the large number of parties involved in the assessment, which separately consider different aspects of regulation and at times apply professional judgement differently.
  - Low levels of public sector tenure and experience, combined with a lack of commercial expertise can further contribute to a lengthy assessment/approval process.
- The leasehold arrangement of Mt Buller limits the investment horizon and thus makes investment decisions more difficult.

**Outcomes**
- Some of the planned redevelopment, such as the cable car between Mount Buller and Mount Stirling, was abandoned.
- Other development projects were completed after considerable delay.

**Regulation**
- The application of fixed term operating approvals can limit the feasibility of investment cases.

**Process**
- Internal processes and regulatory ambiguity can create a public sector interface which is frustrating for commercially motivated proponents.

Source: Press; Grollo Developments website; Alpine Resorts Co-ordinating Council; L.E.K. interviews.
Figure 42: Lord Howe Island, New South Wales

Lord Howe Island, New South Wales

<table>
<thead>
<tr>
<th>Background</th>
<th>Timeline</th>
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<tbody>
<tr>
<td>● Lord Howe Island is one of four island groups to have UNESCO World Heritage status. Two-thirds of the island is a Permanent Park Reserve, and the surrounding waters were declared a Marine Park in 1998</td>
<td>The Regional Environmental Plan (REP) 2005 caps the number of tourist beds at 400, and imposes a limit on new housing developments</td>
</tr>
<tr>
<td>● Only 400 visitors are allowed on the island at any given time in order to protect the environment and preserve the island’s unique appeal. All visitors are required to pay a tourism levy</td>
<td>Lord Howe Island Local Environment Plan 2010 replaces REP 2005</td>
</tr>
<tr>
<td>● The island currently has 18 accommodation properties, most of which are family operated. Camping is prohibited</td>
<td>Review of the Lord Howe Island Act 1953 is conducted. Further amendments to the Act are likely to be finalised in September 2011</td>
</tr>
</tbody>
</table>

Key regulatory issues

- The island is self-governed by the Lord Howe Island Board, established under the Lord Howe Island Act 1953. The Board reports directly to the NSW Minister for Climate Change, Environment and Water
- Regulation around environmental management and conservation has become increasingly strict over the last five years

Outcomes

- Lord Howe Island has developed a reputation for being a high-end luxury destination. For the June 2010 quarter, average RVPAR was $248 for the island compared to $44 for New South Wales overall

Public Sector Leadership

Some local governments appreciate the benefits of tourism visitation, and work with industry to manage tourism to preserve the natural environment and benefit economically from visitors

Figure 43: Landbank and Naturebank, Western Australia

Landbank and Naturebank, Western Australia

<table>
<thead>
<tr>
<th>Background</th>
<th>Timeline</th>
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</thead>
<tbody>
<tr>
<td>● Lengthy delays in the planning approval process add to transaction and development costs and reduce investors’ ability to compete in the market for land suitable for tourist development</td>
<td>Landbank established by Tourism WA to take over the process to make suitable identified sites ‘investor-ready’</td>
</tr>
<tr>
<td>● Landbank was created in 2005 to ensure an adequate supply of tourism development sites to meet the future needs of the tourism industry in WA</td>
<td>2005 2009 2010</td>
</tr>
<tr>
<td>● Naturebank is an extension of the Landbank initiative. It involves the assessment and release of ‘investor-ready’ land for low-impact visitor accommodation predominantly within WA’s protected areas managed by the Department of Environment and Conservation (DEC)</td>
<td>Naturebank established in October 2009 with a focus on extending the amenity and cultural values provided by the natural environment</td>
</tr>
</tbody>
</table>

Key regulatory issues

- Landbank relies on independent market research and information from regional authorities to make decisions. It does not have any statutory authority or control over land use and surrounding red tape
  - the developer may still face building regulation constraints even if crown land has been made ready for development
- The Naturebank initiative aims to rectify this issue through shared responsibility for the development of a site with the DEC

Outcomes

- The concept was well received by investors, but the quality of the sites available was perceived by some as a barrier
  "...I took a group of investors over there and they thought the concept was terrific, though there was a feeling that the land available wasn’t ideal…” Tourism peak body manager
- As at March 2010, Landbank was on track to meet its target of releasing 20 strategic sites for development by 2010. However, none of the sites had yet been taken up by a developer

Public Sector Leadership

Public sector initiatives reducing the time and cost of gaining planning approval for tourism investments are important to ensure an adequate supply of tourism assets in the future

Source: Tourism WA website; STCRC Tourism Investment in Australia: A Scoping Study 2010; L.E.K. interviews
6.4 Economic modelling supporting evidence

**Introduction**

There are two main approaches to assessing net benefits of a regulatory change. The first approach, cost benefit analysis, is “bottom-up” in its orientation and puts most emphasis on the industry concerned and understanding market failures including regulatory failures. The second approach, CGE modelling is “top-down” in its orientation and puts more emphasis on tracking how growth in one industry affects other industries through a range of crowding out mechanisms.

As recently argued by Forsyth (2010) in Evaluating Investments - Cost Benefit Analysis or Computable General Equilibrium, combining the two methods ensures more accurate net benefit evaluation. By utilising a CGE model with cost benefit analysis of an industry the key weakness of cost benefit analysis of ignoring macro-economic or inter-industry affects can be overcome. Similarly, by utilising a cost benefit analysis with a CGE model the key weaknesses of a CGE model in not handling: the detail on an industry sub-sector including any market failures or externalities; and in not providing net community benefit estimates can be overcome based on Forsyth’s (2010) presentation on evaluating investments - cost benefit analysis or computable general equilibrium. This combined approach underlies the remainder of this paper.

This appendix, therefore, provides an introduction to how economic modelling of the impacts of tourism supply policy reforms can be undertaken. It includes a discussion of the approaches and range of tools that are necessary. With the focus of policy makers in tourism turning to supply side issues, there is an urgent need for more compelling evaluation of supply side reforms and major project investments.

This appendix concludes by suggesting the steps necessary for the state and Commonwealth governments to entrench improved evaluation of tourism supply side analysis.

The justification for tourism regulatory and investment incentive reform is built on estimates of the net returns to the Australian community. This requires a more sophisticated approach than does estimation of the narrow benefits of a larger or more profitable tourism industry, which are commonly emphasised in tourism industry consultations. Indeed, it is possible that a larger tourism industry can result in a decline in gross domestic product (GDP) or gross state product (GSP), depending on how the tourism industry links with the rest of the economy and how much room for growth there is in the overall economy.

Estimating the change in economy wide activity from tourism spending growth relies on application of computable general equilibrium (CGE) models, or the models applied by state governments for the purpose of reviewing impacts on GSP from a project investment or event. These models calculate net changes in economic activity after allowing for the impact on other industries, including from a range of feedback mechanisms that ‘crowd-out’ some, or all, of the narrow tourism sector benefits of increased tourism investment. For example, a stronger tourism industry can lead to reduced available consumer spending for the outputs of other industries, as well as an increased Australian dollar, higher wages and interest rates.
There is a five-part process for estimating the net community benefits or costs of reforms to regulations or government incentives that foster tourism investment:

1. What are the estimated impacts on tourist expenditure by visitors from outside the jurisdiction? Estimating this variable requires three preliminary steps;
   a) What is the tourism supply response (e.g. extra rooms) due to regulatory or incentive reform? If existing supply is congested and has become a bottleneck, how will this increased supply affect tourist spending?
   b) What is the impact on market pricing due to the direct impact of regulatory or incentive reform, and what is the indirect impact on pricing of increased supply? How will the overall price change affect tourist spending?
   c) Given the change in quantity and price in a tourism sub-sector, what is the expected total change in tourist spending by visitors from outside the jurisdiction?

2. How does the estimated growth in tourist expenditure from outside the jurisdiction impact on overall economic activity in the relevant jurisdiction as estimated using a CGE model or the approaches used by state governments?

3. What indirect or non-economic benefits and costs follow from the reforms, and what values should be put on these indirect or non-economic benefits and costs?

4. What are the estimated net direct costs (or opportunity costs) for the bureaucracy, and for the compliance burden of industry and the community of making the recommended reform including for additional labour or capital that may be required? and

5. What are the estimates of net benefit or cost of government intervention (the sum of steps 2 to 4)?

If the outcome of the five steps is greater than zero, this implies a net community benefit from the reform proposal.

For example, Access Economics has reviewed the Perth hotel market, an example of a city hotel market with high occupancy rates. Access Economics used an economic model of this market to provide guidance on Step 1 and used their own proprietary CGE model for Step 2.

This approach will be illustrated through discussion of the following issues:

   a) Costs and benefits of a pro-investment regulatory change within an industry

   b) Why changes in overall economic activity will be smaller than tourism activity changes
c) Why the change in net economic activity due to tourism growth is influenced by the jurisdiction for analysis and the level of capacity utilisation in the economy

d) Why tourism growth can bring increased economic activity even in a highly capacity constrained economy, introducing externalities due to market failure

e) How cost-benefit analysis is affected by externalities

   i. Externalities justifying incentive reform to encourage inner city hotel development

   ii. Externalities justifying regulatory reform to encourage tourist accommodation and facility investment in national parks

f) How net benefit differs from changes in net economic activity

g) Conclusions and recommendations for next steps by governments in evaluating supply side tourism policy and project proposals

a) **Costs and benefits of a pro-investment regulatory change within an industry**

Estimating the net benefit of a regulatory reform normally begins with a review of the impacts within the particular industry concerned. This draws on the theory of cost benefit analysis.

The following supply and demand chart characterises the normal impact on an industry of an increase in investment resulting from regulatory reform. As shown in the chart a change in regulation leads to an increase in supply of products at the same price - so the supply curve shifts out. In the following chart, the regulatory or incentive change results in a new equilibrium price of P2 (from P1) and increased quantity of production Q1 (from Q0).
Consumer surplus which was $FAP_1$ shifts to area $FBP_2$, or an increase of $ABP_1P_2=ADP_2P_1+ABD$. Producer surplus which was equal to $P_0AP_1$ becomes area $P_0BP_2$.

Producer surplus falls by area $ADP_1P_2$ (that is effectively transferred to consumers), but gains area $P_0DB$.

The net benefit is the sum of the changes in consumer and producer surpluses - areas $ABD + P_0DB$ (as shaded in green).

This characterisation highlights the benefits for consumers of, and producers, in an industry of a regulatory change that increases supply. However, it does not work well for analysing a tourism regulatory change. In a cost benefit analysis of the tourism industry it would be normal to exclude the consumer surplus benefits for non-residents of the jurisdiction, so for tourism analysis benefits are focused on changes in producer surplus.

More generally, as Forsyth (2010) notes in his presentation on Evaluating Investments - Cost Benefit Analysis or Computable General Equilibrium, this single industry (or partial equilibrium), does not give a good guide to the expected change in overall economic activity or of underlying community benefit because it ignores the flow-over costs or crowding out that growth of one industry causes for other sectors of the economy.

**b) Why changes in overall economic activity will be smaller than tourism activity changes**
In addition to the direct effects within the industry concerned there is a range of economic impacts beyond the industry that impinge on the change in net economic activity in response to changing regulation.

For example, increased tourism due to increased investment following regulatory change is expected to:

- Reduce available budgets for, and hence spending on, non-tourism production of Australians;
- Have a positive initial impact on the balance of trade resulting in increased pressure on the exchange rate. A higher exchange rate has negative impacts on the earnings of other exporting and import competing industries, reducing net economic benefits;
- Increase tourism employment, reducing potential labour supply to other industries and possibly increasing wages faced by other industries, reducing their profitability; and
- Increase demand for capital (equity and debt), tightening the supply of capital to other industries.

The result of the first point is to commonly exclude changes in consumer surplus benefits for domestic tourism consumers as their budget constraint means they will lose consumer surplus from the purchase of other domestic goods when they buy more tourism output. For this reason, and to avoid including consumer surplus of non-residents, a common first step in estimating the change in tourism regulatory or incentive reform industry is to estimate the change in tourism ‘export’ revenue. In the diagram above, this is equal to rectangle P2BQ1 less rectangle P1AQ0 as assessed for sales to non-residents of the destination. An implication of this is that governments should look to select regulatory or incentive reform that leads to a large increase in quantity supplied with a small decrease in prices charged. The Access Economics study of the Perth Hotel market meets this condition.

The outcome of the ‘crowding-out’ (the four points above) is that the net change in overall economic activity is normally smaller than the increase in tourist spending resulting from the investment prompted by the regulatory change. Indeed for a highly capacity constrained economy, economic activity can fall due to increased tourist spending.

In contrast, the large multipliers from tourism growth that in previous years were derived from unadjusted results of input-output modelling overstate net economic benefits. Input-output modelling includes the impacts of increased tourism in boosting other industry’s production leading to a multiplied effect. However, as noted by Dwyer, Forsyth and Spurr, in Evaluating Tourism’s Economic Effects: New and Old approaches, this approach erroneously assumes that the labour and capital resources required for the expansion of tourism are available free of cost from other sectors of the economy while ignoring the interactions between the economy and the rest of the world. For example, this style of input-output multiplier analysis predicted that an expansion of the resources sector would expand the manufacturing sector, whereas the common global experience has been for the manufacturing sector to shrink (a result The Economist newspaper christened the Dutch Disease).
c) Why the change in net economic activity due to tourism growth is influenced by the jurisdiction for analysis and the level of capacity utilisation in the economy

The level of government analysing the policy change influences the estimation of net economic activity flowing from a regulatory change. If the regulation change is at a state level, the focus is on measuring net changes in GSP, ignoring that the state based pro-tourism regulatory change is likely to reduce tourism to other Australian states and territories and lead to labour and capital resources flowing to the reforming state. Understandably, in considering attracting new international airline services to their state, the state governments do not allow for the negative impact of a successful bid on other state and territory economies.

For example, Access Economics compared the actual constrained supply of tourist accommodation in Perth with a modelled unconstrained result for the period 2006/07 to 2008/09 to estimate lost tourism export (international and interstate) earnings to Western Australia of $212 million. After plugging this value into AE-GEM, the Access Economics proprietary computable general equilibrium model, the loss of GSP was estimated at $46 million in net present value terms, or 22 percent of the aggregate lost tourism real export spending. Similarly, in forecasting the losses from continued constrained supply of tourist accommodation in Perth from 2009/10 to 2019/20, Access Economics estimate a loss of real tourism earnings to Western Australia of $3.8 billion, while the estimated loss of Gross State Product in net present value terms is $435 million (though discounting over the longer forecasting period would reduce the net present value of lost tourism earnings).

If this analysis of constrained tourist accommodation supply in Perth had been performed at a national level, the loss of tourist revenue would have been smaller. Firstly, it would not have included the small share of tourist spending lost due to lower domestic interstate travel. Secondly, it would also have included the positive benefits for other states and territories from Perth’s loss of tourism price competitiveness. In this case, the national economic loss would have been smaller than the loss faced by Western Australia.

It is expected that domestic tourism expenditure when assessed at a national level does not offer as significant a benefit to the national economy as the same value of additional inbound tourist expenditure, as domestic tourist expenditure represents a re-distribution of spending normally applied to other domestic goods and services. However, as domestic tourism demand substitutes for outbound tourism demand (particularly for long haul domestic travel) there are grounds for including a share of increased domestic tourism in national estimates of the benefits of tourism reform. For example, reforms that delivered tourist accommodation in national parks, would encourage more Australians to visit these parks in preference to visiting well equipped parks in New Zealand or South Africa.
Dwyer, Forsyth and Spurr in a succession of papers have studied the theoretical basis for estimating net economic activity changes due to an increase in inbound tourism to Australia at a national level. A key conclusion is that the net impact of tourism growth on state and national economic activity is heavily influenced by the availability of unemployed labour and assumptions about how the labour market works.

Dwyer et al (2003) in Measuring the Benefits of Tourism, with research supported by the CRC for Sustainable Tourism and the Centre for Policy Studies, modelled a 10 percent increase in inbound tourist expenditure in NSW worth $372 million using a CGE model that assumed labour is fixed nationally but free to move to NSW, wages and capital are variable (these results did not include the impact of the GST led tax changes of 2000). The resulting increase in NSW GSP was estimated at $232 million, the fall in other states GSP was $203 million and the rise in Australian GDP $29 million. The negative impact for other states than NSW is due to the impacts on tourism and other industries of “crowding out” through the exchange rate, capital markets and NSW attracting more of the assumed fixed Australian labour force.

A higher estimate of the share of tourist spending that translates to changes in GSP was provided by Madden et al (2002) in Estimating the Value of Tasmanian National Parks to Park Visitors’, noted that in estimating the value of spending by visitors to Tasmanian national parks to the Tasmanian economy. These estimates used the FEDERAL CGE model. The estimated $145 million of total tourist expenditure related to visitor expenditure in Tasmanian parks in 1998/99, translated to $126 million in Tasmanian GSP, or 87 percent of the aggregate tourism spending.

Table 33: Varying estimates of the share of the increase in tourist spending that translate to increased Australian GSP

<table>
<thead>
<tr>
<th>Author</th>
<th>Jurisdiction</th>
<th>Year(s) modelled</th>
<th>Share of tourist spending that translates to increased GSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access Economics (2010)</td>
<td>Western Australia</td>
<td>2006/07 to 2008/09</td>
<td>22% (A similar ratio arises for 2011-12 to 2019-20)</td>
</tr>
</tbody>
</table>

That the Madden (2002) result for Tasmania (87 percent) and Dwyer (2003) result for NSW produced a (63 percent) much higher share of incremental tourism spending translating into GSP than did the Access Economics (2010) result (22 percent) for WA is not surprising. The difference is influenced by the differences in the CGE models but also by the much tighter capacity utilisation of labour and capital in the WA economy in 2010 and greater trade exposure of this economy than Tasmania in 1998/99 or NSW in 1998.
Dwyer (2003) found that there is a lower ratio of expected growth in economic activity to the growth of tourist spending at the national level compared to the returns to the benefiting State.

The marginal impact on economic activity of increased international tourist spending at a national level is around 10 percent of the nominal value of tourist spending according to more recent CGE modelling by Forsyth, Dwyer and Spurr. For example, for a $100 million increase in inbound tourism spending in Australia, Dwyer et al (2005) estimated an increase in GDP of between $8 million and $15 million, depending on whether the CGE model assumed that employment was fixed or variable. This implies that the marginal social benefit of the demand by inbound tourists for tourist accommodation and other tourism services in Australia is above the demand curve.

Where an individual state increases tourism investment by undertaking reforms it will normally increase its GSP. The increased tourism investment in one state will reduce the competitiveness of other state economies due to general equilibrium affects in the market for labour, capital and foreign exchange, so the GSP of other states will fall. CGE models allow for these general equilibrium factors. For example, if a number of states were to gain increased investment in inner city tourist accommodation the change in Australian GDP would be noticeably smaller than the sum of the increase in GSP of the reforming states.

The change in Australian GDP from increased tourism investment that impacts domestic as well as international tourism would also be lower than the sum of the impacts on all states. Depending on the specification of the CGE model used, the model when estimating the change in Australian GDP may not include the impact of any changes in interstate and intrastate tourism flowing from the new investment and only focus on the impact on inbound tourism spending in Australia. However, this would be a conservative assumption as it would ignore the potential of new tourism accommodation or facilities to encourage more Australians to travel either intra or inter state rather than travel overseas.

d) Why tourism growth can bring increased economic activity even in a highly capacity constrained economy, introducing externalities due to market failure

While some economists argue that the current 4.9 percent Australian unemployment rate is close to full employment, this ignores the prevalence of underemployment. The currently high level of underemployment in Australia, where over 7 percent of the labour force would prefer to work more hours even with official unemployment at 4.9 percent, argues that there remains capacity to grow an industry like tourism which provides a high share of casual and part time jobs.

Underemployment within the tourism industry is currently notably higher than for the Australian economy as a whole. Data from the ABS indicates that underemployment of employees in the accommodation and food services sector is the highest of all industry sectors at 17 percent of this sector’s labour force or over double the national average of 7 percent.
The Access Economics report on the Perth hotel accommodation market highlighted that even in an economy operating at very close to full capacity, a boost to tourism investment can result in increased GSP.

A key to the net growth estimated by Access Economics in Western Australian GSP from countering constraints in the Perth hotel market related to the opportunity for the WA government to counter the impact of a powerful externality in the Perth hotel market.

e) How cost-benefit analysis is affected by externalities

When externalities exist in tourism markets, it is necessary in estimating costs and benefits to adjust the analysis to use ‘shadow prices’ rather than market prices.

In the case of a positive externality, extra consumption of tourism provides an extra benefit and market prices should be above shadow prices used in the analysis.

This study of regulations and incentives impacting tourism investment highlighted two important positive externalities:

- a) Incentive reform to encourage new hotel / serviced apartment construction in areas with very high occupancy rates can take advantage of an important positive externality for demand. The Perth hotel market as analysed by Access Economics, highlighted that additional room supply could significantly increase room nights sold, with little impact on room rates due to reducing congestion costs.

- b) Regulatory change allowing extra investment in National Park accommodation can bring benefits in terms of a new service to users currently frustrated by lack of supply, as well as: improved interpretation services to non-accommodation users; revenues used to preserve and better present the park; and improved safety for park users.

e.i) Externalities justifying incentive reform to encourage inner city room supply

Tourist accommodation can become a major supply constraint to inbound tourism when occupancy rates get well above 75 percent on peak days. At lower average occupancy rates additional investment in tourist accommodation is unlikely to affect the ruling price or quantity of room nights sold noticeably, as this market is highly competitive at least at a state level as noted by Access Economics (1998) in their TARDIS - Tourist Accommodation Regional Demand and Investment Supply Model.

In the Perth hotel market the marginal social benefit (MSB) of tourist demand for hotel rooms is above the demand curve as shown in the following chart.
In the chart above the socially optimum number of rooms sold to non-residents is Q1 rather than Q0, as shown by the intersection of the marginal social benefit (MSB) curve and the original supply curve. To achieve this outcome of Q1 sold to non-residents, governments could encourage an increase in the supply curve to S2 through introducing a range of incentives such as payroll tax, depreciation or planning (zoning or floor space ratio) concessions.

Access Economics, in their Perth hotel economic impact study, note that as occupancy rates approach capacity, it becomes increasingly difficult for visitors to find a room on their desired days of travel. Congestion costs and the associated hassles of travelling increase exponentially as occupancy rates approach 100 percent, driving a large wedge between the revenue received by hotels and the much higher total costs incurred by tourists in order to stay.

Occupancy rates averaging 80 percent or more over an entire year indicate that many individual hotels are likely to be 100 percent full on many nights – with the associated costs of visitors having to cancel travel plans, or face the inconvenience of travel on an earlier or later date than desired.

Access Economics, in their Perth hotel economic impact study note that accommodation operators partly capture some of these congestion costs through yield management practices, by selling more rooms at higher peak season rates at popular times (such as public holidays). Even after allowing for this price rationing at peak times, there remains a considerable degree of non-price rationing to scale demand back to the available supply. At peak times, the people with the highest combination of the willingness to pay the room rate and the willingness to tolerate congestion (and plan in advance) will be the people who end up being accommodated. In many cases, rooms are sold well in advance to inbound tour operators, airlines for flight crew and major corporate clients, with limited capacity to lift room rates paid by these visitors on nights of strong demand.
L.E.K. analysis of the Access Economics findings for the 2006/07 to 2008/09 period highlighted that in the unconstrained market outcome around half the additional room nights available would have been occupied with incremental visitors to the region. This was the case even though the Access Economics modelling found only very small impacts on average room rates of constraints to supply with an elasticity of room rates to new room supply of only 0.1. So that if supply of room nights available is increased by 10 percent in the previously constrained market average room rates only fell by 1 percent. In turn this 1 percent fall in room rates leads under the Access Economics assumptions to a 1 percent lift in room nights sold.

These Access Economics’ findings reflect that contrary to some hoteliers’ view additional rooms in a previously capacity constrained market do not simply reduce the occupancy rate in proportion to the new supply as a share of total room supply. This is because the additional rooms allow more of the currently frustrated demand to be met. Nor do the additional rooms reduce the room rate significantly.

Figure 46: Difference between constrained (actual) and unconstrained performance of the Perth region hotel market in 2006/07 to 2008/09

The Access Economics report also highlights that the absence of hotel development over the next 10 years is estimated to cost the WA economy around $435 million in foregone gross state product.

“Given this, and despite the possibility of a market solution emerging in due course, policymakers may deem it appropriate to accelerate it. An injection of funds or in-kind support which brought forward hotel investment by five years would generate net benefits for the state economy (i.e. return a cost benefit ratio greater than one) provided the assistance given was less than the present value of the expected GSP foregone over the five year period (estimated at around $100 million). Of course this will vary on a case-by-case basis and ultimately a cost-benefit analysis should be undertaken on any specific policy proposals which are developed.” (Access Economics, (2010) page 37)
Highlighting that the Perth market is not alone in facing this externality, the following chart shows average monthly occupancy rates for hotels / motels / serviced apartments in establishments with 15 or more rooms in inner Perth and inner Sydney. When it is recalled that the monthly average will include a number of less busy nights (for example, Sundays) it is clear that most hotels / serviced apartments in the Sydney CBD are effectively full much of each month.

**Figure 47: Average monthly occupancy rates for Sydney tourism region, inner Sydney, Perth tourism region and inner Perth for the 12 months ending Sept 2010**

In accommodation markets with very high occupancy rates, an increase in room stock will reduce congestion costs and this reduction in nonmonetary prices will cause more visitors to travel to the region, than the fall in hotel room rates implies. In terms of fostering supply, governments have the option of an across the board subsidy of supply such as by increased depreciation rates for new buildings or by more geographically targeted sponsorship of increments to accommodation supply by way of floor space ratio concessions, State government leases to particular sites or payroll or land tax concessions.

**e.ii) Externalities justifying regulatory reform to encourage tourist accommodation and facility investment in national parks**

In many States and Territories in Australia there is no hard-roofed accommodation supply allowed within national parks and other public estate areas. This is despite high levels of expected demand for this option.

Victoria’s Nature-based Tourism Strategy notes that 85 percent of the market for nature based tourism is by ‘comfort in nature’ visitors, rather than the 15 percent of ‘skilled in nature’ visitors who are comfortable with camping with limited facilities in national parks. ‘Skilled in nature’ visitors have often invested in the equipment required for camping out and have the fitness and motivation to walk long distances carrying heavy packs.
The Victorian strategy emphasises the synergies between attractions, access, activities, amenities and accommodation. New Zealand and to a lesser extent Tasmania and WA have excelled at creating high yield experiences in protected areas, such as multi-day bushwalks with roofed accommodation (Bay of Fires, Tasmania) and demountable eco-lodges (Ningaloo Reef Retreat, WA). “These experiences though small in scale have consistently attracted high profile media attention, and serve as ‘hero-shots’ in national and state tourism campaigns.”

The creation of new supply with multi-day bushwalks with roofed accommodation and eco-lodges within national parks, represents an opportunity to build new competitiveness for Australian tourism.

The benefits and challenges of government leadership of tourism investment in areas of high natural amenity are illustrated in the following case study of the Three Capes Track in Tasmania.

Case Study – Review of the Three Capes Track Proposal

The Three Capes Track 2007 proposal from the Tasmanian Parks and Wildlife Service provided a useful view of some of the issues with this type of reform. This project has been the subject of a detailed feasibility study and two economic impact studies on varying aspects.

This project has gained support from the Tasmanian Government aimed at providing a second iconic walk in Tasmania following the success of the Overland Track. It was selected following an evaluation of 18 potential locations. Of the walkers on the Overland Track, 93 percent were from outside Tasmania with just over two thirds of this number from mainland Australia and the remaining third from overseas.

The Three Capes Track offers Australia’s highest sea cliffs and spectacular cliff views. One other advantage of the Three Capes Track is that it would help to shift perceptions of the Tasman Peninsula as a place to stay as well as a day trip destination to Port Arthur and its other attractions.

Being based on the Tasman Peninsula, only 100 kilometres from Hobart, the Three Capes Track benefits from less severe weather and, hence, seasonality than many other walks in Tasmania. It is proposed to offer two levels of experience: an independent walk option (8,200 per annum, $40 per night) and a fully serviced guided walk option (1,800 per annum, nearly $500 per night). In contrast, guided and catered 5 day/4 night walks on the Milford Track in New Zealand range in price from NZS450-$750 per person per night.

The feasibility study for this project involved market research and consultation with interested groups and individuals, and in particular the Tasman Peninsula community. The study indicated broad acceptance and support for the proposed new 5-6 day walk and a high level of interest from the market. The Three Capes Track is aimed at becoming the second great walk in Tasmania, using a similar business model as the successful Overland Track. This business model is to charge independent walkers a $40 per night fee for using new hut style accommodation in five sites along the walk.
Each site is planned to sleep 60 with a booking system for accommodation for the peak season.

The track is to be upgraded, but continue to allow free access for day trips or self catered camping. Track upgrades include construction of about 30 kilometre of new walking track, major upgrading of about 25 kilometre of existing track and minor upgrading of about 13 kilometre of existing track as well as new viewing/resting areas, interpretation, entry/exit signs and track signs.

The Three Capes Track has gained support from the Commonwealth Government with a $12.5 million grant for construction of this project. The Tasmanian Government has committed $12.8 million and the private sector is expected to invest $8 million during the construction phase. The Track is now expected to host its first walkers in November 2013.

Table 34: Summary of impacts of overnight visitors using the Three Capes Track on the Tasmanian economy

<table>
<thead>
<tr>
<th>Spend by interstate and overseas visitors - with a small allowance for Tasmanian users more likely to stay in Tasmania</th>
<th>Contribution to Tasmanian GSP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walk fees</td>
<td>$6.1m</td>
</tr>
<tr>
<td>Walk related spending</td>
<td>$2.6m</td>
</tr>
<tr>
<td>Non-walk spending</td>
<td>$10.9m</td>
</tr>
<tr>
<td>Total</td>
<td>$19.7m</td>
</tr>
</tbody>
</table>

Note: Syneca Consulting, Economic Impact Analysis for Three Capes Track, Tasman National Park (2008)

Notes:
- The 87% translation of spending into GSP relied on results of the Madden et al (2002) study of the economic value of Tasmanian national parks.
- The evaluation relied on the cost benefit principal that compares the state of the world with the Three Capes Track with the state of the world if the track is not constructed.

Looking beyond the benefits of additional overnight visitation due to the Three Capes Track a further study by KPMG (2010) reviewed the expected benefits of additional spending in Tasmania due to visitors attracted to Tasmania to do day trip walks on the Three Capes Track. This study found that this type of visitation would grow progressively in the period to 2017 as the attractions of the Track became better known.
By 2017, KPMG predicted an extra nearly 15,000 international visitors and 42,000 interstate visitors will visit Tasmania due to a desire to do day walks on the Three Capes Track. This represents an increase in visitation to the Tasman Peninsula of 17 percent. KPMG noted that their evaluation was conservative as it did not include any increase in length of stay of visitors to Tasmania due to day trips to the Three Capes Track. The total value of incremental spending estimated by KPMG was $90 million by 2017, with an associated boost to Tasmanian GSP of $44 million in this year. This KPMG study used the Tasmanian Non-linear Model developed by Professor John Mangan at the University of Queensland for translating gross turnover into GSP. This model is a version of a modified input-output approach, and results in just under 50 percent of gross turnover translating into Tasmanian GSP.

The combined impact of both overnight stays and additional day trips on visitation to Tasmania is in 2017 to boost Tasmanian visitor spending by around $110 million and state GSP by around $60 million. This is a healthy return on the construction costs of around $33 million.

In addition to the economic benefits of the Three Capes Track project there are more difficult to assess non-economic benefits of:

- greater environmental awareness of Tasmanians and Australian visitors to Tasmania owing to their experience of the Three Capes Track, that would not have occurred without the track upgrade and associated facilities including accommodation;
- a revenue source for the Tasmanian Parks and Wildlife Service that can be applied to interpretative services and other park services; and
- improved safety in wild weather and bush fires for camping visitors from the availability of accommodation, other facilities and faster access as built for the Three Capes Track.

The slow progress in establishing the Three Capes Track proposal from its initiation in 2007 to its expected opening in late 2013 highlights the potential opposition from ‘skilled in nature’ proponents to new facilities for ‘comfort in nature’ visitors. The opposition to the Three Capes Track has been led by the Tasmanian National Parks Association, which demands that the project be abandoned in line with their preferred prohibition on accommodation in national parks and calls for much greater restrictions on commercial use of national parks.

The key conclusion of this review of the Three Capes Track proposal is that governments by facilitating investment in areas of high natural amenity can deliver significant economic and non-economic benefits to their jurisdictions.
f) How net benefit differs from changes in net economic activity

Dwyer and Forsyth have emphasised that where an increase in tourism increases GDP or GSP it is also necessary to allow for the opportunity costs of the extra resources required to achieve the tourism regulatory or incentive change and provide for the increase in tourism. This represents an application of cost benefit analysis theory to using a CGE model.

Dwyer, Forsyth, Spurr and VanHo in their report on Measuring the Economic Benefits of Inbound Tourism note that CGE models with a detailed tourism sector can be used to estimate both the change in gross state product and net state benefit, and the change in national GDP and net national benefit. Net benefit from tourism reform or investment is estimated after reducing the change in state GSP or national GDP for the costs of any additional labour and capital employed, the costs of the reform and after allowing for externalities in the tourism market.

Dwyer et al (2005) reviewed a $100 million increase in international tourism expenditure in Australia with fixed capital and with either ‘variable labour - fixed wages’ or ‘fixed labour - variable wages’. If labour and capital is fixed across the economy the CGE model provides an estimate of Australian GDP change of $8 million that is in the view of Professor Forsyth a good, though minimum value, of real net community benefit. If instead labour is variable, more labour needs to be found and while the estimated change in Australian GDP is higher at $15 million, the cost of the required labour is $4.4 million so the change in Australian real net benefit is $10 million.

As an aspect of reviewing state level CGE modelling it is recommended to use assumptions of fixed capital and fixed employment within the State with wages variable, to generate a conservative estimate of net community benefit to the state equated to the calculated change in GSP. A similar approach is also recommended at the national level for generating a conservative estimate of net national community benefit.

g) Conclusions and recommendations for next steps by governments in evaluating supply side tourism policy and project proposals

An approach that applies both cost benefit analysis techniques and CGE models is recommended for evaluation of tourism supply policy and investment proposals.

A reliance only on CGE models risks oversimplifying analysis of tourism sub-sectors, including ignoring the impact of externalities in tourism markets, and not providing net benefit measures after allowing for the costs of regulatory reform and additional labour and capital that might be required. A reliance on cost benefit techniques, risks ignoring the significant impacts of tourism growth on other industries.
L.E.K. research indicates that most state government tourism agencies have a limited understanding of appropriate approaches and currently lack the in-house tools necessary to produce sophisticated analysis of tourism supply policy reform and project proposals.

State tourism agencies currently lack cost effective access to a CGE model with a detailed tourism sector. As CGE models are normally based on national account data, they have to be modified to model tourism impacts and Treasury Departments apart from in Queensland have not gone to this trouble.

The large difference between the ratio of resulting increased economic activity at a state level (increased GSP) to the increase in tourist spending between the Access Economics study for WA (22 percent), Dwyer et al for NSW (63 percent) and Madden et al for Tasmania (87 percent) highlights the need for developing an agreed CGE tool and settling on the key assumptions in the model including about how the labour market is assumed to operate. In using any CGE state and national model that features a detailed tourism industry it will be important to agree the key assumptions about how the labour market works (fixed or variable employment), whether the nation’s capital stock is fixed or variable, and how the government deficit adjusts. It will also be necessary to set the assumptions required for estimating from model outputs the net benefit to the state and nation from tourism supply side policy reform or major investment projects.

To date a number of states have used modified input-output modelling results to justify government support for events and investments, but, in part, due to unfavourable audit reports in some jurisdictions this approach has increasingly lost favour with central agencies.

There is a clear need for the Tourism Ministers’ Council to encourage development of a CGE model that incorporates a detailed tourism industry and produces results on a consistent basis for all states and territories, as well as national estimates.

For example, such a model based on the Monash Multi-regional Forecasting Model of the Australian economy was developed originally for NSW and the rest of Australia (as introduced above) and is currently being completed with coverage for all states and territories. Dwyer et al under the former CRC for Sustainable Tourism developed this model - the same team the State Governments have relied on to produce the State Tourism Satellite Accounts.
This is an initiative of Commonwealth, State and Territory Governments in partnership with Industry