

INQUIRY INTO TOURISM IN LOCAL COMMUNITIES

Organisation: Tumut Shire Council

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Tumut Shire Council SUBMISSION Inquiry into Tourism in Local Communities General Purpose Standing Committee No 3.



INTRODUCTION

The NSW Legislative Council instructed that General Purpose Standing Committee No 3 *“inquire into and report on the value and impacts of tourism on local communities”*.

The 6 areas of specific interest (as specified in the report) are used as headings in this document, followed by Tumut Shire Council’s response.

BACKGROUND

Over recent decades there has been an increased focus and emphasis given to the importance of tourism in rural and regional communities for reasons that include:

- The decline in real revenues from traditional agricultural activities;
- The (relatively minor) scale of investment funding that can be sourced/resourced from local stakeholders and/or investors in smaller communities- in contrast to major developments such as mining, manufacturing, etc.; and
- The capacity and willingness of Local Government to assist the tourism sector in ways that have not been made readily available to existing industries and/or other economic development activities.

The Final Report of the NSW Visitor Economy Taskforce recommended the investigation and/or implementation of Special Rates Levies as a mechanism for local government funding of tourism activities.

While there is no doubt that the tourism industry is *“a significant economic driver”* for many rural and regional communities the introduction of rate payer funded support for the tourism sector does presume that:

- Tourism initiatives provide the best possible option for economic development activities in those rural and regional communities; and
- The tourism sector “Business Case” justifies a broad-based level of support (subsidy?) not provided to other industries and/or opportunities.

This submission argues that a demonstrable business case should underpin the application of ratepayer and taxpayer contributions to tourism, or any other industry.

SUMMARY - Recommendations for Council

The analysis undertaken in preparing this submission results in the following recommendations for Council:

- Support the development of a representative industry leadership group to facilitate collaborative promotion and provide the appropriate sectoral leadership proportionate to the real value of the tourism industry's contribution to the regional economy;
- Provide infrastructure and services that aids and assists the "liveability" of the Shire on the principle that those assets and attributes that makes the region attractive to stakeholders/ratepayers and prospective residents also adds to the attractiveness of the region to visitors. The alternate scenario, i.e. expenditure on tourism (and especially tourism marketing and promotion) has a track record of not delivering an identifiable return on investment to the contributing stakeholders/ratepayers; and
- Undertake a sensitivity analysis on the return on investment from tourism for the scenarios of increased, sustained or decreased spending on tourism.

Observation suggests the following:

- A 100% increase in Council's spend on tourism is unlikely to deliver a 100% increase in Visitor Spend in Region (and will not return any significant financial return to Council); and
- Decreasing Council's spend on tourism is not likely to reduce Visitor Spend in Region to any great extent (Visiting of Family & Friends will not change greatly, business visitation will not change significantly, and there will be an ongoing stream of recreational visitors utilizing the natural assets of the region).

SUBMISSION

1 The value of tourism to NSW communities and the return on investment of Government grants and funds -

The tourism industry is undoubtedly a major contributor to wealth creation and employment across NSW.

That said - the considerable support provided to the industry (especially at the local government level) suggests that the contribution of tourism as an economic driver may at times be overstated and/or misrepresented in terms of return on investment.

To identify any return on investment LGA's need apply a "quadruple bottom-line" analysis to their annual expenditure on tourism. **There is no specific income stream in the LGA business model** that provides a financial return to Council for expenditure on items such as visitor information centres, destination promotion & advertising, maintenance of parks & gardens, and even festivals & events¹.

The LGA attains "benefits" in the form of employment, community amenity and liveability, and the "multiplier effect" of revenue from the visitor spending received by 'front line' tourism industry operators. **There is a considerable time-lag between LGA investment expenditure and any return on investment.**

The Tourism Satellite Accounts reflect that \$9.10 from each \$100 of tourist expenditure is paid to Federal, State or Local Government². This is mostly GST, and is treated as general revenue by all three levels of government.

The rates revenue provided to LGA's can be regarded as "committed funds" as they underpin the provision of services (roads, infrastructure) **provided to all rate-payers**, and then support service delivery for visitors (such as waste collection, public toilets, parks, gardens and playgrounds).

There is a further revenue stream to Federal and State governments from fuel levies, and a proportionate increase in revenue to those levels of government as a result of increased tourism activity.

¹ Tumut Shire Council's asset management role in providing caravan and camping facilities is undertaken on a cost neutral basis (as best) with all funds reserved for maintenance and/or future development of those specific assets.

² Rates revenue from tourism specific enterprise is not isolated from business rate revenues. And for most of Tumut's businesses any income from tourism activity is a (typically) small proportion of their overall income.

No other industry receives marketing support funded by rate-payers.

Most primary industries and professional associations have either industry-based membership organisations or statutory industry authorities that impose marketing and/or R&D levies on their members.

In many respects LGA's are supporting and rewarding the tourism industries failure to invest in activities such as collaborative marketing and industry development activities that are both expected of and delivered by other industries.

Other examples of the overstatement of the value of tourism (at a local/regional level) include:

- a. Tourism is being promoted as everyone's business - with an argument that by way of multiplier affects every business benefits from, and/or is significantly dependent from the visitor economy.

This underpins the tourism industry's arguments for LGA assistance for administration of the regional tourism organisation, and input to regional marketing and promotional activity.

The reality is that tourism represented less than 10% of the Gross Regional Product (GRP) of Tumut Shire, whereas the timber industry contributes over 70% of GRP.

Rather than a dependence model, there is a genuine interdependence between the visitor economy and other industry activities, and not vice versa.

There is a need for the tourism industry to increase collaboration with the co-participants in the broader regional economy, rather than an unjustified claim of economic leadership and an expectation of levels of assistance and support not readily available to other industries.

- b. The fact that the Snowy Mountains Region (defined as Bombala, Cooma-Monaro, Snowy River, Tumbarumba & Tumut Shire Council) has been identified as one of the five most tourism dependent regions in Australia has been promoted as a reason for local government support/assistance to the industry.

What has remained unstated is that:

- The five most tourism dependent regions in Australia (including the Snowy Mountains) "account for only 3% of Australia's total tourism expenditure"³; and
- The relative importance of tourism when expressed as Visitor Spend in relation to LGA population differs dramatically (by over 1100%) between the member shires. Please refer table below.

³ P.21. Tourism Facts & Figures at A glance (September 2012). Tourism Research Australia

TOTAL VISITORS

	Visitors	Nights	Spend	Population	Spend per Resident
Cooma-Monaro	239,000	280,000	70,000,000	10,524	6,651
Snowy River	569,000	1,817,000	359,000,000	8,255	43,489
Tumbarumba	51,000	174,000	31,000,000	3,766	8,232
Tumut	80,000	249,000	44,000,000	11,501	3,826
Totals	939,000	2,520,000	504,000,000	34,046	14,804

- c. There is a further local issue regarding industry leadership, i.e. in a region where tourism is one of four significant industries Council has repeatedly been called upon to undertake a leadership role to enable operators to access collaborative marketing funds. The other “lead industries” (timber, horticulture and agriculture) each have key associations acting in the interests of their members. There is no evidence of an emerging industry/operator led association, and a demonstrated inability of the of tourism operators to function as a sub-group within the Chamber of Commerce.

At a State and National level there is:

- Clear evidence that the Total Visitor Spend on Tourism has not grown for the best part of a decade in real terms (please refer response to Q # 5 below);
- An implicit concern that results from industry targets and contribution being measured in nominal terms (concealing the absence of real growth);
- An implicit concern that targets and statistical reporting is being confused by revised definitions of tourism and the visitor economy and noting that “total visitor expenditure in Australia was revised upwards by \$4.9 billion in 2011. Expenditure by domestic overnight visitors in 2011 has been revised up by \$4.8 billion over the previously published figures, due largely to under-reporting of domestic overnight business expenditure)⁴.

The use of nominal terms and revised definitions may result in reporting of growth targets being met in the complete absence of any real growth

⁴ P.43. State of The Industry 2012.

Economic Value of Tourism to the Tumut Region

The value of tourism to the Tumut Region (expressed in terms of Visitor Spend) has been calculated at \$44 M/year⁵ for Overnight Visitors excluding the value of Day Trip Visitors.⁶

That represents:

- 0.2181 % of the NSW Tourism economy;⁷
- 0.0640 % of the Australian Tourism economy.⁸

An industry analysis undertaken for this report:

- Uses an estimate of \$52.50 M as the value of tourism which represents approx. 8.0 % of a Gross Regional Product of \$665 M;
- Estimates the contribution of the timber industry at 70.00+ % (\$475 M of the \$665 M GRP)

Tumut Shire Councils direct expenditure of tourism exceeds \$260,000 per year. This does not include expenditure on activities such as:

- outdoor staff support for festivals and events,
- costs of waste removal resulting from visitor activities;
- management of amenities (such as public toilets); and
- Management salary costs associated with tourism activities.

2 The value of tourism to regional, rural and coastal communities

A “fact-based comment” is beyond the resources available to this submission (it requires an analysis of the tourism contribution and economies for each of the regional, rural and coastal tourism sectors).

⁵ DNSW Travel to Tumut Shire LGA - Four Year average to September 2011. The DNSW (TRA) Model indicates a \$44 M Spend by Overnight Visitors in the Overview Table based on a \$43 M in the Domestic Overnight Travel Table and \$1 M in the International Overnight Travel Table. The \$44+ M does seem to exclude the spending by Daytrip Visitors.

⁶ An “extremely rudimentary” indication of Day Trip Value is provided as ranging from \$1.825 M and \$18.245 M based on:

- Low Calculation: 100 Visitors per Day x 365 Days/Year x \$50 spend per Visitor:
- High Calculation: 250 Visitors per day x 365 Days/Year x \$200 spend per Visitor per Day).

⁷ 44M/20170M

⁸ 44M/68800

3 The impacts of tourism on Local Government Areas, including:

(a) Infrastructure services provision and asset management

Council's provision of dedicated tourism infrastructure is limited of the provision of caravan and camping facilities, with revenues raised from the facilities in Tumut used to support facility and service provision in two smaller communities.

All revenues from those tourism facilities are reserved and/or preserved for the maintenance and development of those facilities.

Council also provides facilities/amenities such as parks and gardens, playgrounds, public toilets, etc. for the use of both residents and visitors.

The service provision and asset management is funded from general revenues with no specific stream of revenue from visitor use available to be applied to this purpose.

(b) Social Impacts

Tourism supports the continued improvement of the "general amenity" and/or "liveability" of the Shire, and the provision value to current and future residents and visitors alike.

The development of infrastructure that enables access to natural assets, and/or allows recreational activities and enjoyment aids and assists both population growth and visitor growth (economic development).

As such there is a positive impact (benefit) for residents from tourism

Tourism activities have minimal impact on residents - peak visitation occurs in summer - and is focussed on outdoor recreational activities (camping and boating) mostly conducted outside of the Shire's townships.

The economic outcome is paradoxical - those shops that open to visitors in the holiday periods report significant trade, yet a majority of small-to-medium retail enterprises (including food service providers) elect not to trade at this time!

Event activities in and around Tumut tend to target local audiences in similar proportion to visitor audiences. The absence of a clear tourism industry leadership group aiding and facilitating visitor attractions results in sub-optimal benefit from these opportunities.

(c) Unregulated Tourism

There is an ongoing issue with regard to the use of dwellings for short-term residential (holiday) accommodation without development approval with implications for ensuring:

- Public safety standards are met; and
- Visitors are not subjected to poor accommodation standards and experience resulting in negative reporting of the region's tourism sector.

A similar issue occurs for 10-15 days per year with a substantial visitor population camped on the Blowering Dam foreshores (in numbers far in excess of the capacity of amenities in that area). The asset owners (National Parks & Wildlife Services, and State Water) are making some progress toward resolving this issue.

(d) Employment Opportunities

Tourism is not a significant employer in the Tumut Shire.

Accommodation and Hospitality employs approximately 300 of the 5250 persons employed in the Shire, however much of that employment activity is focussed on services to local residents.

The industry is ranks sixth as an employer behind Agriculture & Forestry (Combined), Manufacturing, Retail, Health Care & Social Assistance and Education & Training.

Further analysis is required to determine the quantity (in effective full time employment terms) and quality of employment provided by the tourism sector (the extent of part-time and casual, employment, pay-rates, employment conditions, etc.).

4 The marketing and regulation of tourism

The current industry promotional model is based on a highly interactive arrangement between private and public sectors. The regional tourism organization's administration is largely dependent on the financial support of LGA's.

A key concern is the expectation of an immediate return on investment from destination advertising expenditure, and with the primary beneficiary being the private sector operators (more so than government).

"More than \$500 million is spent in Australia each year by competitive destination advertisers within the travel and accommodation category, making Destination NSW marketing campaigns and message cut-through a significant challenge".⁹

This advertising spend represents:

- 7.35% of the \$68.8 billion Visitor Expenditure for Australia¹⁰; or
- 5.26% of the \$95.0 billion total spend by all visitors to Australia in 2011-12.¹¹

To place this "advertising spend" in context (and noting that this is only the advertising component of a greater marketing budget):

- The total Tourist Visitor spend in the Tumut Shire is \$45 million per year¹²;
- Gross Regional Product for the Tumut Shire exceeds \$500 million per year¹³;
- If advertising expenditure from the Tumut Region were increased to that national proportion of Visitor Expenditure, 5.26% to 7.35% of \$45 million equates to \$2.367 to \$3.308 million;

Assuming industry was to contribute 50% of that level of expenditure, the remaining 50% of advertising spend (\$1.184 M to \$1.654 M) represents between 10.0% & 20.0% of Council's \$12.0 m annual rates revenue.

Not only is this position unsustainable for Tumut Shire, it brings into question whether the expectation on any government to fund destination tourism advertising if/when the total market is not growing. It is competition for market share!

There is a distinct possibility that the advertising industry is the greatest benefactor of increased expenditure on tourism marketing (especially given the lack of spectacular growth in tourism visitation and expenditure since the 2000 Olympic Games).

⁹ P.37. Destination NSW Annual Report 2011/2012.

¹⁰ P.23. Destination NSW Annual report 2011/2102

¹¹ P.5. Tourism Research Australia - State of the Industry 2012.

¹² DNSW - Travel to Tumut Shire LGA - Four Year Average to September 2011

¹³ Website: economic-indicators.id.com.au

As detailed in Item 1 (above) there is a business model that provides an immediate financial return to Federal and State governments for successful investment in tourism.

There is no such model for local government!

5 The utilisation of special rate variations to support local tourism initiatives.

5.A Macroeconomic Issues ... Microeconomic Policy Mismatch?

Microeconomic initiatives such as special rate levies are not going to fix macroeconomic issues.

The following table compares Total Visitor Spend from DNSW's Travel to NSW - Year ended December 2012, with a Consumer Price Index of 2.50%¹⁴ from the base year ended Dec 2007 for each of:

- The Snowy Mountains Region
- Regional NSW
- NSW
- Australia

While Table 5.1 indicates that the tourism industry is showing an improved performance towards a growth rate at or near CPI (over a five year period), there is no clear and consistent evidence of any sustained growth in Total Visitor Spend in Regional NSW, the entire of NSW, and Australian data.

DNSW's Annual Report identifies the following challenges¹⁵:

- Global economic problems - particularly the European debt crises ...;
- The Australian dollar remained high;
- Strong Growth in Australians travelling Overseas;
- Queensland returned as a major competitor in the domestic market (after a series of natural disasters);
- Increased airline services to other Australian destinations; and
- Consumer sentiment towards domestic travel shifted

Each/all of the challenges listed are macroeconomic issues. It is near illogical to expect microeconomic initiatives (such as LGA ratepayer funding of local tourism initiatives) to have any impact on the major external issues impacting on the industry.

¹⁴ CPI Index @ 12/2007 = 89.1 and at 12/2012 = 102.0. $(102.0 - 89.1)/89.1 * 100 = 14.478\%$ or an average of 2.90% per year over the 5 year period 12/2007 to 12/2012.

¹⁵ P.22. Destination NSW - Annual Report 2011/2012.

Logic (and anecdotal evidence) suggests that successful initiatives by LGA's may impact on market share within the State's performance, and provide some level of local benefit (at the expense of some other location), but have little, if any impact on the NSW or Australian Total Visitor Spend.

Table 5.1 Total Visitor Spend as per from DNSW's Travel to NSW - Year ended 06/2012

Snowy Mountains	YE Dec 2007	YE Dec 2008	YE Dec 2009	YE Dec 2010	YE Dec 2011	YE Dec 2012
Total Spend (\$ M)	473.000	552.000	640.000	528.000	459.000	504.000
With CPI @ 2.50%	473.000	484.825	496.946	509.369	522.103	535.156
Variation		67.750	143.054	18.631	-63.103	-31.156

Regional NSW	YE Dec 2007	YE Dec 2008	YE Dec 2009	YE Dec 2010	YE Dec 2011	YE Dec 2012
Total Spend (\$ M)	11,341.00	11,913.00	11,650.00	12,007.00	12,414.00	12,826.00
With CPI @ 2.50%	11,341.00	11,624.53	11,915.14	12,213.02	12,518.34	12,831.30
Variation		288.47	-265.14	-206.02	-104.34	-5.30

New South Wales	YE Dec 2007	YE Dec 2008	YE Dec 2009	YE Dec 2010	YE Dec 2011	YE Dec 2012
Total Spend (\$ M)	22,952.00	23,823.00	23,667.00	24,024.00	25,543.00	26,100.00
With CPI @ 2.50%	22,952.00	23,525.80	24,113.95	24,716.79	25,334.71	25,968.09
Variation		297.20	-446.95	-692.792	208.29	131.91

Australia	YE Dec 2007	YE Dec 2008	YE Dec 2009	YE Dec 2010	YE Dec 2011	YE Dec 2012
Total Spend (\$ M)	76,194.00	78,745.00	77,414.00	78,750.00	82,671.00	86,710.00
With CPI @ 2.50%	76,194.00	78,098.85	80,051.32	82,052.60	84,103.92	86,206.52
Variation		646.15	-2,637.32	-3,302.60	-1,432.92	-503.48

With regard to the shift in consumer sentiment the DNSW Report further states:

“... in the period following the Global Financial Crises, Australians entered a new period of ‘belt-tightening’ and saving. They also became more conservative in their spending habits. Overall, the domestic tourism offering fits well with this changed sentiment, and domestic tourism, which had been on a long, slow decline of about one per cent per annum throughout the decade to 2009, turned a corner and showed some improvement. The latest results indicate that growth in domestic travel demand has come mainly from people travelling for the purpose of business or visiting friends and relatives.”¹⁶

Table 5.2 provides a summary of travel to Regional NSW and all NSW for reasons of Visiting Friends & Relatives (VFR), and Business.¹⁷

Given that VFR & Business Travel:

- Are relatively consistent underpinning reasons for travel; and
- More significant to Regional NSW than NSW in total.

There is a greater logic in applying the proceeds of any proposed ratepayer levy to more general economic development outcomes in that improve business performance in regional areas because:

- There is a direct flow-on effect in terms of business travel; and
- Economic outcomes that improve employment and population in regional areas have a positive impact on visitor numbers (via the VFR process).

This point can also be expressed as:

- LGA’s investing in broad economic development activities (including exploiting NBN opportunities, new technologies arising from innovative food production and/or climate change technologies, development of retirement facilities for an aging population, etc.) will positively affect regional employment and population, and also provide a flow-on benefit to visitation to the region;
- LGA’s investing in tourism initiatives may affect visitation, but without any certainty of delivering significant employment or population impacts (and if effective, there will be significant time lags before any return on investment is provided to the ratepayer/stakeholder)

¹⁶ P.22.

¹⁷ With little evidence of VFR and Business Visitation driving any significant growth!

Year Ended Dec	Travel to Regional NSW			Travel to NSW		
	VFR %	Business	Total	VFR %	Business	Total
2000	30.7	14.2	44.9	29.0	9.5	38.5
2001	33.5	14.3	47.8	30.5	9.7	40.2
2002	34.8	14.2	49.0	32.2	10.7	42.9
2003	35.2	14.6	49.8	32.3	10.6	42.9
2004	38.1	13.0	51.1	35.8	9.3	45.1
2005	34.5	13.9	48.4	32.2	10.1	42.3
2006	35.1	12.4	47.5	32.7	8.6	41.3
2007	33.8	12.4	46.2	30.6	8.6	39.2
2008	33.0	13.2	46.2	31.0	9.8	40.8
2009	32.8	11.9	44.7	29.7	8.6	38.3
2010	34.0	12.1	46.1	31.7	9.0	40.7
2011	33.4	13.7	47.1	30.4	9.9	40.3
2012	35.9	12.5	48.4	32.3	9.7	42.0

5.B The Assumption/Presumption of Tourism as the “best available” Return on Investment?

The processes of the Visitor Economy Taskforce in developing the rates levy proposal have operated on the presumption that tourism provides the best possible return on investment for LGA's with complete disregard for the economic concept of opportunity cost.

What are the best available investment options for LGA's if funds are available to pursue economic development outcomes? With those outcomes measured in terms of increased business investment and activity, employment opportunities in regions, population growth etc.

Where is the empirical evidence that tourism provides a better return to each and every LGA? There are other options (such as):

- Emerging sea change/tree change opportunities as a result of the NBN;
- Relocation of retirees (as a by-product of an aging population);
- Emerging food production opportunities (underpinned by serious global demand and environmental concerns regarding food miles))

Please refer to:

- Comments in Question 4 regarding the disproportionate spend on advertising by the tourism industry: and
- Comments in Question 5A regarding microeconomic initiatives impacting on market share, rather than increasing the State or National Tourism Spend.

If/when such a levy is introduced it would be preferable to:

- Levy on the basis of supporting economic development outcomes (and not just tourism's outcomes); and
- Have LGA's assess the relative business merits of a range of applications/purposes for the use of such funds, and allocate those funds to those activities that can demonstrate the best possible return on investment to the ratepayers/stakeholders.

6 Any other related matter.

In addition to the expectation of LGA Ratepayer Levies to assist tourism (as adopted 'in principle' by the Visitor Economy Taskforce) the National Tourism Alliance (NTA) is now lobbying for the removal of a number of taxes on the industry.

The "Don't Tax Tourism" flyer includes the following statements:

- Tourism is extremely valuable to the Australian economy but it bears a significant tax burden;
- For every \$100 of tourism expenditure in Australia, \$9.10 is paid to Federal, State or Local Governments, the majority of this is GST;
- Tourism is the only export industry that pays GST, which affects its competitiveness¹⁸;
- Tourism and hospitality are labour intensive, employing over 1 Million people, making payroll taxes another significant burden on this industry.

The final point made by the NTA is that ... "Tourism shouldn't have to pay for 'cost recovery' measures on services that are generally provided by Government, such as community policing at airports. These are essential services that are funded out of general revenue".

Yet the same industry is happy for a rates levy, i.e. the allocation of general revenues to support its marketing and operational activities!

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¹⁸ Yet Australian's visiting overseas pay domestic Value Added Tax at most destinations!