

Tourism Council WA Policy Paper

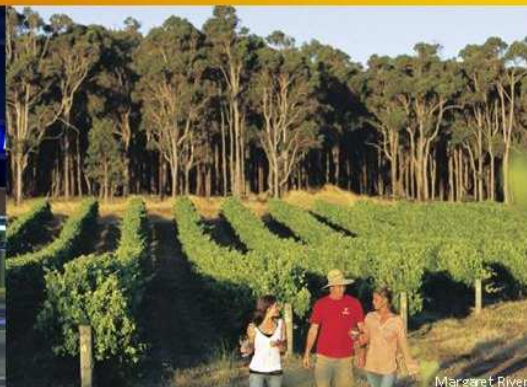


Pre-Budget Submission

For WA State Budget 2016



Perth Airport



Margaret River



Burswood Entertainment Complex

Budget Submission Highlights

- Market fundamentals are positive for strong tourism economic output and employment growth, provided WA can maintain market share vs competing destinations.
- The current multiplicity of short-term fixed-purpose budget funding lines for Tourism WA is undermining the ROI of public and private investment in tourism.
- The State Budget forward estimates show a 36% cut in *Destination Marketing* over the next three years which will lessen tourism economic output by \$747M and employment by 2,306 by 2018/19.
- WA is the only State Government which did not increase tourism funding in the 2015/16 State Budget.
- WA has the lowest level of State Government investment in tourism marketing and events per GSP. To reach the states average, WA tourism funding needs to increase from \$74M to \$103M per annum.
- The seating capacity a Perth Stadium will significantly increase the ROI of major events from 2017-18

Recommendations – State Budget 2016

1. Restructure the Tourism WA budget by consolidating the multiple tied budget lines into three core budget lines for: *Destination Marketing*, *Events Tourism* and *Tourism Infrastructure and Investment*.
2. Override the budget reductions in the forward estimates and maintain the 2015-16 funding of \$43.5M p.a. for *Destination Marketing* as a consistent minimum budget for: business events (PCB), domestic marketing and international marketing across the forward estimates to 2019-20.
3. Maintain the *Tourism Events* budget line as per the forward estimates in the 2015 State Budget. Provide additional funding for major events at Perth Stadium starting from 2017-18.
4. To enhance employment and economic diversity, gradually increase *Destination Marketing* and *Tourism Event* funding to a total of \$103M p.a. by 2019-20, consistent with the average Australian level of State Government tourism investment.

Background

Tourism in Western Australia

Tourism in Western Australia contributes \$9.3 billion in Gross State Product and generates 94,000 jobs across the state. Tourism earns the state \$2.3 billion p.a. in international exports.¹

State Government Tourism Strategy

The State Government has established a tourism strategy to double direct tourism consumption to \$12 billion by 2020. This strategy has seen significant public and private investment in precincts, venues and accommodation. The State now has the infrastructure capacity to reach the target by 2020. The key task is to activate this infrastructure, through marketing and events, to realise the visitor expenditure target.

Tourism Council WA

Tourism Council WA is the peak body representing tourism businesses, industries and regions in Western Australia. The Council represents over 1,200 businesses across the state.

¹ Tourism Research Australia, *State Tourism Satellite Accounts 2013-14, 2015*

Tourism Growth Outlook

The market fundamentals are positive for tourism growth. The key factors driving future growth are:

- Sustained decline in the exchange rate between the Australian dollar and our major tourism source (export) markets e.g. US, UK, China, Singapore, Europe.
- Rising incomes in Asia increasing discretionary consumer expenditure such as tourism.
- Subdued cost pressures resulting in enhanced price competitiveness, particularly in labour intensive service industries such as hospitality.
- Substantial increase in the supply of new Perth hotel accommodation which will result in high quality accommodation, lower room rates and greater price competitiveness.
- Development of new precincts and tourism experiences, such as Elizabeth Quay, which can enhance appeal and length of visitor stay.
- The construction of Perth Stadium which will remove the capacity constraint on major event tourism.
- Increase in international aviation services to Perth direct and through Middle East hubs.

Many of these market fundamentals apply to other destinations with which we compete e.g. Sydney and the Gold Coast. The critical success factor is the State's ability to convert price competitiveness and new tourism infrastructure into increased visitor numbers and expenditure in the state economy. This is essentially a destination marketing task.

While some travel markets do not respond to marketing, e.g. corporate travel, most tourism markets respond strongly to destination marketing - particularly B2B marketing to secure business events and destination promotion to win leisure tourists. This is the core purpose of budget funding to Tourism WA.

The opportunity is to convert new infrastructure and price points into visitor expenditure in WA. The measure of success is the scale of tourism growth and WA's market share of this growth compared to competing destinations.

Current Structure of the Tourism WA Budget

The 2015 Tourism WA Budget comprises the core Tourism WA budget funding and fourteen specific additional tied budget lines (excluding whole of government budget lines such as efficiency dividends). Each of these "tied" funding lines restricts the funding to specific purpose and period of time (i.e. four years or less across the forward estimates).

As a result, the total Tourism WA budget now comprises 46% tied funding and only 54% core funding. However, most of the tied funding is for core ongoing Tourism WA activities such as domestic marketing or China market development.

Of the fourteen tied funding lines, only three could be genuinely characterised as short term projects or fixed term funding boosts:

- R4R – Regional Visitor Centres Program (R4R)
- Caravan & Camping Action Plan (R4R)
- Aboriginal Tourism Development Program (R4R)

These three programs should have budget funding limited in time and purpose. These programs all fall within the *Tourism Investment and Infrastructure* service expense within the Tourism WA budget. This

service expense should rise or fall over time depending on specific programs of capital works, product development and other projects.

Unfortunately, most of the tied funding is in the *Destination Marketing* and *Event Tourism* service expenses. Since most of the tied funding is for these core activities, the tied funding tends to be continued as “new” tied funding lines. However, the process has significant administrative costs, reduces the ROI for the funding and creates significant uncertainty in the industry.

Negative Impact of Tied Funding

The high proportion of tied funding has a negative impact on the ROI achieved from this funding. Because 46% of its funding is restricted in time and purpose, Tourism WA cannot:

- target highest ROI spend as the budget lines typically tie the funding to specific markets or events;
- select the right mix of long-term investment and short-term tactical opportunity, because it has no certainty on future funding levels;
- commit to long-term funding partnerships with industry cooperatives that raise private contributions; or
- provide long-term certainty on marketing and events to underpin private sector investment in product or markets.

In essence, Tourism WA is effectively working on a 1-2 year cycle of funding certainty, whereas the agencies primary task of *Destination Marketing* needs a 7-8 year cycle.

Recommendation 1 – State Budget 2016

Restructure the Tourism WA budget by consolidating the multiple tied budget lines into three core budget lines for: *Destination Marketing*, *Events Tourism* and *Tourism Infrastructure and Investment*.

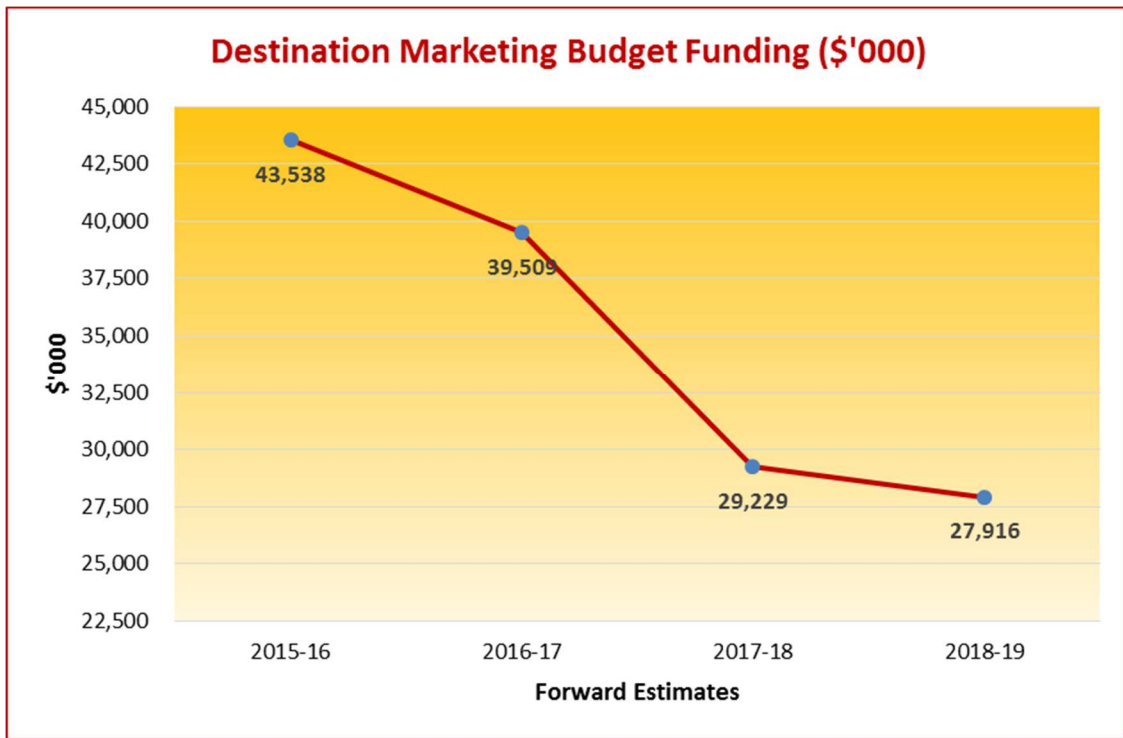
Destination Marketing Funding

Due to the tied funding, the forward estimates for the core service expense of *Destination Marketing* show a 36% cut over the next three financial years from \$43.5 million in 2015/16 to \$27.9 million in 2018/19.²

Government may determine to continue the tied Destination Marketing funding when it expires, as it has often done previously. However, in any given year Tourism WA has no certainty that the funding will be continued in the future. This prevents Tourism WA from planning and committing to long-term marketing strategies and partnerships.

Consequently, the private sector also has no certainty of long-term destination marketing strategies upon which to commit cooperative product marketing. This reduces the effectiveness of marketing and ROI on state investment. TCWA contends that providing certainty over the forward estimates for the same level of funding will produce a higher ROI.

² The Government of Western Australia, 2015-16 Budget Statements, Budget Paper No. 2, Volume 1



Budget	Destination Marketing - Tied Budget Lines	2015-16 \$'000	2016-17 \$'000	2017-18 \$'000	2018-19 \$'000
2015	R4R - Regional Tourism Marketing	4,300	6,700		
2012 & 15	WA Visitor Centre	1,186	1,216		
2012 & 15	Perth Convention Bureau	2,752	2,418	2,065	1,694
2014	Continuation of China Marketing Program	1,300	1,300	1,300	
2014	Increased Tourism Marketing	1,000	2,000		
2013	Increased Tourism Marketing	3,500			
2012	Domestic Marketing	1,442			
	Total Tied Funding	15,480	13,634	3,365	1,694
	Total Destination Marketing	43,538	39,509	29,229	27,916
	Cut from 2015/16	n/a	- 4,029	-14,309	-15,622
	% Cut	n/a	-9%	-33%	-36%

Effect of Destination Marketing Cuts

Should the Government not continue the tied *Destination Marketing* budget lines, the resultant cut will have a significant negative impact on economic activity and employment.

Destination Marketing has a high ROI as it generates increased returns on existing infrastructure without increasing capital costs. Destination Marketing fills existing rooms, precincts and venue seats. Public investment in Destination Marketing triggers additional private investment in cooperative marketing. This combined marketing spend triggers visitors and additional visitor expenditure in the state economy.

Different markets and campaigns achieve different results, however the current return in additional visitor expenditure (economic output) for every dollar of public funding invested in marketing is consistently high.

Current 2014/15 Destination Marketing ROI³

Destination Marketing Activity	Agency	ROI
Domestic Marketing (Brand and Cooperative)	Tourism WA	\$22:\$1
Business Events Bids	Perth Convention Bureau	\$30:\$1
International Marketing Campaigns	Tourism WA	\$93:\$1

Even at the lowest ROI rate of \$22:\$1 for domestic marketing, the budget cuts will result in significant forgone tourism expenditure. At this rate of ROI the cuts to *Destination Marketing* in the forward estimates would result in a loss of direct economic output of \$747 million over the three years from 2016/17 to 2018/19 and 2,450 jobs lost by 2018/19.⁴

Year	Marketing Cut \$'000	Economic Output lost \$'000	FTE Jobs Lost
2016-17	4,029	88,638	595
2017-18	14,309	314,798	2,112
2018-19	15,622	343,684	2,306
Total	33,960	\$747,120	

This is the minimum loss at the ROI of \$22:\$1, however the actual economic loss will be much higher. For example, the cuts to Perth Convention Bureau funding (with an ROI of \$30:\$1) will result in an aggregate economic loss (direct and indirect) over three years of approximately \$138 million in output and 715 jobs.⁵

Recommendation 2 – State Budget 2016

Override the budget reductions in the forward estimates and maintain the 2015-16 funding of \$43.5M p.a. for Destination Marketing as a consistent minimum budget for: business events (PCB), domestic and international marketing across the forward estimates to 2019-20.

Event Tourism Funding

The 2015 budget did instigate critical reform of the *Event Tourism* service expense by:

- untying budget funding from specific named events; and
- rolling all the short term tied funding into a core budget of approximately \$32.5 million per annum.

This reform will provide Tourism WA with greater flexibility and certainty for Perth's ongoing events calendar. This will maximise ROI from public and private investment in precincts, venues and hotels.

The major opportunity for *Event Tourism* is the increased seating capacity for major events at Perth Stadium which will open in 2017-18. This seating capacity removes constraints on international and interstate visitors attending events in Perth and increases the ROI on major events.

³ Destination Marketing ROI as reported by Tourism WA and Perth Convention Bureau.

⁴ Direct employment lost is based on ratio of \$149,056 visitor spend per 1 Full Time Equivalent Employee (FTE) per annum. Source is AECGroup *Perth Stadium Economic Impact* 2015.

⁵ Perth Convention Bureau, *Western Australia Business Events Impact of Reduced Funding*, September 2015

An economic assessment of major events at Perth Stadium showed a direct tourism impact of \$46.1 million per international sporting match and \$21.5 million per major entertainment event held at the new Stadium.⁶ TCWA strongly supports the State Government securing major events now in order to realise these economic benefits from when Perth Stadium becomes operational.

Additional funding should be provided to secure a calendar of events at Perth Stadium. These events should be selected for their ROI. The events, and therefore funding, should commence with the opening of Perth Stadium in 2017-18.

Recommendation 3 – State Budget 2016

Maintain the *Tourism Events* budget line as per the forward estimates in the 2015 State Budget. Provide additional funding for major events at Perth Stadium starting from 2017-18.

Competitor States⁷

Given the current transition from the resources sector to export services, and concern over rising levels of unemployment, other State Governments have significantly increased their tourism spend (net cost of services) in the recent round of 2015 state budgets. This increase in marketing and events funding will increase their tourism market share, drive tourism growth and diversify their state economies.

State	2014/15	2015/16	%
SA	\$42.5M	\$58.7M	38%
NSW	\$133.9M	\$176.1M	32%
ACT	\$11.7M	\$14.1M	21%
QLD	\$98.7M	\$112.6M	14%
NT	\$44.7M	\$50.4M	13%
TAS	\$25.3M	\$26.7M	6%
WA	\$75.5M	\$74.4M	-1%

State investment in tourism marketing and events, when measured against the state economy (Gross State Product), illustrates the comparative investment in economic diversity. The table below compares the scale of state investment in tourism growth compared to the scale of the state economy.

Unfortunately, Western Australia is investing less in tourism growth than any other state as a proportion of its state economy. To match an average state government investment of 0.04% of GSP, the WA State Government would need to increase tourism investment in Destination Marketing and Tourism Events from \$74.4M to \$103M.

⁶ AEC Group, *Perth Stadium Impact Assessment*, 2015

⁷ Comparison of 2015-16 Budget funding from State Government budget papers. This is a like to like comparison of funding on tourism marketing and events. The comparison does not include funding on infrastructure or industry development programs. Please note that the Victorian figures for 2015 are not available until 2016 as the State does not reveal event funding budgets and only reports actuals after EOFY. Where cited Victorian figures are for 2014-15.

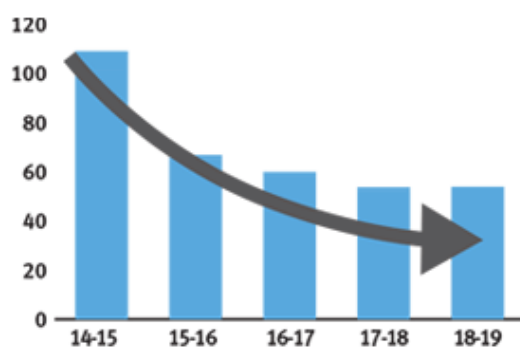
State	Gross State Product \$M	State Govt Tourism Spend \$M	Tourism Spend Per GSP
Northern Territory	\$21,205	\$50.4	0.238%
Tasmania	\$24,905	\$26.7	0.107%
South Australia	\$95,199	\$58.7	0.062%
Victoria	\$343,819	\$185.6	0.054%
Australian Capital Territory	\$35,566	\$14.1	0.040%
Queensland	\$295,142	\$112.6	0.038%
New South Wales	\$487,637	\$176.1	0.036%
Western Australia	\$256,188	\$74.4	0.029%
Total	\$1,559,662	698.6	0.045%

These State Governments have recognised the opportunity for tourism economic and jobs growth. For example Queensland, like WA, had declining tied tourism funding over the forward estimates.

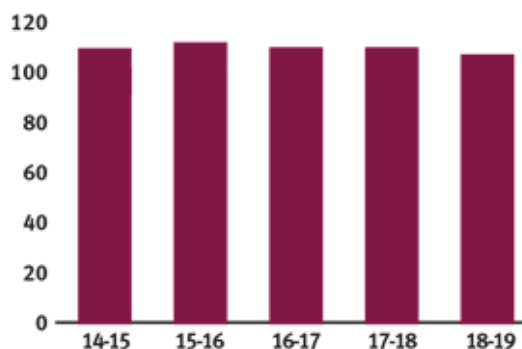
In the 2015 state budget the Queensland government committed to a consistent base funding of \$100M p.a. for Tourism & Events Queensland (TEQ). This gives the industry and TEQ certainty on future funding to plan marketing strategies over the long-term. On top of this base, the Queensland government also committed an additional \$68M for tourism events and airline partnerships.

By comparison, Tourism WA funding for marketing and events automatically declines from \$75M to \$62M over the same period.

TEQ Base Funding pre 2015 budget



TEQ Base Funding post 2015 Budget



Recommendation 4 – State Budget 2016

To enhance employment and economic diversity, gradually increase *Destination Marketing* and *Tourism Event* funding to a total of \$103M p.a. by 2019-20, consistent with the average Australian level of State Government tourism investment.

Further comment

Tourism Council WA would be pleased to provide further input and comment. Please contact Mr Evan Hall on 9416 0700 or at ehall@tourismcouncilwa.com.au.



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