Sustainable tourism funding for TNQ

DELIVERING THE STEP CHANGE IN INVESTMENT NEEDED TO COMPETE IN THE GLOBAL TOURISM MARKET

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Tourism is a great export business to be in. At a global level, tourism growth has consistently outperformed GDP growth and future demographic and socio-economic factors will see that trend continue into the future. Tropical North Queensland has long been established as one of Australia's and indeed the world's leading holiday destinations. But in a globally competitive market, a strong track record is no guarantee of future success. The industry today faces a number of significant challenges including diminishing market share. A clear strategy for destination promotion and broader tourism industry development is needed. And that strategy requires a step change in the level of investment to ensure successful delivery. This paper challenges the status quo and puts forward a compelling case for a new approach to sustainable tourism funding for Tropical North Queensland.

The Global Opportunity

Tourism is an export market with enormous growth potential. Significant and rapid expansion of the global middle class population is leading to record levels of personal discretionary expenditure.

This, combined with the changing age profile of the world's population and their propensity for travel, will contribute to significant growth in global tourism over the coming decades. Cultural, nature based and sports/events tourism are all significant growth sectors within the broader tourism economy.

With more options than ever before, destinations around the world are competing for their share of voice. Matched with growing concerns around the climate impacts of travel, highlighted through the increasing trend of 'flight shaming', long-haul destinations are fighting to maintain their share of the global travel industry.

Tropical North Queensland (TNQ) has significant competitive advantages that can be leveraged to secure a substantial share of the growing global tourism market. These include:

- An existing mature tourism sector and allied industries
- Iconic world heritage listed natural assets (Great Barrier Reef and Wet Tropics Rainforest)
- Direct connection to both Aboriginal and Torres Strait Islander cultures
- Established reputation as a sports and events tourism destination with potential for further diversification and growth
- International airport with strong domestic and international connectivity and capacity for expansion
- Well established Seaport supporting marine tourism operators, cruise shipping and superyachts
- Significant recent and planned investment in tourism infrastructure and facilities including the Crystalbrook Collection of hotels, Cairns Convention Centre expansion and Cairns Shipping Development Project (facilitating increased cruise shipping)
- The region's 'Clean Green' image and credentials
- Cairns' growing reputation as the Arts and Cultural Capital of Northern Australia

TNQ is well placed to benefit from the trends in global tourism and secure an increased share of this growing export market.

1.4 BILLION

TOTAL INTERNATIONAL TOURISM ARRIVALS (2018)

Forecast to reach 1.8 billion by 2030

$1.7 TRILLION

VALUE OF INTERNATIONAL TOURISM EXPORTS (2018 $USD)

Tourism is the world's third largest export category after chemicals and fuels and ahead of automotive products and food

GROWTH IN INTERNATIONAL TOURISM RECEIPTS HAS OUTPERFORMED WORLDWIDE GDP GROWTH

ASIA AND THE PACIFIC

WAS THE FASTEST GROWING TOURISM REGION FOR 2018

ARRIVALS AND EARNINGS BOTH UP 7% YEAR ON YEAR

Source: United Nations World Tourism Organisation (UNWTO)

The Problem

IMPACT OF TNQ'S LOSS OF TOURISM MARKET SHARE 2016 TO 2019:

$1.2 BILLION IN LOST REVENUE

EQUATING TO 4,260 (FTE) JOBS

Source: TTNQ analysis of Tourism Research Australia data

Despite TNQ's position of competitive advantage, the region has experienced a steady and concerning decline in tourism market share. Over the past three years, since the global discussion on the health of the Great Barrier Reef reached its zenith, TNQ has lost an estimated 17% of national market share. From June 2016 to June 2019, TNQ grew at just 1.9% per annum, less than a quarter of the national average growth of 8.2%.

Measured through the National and International Visitor Surveys for domestic and international overnight visitors conducted by Tourism Research Australia, this loss of market share equates to $1.2 billion in lost revenue, which would have supported an estimated 4,260 full time equivalent (FTE) jobs . Destinations such as Tasmania and south east Queensland have grown their market share with growth rates twice or in some cases more than five times that of TNQ.

TNQ's sustained decline in tourism market share is a concerning trend that needs to be addressed if the region is to fully realise the economic and employment benefits a growing tourism sector can deliver.

The Root Causes

The cause of the region's diminishing market share is a multi-faceted issue. Contributing factors include:

- Strong competition from alternative destinations both nationally and internationally
- Perceptions of the health of the Great Barrier Reef
- Constrained domestic aviation capacity
- Sub optimal international aviation connectivity
- Limited investment and promotion of 'new' visitor experiences

A well-funded strategy is required to address the above challenges. That strategy needs to be backed by a step change in the level of investment needed to ensure success. Tourism Tropical North Queensland's (TTNQ), the Regional Tourism Organisation (RTO) for TNQ, primary role is to drive visitor revenue and long-term benefits for the TNQ region by leading the destination's tourism marketing, positioning and brand story – and by being a unifying and coordinating voice for the tourism industry. TTNQ has a central role to play in addressing the challenges highlighted in this paper.

TTNQ's revenue is derived from a variety government and industry sources and amounted to $9.3 million for 2018/19 . Of this amount, Cairns Regional Council contributed $3.4 million. Most competitor destinations have an annual marketing budget that is between $7 million and $14 million per annum greater than that of TNQ.

A step change in the level of investment in the TNQ region's tourism promotion and industry development is needed to meet the challenges faced.

Estimated direct Annual Marketing Funds (AMF) for TNQ and a selection of competing destinations	TASMANIA	GOLD COAST	TNQ
	$19.0M	**$18.0M**	**$4.5M**
AMF per visitor	$14.39	$3.46	$1.55

Source: TTNQ analysis

Governments at all levels are fiscally constrained with limited capacity to provide the increased levels of funding needed. The ability to raise funds direct from industry for broad destination marketing and industry development is also limited.

Compared to the Gold Coast and Sunshine Coast, where specific rates and levies have been utilised to raise funds for tourism promotion and investment, Cairns Regional Council already makes a significant contribution to tourism. The forecast contribution to tourism per capita (2019-20) for the Gold Coast, Sunshine Coast and Cairns are $25.65 per person, $11.48 per person and $20.54 per person respectively (Source: TTNQ analysis).

A new model is required to deliver the step change in investment needed.

The Solution

A visitor levy is the most effective and efficient mechanism to generate sustainable funding for tourism.

Whilst not prevalent in Australia, visitor levies are commonly used throughout other parts of the world where they have been long established and are broadly accepted. The adjacent diagram provides an overview of how such a visitor levy would operate.

Cairns Regional Council has undertaken financial modelling to estimate the funds raised from a 2.5% visitor levy applied within the Cairns LGA only:

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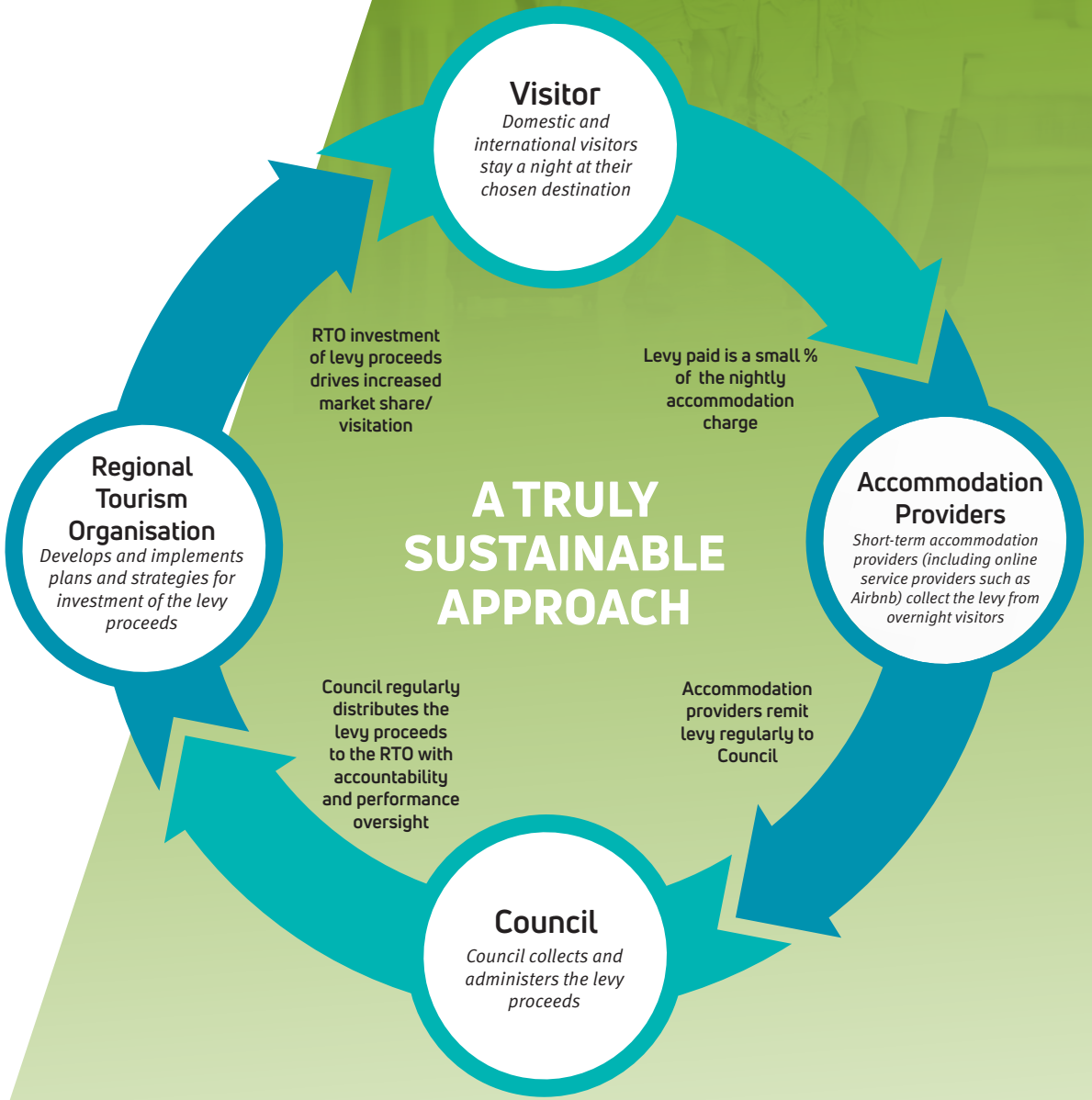
Levy applied to short term accommodation in the Cairns Local Government Area (LGA) only → Estimated annual short term accommodation revenue (17/18$) **$641 million** → Annual levy raised (17/18$) **$16 million**

Source: Cairns Regional Council analysis of Tourism Research Australia data

At the 2.5% rate (which is comparable to or below levy rates charged elsewhere in the world), a visitor staying at an accommodation house charging $150 per night would pay a levy of just $3.75 per night – less than the cost of a cup of coffee.

The visitor levy comes at no cost to the ratepayer/taxpayer and places no additional debt burden on either the Queensland Government or local councils.



Is raising this level of funding through council rates or charges an option?

Answer: No

A number of other Councils utilise special rates or charges to raise funds for tourism investment. If Cairns Regional Council were to adopt this mechanism to raise the $16 million per annum identified on the previous page, this would equate to an additional charge of $219 per ratepayer, the equivalent of a 9% increase in the median Cairns rates bill. Such an approach would place an inequitable impost on the ratepayers of Cairns. Indeed, Cairns Regional Council already contributes significant funds to tourism development via its existing funding of TTNQ ($20.54 per resident). A visitor levy is the only viable option to deliver the step change in investment required.

How would levy proceeds be invested?

Under the model proposed, levy proceeds would be distributed to the RTO, which in the case of Cairns, is TTNQ. TTNQ would utilise the levy proceeds to implement its strategic plan aimed at driving increased domestic and international visitation to the region. Areas of investment would likely include, but not be limited to, the following:

- Destination branding, marketing and promotion
- Support for aviation attraction (in collaboration with others)
- Major event attraction and development
- Tourism industry development
- Attraction of further tourism infrastructure investment

The region's accommodation sector would be one of the main beneficiaries from the implementation of the levy. As indicated in the table below, the levy is expected to generate additional visitor expenditure of $140 million per year. With an estimated 32% of a visitor's spend whilst in region going to accommodation, this means $45 million p.a. in additional visitor expenditure will flow directly to that sector. However, it is also acknowledged that the accommodation sector would play a critical role in levy collection and accordingly, specific measures would be put in place to ensure the benefits for this sector are realised.

IMPACT FROM INVESTMENT

This table sets out the estimated impact the investment of the levy would have on the region's tourism industry and broader economy.

	Cairns LGA ($million)
Total levy raised - annual (17/18$)	16.0
Leverage ratio	3:1
Total investment facilitated by levy- annual (17/18$)	48.0
Estimated impact of the above on:	
Annual visitor expenditure - $ million	140
Annual Gross Regional Product (GRP) - $ million	176
Regional employment supported (FTE)	1,430

Source: Analysis by independent economic advisory firm AEC Group based on data from ABS and other sources

Would a levy adversely impact the attractiveness of TNQ as a destination?

Answer: No

The table below sets out the levy an 'average' domestic and international visitor would pay as a percentage of their total spend in region.

		DOMESTIC VISITOR	INTERNATIONAL VISITOR
Average length of stay	A	5 nights	8 nights
Average daily room rate	B	$180	$180
Total accommodation charge	C=AxB	$900	$1,440
Visitor levy at 2.5%	D=Cx2.5%	$22.50	$36.00
Average number of occupants per room	E	2.1	2.1
Levy cost per occupant (visitor)	**F=D/E**	**$10.71**	**$17.14**
Average spend per visitor per day (Note 1)	G	$213	$158
Total average spend per visit	**H=GxA**	**$1,065**	**$1,264**
Levy as a % of total spend per visitor	**F/H**	**1.0%**	**1.4%**

Note 1: Does not include cost of travel (e.g. airfares) to destination

Source: Cairns Regional Council analysis of Tourism Research Australia data

The levy would be an immaterial proportion of a visitor's total spend in the region and therefore would not have any discernible impact on a potential visitor's decision to choose TNQ as a destination for travel.

IMPLEMENTATION OF A VISITOR LEVY

Whilst Cairns Regional Council strongly supports the introduction of a visitor levy within the Cairns LGA, it does not currently have the legislative capacity to implement it. The amendment of existing or introduction of new State Government legislation is required to facilitate levy implementation. Whilst a legislative change at the State level is the enabler, the decision on whether to introduce such a levy would rest with each individual local government having regard to their own particular circumstances and determined in consultation with their local tourism industry and community.

Cairns Regional Council is calling on the Queensland Government to undertake legislative change to provide local governments in Queensland with the ability to implement a visitor levy should they consider it appropriate for their community.

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