

Tourism Council WA Policy Paper



Pre-Budget Submission For WA State Budget 2019



Perth Airport



Margaret River



Burswood Entertainment Complex

Budget Submission Highlights

- Tourism in Western Australia contributes \$11.8 billion in Gross State Product and generates 103,900 jobs across the state.
- Tourism WA's budget has not increased and will be cut in 2019 under the current forward estimates.
- States competing with WA have higher tourism budgets, which were further increased in 2017-18.
- WA tourism suffered a \$181 million decrease in out-of-state visitor expenditure (-4.6%) in 2017-18 while the rest of Australia grew 6.7%. WA lost significant market share to other States.
- WA lost \$139 million in Gross State Product and 1,227 jobs as a result of the tourism spending decrease.

Recommendations – State Budget 2019

1. Continue current consistent base funding levels for Tourism WA in the forward estimates to 2022-23.
2. Commit to additional **Tourism Jobs Growth Funding** to genuinely increase funding and put WA on a competitive footing with other States to retain market share and increase jobs.
3. Focus the **Tourism Jobs Growth Fund** on:
 - Establishing WA as the Western Gateway by securing direct international air services into Perth and regional WA on strategic routes from growing tourism markets.
 - Securing major events at Optus Stadium and RAC Arena and heavily marketing these and other drawcard events with regional WA pre/post-event touring packages.
 - Establishing separate brands, strategies and leisure marketing budgets for WA's key regional destinations and Perth.
 - Driving international and national business events into Perth hotels and venues.
 - Developing regional airline partnerships to promote regional leisure tourism packages with discounted airfares, including pre/post-event touring.
 - Facilitating the development and promotion of Aboriginal tourism businesses.
 - Facilitating the development and promotion of tourism businesses, attractions and experiences.
 - Promoting self-drive touring, caravan and camping, and Visitor Centres across WA.
 - Promoting Perth as an international education destination with matched cooperative funding from Universities.
4. Establish a plan, timetable and infrastructure funding commitment to redevelop and expand exhibition space at the Perth Convention and Exhibition Centre by 2024.
5. Establish a plan for private investment in major tourism and leisure attractions; and establish a plan, timetable and cooperative Federal-State funding for a National Aboriginal Cultural Centre by 2025.

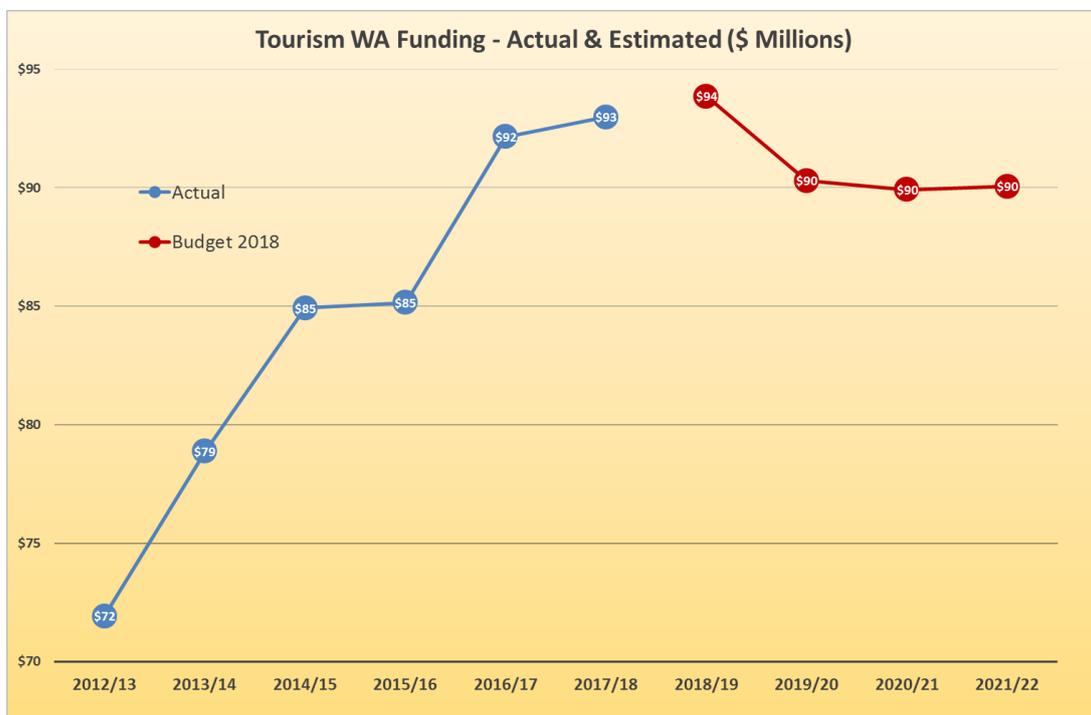
1. Tourism WA Budget

Tourism in Western Australia contributes \$11.8 billion in Gross State Product and generates 103,900 jobs across the state.¹ The State Government provides Tourism WA with budget funding to maintain and grow the tourism economy and jobs in WA.

Tourism WA's budget funding grew from \$72 million p.a. in 2012-13 to \$92 million p.a. in 2016-17. This was an average annual growth rate of 5%, which was a real increase above average annual CPI of 2%.

From 2016-17, Tourism WA's budget rose \$1.7 million to \$94 million in 2018-19, an annual average growth rate of 0.9%. Over this period the average annual CPI increased 2.1%². Hence the Tourism WA budget has declined in real terms after inflation over the last two budgets.

The forward estimates in the current 2018 State Budget show Tourism WA funding decreasing \$3.8 million from 2018-19 to 2021-22. Overall, Tourism WA funding declines 2.4% by 2020-21.



Tourism WA Budget Composition

Tourism WA's total budget is now allocated into three budget lines: *Destination Marketing*, *Tourism Events* and *Destination Development*.

Much of the previous funding allocated to Tourism WA was for limited periods of four years or less. This funding had to be renewed in each annual budget. The current State Government committed \$85 million p.a. for five years (\$425 million) over the forward estimates for *Destination Marketing* and *Tourism Events*. This allocation maintained funding levels, but did not result in an actual increase in the Tourism WA budget.

The State Government committed \$45 million p.a. for *Destination Marketing* over the forward estimates until 2021-22. This was not an increase in the annual marketing budget from the previous State Government's allocation, which was \$45 million in 2016-17.

¹ Tourism Research Australia, *State Tourism Satellite Accounts 2016-17*

² ABS 6401.0 Consumer Price Index, Australia. The Australia CPI is used as Tourism WA expenditure is focused on purchasing events, advertising and promotion which is outside Perth.

The State Government committed \$40 million p.a. for *Tourism Events* until 2021-22. This is an increase in events funding of \$10 million p.a. on the previous Government’s 2016-17 budget. This funding increase was to program additional events at the Stadium such as the Bledisloe Cup in 2019.

The State Government decreased the *Destination Development* funding by \$10 million from 2016-17 to \$4.8 million in 2021-22. This funding cut equalled the funding increase for *Tourism Events*, resulting in no increase in the actual WA tourism budget which is now set to decline in 2019-20.

The *Destination Development* funding which was cut included funding for product marketing to support regional development including: regional tourism, Aboriginal tourism, regional visitor centres and regional caravan & camping. The funding cut has reduced Tourism WA’s overall marketing capacity, particularly for regional tourism.

2. Competing States’ Tourism Budgets

Each State Government in Australia allocates their tourism budget funding in different ways making direct comparisons difficult. Tourism Council WA has analysed the 2016-17 and 2017-18 budget papers of each State and the table below provides the nearest possible comparison between state budgets. The table compares tourism funding including aviation development, destination marketing and major events.

State	2017/18 Budget	Increase %
Victoria	\$268M	31%
New South Wales	\$206M	47%
Queensland [^]	\$115M	9%
<i>Northern Territory*</i>	<i>\$102M</i>	<i>100%</i>
South Australia	\$99M	10%
Western Australia	\$93M	0%
Tasmania	\$30M	9%

[^] Excludes QLD Commonwealth Games funding * See NT explanation below

State Governments across Australia significantly increased their tourism budgets in 2017-18 to secure future tourism growth for their State in the booming global and interstate tourism market. Analysis of budget papers and announcements shows the increased funding in other States is focused on major events and new airline routes.

Victoria

Victorian State Governments have consistently invested more in tourism than other States over the past two decades, particularly for major events. This has driven significant growth and increased market share for the State.

Victoria also has the advantage of effectively concentrating its tourism budget on only one destination (Melbourne and surrounds) which already enjoys strong brand recognition. The VIC budget also includes international education funding but it is unclear whether the budget also includes the Grand Prix.

New South Wales

NSW has increased tourism budget funding and is experiencing strong growth. NSW enjoys a particular advantage with Sydney having the strongest international brand recognition.

Queensland

The total 2017-18 tourism budget for QLD is \$315 million including the Commonwealth Games. The \$115 million reported in the table above is an estimate of the base budget excluding the Commonwealth Games. Tourism funding in QLD will dramatically increase with additional boost funding over the next few years (see sidebar).

QLD shares with WA the disadvantage of having to spread its tourism budget over multiple destinations e.g. Brisbane, Gold Coast and Tropical North QLD.

South Australia

After a period of tourism budget cuts and resulting tourism declines, the SA State Government has significantly increased tourism funding and resulting growth.

SA's international and domestic visitor spend is worth \$5.2 billion compared with WA's \$9.3 billion. Despite their tourism economy being about half of WA's, the SA tourism budget now exceeds WA's. For this reason SA is gaining market share from WA.

SA also has the advantage of effectively concentrating its tourism budget on only one destination (Adelaide and surrounds) although Adelaide does not enjoy strong international brand recognition.

Tasmania

The Tasmanian budget appears small but is substantial for the economic and geographic size of the destination. In 2017-18 Tasmania had 3.12 million overnight international and domestic visitors. This compares with 3.14 million for WA's South West tourism region (i.e. the South West and Great Southern). The Tasmanian budget is also concentrated on just one destination.

Tasmania focuses its budget on destination marketing and home grown events (e.g. Dark MoFo). Tasmania's competitive advantage has been significant Federal, State and private tourism industry investment in tourism attractions e.g. MONA and Three Capes Track. This is due to the Tasmanian State Government approving private investment in attractions.

Northern Territory

The NT budget is an estimate as the tourism budget is not specifically reported in budget papers since Tourism NT was subsumed into a broader Department. NT, like WA, has performed poorly since Tourism NT was submerged into a Department.

NT's budget prior to merging in 2016-17 was \$51 million. This funding has received a significant boost (see sidebar) for a State whose international and domestic visitor spend is worth \$2.1 billion, which is significantly less than WA, SA or TAS.

TOURISM BOOST FUNDS

Competing States have announced boost funding in addition to their consistent base funding to grow tourism market share and jobs.

Queensland

QLD announced *Growing Tourism, Growing Tourism Jobs* providing an additional \$94.6 million over five years including \$48.6 million to attract airline routes and cruise shipping and \$46 million to develop new tourism experiences and industry capability such as Aboriginal Tourism.

QLD has also announced the *Making Queensland Australia's Events Capital* fund of \$36 million over three years to secure major events.

Northern Territory

The NT has also undergone a tourism decline but not as severe as WA. To win back market share and grow jobs the NT has responded with *Turbocharging Tourism* boost funding of \$103 million over 2 years.

This funding includes \$27 million for tourism marketing, \$21 million for events and \$56 million to develop new tourism experiences such as Aboriginal Tourism.

3. WA Tourism Economic Performance 2017-18

Tourism is experiencing strong global growth due to rising discretionary incomes in Asia and the recovery of Western markets from the GFC. In addition to this strong global demand, Australia has enjoyed a favourable exchange rate and strong interstate demand.

This resulted in Australia experiencing 6.5% growth in international and interstate visitor expenditure in 2017-18. Despite operating in the same international and interstate markets with the same exchange rate, Western Australia experienced a significant 4.6% decline in visitor expenditure in 2017-18.

International Visitor Spend³

International visitor expenditure in WA declined \$250 million (-10.2%) compared with Australia-wide growth of 4.8%. Market share declined from 8.8% to 7.5%.

	2016/17 (\$ million)	2017/18 (\$ million)	Growth (\$ million)	Growth (%)
Western Australia	\$2,454	\$2,204	-\$250	-10.2%
Australia	\$27,871	\$29,207	\$1,335	4.8%
WA market share %	8.8%	7.5%		

The decline in international visitor expenditure is the most significant ever recorded in the available International Visitor Survey⁴ results. The decline is comparable with previous shocks to the tourism industry such as September 11 and the Ansett collapse. Unlike those previous shocks to Australian tourism, the 2017-18 decline was limited to Western Australia.

Interstate Visitor Spend⁵

Interstate visitor expenditure in WA increased \$69 million (4.7%) compared with Australia-wide growth of 8.5%. While the State grew in interstate markets, WA's performance was behind growth in other States, and consequently market share declined from 6.0% to 5.8%.

	2016/17 (\$ million)	2017/18 (\$ million)	Growth (\$ million)	Growth (%)
Western Australia	\$1,454	\$1,523	\$69	4.7%
Australia	\$24,232	\$26,288	\$2,056	8.5%
WA market share %	6.0%	5.8%		

Overall Decline in Visitor Expenditure and Market Share⁶

Overall, the 2017-18 financial year saw a significant decline in the Western Australia's total out-of-state (international and interstate) tourism economy (-4.6%) compared with the substantial growth (6.5%) in the Australian tourism economy.

	2016/17 (\$ million)	2017/18 (\$ million)	Growth (\$ million)	Growth (%)
Western Australia	\$3,908	\$3,727	-\$181	-4.6%
Australia	\$52,103	\$55,495	\$3,391	6.5%
WA market share %	7.5%	6.7%		

³ Tourism Research Australia, *International Visitor Survey*, YE June 2018

⁴ Tourism Research Australia, *International Visitor Survey*, 2005 - YE June 2018

⁵ Tourism Research Australia, *National Visitor Survey*, YE June 2018

⁶ Tourism Research Australia, *International Visitor Survey* and *National Visitor Survey*, YE June 2018

Jobs and Economic Impact

Tourism Council WA commissioned Lucid Economics to provide an economic impact assessment of the \$181 million decrease in out-of-state visitor expenditure (Appendix A).

The assessment was that Western Australia would have lost \$139 million in Gross State Product and a total of 1,227 jobs (direct and indirect) based on the decrease in visitor expenditure.

Economic Impact – Decreased Visitor Expenditure in WA

	Gross State Product (\$m)	Employment (No.)
Direct	\$71.98	839
Indirect	\$67.31	388
Total	\$139.29	1,227

Cause of WA Tourism Decline

Fundamentally the decline in out-of-state visitor expenditure is due to the decline in Western Australia's international competitiveness, particularly in comparison with other States.

Previous price and supply-side barriers to tourism growth have been addressed. Significant private investment in commercial short-stay accommodation in Perth has increased availability and quality while notably reducing room rates. More broadly, travel and hospitality prices in WA have notably declined in real terms since the mining boom while prices in other competing States have significantly increased.

The private tourism investment in accommodation has been matched by significant public investment in tourism infrastructure such as Optus Stadium and precincts such as Elizabeth Quay.

Rather than supply-side constraints, what is lacking is visitor demand to activate and use this public and private tourism infrastructure. Visitor demand is generated by: leisure attractions & experiences, business & major events, and destination marketing. Tourism Council WA contends that the following are the primary causes of decline in visitor demand:

Long Term Causes – Destination Marketing & Appeal

- Long term decline in WA's leisure tourism market share as Tourism WA's budget is insufficient to maintain the State's share in competition with other State's budgets.
- Tourism WA's marketing and events budget is insufficient to market three destinations (Perth, the north and the south), particularly compared with other States effectively promoting only one destination (ACT, VIC, TAS & SA).
- Tourism WA's budget is insufficient to realise the tourism growth potential of the significant private investment in commercial short-stay accommodation.
- WA, and Perth in particular, lacks demand-driving commercial leisure tourism attractions and experiences compared with other States. These attractions have struggled with approval under the State's regulatory regimes. WA relies on public attractions which require State funding to be marketed.
- StudyPerth's marketing budget is insufficient to maintain the State's market share of international education.

Long-Term Causes – Business & Major Events

- The high-yield market for convention and exhibition event delegates is constrained by the Perth Convention & Exhibition Centre which lacks the capacity and competitiveness of other State's venues.
- WA's major events budget has not increased sufficiently to fully realise the tourism growth potential of new venues such as Optus Stadium and RAC Arena. Furthermore, a significant proportion of the State's major events budget is still committed to ongoing funding of events which are not delivering adequate tourism yield (e.g. Supercars).

Long Term Causes – Aviation

- WA's most appealing leisure destinations are in regional areas (e.g. Exmouth). Aviation services on these routes are characterised by low volumes and high fares for the resources sector. The relative cost of WA regional air travel is increasing compared with air travel to destinations with high volume and low fares for the leisure traveller.
- Existing international aviation is underutilised due to insufficient funding for international marketing. International air capacity to WA has declined as airlines shift to destinations with growing market share (e.g. Etihad).
- WA lacks direct aviation routes to key growth markets such as Shanghai. Airline partnerships to secure such routes would require marketing funding. Unless additional funding is made available, reprioritising existing marketing funding to these growth markets would come at the opportunity cost of reduced visitor spending from other source markets.

Immediate Causes

- The effectiveness of Tourism WA's destination marketing declined compared with competing states with better budgets and more effective commercial tourism marketing structures and skills.
- Tourism WA appropriately reprioritised marketing spend into interstate markets, but within the fixed budget this came at the opportunity cost of international marketing and international visitor spend.
- Tourism WA appropriately reprioritised marketing spend into marketing Perth, but within the fixed budget this came at the opportunity cost of reduced regional dispersal, visitor nights and spend.
- Visitor spend per trip declined predominately due to a substantial decline in visitor nights. The decline in visitor nights was due to less regional dispersal and a reduction in working holiday makers.
- Declining numbers of international student enrolments (-3.3%)⁷ and the accompanying decline in visiting friends and relatives of international students.
- Weaker business travel due to the weakness in WA's domestic economy.

⁷ StudyPerth, YE2018

Conclusions and Recommendations

Tourism WA's Budget has not increased at a time of global growth when other States are significantly increasing their tourism budgets.

Tourism Council WA strongly supports Tourism WA's Two Year Action Plan to grow the number of visitors to Western Australia. However, without any additional funding to implement the plan, any new activities implemented are at the cost of existing marketing activities and the visitors and jobs they currently create.

To attract additional visitors and create additional jobs, funding is needed in addition to the current base budget funding and the existing jobs it creates.

In Queensland, the State Government has introduced the *Growing Tourism, Growing Jobs* additional fund of \$95 million over five years, alongside an additional \$36 million over three years for the *Making Queensland Australia's Events Capital* initiative. This equates to \$131 million over five years, an average of \$26 million p.a., in addition to Tourism & Events Queensland's base funding.

Tourism WA needs dedicated additional funding of a similar scale to Queensland in order to achieve the State Government's objective of growing economic diversity and jobs. To compete with States investing additional funding for jobs growth, Tourism Council WA makes the following recommendations:

1. Continue current consistent base funding levels for Tourism WA in the forward estimates to 2022-23.
2. Commit to additional **Tourism Jobs Growth Funding** to genuinely increase funding and put WA on a competitive footing with other States to retain market share and increase jobs.
3. Focus the **Tourism Jobs Growth Fund** on:
 - Establishing WA as the Western Gateway by securing direct international air services into Perth and regional WA on strategic routes from growing tourism markets.
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 - Promoting self-drive touring, caravan and camping, and Visitor Centres across WA.
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4. Establish a plan, timetable and infrastructure funding commitment to redevelop and expand exhibition space at the Perth Convention and Exhibition Centre by 2024.
5. Establish a plan for private investment in major tourism and leisure attractions; and establish a plan, timetable and cooperative Federal-State funding for a National Aboriginal Cultural Centre by 2025.

28 November 2018

Evan Hall
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Sent via email: EHall@tourismcouncilwa.com.au

RE: Economic Impact of Decreased Visitor Expenditure in WA

Dear Evan,

Lucid Economics Pty Ltd (Lucid Economics) is pleased to provide this economic impact assessment of the decrease in visitor expenditure in the State of Western Australia.

Background

According to data from Tourism Research Australia (published by Tourism Western Australia), interstate and international visitor expenditure in Western Australia declined by 5% or \$181 million dollars between 2017 and 2018.

Table 1. Visitor Expenditure in Western Australia (\$m)

	Interstate Visitors	International Visitors	Total
2017	\$1,454	\$2,454	\$3,908
2018	\$1,523	\$2,204	\$3,727

Source: Tourism WA (2017); Tourism WA (2018)

This decrease in visitor expenditure will have had an impact on the State's economy.

Approach

This assessment considers the economic impact from the decrease in visitor expenditure in Western Australia and the associated Gross State Product (GSP) and employment.

The analysis utilises Input-Output (IO) modelling and the most recent State Tourism Satellite Accounts developed by Tourism Research Australia¹. IO modelling has various limitations, as highlighted in **Appendix A**.

¹ *State Tourism Satellite Accounts, 2016-17*, prepared by Tourism Research Australia, Canberra.

lucid: /'lu:sid/ *adjective* 1. expressed clearly; easy to understand. 2. bright or luminous.

Economic impact analysis identifies a series of economic metrics. For this assessment, the following metrics have been used:

- **Gross State Product:** value of the total economic output minus the costs of goods and services used as inputs, plus net taxes. Gross state product (GSP) is a preferred measure of the economy as it focuses on the net contribution to the local economy. This value is most closely associated with Gross Domestic Product (GDP) at a national level.
- **Employment:** employment positions generated, expressed on a full-time equivalent (FTE) basis.

These metrics are measured in terms of the direct impact as well as the indirect (flow-on) impact, including both Type I and Type II multipliers.

Economic Impact Assessment

In order to conduct this assessment, the decrease in visitor expenditure in the State from interstate and international overnight visitors between 2017 and 2018 was used.

Based on the decrease in visitor expenditure of \$181 million, the State of Western Australia would have lost \$139 million in Gross State Product terms and a total of 1,227 jobs (direct and indirect).

Table 2. Economic Impact - Decreased Visitor Expenditure in WA

	Gross State Product (\$m)	Employment (No.)
Direct	\$71.98	839
Indirect	\$67.31	388
Total	\$139.29	1,227

Source: Lucid Economics

If you have any questions regarding the above analysis, please don't hesitate to contact me directly.

With best regards,



Michael G. Campbell
Director

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References

Tourism WA (2017). *Visitation to Western Australia: Overview Year Ending June 2017*. Tourism WA, Perth.
Tourism WA (2018). *Visitation to Western Australia: Overview Year Ending June 2018*. Tourism WA, Perth.

Appendix A: Input-Output Modelling Limitations

Input-output (IO) modelling is a common technique for economic impact assessment and has been used for a range of purposes, including to inform strategic or government policy decision making. However, IO modelling has certain limitations and weaknesses, including:

- **Lack of supply-side constraints:** IO multipliers assume that extra output can be produced in one area of activity without taking away resources from other activities. Actual impacts would be dependent on the availability of appropriate labour and capital and other productive inputs.
- **Fixed prices:** IO systems assume fixed prices, so that the effects of relative price changes play no role in the allocation of scarce resources between activities. Essentially, prices are fixed and do not change relative to changes in supply and demand. Actual impacts would be affected by relative price changes due to constraints on the availability of labour, capital and other inputs and policy changes as well as changes in demand.
- **Fixed ratios for intermediate inputs to production and outputs from production:** IO modelling uses fixed input structures for each industry so that changes in production technology and the use of inputs in production play no role in impact assessment. Actual impacts could be affected by changes in production technologies including in the use of domestic and imported inputs and the mix of outputs including in the supply of products to household, investment and export demands.
- **No allowance for household purchasers' marginal responses to change:** IO modelling assumes that consumption is fixed to initial budget shares, so that real budget shares remain unchanged with changes in household income and relative prices. In practice, the level and composition of household purchases would be affected by income and relative price changes.
- **Absence of budget constraints:** IO modelling assumes that consumption is unconstrained so that changes in household or government consumption occur without reducing demand elsewhere. In practice, the level of consumption expenditure by households and government would be budget constrained.

Despite its flaws, IO modelling has proven an effective tool in understanding the economic benefits of a specific project, strategy or policy.



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