

PRE-BUDGET SUBMISSION 2020-21

Tourism Accommodation Australia Submission



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INTRODUCTION

Tourism Accommodation Australia (TAA) welcomes the opportunity to make a pre-budget submission.

TAA is a division of the Australia Hotels Association (AHA) and together they are the peak industry bodies representing Australia's tourism, hotel accommodation and hospitality industry. Our membership is diverse and serviced by a network of branches based in every state and territory, plus a Canberra-based National Office. We represent licensed businesses from small bars, restaurants, taverns, pub-style hotels through to three, four and five-star international accommodation hotels located in each state and territory.

Our role is to represent the business and commercial interests of our members through services, advocacy, and policies. We are committed to ensuring the future development and growth of the sector within Australia's vibrant tourism industry.

TAA recognises the importance of working with government departments and stakeholders and we have a demonstrated history of achievement in working with national, state and local government, law enforcement agencies, educators, universities, and other organisations.

Tourism has been identified as a super-growth sector of Australia's transitioning economy, with total tourist consumption \$143 billion, which saw \$57.3 billion in GDP contributed to the economy (comprising 3.1% of the national total), and employment of 646,000 persons (5.2% of the Australian workforce).¹ Confidence and investment has supported the recent strong performance of the sector which has outpaced national growth rate for the last three years.²

The accommodation sector is a dominant player in the tourism industry and, in terms of GVA, \$8 billion was directly contributed and more than 88,800 people are directly employed and 101,900 indirectly employed in the sector.³ This figure will continue to increase with the industry going through a rapid period of growth.

TAA's recommendations for the Federal Budget 2020-2021 are summarise and then outlined in detail below.

¹ Australian Bureau of Statistics, 2018, *Tourism Satellite Account 2017-18*, <https://www.tra.gov.au/economic-analysis/economic-value/national-tourism-satellite-account/national-tourism-satellite-account>.

² <https://www2.deloitte.com/au/en/pages/consumer-industrial-products/articles/tourism-hotel-outlook.html>.

³ AEC Group, 2017, *Economic Contribution of the Tourism Accommodation Sector in Australia*.

TAA RECOMMENDS:

Support Sustainable Demand Growth

- *Ensure funding for Tourism Australia is protected against international media-cost inflation thus supporting the effective leveraging of marketing campaigns in key markets.*
- *Commit to further expanding and maintaining the business events bid fund, which ensures Australia remains competitive in attracting high-yielding business events.*

Drive Continued Improvements in Access

- *Secure continued funding for the benchmarking of all visitor visa fees and charges and processing times to ensure we remain competitive.*
- *Use the Passenger Movement Charge to improve infrastructure and support the tourism industry.*
- *Establish a separate funding source for airports with input from multiple sources to ensure that airports can continue to provide the capacity and facilities to service the growing number of visitors.*

Investment and Regulation

- *Continue to identify and provide funding support for key State infrastructure projects that are essential to visitor economy growth.*
- *Support the continuing investment in core visitor surveys and provide long term commitment to alternative data sources that provide timely tourism metrics.*
- *Continue to support the Australian Accommodation Monitor, essential to tracking performance in regional areas.*
- *A funding commitment be made for continued ATO data matching.*

Boost Regional Tourism Performance

- *Continue to provide funding under the Building Better Regions fund to facilitate growth in regional tourism infrastructure.*
- *Commitment via funding and resources to initiatives such as the Regional Tourism Infrastructure Investment Attraction Strategy 2016 – 2021, to enable not just the promotion of regional areas to investors, but the identification and support of market-ready proposals.*

Allocate Resources to Address Labour & Skills Shortages

- *Fund a further economic report into labour and skills shortages to determine the nature and quantum of gaps in the tourism and hospitality sector to 2030.*
- *In line with The Australian Chamber of Commerce and Industry, we recommend halving the Skilling Australians Fund levy (SAF) to \$600 for small business and \$900 for large businesses for each sponsored temporary migrant, in recognition of the already significant costs associated with accessing overseas labour.*
- *Government consider incentives and initiatives to attract more Australians into the industry such as:*
 - *Work with industry to identify pre-apprenticeship programs;*
 - *Increase funding incentives for employers and apprentices in areas of high skills shortages, such as cooks, and provide consistency of that funding over the longer term.*
- *Fund the Industry Outreach Officer Initiative within the Department of Home Affairs.*

1. SUPPORT SUSTAINABLE DEMAND GROWTH

1.1 INVESTMENT IN TOURISM AUSTRALIA

For the financial year 2018-19, the eight states and territories combined spent eight times more money on tourism promotion than the Commonwealth Government. Individually, the NT, NSW, QLD and VIC outspent the Commonwealth Government.

As Tourism Australia's funding is spent in overseas markets, the 2015 *Foreign Exchange Hedging Agreement* inoculates Tourism Australia from fluctuations in purchasing power associated with foreign exchange movements. However, this funding is not protected against international media-cost inflation in overseas markets.

The TAA commissioned a report on the return on marketing investment for Australian inbound tourism,⁴ which showed that the average level of media inflation over the past 5 years is 4.5%. The report showed that each additional dollar of real marketing and promotional spending by Tourism Australia results in additional inbound tourism expenditure of \$22.40. In allocating funds to Tourism Australia, the Federal Government needs to consider the fact that media inflation is growing at between two to five times the CPI in Australia's key and growing tourism markets. This significantly impacts upon the real output and reach of Tourism Australia's marketing campaigns, and the ability to grow inbound tourism demand.

1.2 BUSINESS EVENTS

The national business events bid fund support bids for new, high-value international incentive, association, and exhibition events. In having a formal federal fund in addition to state government funds, Australia is reacting to a growing global trend towards direct financial support for major business events. However, this funding amount is absorbed within Tourism Australia's budget.

The Association of Australian Convention Bureau research from 2018 shows that 12% of international association conventions bids due to be held over the next decade to 2025 were lost due to stronger financial incentives offered by our competitors.⁵ The current bid fund has proved successful and helps mitigate against the high cost of doing business in Australia. TAA welcomed the announcement that the Business Events Bid Fund Program will become easier for regional destinations to access, which is expected to help attract new corporate visitors to regional Australia and provide significant return on investment.

⁴ Airline Intelligence and Research Pty Ltd, *Estimates of the Return on Marketing Investment for Australian Inbound Tourism*, December 2018.

⁵ Association of Australian Convention Bureaux, *AACB Submission to the Beyond Tourism 2020 Steering Committee*, 26 April 2018, <https://aacb.org.au/Beyond%20Tourism%202020>.

TAA RECOMMENDS:

- *Ensure funding for Tourism Australia is protected against international media-cost inflation thus supporting the effective leveraging of marketing campaigns in key markets.*
- *Commit to further expanding and maintaining the business events bid fund, which ensures Australia remains competitive in attracting high-yielding business events.*

2. DRIVE CONTINUED IMPROVEMENTS IN ACCESS

2.1 WORKING HOLIDAY MAKERS

Apart from explicit visa application fees, the real costs of visas also include biometrics fees, Visa Application Centre fees, the Passenger Movement Charge (PMC), and courier fees for any paper-based applications. A key consideration in Australia's overall competitiveness as a destination for tourists and for Working Holiday Makers (WHMs) is the cost of visa fees and supplementary charges, along with visa processing times. TAA research on *Visa Competitiveness in Asian markets* showed that visa fees are amongst the least competitive and processing times are also relatively uncompetitive, when compared to other destinations. Our research also showed that when all fees are added Australia is amongst the countries that have the most expensive visa costs, along with the UK.⁶ TAA welcomed the government's announcement of a visa benchmarking exercise, and calls for an allocation of funding for the relevant Department(s) to secure this as a regular process.

The Government increasing the PMC from \$55 to \$60 confirms it as the most expensive short haul charge in the world and the second highest long haul charge. This situation is likely to worsen as visa changes are linked to Consumer Price Index (CPI) increases. The Australian Chamber of Commerce and Industry (ACCI) submission notes that contrary to international agreements, the PMC is already being treated as general revenue by the Government, raising significantly more than the cost it was introduced to cover.

Given the substantial additional revenue raised by growth in tourist numbers, TAA supports ACCI's call to re-invest a portion of the revenue into increased capability, infrastructure and generating additional demand.

2.2 AVIATION ACCESS

The Government has negotiated over 100 bilateral air services agreements and associated arrangements. These agreements have been instrumental in supporting continued visitor growth and access.

A separate funding source for airports is needed to continue support for visitor growth. This would require input from the Federal Government and the relevant State Government and airport organisations. Better resourcing of airports would also have the benefit of improving and opening up trade routes and regional destinations.

⁶ Tourism Accommodation Australia, *Visitor Visas for Asian Markets: Comparison Between Australia and Key Competitors*, May 2018.

TAA RECOMMENDS:

- *Secure continued funding for the benchmarking of all visitor visa fees and charges and processing times to ensure we remain competitive.*
- *Use the Passenger Movement Charge to improve infrastructure and support the tourism industry.*
- *Establish a separate funding source for airports with input from multiple sources to ensure that airports can continue to provide the capacity and facilities to service the growing number of visitors.*

3. INVESTMENT AND REGULATION

TAA welcomed announcements in the last Budget period of ongoing commitments to infrastructure as part of the National Infrastructure Plan, including commitments to Western Sydney Airport, Melbourne Airport Rail Link, and the Bruce Highway. The City Deals and Regional Deals are central in providing the funding and support for essential tourism infrastructure.

3.1 INVESTMENT IN DATA

Government visitor economy data is an important resource for all tourism stakeholders. It is required to track performance across metropolitan and regional localities; assess the impact of government policy; and provide investors with the critical information they need to assess the market and make decisions.

TAA welcomed the appointment of STR to produce the Australian Accommodation Monitor (AAM), which filled the gap particularly in regional accommodation metrics, but we would like to see ongoing support guaranteed for this vital dataset. We value the continued investment in the National Visitor Survey and the International Visitor Survey and support the continuing investment and long term commitment to alternative data sources that provide timely tourism metrics.

3.2 REGULATION OF UNREGULATED ACCOMMODATION

There are issues of tax avoidance and labour supply chain issues in the short stay accommodation market and the need for greater regulation to address obvious inequities that have emerged between unregulated and regulated accommodation providers, specifically around capital gains tax, payment of workers in the gig economy, and income tax collection.

To that extent, we strongly support the ATO's extensive data-matching program to collect income tax from individuals who receive income from short term rentals during the 2016-17 to 2019-20 financial years and look forward to its extension beyond 2020.

3.3 FRINGE BENEFITS TAX (FBT)

Fringe Benefit Tax (FBT) is a regressive tax that discourages expenditure and consumption, thus leading to underemployment. FBT on entertainment and meals unfairly penalises the hospitality industry and increases compliance costs for business. Therefore, TAA seeks the restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals.

Since being introduced in 1986, FBT has been an enormous impost for business. The fact that meals which are genuinely for business purposes attract FBT hurts the hotel industry and the broader business community. TAA calls for this tax to be abolished or a reasonable deduction threshold introduced.

TAA understands that FBT has simply driven much business hospitality “underground” with many large firms now conducting lunches “in house”, where the FBT is not incurred. Generally only large businesses can afford this luxury and it is consequently unfair to smaller operators. Reducing or abolishing the FBT would stimulate increased business meals at hotels, thus creating more jobs and benefit to the Australian economy.

Despite the positive economic multiplier effects, TAA understands that its proposal regarding FBT would present challenges. However, TAA believes that amending the FBT will stimulate business activity and indirectly create many positive social and economic multiplier benefits; the most important of which is increasing social inclusion and living standards through workforce participation.

TAA RECOMMENDS:

- *Continue to identify and provide funding support for key State infrastructure projects that are essential to visitor economy growth.*
- *Support the continuing investment in core visitor surveys and provide long term commitment to alternative data sources that provide timely tourism metrics.*
- *Continue to support the Australian Accommodation Monitor, essential to tracking performance in regional areas.*
- *A funding commitment be made for continued ATO data matching.*
- *The restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals.*

4. BOOST REGIONAL TOURISM PERFORMANCE

Regional tourism is underperforming. This underperformance is particularly noticeable in the dispersal of international visitors/visitor nights from key source markets, in regional expenditure by international tourists and in accommodation performance metrics.

For 2017–18, 44 cents in every tourism dollar was spent in regional areas but the differences between domestic and international are stark: 52% of domestic overnight spend and 56% of day trip spend is in the regions but by contrast only 10% of international spend is in regional Australia.⁷ In addition, dispersal rates are not increasing. For domestic travelers, the rate of regional dispersal has remained static for more than a decade, while there has been a steady decline in international visitor numbers, with only 34% visiting a regional area in 2017–18.⁸

The growth of regional visitor economies is dependent on dispersing more international visitors beyond capital cities for longer overnight stays. Therefore, there is a need to attract more quality supply into regional Australia, to assist with increased dispersal to regional areas. Many of Australia’s

⁷ Tourism Research Australia, *State of the Industry 2017-18*, April 2019, <https://www.tra.gov.au/Economic-analysis/State-of-the-Industry/state-of-the-industry>, p.13.

⁸ Ibid.

regional areas suffer from insufficient investment in, and renewal of, tourism facilities. Investment in regional facilities is unlikely to occur without an increase in regional visitor nights, yet an increase in regional visitor nights is unlikely to occur without improved accommodation. This represents a market failure requiring government intervention.

4.1 REGIONAL INFRASTRUCTURE

In the 2018-19 budget the Government committed to providing \$206.5 million over four years for round three of the *Building Better Regions Fund*, to support investment in community infrastructure and capacity building projects in regional areas. This includes \$45 million to improve tourism related infrastructure and supporting demand-driven projects which is of vital importance to increase regional dispersal and improve the capacity and attraction of regional visitor economies.

Programs such as Austrade and Tourism Australia's *Regional Tourism Infrastructure Investment Attraction Strategy 2016 – 2021* are important in facilitating regional investment. To be effective we would like to see resources and funding commitment to enable not just the promotion of regional areas, but the identification of projects and the development of market feasibilities to attract potential investors.

It was noted in MYEFO that drought conditions have seen large parts of NSW, QLD, and SA suffer detrimental effects, including many businesses and people that rely on the agricultural sector. Crop production and flock and herd numbers have been affected, impacting the future productive capacity of the industry. Fires have also had an impact, causing widespread damage to public infrastructure in affected regions – it is not known what the full cost will be to the tourism sector. It is therefore important that the Government factor in rebuilding costs for infrastructure in affected areas, and also assist with combatting perceptions that regions are not open for tourism business.

TAA RECOMMENDS:

- *Continue to provide funding under the Building Better Regions fund to facilitate growth in regional tourism infrastructure.*
- *Commitment via funding and resources to initiatives such as the Regional Tourism Infrastructure Investment Attraction Strategy 2016 – 2021, to enable not just the promotion of regional areas to investors, but the identification and support of market-ready proposals.*
- *Funding and resources for areas affected by extreme weather events and disasters factor in the costs of tourism infrastructure and marketing of regions as tourism destinations still open for business.*

5. ALLOCATE RESOURCES TO ADDRESS LABOUR & SKILLS SHORTAGES

As the tourism industry is in an unprecedented period of growth and has been identified as one of the super-growth sectors of Australia's transitioning economy, it is important that the industry – and the accommodation sector – are supported by a skilled and productive workforce. Ultimately, a two-pronged approach is required to meet the skills shortages of the industry: create a pipeline of skilled Australian workers and at the same time, enable employers who have acted with integrity to more easily access skilled migrant workers.

The TAA NSW Labour Benchmarking Study 2019 indicated that 0.43 employees are required per accommodation room. The Tourism Investment Monitor reveals that there are 53,227 projects in the pipeline (recorded as at 2018) from 305 projects. This creates a need for at least 22,887 additional workers to service the identified projects. As recorded in 2017, there are 88,800 directly employed accommodation workers. Hence, 22,887 additional workers represents a 26% increase of the workforce in the coming years.

By way of breakdown, data from the Department of Employment, Skills, Small and Family Business indicates that the broader Accommodation and Food Sector will require an additional:

- 400 Hotel and Motel Managers (increase of 1.7%);
- 10,200 Accommodation and Hospitality Managers (increase of 9.4%);
- 13,300 Miscellaneous Hospitality, Retail and Service Managers (increase of 7.6%);
- 16,800 Chefs (increase of 16.7%);
- 14,100 Bar Attendants and Baristas (increase of 13.4%);
- 21,800 Waiters (increase of 21.8%); and
- 4,300 Housekeepers (increase of 12.5%).⁹

5.1 BETTER RESOURCES AND FUNDING FOR TRAINING AUSTRALIANS

Over the last decade both Federal and State funding of Vocational Education Training (VET) has declined and student engagement with the sector has declined. Government has recognised the need to improve student and industry perceptions and engagement with the VET sector, and to that end a number of initiatives have been undertaken, including a review of the sector by Stephen Joyce and the skills package announced in the 2019-20 Budget.

Regarding the skills package, like ACCI we note that this has been substantially funded by the Skilling Australians Fund (SAF) levy imposed on employers accessing skilled migration programs, as opposed to being a commitment in the Budget. We also are concerned at the quantum of the SAF levy and seek a halving of the costs involved.

VET Student Loans

The replacement program for VET FEE-HELP, VET Student Loans, is too restrictive. Other than for specified exceptions (e.g. aviation), there are three loan cap bands of \$5,075, \$10,150 and \$15,225 (indexed each year), based on cost of delivery. For students interested in studying qualifications related to the hospitality and tourism industry, accessing VET Student Loans is difficult and different states have different subsidies dependent on a number of factors such as prior qualifications.

This makes navigating the system difficult for students and often means that the funding gap is at least half – and sometimes more – for the qualifications in the hospitality and tourism sector. TAA recommends that there be a decrease in the funding gap between qualifications for the accommodation and hospitality sectors and VET Student Loans.

Apprenticeships and Traineeships

To fill skills gaps across a range of roles in the industry employers are re-introducing internships and traineeships to ensure attraction and retention of many employees. Incentives and initiatives are

⁹ Department of Employment, Skills, Small and Family Business, Occupation Projections – five years to May 2023, <http://lmip.gov.au/default.aspx?LMIP/EmploymentProjections>.

needed to both attract more Australians into the industry and encourage employers to take on apprentices and trainees.

The accommodation sector has well documented skills shortages for both cooks and chefs, as well as a number of management and other positions. However, interest in apprenticeship pathways has declined as highlighted above due to poor perceptions of the industry as a career, funding gaps and poor career advice.

The *Australian Apprenticeships Incentives Programme* needs to recognise the barriers, in particular the decline and inconsistency in funding and the poor employer and apprentice incentives that exist to hire apprentices and trainees.

A number of changes to policy have contributed to the decline, specifically in the food trades:

- The moving of the Employer Commencement Incentive (\$1,500) from 3 months to 6 months is a deterrent as most of the employer's effort goes into the first three months of the apprentice's employment. For example, recruitment, induction and orientation etc.
- The introduction of a \$20,000 trade loan that replaced the Tools for your Trade incentives paid directly to Australian Apprentices. The incentive/s represented up to \$7,500 tax free paid over the life of the training contract, which proved far more attractive than the current trade loan.

The NCVER research '*The changing nature of apprenticeships: 1996–2016*' points to the inconsistency of funding and Commonwealth policy over two decades. The importance of employer incentives in growing engagement is highlighted by the 'Apprentice Kick Start' program introduced by the Federal government in 2009 to stimulate recovery from the impact of the global recession. This initiative had a significant positive impact on employers taking on apprentices in the food trades and TAA would like to see a funding commitment for something similar.

5.2 RE-ESTABLISH THE INDUSTRY OUTREACH OFFICER INITIATIVE IN THE DEPARTMENT OF HOME AFFAIRS

The complexity of the migration system can make it difficult for our members to understand the process, eligibility and suitability of the different offerings. This presents a deterrent to businesses accessing the migration program, often at the cost of losing skills essential for their business or stymied growth. Like ACCI, TAA believes there is a role for the Department of Home Affairs to provide information and assistance to industries, especially those experiencing significant skills shortages so employers are aware of changes to the migration system and the application process.

TAA supports ACCI's recommendation to reinstate the industry outreach officers program within the Department of Home Affairs to support industry and business to navigate the increasingly complex employer nominated migration landscape. The industry outreach officers program also had a role in navigating barriers and providing support to ensure business are aware of their obligations and requirements as sponsors.

TAA RECOMMENDS:

- *Fund a further economic report into labour and skills shortages to determine the nature and quantum of gaps in the tourism and hospitality sector to 2030.*
- *In line with The Australian Chamber of Commerce and Industry, we recommend halving the Skilling Australians Fund levy (SAF) to \$600 for small business and \$900 for large businesses for each sponsored temporary migrant, in recognition of the already significant costs associated with accessing overseas labour.*
- *Government consider incentives and initiatives to attract more Australians into the industry such as:*
 - *Work with industry to identify pre-apprenticeship programs;*
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